

Re Kingsdale Capital & Prange

IN THE MATTER OF:

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

and

Kingsdale Capital Markets Inc. and Cameron Prange

2019 IIROC 34

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

Heard: December 20, 2019
Decision: December 20, 2019
Written Reasons: January 7, 2020

Hearing Panel:

Martin L. Friedland, C.C., Q.C. (Chair), Steven Garmaise and E. Cindy Tripp

Appearance:

Charles Corlett, Director, Enforcement Litigation, IIROC
Jay Naster, Counsel for the Respondents

REASONS FOR DECISION

INTRODUCTION

¶ 1 Staff of the Investment Industry Regulatory Organization of Canada (“IIROC”) and the Respondents, Kingsdale Capital Markets Inc. (“Kingsdale Capital”) and Cameron Prange (“Prange”), collectively “the Respondents”, entered into the attached Settlement Agreement, dated December 20, 2019.

¶ 2 The Settlement Agreement was, in fact, signed by Regent Capital Partners Inc. that had purchased a majority interest in Kingsdale Capital in January 2019. The Ontario District Council of IIROC approved a change of control in May 2019.

¶ 3 All of the matters at issue in this hearing occurred in the period 2015 to 2017 when the Dealer Member operated as Kingsdale Capital. During the relevant period, Kingsdale Capital was a very small firm consisting of two persons involved in corporate finance activities, two full-time brokers and one part-time broker who was nearing retirement, and a compliance officer. All business was conducted from one location.

¶ 4 In 2015, Prange was Kingsdale Capital’s Ultimate Designated Person (“UDP”) and President. As UDP, Prange was obliged to supervise the compliance activities of Kingsdale Capital and each individual acting on its behalf, and to promote compliance. Prange is presently an employee and part-owner of Regent Capital, but is not currently its UDP.

¶ 5 The Settlement Agreement was presented to the Hearing Panel for acceptance on December 20, 2019. The Respondents' Counsel and Enforcement Staff of IIROC jointly recommended that the Hearing Panel accept the Settlement Agreement.

¶ 6 After hearing counsel for IIROC and counsel for the Respondents and considering the material filed, the Hearing Panel issued an order accepting the Settlement Agreement. These are our reasons for making that order.

AGREED FACTS

¶ 7 Part III of the Settlement Agreement sets out in detail the agreed upon facts. These will not be fully repeated here. Paragraphs 4 to 7 of the Settlement Agreement give a useful overview of the facts. Those paragraphs state:

4. Between January and July 2015, Kingsdale Capital advised four public companies on corporate finance transactions. Prange and other employees became aware of potentially material confidential information regarding those issuers prior to any public announcement. However, the Respondents did not follow the firm's policies and procedures regarding the receipt and containment of confidential information, or take steps to ensure that other employees did so.
5. The failure by the Respondents to enforce and follow Kingsdale Capital's policies and procedures resulted in inadequate supervision of pro-trading [*that is professional trading by employees on behalf of the Dealer Member*] who ought to have been on the Grey List [a special list to be described in a later section of these reasons.]
6. Between March 2016 and March 2017, Kingsdale Capital was in Early Warning 2 [*an IIROC designation of potentially serious financial problems: see IIROC Rule 30*] and was required to file weekly capital reports containing an estimate of its Risk Adjusted Capital (RAC). However, Kingsdale Capital failed to adequately document the basis for the estimates of the RAC contained in the weekly capital reports and thereby prevented IIROC from being able to determine whether the estimates provided were reasonable estimates of the firm's financial circumstances.
7. In March 2016, Kingsdale Capital transferred [*about \$10,000*] to a related company, contrary to the Early Warning restrictions. The transfer was made to Kingsdale's wholly owned U.S. broker-dealer in order to satisfy the U.S. Financial Industry Regulatory Authority (FINRA) RAC requirements.

CONTRAVENTIONS

¶ 8 The Respondents agreed in the Settlement Agreement (paragraph 51) that the Respondent, Kingsdale Capital committed the following contraventions of IIROC's Rules:

- (i) Between January and July 2015, Kingsdale Capital failed to maintain and enforce its policies and procedures regarding the receipt and containment of confidential information in connection with the firm's corporate finance activities, contrary to Dealer Member Rule 38.1 and Universal Market Integrity Rule (UMIR) 7.1 and UMIR Policy 7.1; and
- (ii) Between March 2016 and March 2017, while in Early Warning 2, Kingsdale Capital failed to abide by the requirements of Dealer Member Rules 30.3 and 30.5 when it:
 - a. filed weekly capital reports without adequate documentation being maintained as to the basis for the estimates contained in the weekly reports; and

- b. made a payment to a related company.

¶ 9 The Respondents also agreed (paragraph 52) that by engaging in the conduct described above, the Respondent, Prange, committed the following contravention of IIROC's Rules:

- (i) Between January and July 2015, Prange failed to fulfill his obligations as Ultimate Designed Person, contrary to Dealer Member Rule 38.5(c).

PENALTY

¶ 10 The Respondents agreed to the following sanctions and costs (paragraph 53 of the Settlement Agreement):

- a. Regent Capital will pay a fine of \$45,000;
- b. Prange will pay a fine of \$40,000;
- c. Prange will be permanently banned from obtaining registration with IIROC as an Ultimate Designated Person or any other supervisory role for which registration is required; and
- d. Regent Capital will pay costs of \$5,000.

CONTAINMENT OF CONFIDENTIAL INFORMATION

¶ 11 Behind IIROC's Rules concerning the containment of confidential information (UMIR Policy 7.1 and Ontario Securities Commission Policy 33-601) is a continuing concern about insiders using confidential insider information that is not available to the public. Such use seriously harms the capital markets. The issue is discussed in a 2014 IIROC disciplinary case *Re Byron Capital Markets Ltd.* 2014 IIROC 22. That Panel observed (paragraphs 13 and 14):

Ontario Securities Commission Policy 33-601, "Guidelines for Policies and Procedures Concerning Inside Information," came into force in 1998. It sets out, in the words of the policy, "guidelines related to the policies and procedures which a registrant should consider to contain inside information, to restrict transactions when in receipt of inside information and to ensure compliance with insider trading restrictions." The guidelines were introduced, the Notice of Policy states, to ensure that registrants "develop, implement, maintain and enforce reasonable policies, procedures and organizational arrangements to safeguard inside information and ensure that there is no improper buying, selling or informing."

Insider trading legislation was introduced in Ontario in the 1960s following the 1965 Kimber Report on Securities Legislation. Insider trading continues to be a major problem in Canada, as it is internationally. It is difficult to detect and, if detected, hard to obtain a conviction.

¶ 12 OSC Policy 33-601 deals with how dealers should take steps to control the improper use of insider information. One of the techniques suggested is "containment of inside information" (2.1(1)(b)). This involves implementing what is known as a "Grey List." This is a list of issuers and persons who are privy to confidential knowledge. IIROC's Universal Market Integrity Rules specifically require that Dealer Members establish such policies and procedures. See Policy 7.1. There is, however, no one supervision system that is appropriate for all participants and the Policy does not mandate any particular type or method of supervision of trading activity.

¶ 13 The industry is well aware of these policies. Kingsdale Capital had such policies and procedures (paragraph 11 of the Settlement Agreement). The problem is, as set out in paragraph 12 and 13 of the Settlement Agreement, that:

Between January and June 2015, the Respondents failed to follow their [Policies and Procedures]

requiring the receipt and containment of the confidential information of four issuers. These failures included:

- a. Failing to add issuers to the Grey List, even though Prange or other employees at Kingsdale Capital were aware of specific terms of private placements that had not been publicly announced;
- b. Adding issuers late to the Grey List; and
- c. Failing to supervise trading by Kingsdale Capital employees in an issuer that was on the Grey List.

Kingsdale Capital's failure to maintain and enforce its [Policies and Procedures] caused it to fail to identify or adequately supervise pro-trading in issuers about whom it had confidential information because those issuers were not on the Grey List.

OTHER FAILURES BY THE RESPONDENTS

¶ 14 It is not necessary here to discuss in any detail the obvious need for early warning systems required to identify and facilitate enhanced monitoring of Dealer Members who are in financial difficulty. See IIROC Rule 30. If a Dealer Member triggers Early Warning then it is automatically subject to enhanced reporting requirements to facilitate monitoring by IIROC as well as restrictions on its ability to alter its capital structure or reduce its capital. The Respondents failures are described in paragraphs 28 to 45 of the Settlement Agreement. Kingsdale Capital was in Early Warning Level 2, the most serious of the two levels, and was required to follow certain procedures, such as providing weekly reports to IIROC and receiving IIROC's written consent to payments to a related company or affiliate.

¶ 15 Nor is it necessary to discuss in detail the importance of the role of the Ultimate Designated Person in adequately supervising the actions of the employees of the Dealer Member. See IIROC Rule 38.5.

STANDARD FOR REVIEWING A SETTLEMENT AGREEMENT

¶ 16 A hearing panel can either accept or reject a settlement agreement. It cannot modify it. The standard for reviewing a settlement agreement was well-stated in a Pacific District decision *Re Johnson* 2012 IIROC 19, where the panel stated:

The test applicable to a decision whether to accept or reject a settlement is well-known. Simply put, a panel should accept such an agreement unless it considers the penalty provided for clearly to fall outside a reasonable range of appropriateness.

¶ 17 There are many similar statements – see, for example, *Re Mackie Research and McCarthy* 2019 IIROC 28 – all stemming from *Re Milewski*, [1999] I.D.A.C.D. no. 17, where the panel stated:

A District Council considering a settlement agreement will tend not to alter a penalty that it considers to be within a reasonable range, taking into account the settlement process and the fact that the parties have agreed. It will not reject a settlement unless it views the penalty as clearly falling outside a reasonable range of appropriateness. Put another way, the District Council will reflect the public interest benefits of the settlement process in its consideration of specific settlements.

¶ 18 An IIROC hearing panel, in *Re Donnelly* 2016 IIROC 23, rightly observed in accepting a settlement agreement (paragraphs 7 and 8):

It is usually in the public interest that matters be settled where possible rather than be determined through contested hearings. The reasons for this are often that an earlier determination of a dispute is better than a later determination. Settlements are usually less expensive than contested litigation,

and there is less congestion in the dispute settling system when matters are taken out of the system through settlements. Finally where both parties agree, the result is often more palatable to the parties and society than in a contested hearing where the winner takes all.

For these reasons, a panel considering the acceptance of a settlement agreement will try to reach a determination of acceptance. It will recognize that settlements are often hotly debated with much compromise and give-and-take between the parties in order to reach an acceptable position agreeable to both parties. Furthermore, the panel will recognize that it is not privy to all the facts and the motivations and considerations that each of the parties have in coming to a solution of the dispute that is agreeable to them.

¶ 19 The hearing panel, in *Re Donnelly*, went on to say in paragraph 29: “Where both parties to a settlement agreement are represented by counsel, and have the means to undergo a contested hearing, but have reached a settlement, it is unlikely that a panel would ever conclude that the settlement was unfair and not reasonable.” In the present case, both sides were represented by experienced counsel, and there were extensive negotiations.

WHY THE PANEL APPROVED THE SETTLEMENT AGREEMENT

¶ 20 Although the conduct in the present case is serious, it was not wilful and deliberate. Rather, it was a failure to give adequate and careful attention to the Rules and Regulations, including its own policies and procedures.

¶ 21 No clients suffered financial harm, and no clients complained.

¶ 22 There was some benefit to the Dealer Member. Securities of four issuers were involved in the misconduct. There was, however, no pro-trading for one of the issuers during the period that it should have been on the Grey List, and for two other issuers there was trading “for small amounts of shares” that “did not generate a meaningful profit.” (See paragraph 46 of the Settlement Agreement.) In the case of the fourth issuer, the issuer was, in fact, on the Grey List, but “no one at Kingsdale Capital questioned the order.” (See paragraph 26 of the Settlement Agreement.)

¶ 23 The Respondents have had no disciplinary history with IIROC. Mr. Prange has been in the industry for over thirty years.

¶ 24 The Respondents and Regent Capital have cooperated with IIROC in ensuring compliance with IIROC’s Rules and Regulations. In February 2018, IIROC imposed Terms and Conditions on Kingsdale Capital, with its consent, in order to address the deficiencies identified in compliance examinations. In October 2018, a consultant submitted a written attestation confirming that its recommendations were working effectively. In January 2019, IIROC removed the Terms and Conditions. There is now a new Ultimate Designated Person, a new Chief Compliance Officer, and a new Chief Financial Officer. Kingsdale Capital and Regent Capital spent over \$60,000 on an independent consultant. The Settlement Agreement notes (paragraph 49) that IIROC Staff “has considered that expense in agreeing to the sanction in this Settlement Agreement.”

¶ 25 IIROC Staff has also taken into account the relatively small size of the firm. (See IIROC Sanction Guidelines, Part 1, Section 1.)

¶ 26 Further, Staff has taken into account the fact that by entering into a Settlement Agreement, there is a recognition of wrongdoing, a saving of time and costs, and the removal of the uncertainty of a contested hearing.

¶ 27 A \$45,000 fine for Regent Capital and a \$40,000 fine for Prange, coupled with a permanent ban on Prange acting as an Ultimate Designated Person or in any other supervisory role for which registration is

required, are significant penalties. They are not out-of-line with the cases cited to us (see *Re Byron Capital Markets Ltd.* 2014 IIROC 22; *Re Walker* 2017 IIROC 24; and *Re Mackie Research and McCarthy* 2019 IIROC 28) or with the IIROC Sanction Guidelines. They provide a substantial specific deterrent to the Respondents and a significant general deterrent to the industry.

¶ 28 For the above reasons, we accepted the Settlement Agreement.

Dated at Toronto this 7 day of January, 2020.

Martin L. Friedland

Steven Garmaise

E. Cindy Tripp

SETTLEMENT AGREEMENT

PART I – INTRODUCTION

1. The Investment Industry Regulatory Organization of Canada (IIROC) will issue a Notice of Application to announce that it will hold a settlement hearing to consider whether, pursuant to Section 8215 of the Consolidated Enforcement, Examination and Approval Rules of IIROC, a hearing panel (Hearing Panel) should accept the settlement agreement (Settlement Agreement) entered into between the staff of IIROC (Staff) and Regent Capital Partners Inc. (formerly operating as Kingsdale Capital Markets Inc.) and Cameron Prange (Prange) (collectively, the Respondents).

PART II – JOINT SETTLEMENT RECOMMENDATION

2. Staff and the Respondents jointly recommend that the Hearing Panel accept this Settlement Agreement in accordance with the terms and conditions set out below.

PART III – AGREED FACTS

3. For the purposes of this Settlement Agreement, the Respondents agree with the facts as set out in Part III of this Settlement Agreement.

Overview

4. Between January and July 2015, Kingsdale Capital advised four public companies on corporate finance transactions. Prange and other employees became aware of potentially material confidential information regarding those issuers prior to any public announcement. However, the Respondents did not follow the firm's policies and procedures regarding the receipt and containment of confidential information, or take steps to ensure that other employees did so.
5. The failure by the Respondents to enforce and follow Kingsdale Capital's policies and procedures resulted in inadequate supervision of pro-trading in issuers who ought to have been on the Grey List.
6. Between March 2016 and March 2017, Kingsdale Capital was in Early Warning 2 and was required to file weekly capital reports containing an estimate of its Risk Adjusted Capital (RAC). However, Kingsdale Capital failed to adequately document the basis for the estimates of the RAC contained in the weekly capital reports and thereby prevented IIROC from being able to determine whether the estimates provided were reasonable estimates of the firm's financial circumstances.
7. In March 2016, Kingsdale Capital transferred \$10,293.75 to a related company, contrary to the Early Warning restrictions. The transfer was made to Kingsdale's wholly owned U.S. broker-dealer in order

to satisfy the U.S. Financial Industry Regulatory Authority (FINRA) RAC requirements.

The Respondents

8. In January 2019, the current owners of Regent Capital purchased a majority interest in Kingsdale Capital and the Ontario District Council of IROC approved a change in control. In May 2019, the name of the firm was changed to Regent Capital and a new Ultimate Designated Person (UDP), Chief Compliance Officer (CCO), and Chief Financial Officer (CFO) were appointed. All of the matters at issue occurred in the period 2015 to 2017 when the Dealer Member operated as Kingsdale Capital.
9. In 2015, Prange was Kingsdale Capital's UDP and President. As UDP, Prange was obliged to supervise the compliance activities of Kingsdale Capital and each individual acting on its behalf, and to promote compliance. Prange is not currently the UDP for Regent Capital.

1. Confidential Information and Grey List Management

(i) Policies and Procedures for Containment of Confidential Non-Public Information

10. Kingsdale Capital was required to establish, implement and maintain policies and procedures to contain confidential information that meet the regulatory requirements set out in UMIR Policy 7.1 (Part 12) and OSC Policy 33-601. In 2015, Kingsdale Capital's Policies and Procedures (P&P) provided for the firm to contain confidential information by using a grey list (Grey List) and a restricted list.
11. Kingsdale Capital's P&P regarding the Grey List provided as follows:

"GREY LIST

A list of issuers of which [Kingsdale Capital] has information to the extent that [Kingsdale Capital] has any transactions or advice regarding the shares of such issuers will be maintained by the CCO of [Kingsdale Capital] along with the date and time the list was updated and such individual will monitor the trading of all directors, officers and employees of [Kingsdale Capital] against the Grey List. Circumstances that will require placing an issuer on a "Grey List" are as follows:

- (1) size of the offering in relation to the company's market cap
- (2) invitations to manage or participate in offerings;
- (3) invitations to act as financial advisors or merger and acquisitions advisor.
- (4) on-going discussions with the issuer involving information not generally distributed to the public.
- (5) where [Kingsdale Capital] is actively pursuing a transaction on its own initiative;
- (6) where [Kingsdale Capital] employees have received material non-public information.

The purpose of the Grey List will be to allow those persons charged with the responsibility of monitoring the Grey List (the CCO) to review trading and research activities within the firm involving issuers on the Grey List....

The CCO will monitor Employees' trading against securities on the Grey List to ensure no trading occurs based on Insider Information."

(ii) Failure to Maintain and Enforce P&P

12. Between January and June 2015, the Respondents failed to follow their P&P requiring the receipt and containment of the confidential information of four issuers. These failures included:

- a. Failing to add issuers to the Grey List, even though Prange or other employees at Kingsdale Capital were aware of specific terms of private placements that had not been publicly announced;
 - b. Adding issuers late to the Grey List; and
 - c. Failing to supervise trading by Kingsdale Capital employees in an issuer that was on the Grey List.
13. Kingsdale Capital's failure to maintain and enforce its P&P caused it to fail to identify or adequately supervise pro-trading in issuers about whom it had confidential information because those issuers were not on the grey List.
 14. As stated in UMIR Policy 7.1, Part 2, with respect to trading of Grey List securities, there is no one supervision system that will be appropriate for all Participants. Given the differences among firms in terms of their size, the nature of their business, whether they are engaged in business in more than one location or jurisdiction, the experience and training of their employees and the fact that effective compliance can be achieved in a variety of ways, this Policy does not mandate any particular type or method of supervision of trading activity.
 15. During the relevant period, Kingsdale Capital was an extremely small firm consisting of two persons involved in corporate finance activities, two full-time brokers and one part-time broker who was nearing retirement, and a compliance officer. Notwithstanding the size of the firm, and the fact that all business was conducted from one location, the system implemented to contain confidential information and monitor trading of Grey List securities was not adequate in the circumstances.
 16. The Respondents failed to maintain and enforce its P&P. Inadequate scrutiny was applied to pro-trading in issuers that were on the Grey List, or who ought to have been on the Grey List, as further set out below.

(iii) Issuer ABC

17. On the afternoon of January 7, 2015, Mr. Prange received an email from the CEO of ABC advising of the proposed terms of a private placement. On January 6, 2015, Prange entered an unsolicited order for his spouse to sell 10,000 shares of ABC, which was partially filled that day. On January 7, 2015, after receiving the email message from the CEO of ABC with the proposed terms of a private placement, Prange shared those terms with Kingsdale Capital's investment banking group.
18. As the original order for the sale of 10,000 shares of ABC placed on January 6, 2015 was only partially filled, the balance of the sale was filled further to another order placed by Mr. Prange on January 8, 2015. No one at Kingsdale Capital identified or queried Prange's trading in ABC on January 8, 2015 since it was not on the Grey List.
19. In the weeks that followed, ABC provided Prange with a draft Subscription Agreement and other documents containing the terms of the proposed private placement.
20. On January 21, 2015, ABC announced the terms of a private placement to raise up to \$4 million. Kingsdale Capital facilitated an investment of \$3.2 million in ABC and was compensated for its efforts.
21. Following the receipt of the January 7, 2015 email from the CEO of ABC, Prange failed to add ABC to Kingsdale Capital's Grey List, despite having confidential information about the private placement, including the price, timing, and terms of the offering. Although the unsolicited order for his spouse's account was originally placed on January 6, 2015, the subsequent order was placed on January 8, 2015 to fill the balance of the original order made on January 6, 2015. If Prange had added ABC to the Grey

List following the receipt of the January 7, 2015 email, his spouse's trades would have been subject to additional monitoring by the CCO.

(iv) Issuer DEF

22. Between February and May 2015, RF, one of Kingsdale Capital's Co-Heads of Corporate Finance who is not an IIROC registrant, was working with DEF on a transaction that was publicly announced on May 27, 2015. RF was a director of DEF. RF was involved in every aspect of the transaction and received non-public information, including its terms and counterparty. In April 2015, RF indirectly shared some of this information with Prange.
23. DEF was never added to the Grey List and two instances of pro-trading in DEF (that did not involve Mr. Prange) prior to the public announcement were not identified or queried by compliance.

(v) Issuer GHI

24. On March 5, 2015 and June 11, 2015, issuer GHI announced financings in which Kingsdale Capital acted as its agent. In the weeks leading up to both announcements, RF received draft Subscription Agreements, Term Sheets, Loan Agreements and other documents containing confidential information about the financings including price, terms, and timing.
25. In both cases, GHI was added to the Grey List late, between 7 and 21 days after RF became aware of the confidential information. However, there was no trading in GHI at Kingsdale Capital while in possession of confidential information.

(vi) Issuer JKL

26. On June 7, 2015, JKL was added to Kingsdale Capital's Grey List due to ongoing discussions between JKL and RF. On June 19, 2015, a registered representative at Kingsdale Capital entered an order for RF to sell 400,000 units of JKL. Even though JKL was on the Grey List, no one at Kingsdale Capital questioned the order for RF and it remained in the market until July 2, 2015 when it was filled.
27. Under the P&P, a pro-trade in a Grey List security should have been identified and questioned for insider trading; however, this was not done.

2. Failure to Comply With Early Warning System

(i) IIROC Early Warning System

28. IIROC relies on an Early Warning System to identify and facilitate enhanced monitoring of Dealer Members who are in financial difficulty. The Early Warning tests measure a number of characteristics (capital, profit, and liquidity) that are likely to identify a Dealer Member that is in a borderline financial situation, but not capital deficient.
29. If a Dealer Member triggers Early Warning then it is automatically subject to enhanced reporting requirements to facilitate monitoring by IIROC as well as restrictions on its ability to alter its capital structure or reduce its capital.
30. There are two levels of Early Warning, Early Warning 1 and Early Warning 2. Early Warning 2 reflects a more precarious financial situation and carries additional requirements.
31. RAC is a defined measure of a Dealer Member's capital that has been adjusted for regulatory purposes according to a specific formula. Dealer Member Rule 17.2 requires all Dealer Members to maintain a RAC greater than zero and a Dealer Member must immediately inform IIROC if it has a negative RAC. RAC is a factor in IIROC's prescribed tests for Early Warning.

32. All Dealer Members are required to deliver a Monthly Financial Report (MFR) to IIROC's Financial and Operations Compliance Groups (FINOPS) after month-end. The MFR states the firm's RAC position and the results of the Early Warning tests. The MFR allows FINOPS to monitor the capital and solvency of its dealer members.
33. Dealer Members who are in Early Warning are required to file their MFR earlier than other firms. Firms in Early Warning 2 must also file weekly capital reports so that FINOPS can monitor their financial circumstances. The weekly reports must be calculated as accurately as possible to keep IIROC informed.

(ii) Acknowledgement of Early Warning Restrictions and Requirements

34. By letter dated October 1, 2015, IIROC's Vice President of FINOPS advised Kingsdale Capital that it had triggered the criteria for Early Warning 1. The letter summarized the applicable restrictions, including a prohibition against payments to a related company or affiliate without the prior written consent of FINOPS.
35. By letter dated November 27, 2015, IIROC's Vice President of FINOPS advised Kingsdale Capital that it had triggered the criteria for Early Warning 2. The letter confirmed that the restrictions for Early Warning 1 remained in effect and summarized additional restrictions and requirements including filing weekly capital reports.
36. By letter dated November 30, 2015, Prange and Kingsdale Capital's Chief Financial Officer (CFO) acknowledged the letter of November 27, 2015 and confirmed that they would abide by the requirements stated therein.

(iii) Failure to Document Basis for Estimates in the Weekly Capital Reports

37. Kingsdale Capital remained continuously in Early Warning 2 from November 2015 until March 2017. Accordingly, Kingsdale Capital was required to file weekly capital reports containing the same information required in its MFR, including its RAC. If the weekly capital reports do not contain an accurate estimate of the Dealer Member's capital position, FINOPS has no means of monitoring precarious firms between MFR filings.
38. The weekly reports filed by a member firm under Early Warning 2 are estimates only because the final monthly figures are not known. In contrast, the monthly reports filed after month end are to be based on the actual results for the month as distinct from the estimates relied on in preparing the weekly reports. The estimates are required to be genuine estimates calculated as accurately as possible.
39. Kingsdale Capital filed weekly capital reports with IIROC. As Kingsdale Capital failed to adequately document the basis for the estimates contained in the weekly capital reports, IIROC was unable to satisfy itself as to the accuracy of the estimates provided.
40. Schedule "A" contains the capital, profit/loss and RAC reported by Kingsdale Capital in its weekly capital reports and MFRs from March 2016 to March 2017. For most months, the RAC reported in the MFR is materially lower than the RAC estimated in the weekly capital reports. In other months, the RAC reported in the MFR is materially higher than the RAC estimated in the weekly capital reports.
41. In January 2017, Kingsdale Capital reported negative RAC of (\$7,000). However, its weekly capital report filed January 26, 2017 indicated a positive RAC of \$26,000 and a profit/loss of \$5,000. In accordance with Dealer Member Rule 30, s.30.3(ii)(2) the monthly report is required to be filed no later than 15 business days following the end of the month, by which time the actual results for the month may prove to be different than what were the estimated results contained in the weekly reports,

including a weekly report filed three days prior to month end. In the absence of documentation respecting the basis for the estimates contained in the weekly reports, IIROC was unable to satisfy itself as to the basis for the discrepancy between the weekly report filed on January 26, 2017 and the monthly report subsequently filed.

42. Kingsdale Capital was unable to produce calculations or documentation supporting the weekly capital reports and its treatment of expenses, anticipated profit/loss, and as a result frustrated IIROC's ability to adequately monitor Kingsdale Capital's financial circumstances.

(iv) Transfer to a Related Company

43. On March 7, 2016, Kingsdale Capital transferred \$10,293.75 (\$7,500USD) to Lakeridge Capital (Lakeridge), its US affiliate, in order to satisfy its minimum capital requirements.
44. Kingsdale Capital did not seek prior approval for the transfer from IIROC. Although the payment made was incorporated into the estimates contained in the weekly capital reports filed with IIROC in March 2016, it remained necessary to seek and obtain approval from IIROC before making the payment. IIROC learned of the specific transfer to Lakeridge from FINRA, Lakeridge's US regulator.
45. After IIROC raised a concern about the transfer with Kingsdale Capital, Prange and the CFO injected new capital into Kingsdale Capital in excess of the amount transferred out.

Other Relevant Factors

46. The pro-trading referred to above in ABC and DEF was for small amounts of shares and did not generate a meaningful profit. There was no trading in GHI during the periods the issuer ought to have been on the Grey List.
47. Prange and Kingsdale Capital's CFO re-capitalized the firm after IIROC Staff raised a concern about the transfer to Lakeridge.
48. On February 7, 2018, IIROC imposed Terms & Conditions (T&C) on Kingsdale Capital, with its consent, in order to address deficiencies identified in compliance examinations. Pursuant to the T&C, Kingsdale Capital retained an independent consultant to assist it with strengthening its supervisory system, including establishing a system of controls and supervision to limit, control, and manage potential and actual conflicts of interest and adequately maintain grey and restricted lists. In October 2018, the consultant submitted a written attestation confirming that its recommendations were working effectively. On January 15, 2019, IIROC removed the T&C.
49. Kingsdale Capital and Regent Capital spent \$61,555.60 on the independent consultant. Staff has considered that expense in agreeing to the sanction in this Settlement Agreement.
50. The Respondents have no IIROC disciplinary history.

PART IV – CONTRAVENTIONS

51. By engaging in the conduct described above, the Respondent, Kingsdale Capital, committed the following contraventions of IIROC's Rules:
 - (i) Between January and July 2015, Kingsdale Capital failed to maintain and enforce its policies and procedures regarding the receipt and containment of confidential information in connection with the firm's corporate finance activities, contrary to Dealer Member Rule 38.1 and Universal Market Integrity Rule (UMIR) 7.1 and UMIR Policy 7.1; and
 - (ii) Between March 2016 and March 2017, while in Early Warning 2, Kingsdale Capital filed

to abide by the requirements of Dealer Member Rules 30.3 and 30.5 when it:

- a. filed weekly capital reports without adequate documentation being maintained as to the basis for the estimates contained in the weekly reports; and
- b. made a payment to a related company.

52. By engaging in the conduct described above, the Respondent, Prange, committed the following contravention of IIROC's Rules:

- (i) Between January and July 2015, Prange failed to fulfill his obligations as Ultimate Designated Person, contrary to Dealer Member Rule 38.5(c).

PART V – TERMS OF SETTLEMENT

53. The Respondents agree to the following sanctions and costs:

- a. Regent Capital will pay a fine of \$45,000;
- b. Prange will pay a fine of \$40,000;
- c. Prange will be permanently banned from obtaining registration with IIROC as an Ultimate Designated Person or any other supervisory role for which registration is required; and
- d. Regent Capital will pay costs of \$5,000.

54. If this Settlement Agreement is accepted by the Hearing Panel, the Respondents agree to pay the amounts referred to above within 30 days of such acceptance unless otherwise agreed between Staff and the Respondents.

PART VI – STAFF COMMITMENT

55. If the Hearing Panel accepts this Settlement Agreement, Staff will not initiate any further action against the Respondents in relation to the facts set out in Part III and the contraventions in Part IV of this Settlement Agreement, subject to the provisions of the paragraph below.

56. If the Hearing Panel accepts this Settlement Agreement and the Respondents fail to comply with any of the terms of the Settlement Agreement, Staff may bring proceedings under Rule 8200 against the Respondents. These proceedings may be based on, but are not limited to, the facts set out Part III of this Settlement Agreement.

PART VII – PROCEDURE FOR ACCEPTANCE OF SETTLEMENT

57. This Settlement Agreement is conditional on acceptance by the Hearing Panel.

58. This Settlement Agreement shall be presented to a Hearing Panel at a settlement hearing in accordance with the procedures described in Sections 8215 and 8428, in addition to any other procedures that may be agreed upon between the parties.

59. Staff and the Respondents agree that this Settlement Agreement will form all of the agreed facts that will be submitted at the settlement hearing, unless the parties agree that additional facts should be submitted at the settlement hearing. If the Respondents, or any of them, do not appear at the settlement hearing, Staff may disclose additional relevant facts, if requested by the Hearing Panel.

60. If the Hearing Panel accepts the Settlement Agreement, the Respondents agree to waive all rights under the IIROC Rules and any applicable legislation to any further hearing, appeal and review.

61. If the Hearing Panel rejects the Settlement Agreement, Staff and the Respondents may enter into another settlement agreement or Staff may proceed to a disciplinary hearing based on the same or related allegations.
62. The terms of this Settlement Agreement are confidential unless and until this Settlement Agreement has been accepted by the Hearing Panel.
63. The Settlement Agreement will become available to the public upon its acceptance by the Hearing Panel and IIROC will post a full of copy of this Settlement Agreement on the IIROC website. IIROC will also publish a summary of the facts, contraventions, and the sanctions agreed upon in this Settlement Agreement.
64. If this Settlement Agreement is accepted, the Respondents agrees that neither they nor anyone on their behalf, will make a public statement inconsistent with this Settlement Agreement.
65. The Settlement Agreement is effective and binding upon the Respondents and Staff as of the date of its acceptance by the Hearing Panel.

PART VIII – EXECUTION OF SETTLEMENT AGREEMENT

66. This Settlement Agreement may be signed in one or more counterparts, which together will constitute a binding agreement.
67. A fax or electronic copy of any signature will be treated as an original signature.

DATED this “20” day of November, 2019.

“Jay Naster”

Witness

“Regent Capital Partners Inc.”

Regent Capital Partners Inc

“Jay Naster”

Witness

“Cameron Prange”

Cameron Prange

“Andrew P. Werbowski”

Witness

“Charles Corlett”

Charles Corlett

Director, Enforcement Litigation on behalf of
Enforcement Staff of the Investment Industry
Regulatory Organization of Canada

The Settlement Agreement is hereby accepted this “20th” day of December, 2019 by the following Hearing Panel:

Per: “Martin Friedland”

Panel Chair

Per: “Steve Garmaise”

Panel Member

Per: “Cindy Tripp”

Panel Member

Schedule "A" – Summary of Weekly Capital Reports and MFRs

Month		Weekly Capital Report (in 1,000's)				MFR (in 1,000's)
March 2016		4-Mar	11-Mar	18-Mar	25-Mar	31-Mar
	Capital	\$419	\$395	\$395	\$395	\$361
	Profit/Loss	\$4	\$4	\$4	\$1	\$(34)
	RAC	\$73	\$52	\$52	\$49	\$ -
April 2016		1-Apr	8-Apr	15-Apr	22-Apr	30-Apr
	Capital	\$395	\$361	\$361	\$360	\$396
	Profit/Loss	\$1	\$(11)	\$(24)	\$(29)	\$35
	RAC	\$49	\$(11)	\$(24)	\$10	\$78
May 2016		9-May	13-May	20-May	27-May	31-May
	Capital	\$396	\$396	\$396	\$396	\$408
	Profit/Loss	\$4	\$1	\$1	\$1	\$12
	RAC	\$82	\$79	\$79	\$79	\$92
June 2016		3-Jun	10-Jun	17-Jun	24-Jun	30-Jun
	Capital	\$396	\$396	\$408	\$408	\$400
	Profit/Loss	\$(2)	\$2	\$3	\$4	\$(8)
	RAC	\$76	\$80	\$95	\$96	\$87
July 2016		4-Jul	8-Jul	15-Jul	22-Jul	31-Jul
	Capital	\$408	\$400	\$400	\$400	\$361
	Profit/Loss	\$4	\$3	\$(3)	\$(3)	\$(39)
	RAC	\$96	\$90	\$84	\$84	\$50
August 2016		5-Aug	12-Aug	19-Aug	26-Aug	31-Aug
	Capital	\$400	\$400	\$361	\$361	\$339
	Profit/Loss	\$(5)	\$(12)	\$(5)	\$(5)	\$(22)
	RAC	\$82	\$75	\$45	\$45	\$39
September 2016		9-Sep	16-Sep	23-Sep	30-Sep	30-Sep
	Capital	\$361	\$339	\$339	\$339	\$346
	Profit/Loss	\$(14)	\$(4)	\$(5)	\$(8)	\$(33)
	RAC	\$46	\$35	\$34	\$61	\$48
October 2016		7-Oct	14-Oct	21-Oct	28-Oct	31-Oct

Month		Weekly Capital Report (in 1,000's)				MFR (in 1,000's)
	Capital	\$339	\$339	\$346	\$346	\$326
	Profit/Loss	\$(20)	\$(20)	\$(5)	\$(15)	\$(40)
	RAC	\$49	\$49	\$43	\$53	\$30
November 2016						
		4-Nov	11-Nov	18-Nov	25-Nov	30-Nov
	Capital	\$346	\$326	\$326	\$326	\$341
	Profit/Loss	\$(25)	\$(1)	\$(5)	\$(8)	\$15
	RAC	\$43	\$29	\$25	\$22	\$40
December 2016						
		2-Dec	9-Dec	16-Dec	23-Dec	31-Dec
	Capital	\$326	\$326	\$356	\$341	\$310
	Profit/Loss	\$30	\$16	\$8	\$7	\$(31)
	RAC	\$60	\$46	\$61	\$47	\$2
January 2017						
		9-Jan	13-Jan	19-Jan	26-Jan	31-Jan
	Capital	\$341	\$341	\$310	\$310	\$301
	Profit/Loss	\$5	\$4	\$4	\$5	\$(31)
	RAC	\$45	\$44	\$25	\$26	\$(7)
February 2017						
		3-Feb	10-Feb	16-Feb	24-Feb	28-Feb
	Capital	\$310	\$310	\$301	\$301	\$348
	Profit/Loss	\$2	\$ -	\$29	\$26	\$(13)
	RAC	\$23	\$21	\$32	\$29	\$1
March 2017						
		3-Mar	10-Mar	17-Mar	24-Mar	31-Mar
	Capital	\$301	\$301	\$301	\$348	\$349
	Profit/Loss	\$23	\$(5)	\$(5)	\$(15)	\$1
	RAC	\$56	\$28	\$28	\$28	\$41

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