



Mutual Fund Dealers Association of Canada
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MFDA Bulletin

Enforcement

For Distribution to Relevant Parties Within your Firm

MFDA imposes lifetime ban and \$150,000 fine on Stephan Headley

Nature of Proceeding A Hearing Panel of the Ontario Regional Council of the Mutual Fund Dealers Association of Canada (“MFDA”) has imposed disciplinary penalties on Stephan Headley, a former Approved Person of the MFDA.

By-Laws, Rules, Policies Violated Following a hearing on December 14, 2005, the Hearing Panel found that Headley:

1. Misappropriated approximately \$155,000 from two clients and failed to return or truthfully account for these monies, contrary to MFDA Rule 2.1.1; and
2. Failed to provide documents and information requested by the MFDA during the course of an investigation, contrary to s. 22.1 of MFDA By-law No. 1.

MFDA Rule 2.1.1 states:

Standard of Conduct. Each Member and each Approved Person of a Member shall:

- (a) deal fairly, honestly and in good faith with its clients;
- (b) observe high standards of ethics and conduct in the

transaction of business;

(c) not engage in any business conduct or practice which is unbecoming or detrimental to the public interest; and

(d) be of such character and business repute and have such experience and training as is consistent with the standards described in this Rule 2.1.1 or as may be prescribed by the Corporation.

Sections 22.1(b) and (c) of MFDA By-law No. 1 state that:

For the purpose of any examination or investigation pursuant to this By-law, a Member, Approved Person of a Member or other person under the jurisdiction of the Corporation pursuant to the By-laws or the Rules may be required by the Corporation:

....

(b) to produce for inspection and provide copies of the books, records and accounts of such person relevant to the matters being investigated; and

(c) to attend and give information respecting any such matters;

....

and the Member or person shall be obliged to submit such report, to permit such inspection, provide such copies and to attend, accordingly...

Penalty

The Hearing Panel imposed the following penalties on Headley:

1. A permanent prohibition of the authority of Headley to conduct securities related business in any capacity;
2. A fine in the amount of \$100,000 with respect to Headley's misappropriation of client funds;
3. A fine in the amount of \$50,000 with respect to Headley's failure to cooperate with the MFDA; and
4. Costs in the amount of \$7,500.

Summary of Facts

Between July 9, 1997 and February 25, 2004, Headley was registered in Ontario as a mutual fund salesperson. From September 16, 2002 to February 25, 2004, Headley was a mutual fund salesperson for Worldsource Financial Management Inc. ("Worldsource").

Between April 2003 and February 2004, two separate clients, NL and

IB, provided Headley with approximately \$155,000 in total to invest on their behalf. On several occasions, Headley led each client to believe that he had used the funds to purchase investments for them when in fact he had misappropriated the funds by depositing them in bank accounts that he controlled.

In the fall of 2003, NL expressed concerns to Headley because she had not received any statements or trade confirmations concerning the funds that she had given to him to invest. In early 2004, NL told Headley that she was going to file a formal complaint against him and commence legal proceedings to recover her missing funds. Shortly thereafter, Headley provided NL with three cheques in a total amount equal to her missing funds, plus 6% interest.

Headley had led IB to believe that her money had been invested in a guaranteed investment certificate. In February 2004, IB complained to both Headley and Worldsource after Headley had failed to respond to repeated requests for information concerning the status of her funds. After receipt of IB's complaint, Headley made full restitution to her, with interest. Worldsource investigated IB's complaint and terminated Headley.

After receiving her money, NL filed a complaint with the MFDA and an investigation was commenced. Between November 2004 and January 2005, the MFDA made numerous requests that Headley provide documents and information relevant to the matters under investigation but he failed to do so.

In reaching its decision on penalty, the Hearing Panel took into account the fact that Headley's misconduct was planned and deliberate and involved multiple misappropriations over an extended period. The Hearing Panel acknowledged that restitution is a significant mitigating factor in misappropriation cases but noted that its impact was lessened in this case by its timing. Headley returned the funds to the clients only when faced with the possibility of a complaint or an actual complaint. The Hearing Panel noted that Headley did not apologize to the clients or demonstrate any remorse and that the restitution appeared to have been motivated by self-preservation, not by a sense of guilt.

The Hearing Panel did not accept Headley's claim that the funds had been deposited in his personal bank account in error and noted that Headley has never accounted for the missing funds while they were under his control. The Hearing Panel stated that Headley misled NL and IB as to the whereabouts of their funds and attempted to mislead the MFDA and the Ontario Securities Commission during the course of their respective investigations.

In determining the appropriate penalty to impose on Headley, the Hearing Panel noted that it was important to communicate to Headley, to the public and to the mutual fund industry as a whole that serious consequences will befall those who engage in activities of this nature.

For greater detail, see the Decision and Reasons posted on the MFDA's website under "Enforcement".