

Re Gravitas Securities Inc.

IN THE MATTER OF:

The Investment Dealer and Partially Consolidated Rules

and

Gravitas Securities Inc.

2023 CIRO 02

Canadian Investment Regulatory Organization
Hearing Panel (Ontario District)

Heard: June 8, 2023, in Toronto, Ontario (via videoconference)

Decision: June 8, 2023

Reasons for Decision: June 15, 2023

Hearing Panel:

Hon. Robert P. Armstrong, K.C., Chair, Peter Dymott and Randee Pavalow

Appearances:

Rob DelFrate, Senior Enforcement Counsel

David Hausman, for Gravitas Securities Inc.

REASONS FOR DECISION

INTRODUCTION

¶ 1 On June 8, 2023, Enforcement Staff of the Canadian Investment Regulatory Organization (CIRO) made an application to this Hearing Panel for a protection order, pursuant to sections 8212 and 8426 of the Investment Dealer and Partially Consolidated (“IDPC”) Rules suspending the membership of Gravitas Securities Inc (“Gravitas”).

¶ 2 The hearing was held by videoconference. The evidence before the Panel consisted of the affidavit of Nancy Catton, sworn on May 29, 2023. Ms. Catton is a Manager, Financial and Operation Compliance at CIRO.

¶ 3 The head office of Gravitas is in Toronto. It has offices in Vancouver, Edmonton, and Calgary. Gravitas is presently registered in Ontario, Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland & Labrador, Nova Scotia, Quebec, and Saskatchewan.

THE CAPITAL DEFICIENCY OF GRAVITAS

¶ 4 On March 7, 2023, CIRO advised Gravitas that it had triggered the criteria under the IDPC Rule 4133 for Early Warning Level Two category. This was determined from the January 31, 2023, monthly financial report of Gravitas, which disclosed a capital deficiency of \$354,000, which increased to an estimated \$636,000 by March 3, 2023. According to the affidavit of Ms. Catton, this “capital deficiency was the result of holding non-marginable private securities in the Gravitas’ inventory and failing to appropriately manage the firm’s risk adjusted capital (“RAC”) by selling those securities.”

¶ 5 The designation of Early Warning Level Two resulted in Gravitas being restricted from certain activities without prior consent of CIRO. Such activities included: (a) reducing the firm's capital, (b) reducing any subordinated indebtedness, (c) making any payments to any director, officer, partner, shareholder or related company or affiliate, or (d) increasing non-allowable assets.

¶ 6 There were some additional restrictions, which included: (a) opening any new branch offices; (b) hiring any new registered representatives, and (c) opening any new accounts or changing in any material respect the inventory position of Gravitas except for liquidating trades.

¶ 7 On March 9, 2023, the CEO of Gravitas advised that Gravitas was unable to rectify the capital deficiency by a deadline of March 9, 2023.

¶ 8 As required by IDPC Rule 4133, Gravitas filed daily capital position reports for the period between March 6, 2023 and March 16, 2023. Gravitas filed reports showing capital deficiencies ranging from \$88,000 to \$769,000.

¶ 9 On March 17, 2023, the daily report showed a positive RAC position of \$25,000.

¶ 10 On April 10, 2023, representatives of Gravitas advised that it had begun discussions with another Dealer Member about a potential opportunity in which Gravitas advisors and clients would transfer to the other Dealer Member. Gravitas would wind down its business. There was also a tentative plan to correct the capital deficiency by selling certain private company shares held in its holding company.

¶ 11 On April 11, 2023, a Gravitas daily report showed a capital deficiency of \$59,000 as of April 10, 2023.

¶ 12 From April 10, 2023 to May 18, 2023, Gravitas's daily reports showed deficiencies ranging from \$59,000 to \$481,000.

¶ 13 On April 19, 2023, Gravitas provided a preliminary financial business plan for a three-month period in which it would proceed with an orderly wind-down of its investment business. The plan was updated on April 26 and May 3, 17 and 24, 2023. The plan anticipated that there was an expectation that \$500,000 would be made available from an affiliated company.

¶ 14 As of the date of the sworn affidavit of Ms. Catton (May 29, 2023), Gravitas remained capital deficient. No transactions with another Dealer Member had been completed and no further funds from an anticipated sale of private company shares had been received.

FAILURE TO FILE AUDITED FINANCIAL STATEMENTS

¶ 15 In accordance with IDPC Rule 4151, Dealer Members are required to file an audited financial statement within 7 weeks of their year end, which for Gravitas was December 31, 2022. Gravitas was therefore required to file an audited financial statement by February 21, 2023. On February 21, 2023, the CEO of Gravitas advised that it was unable to file an audited Form 1 by February 21, 2023, and requested a one-week extension that was granted, then a second one-week extension that was also granted. To the present time, Gravitas has not filed its audited financial statements for the previous year.

IMMINENT HARM CLIENTS, INVESTORS, OTHER REGULATED PERSONS AND CIRO

¶ 16 Ms. Catton concluded her affidavit in paragraphs 35 to 38 as follows:

35. The fact that Gravitas has been capital deficient twice within the current calendar year and has not yet filed its audited Form 1 raises serious concerns for the New SRO.

36. Gravitas has also advised that it intends to wind-down its operations as an investment dealer and is pursuing a transaction to transfer client accounts and registrants to another Dealer Member.

37. In my view, we are required to take steps to ensure that Gravitas' membership is suspended and that it is no longer a member of IIROC [now CIRO], nor viewed as such by the investing public.

38. I make this affidavit in support of an application to suspend the membership of Gravitass and for no improper purpose.

PROPOSED ORDER

¶ 17 Enforcement Counsel for CIRO submitted a draft order for our consideration which provides:

- i. Pursuant to clause 8212(4)(i) of the Investment Dealer Rules, Gravitass' membership in the corporation is suspended immediately.
- ii. Pursuant to clause 8212(4)(ii) of the Investment Dealer Rules, Gravitass will take steps to facilitate the orderly transfer of its client accounts to another Dealer Member.
- iii. At any time, Enforcement Staff may make an application, without notice to Gravitass, in a written hearing, for an order expelling Gravitass as a Dealer Member and terminating its rights and privileges of membership.
- iv. This Order will come into effect immediately.

¶ 18 Counsel for Gravitass, David Hausman, did not oppose the order requested. He also indicated that all accounts of Gravitass were in good order and that a notice had been sent to all clients advising that they could transfer their accounts to the replacement dealer or a dealer of their choice.

CONCLUSION

¶ 19 This Panel accepts the evidence of Ms. Catton, which was not challenged in any way. We also accept the submissions of Counsel for CIRO and Gravitass. In our view, in the circumstances before us, there is no alternative but to make the order requested.

¶ 20 In the result, an order in the above terms was issued on June 8, 2023.

Dated at Toronto, Ontario this 15 day of June 2023.

Hon. Robert P. Armstrong, K.C.

Peter Dymott

Randee Pavalow

ORDER

THIS APPLICATION, made by Enforcement Staff of the Canadian Investment Regulatory Organization ("CIRO")ⁱ for an Order suspending the membership of Gravitass Securities Inc. ("Gravitass") and ancillary relief was heard via teleconference on June 8, 2023 pursuant to sections 8212 and 8426 of the Investment Dealer and Partially Consolidated Rules (the "Investment Dealer Rules").

ON READING the materials filed in support of this application,

AND ON HEARING the submissions of counsel for Enforcement Staff,

THIS HEARING PANEL ORDERS that:

1. Pursuant to clause 8212(4)(i) of the Investment Dealer Rules, Gravitass' membership in the Corporation is suspended immediately.
2. Pursuant to clause 8212(4)(ii) of the Investment Dealer Rules, Gravitass will take steps to facilitate the orderly transfer of its client accounts to another Dealer Member.
3. At any time, Enforcement Staff may make an application, without notice to Gravitass, in a written hearing, for

an order expelling Gravititas as a Dealer Member and terminating its rights and privileges of membership.

4. This Order will come into effect immediately.

DATED at Toronto, Ontario, this “8” day of June, 2023.

Robert Armstrong

Peter Dymott

Randee Pavalow

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ⁱ On January 1, 2023, IIROC and the MFDA were consolidated into a single self-regulatory organization recognized under applicable securities legislation.

The Canadian Investment Regulatory Organization (“CIRO”) has adopted interim rules that incorporate the pre-amalgamation regulatory requirements contained in the rules and policies of IIROC and the by-law, rules and policies of the MFDA (the “Interim Rules”). The Interim Rules include (i) the Investment Dealer and Partially Consolidated Rules, (ii) the UMIR and (iii) the Mutual Fund Dealer Rules. These rules are largely based on the rules of IIROC and the rules and certain by-laws and policies of the MFDA that were in force immediately prior to amalgamation. Where the rules of IIROC and the rules and by-laws and policies of the MFDA that were in force immediately prior to amalgamation have been incorporated into the Interim Rules, Enforcement Staff have referenced the relevant section of the Interim Rules.

Section 1105 (Transitional provision) of the Investment Dealer and Partially Consolidated Rules sets out CIRO’s continuing jurisdiction, including that CIRO shall continue the regulation of any person subject to the jurisdiction of the Investment Industry Regulatory Organization of Canada that was formerly conducted by the Investment Industry Regulatory Organization of Canada.