

Re All Group Financial Services

IN THE MATTER OF:

**The Rules of the Investment Industry Regulatory
Organization of Canada**

and

All Group Financial Services Inc.

2017 IIROC 06

Investment Industry Regulatory Organization of Canada
Hearing Panel (Ontario District)

Heard: January 18, 2017

Decision: January 18, 2017

Written Decision: January 30, 2017

Hearing Panel:

Susan Lang, Chair; Michael Walsh and Leo Ciccone

Appearances:

Sally Kwon, Enforcement Counsel

Charles Corlett, Senior Enforcement Counsel

Geoff Clarke, for the Respondent

REASONS FOR DECISION OF JANUARY 18, 2017

INTRODUCTION

¶ 1 Enforcement Counsel for the Investment Industry Regulatory Organization of Canada (IIROC) applied for a Protective Order against All Group Financial Services Inc. (All Group). All Group had been designated as “Early Warning Level 2” since June 2015 and had been and remained capital deficient from January 3, 2017. All Group proposed to sell its client assets and transfer its client accounts as well as the registration of certain investment advisors to Hampton Securities Limited (Hampton). Closing date for this proposed transaction was scheduled for Friday, January 20, 2017. All Group advised IIROC of its intention to resign its IIROC membership after it completed the transaction and complied with resignation prerequisites. Given All Group’s ongoing and increasing financial and operating difficulties, IIROC was concerned that All Group appeared to the investing public to be an IIROC member in good standing and that this resulted in a risk of imminent harm to clients, investors and others. Accordingly, IIROC sought an order for All Group’s suspension effective Monday, January 23, 2017 and orders corollary to that suspension to ensure the protection of the public. All Group consented to the relief requested in the terms of the detailed draft order that is annexed to these reasons as Appendix A.

¶ 2 The issue before us was whether the Panel should accept or reject the proposed consent order. At the hearing on January 18, 2017, the Panel accepted the terms of the consent order and granted the application. These are our reasons for doing so.

FACTS

¶ 3 The essential facts are set out in the affidavits of IIROC's Manager, Financial and Operations Compliance, Blaize Piacentini.

¶ 4 All Group is registered with the Ontario Securities Commission (OSC) and in five other provinces. It was admitted to IIROC membership in 2008 as a Dealer Member – a Type 2 Introducing Broker with Fidelity Clearing Canada ULC as the Carrying Broker. All Group's head office is in Toronto with two branches elsewhere in Ontario.

¶ 5 The affidavits provide particulars of All Group's financial distress, including the fact that it triggered the criteria under IIROC Rule 30 for Early Warning Level Two Category as a result of its monthly financial report for May 2015. All Group has continued to be in this Category throughout. As a result, under Dealer Member Rules 30.3(iv) and 30.5, All Group was restricted from specified activities. All Group was also required to file with IIROC a Special Early Warning Regulatory Financial Filing (Filing) initially on a weekly basis and, since March 2016, on a daily basis. Since January 2016, the OSC imposed terms on All Group's continued registration, which included prohibitions against providing margin loans to clients, opening new client accounts, hiring new registered representatives and introducing new business lines.

¶ 6 On December 12, 2016, All Group advised IIROC that it had entered into a Letter of Intent to sell its client assets and transfer its client accounts as well as registration of certain investment advisors to Hampton. The OSC did not object to this proposed transaction. On January 6, 2017 All Group notified IIROC of its intention to resign its membership following the completion of the proposed transaction. On January 9, 2017, Hampton sent a letter advising All Group's clients of the proposed transaction and describing their options for transferring their account to Hampton or elsewhere. As of January 6, All Group had 1,277 clients representing 2,465 client accounts and \$104 million in assets under management.

¶ 7 In the meantime, on January 3, 2017, All Group's Filing disclosed a capital deficiency of \$12,000 and cumulative monthly operating losses over the preceding 32 months of \$1,597,000. On January 9, All Group's capital deficiency increased to \$39,350 and by January 16 it had risen to \$73,000.

¶ 8 In these circumstances, and in the opinion of Mr. Piacentini, "allowing All Group to continue after the Proposed Transaction will pose a risk of imminent harm to the public, the IIROC membership and IIROC itself, particularly given that All Group will continue to hold itself out as a Dealer Member in good standing while it is not in compliance with IIROC's minimum capital requirements." In summary, All Group, while on its face a member in good standing of IIROC, should not be viewed as such by the investing public in light of its financial distress. The closing of the transaction on January 20 would not address the risk. All Group must satisfy certain prerequisites before the IIROC Board would approve its resignation. The issuance of the consent order would immediately put the public on notice of All Group's position and provide safeguards and other terms for an orderly transition and wind-up.

REGULATORY FRAMEWORK

¶ 9 Rule 8201 provides the authority for hearing panels to hold hearings for enforcement purposes. The parameters of such a hearing are described in Rule 8203. Rule 8212 provides the authority for a hearing panel to make Protective Orders on application by Enforcement Staff. Applicable to this case, a hearing panel could find under Rule 8212(2)(vii) that the "Dealer Member's continued operation would create a risk of imminent harm to its clients, investors other Registered Persons or IIROC because the Dealer Member... (a) is in financial or operating difficulty..." With such a finding, a hearing panel under Rule 8212(4) may make an order including suspending membership and imposing terms and conditions requiring a suspended Dealer Member "to take steps to facilitate the orderly transfer of its client accounts to another Dealer Member".

¶ 10 The accepted order in this case does just that. It suspends All Group's membership effective January 23,

2017 and requires All Group to take steps to facilitate client account transfers. All Group is required to cease dealing with the public effective January 23. The order also imposes several reporting requirements and restricts All Group's activities. All Group is required to preserve records for a specified period and to make those records available on request by IIROC or former clients. At anytime after January 23, IIROC staff may move without notice to terminate All Group's IIROC membership.

REASONS FOR DECISION

¶ 11 As described at the outset, after reading the material submitted and hearing the submissions of counsel, the hearing panel accepted the proposed consent order.

¶ 12 In our view, the material submitted and the facts discussed above made it clear that All Group's financial distress was significant, was increasing with the passage of time and, by All Group's own admission, could not be rectified. Recognizing this, All Group entered into the proposed transaction with Hampton and notified IIROC that it intended to tender its resignation from IIROC. In the meantime, absent the order, and pending an acceptance of that resignation, the investing public would have no means of knowing that All Group is not a member in good standing and of ensuring an orderly transition and wind-up.

¶ 13 The hearing panel accepted the proposed order was required to alleviate the risk of imminent harm due to All Group's financial distress within the meaning of Rule 8212(2)(vii).

¶ 14 The terms of the proposed order provide an appropriate statement to the public concerning All Group's status and include provisions to effect the orderly transfer of client accounts, to ensure appropriate reporting and to require the maintenance and availability of All Group records. These obligations will be within the public domain as Enforcement Staff will ensure the appropriate publication of the order.

¶ 15 Finally, we observe that this decision is in keeping with a similar ruling in *Re Edgecrest Capital*, 2015 IIROC 32, albeit under the former but similar Rules.

Dated at Toronto, Ontario this 30th day of January, 2017.

Susan Lang

Chair

Michael Walsh

Leo Ciccone

SCHEDULE "A"

IN THE MATTER OF:

**THE RULES OF THE INVESTMENT INDUSTRY REGULATORY
ORGANIZATION OF CANADA
AND
ALL GROUP FINANCIAL SERVICES INC.**

ORDER

THIS APPLICATION, made by Staff of the Investment Industry Regulatory Organization of Canada ("IIROC") for an Order suspending the membership of All Group Financial Services Inc. ("All Group") and ancillary relief was heard on January 18, 2017 at Toronto, Ontario, pursuant to Sections 8212 and 8426 of the

Consolidated Enforcement, Examination and Approval Rules of IIROC (the “Consolidated Rules”).

ON READING the materials filed in support of this application,

AND ON NOTING the Consent of All Group to this Order, filed,

AND ON HEARING the submissions of counsel for IIROC Staff and counsel for All Group,

THIS HEARING PANEL ORDERS that:

1. Pursuant to Section 8212(4)(i) of the Consolidated Rules, All Group’s membership in IIROC shall be suspended effective **January 23, 2017**.
2. Pursuant to Section 8212(4)(ii) of the Consolidated Rules, All Group shall take steps to facilitate the orderly transfer of its client accounts remaining as at January 23, 2017 to Fidelity Clearing Canada ULC, and shall bear all transfer fees associated with any transfer of client accounts from Hampton Securities Ltd. to another Dealer Member within 60 days following All Group’s suspension on January 23, 2017.
3. Pursuant to Section 8212(4)(iv) of the Consolidated Rules, All Group shall cease dealing with the public, including removing any of its websites from public access, effective **January 23, 2017**. For greater certainty, All Group shall continue to service its existing clients until the transfer of its client accounts is completed on or before January 20, 2017.
4. All Group shall comply with IIROC Dealer Member Rule 600 throughout the suspension period.
5. Effectively immediately, All Group shall report daily to IIROC staff on its risk adjusted capital until further order of a Hearing Panel.
6. All Group shall be and hereby is restricted from undertaking any of the following activities without first obtaining the written consent of IIROC’s Vice President of Financial and Operations Compliance:
 - (a) reducing its capital in any manner including redemption, repurchase or cancellation of any of its shares;
 - (b) reducing or repaying any indebtedness which has been subordinated with the approval of IIROC;
 - (c) directly or indirectly making any payments by way of loan, advance, bonus, dividend, repayment of capital or other distribution of assets to any director, officer, partner, shareholder, related company or affiliate; and
 - (d) increasing non-allowable assets, unless a prior binding commitment to do so exists, or entering into any new commitments which would have the effect of materially increasing the non-allowable assets of the firm.
7. All Group shall preserve all books and records, including all hard copy and electronic records in All Group’s possession or control (including any computer servers, hard drives and any other electronically-stored records in any form) (the “Records”) for a period of seven years from the date on which each record is created or until further order of a Hearing Panel, which Records shall be made available upon request by IIROC staff and/or former clients of All Group within five business days or another mutually-agreed upon time period.
8. All Group shall maintain the Records at its head office premises currently located at 10 Bay Street, Suite 701, Toronto, Ontario, M5J 2R8, and shall pay any and all costs required for the purpose of such maintenance, and the Records shall not be moved without prior notice to and approval from IIROC staff.
9. At any time after January 23, 2017, IIROC staff may move without notice to All Group for an order terminating All Group’s membership with IIROC.

10. If either IIROC staff or All Group wish to request the modification of any of the terms of this Order, they may do so by motion brought on no less than two days' notice to all parties and to the Hearing Panel.

DATED at Toronto, Ontario, this 18th day of January, 2017.

Original Executed by:

"Susan Lang"

Susan Lang, Chair

"Leo Ciccone"

Leo Ciccone, Panel Member

"Michael Walsh"

Michael Walsh, Panel Member

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