Mutual Fund Dealers Association of Canada
Association canadienne des courtiers de fonds mutuels

IN THE MATTER OF A SETTLEMENT HEARING
PURSUANT TO SECTION 24.4 OF BY-LAW NO. 1 OF
THE MUTUAL FUND DEALERS ASSOCIATION OF CANADA

Re: Michael Gordon Prueter

Heard: August 10, 2015, in Vancouver, British Columbia
Reasons for Decision: August 26, 2015

REASONS FOR DECISION

Hearing Panel of the Pacific Regional Council:

The Hon. Thomas R. Braidwood, Q.C.	Chair
Brian Cheung	Industry Representative
Holly Millar	Industry Representative

Appearances:

Christopher Corsetti	)	For the Mutual Fund Dealers Association of Canada
Michael Gordon Prueter	)	In Person

1. This hearing has been constituted pursuant to Section 24.4 of By-law No. 1. A hearing panel of the Pacific Regional Council (the "Hearing Panel") of the Mutual Fund Dealers Association of Canada (the "MFDA") has convened in order to determine whether or not the Settlement Agreement between the parties should be accepted and approved.

A. AGREED FACTS

2. The Respondent was registered as a mutual fund salesperson (now known as a Dealing Representative) with Investors Group Financial Services Inc. ("IG"), a Member of the MFDA, in British Columbia from September 22, 2003 to January 30, 2013 and in Alberta from September 27, 2011 to January 30, 2013.

3. As a result of the events described herein, IG suspended the Respondent on January 30, 2013 and terminated him on February 5, 2013.

4. The Respondent is not currently registered in the securities industry in any capacity.

5. The Respondent is currently self-employed as a financial advisor operating as Prueter Management Ltd. The Respondent is actively licensed as a life insurance nominee for Prueter Management Ltd. with the Insurance Council of British Columbia.

6. At all materials times, IG's policies and procedures prohibited its Approved Persons from engaging in dual occupations (also known as outside business activities) unless prior approval was received from IG.

7. On June 21, 2005, the Respondent incorporated a company in British Columbia, 0727892 B.C. Ltd., which operates as the "Quantum Group". According to its website at "quantumgrouptoday.com", Quantum Group provides services including: Factoring, Lines of Credit, Business Loans, Working Capital, Equipment Leases, Merchant Financing, Commercial Property, Accounts Receivables and Sales-Leaseback Financing.

8. At all material times, the Respondent was the sole Director, President and Secretary of the Quantum Group. In addition, the contact information on the Quantum Group website lists the Respondent's residential address and phone number.

9. On or about November 19, 2012, Quantum Group entered into a finance agreement (the "Finance Agreement") with Mountain Aquaponic Springs Farm Ltd. ("MASF") whereby:

a) Quantum Group and MASF would incorporate a new company in British Columbia ("Newco"), which would hold and operate MASF's aquaponic business;
b) Quantum Group and MASF would each own 50% of the issued shares of the Newco;
c) Quantum Group would lend, or arrange for third party lending of $30 million to Newco with interest payable on the borrowed monies at a rate of 8% per annum; and
d) Quantum Group would deposit $100,000 to be held in trust by Quantum Group's lawyer, Stikeman Elliot LLP.

10. The Respondent executed the Finance Agreement as the Authorized Signatory and President of "727892 B.C. Ltd., d.b.a Quantum Group". An individual, RL, executed the Finance Agreement as the President of MASF.

11. The Respondent provided the $100,000 deposit to Stikeman Elliot LLP in accordance with the terms of the Finance Agreement.

12. In furtherance of the Finance Agreement, the Respondent communicated with prospective lenders using his IG email account. The Respondent also met with RL about the transaction at IG's branch office in Burnaby, British Columbia.

13. The Finance Agreement fell through and the transaction was not completed.

14. The Respondent did not disclose his involvement with Quantum Group or MASF to IG and IG did not approve these activities.

15. In 2009, the Respondent signed two engagement letters with an individual, QC, whereby the Respondent and/or the Quantum Group committed to arrange $65 million (U.S.) in financing so that QC could complete the construction of a hotel in Anguilla.

16. The Respondent intended to arrange the financing for QC through his relationship with Capital Resources Management International ("CRMI"), a venture capital firm based in the United Kingdom.

17. The Respondent, among other things, assisted QC with the preparation of a business plan for the construction of the hotel in order to solicit financing from CRMI.

18. CRMI did not agree to finance the hotel construction and the transaction was not completed.

19. The Respondent did not disclose his involvement with Quantum Group, QC or CRMI to IG and IG did not approve these activities.

20. On July 14, 2009, the Respondent incorporated a company in Quebec, 9211-7514 Quebec Inc. ("Quebec Inc.") for the purpose of developing a boutique log hotel property in Murdochville, Quebec.

21. At all material times, the Respondent was the sole Director, President, Secretary, Treasurer, and controlling shareholder of Quebec Inc.

22. The Respondent entered into a relationship with a log home manufacture, True North Log Homes ("True North"), to jointly develop the hotel property. The project was estimated to cost between $10 and $20 million and would purportedly be financed by the Respondent, True North, the Quebec Government, and possibly trusts and high net worth individuals identified by CRMI.

23. The Respondent hired two local project managers to oversee the project and solicit funding from the Quebec Government.

24. The hotel development project has now been abandoned.

25. The Respondent did not disclose his involvement with Quebec Inc. or the hotel property to IG and IG did not approve these activities.

26. On October 22, 2012, the Respondent incorporated a company in British Columbia known as "D&M Productions Ltd." ("D&M") for the purpose of developing an aquaculture plant in the Vancouver Island area with an individual, DG.

27. At all material times, the Respondent was a director of D&M.

28. The Respondent invested $10,000 in D&M in support of the aquaculture project.

29. On January 23, 2013, DG passed away at the age of 81.

30. The aquaculture project has now been abandoned.

31. The Respondent did not disclose his involvement with D&M to IG and IG did not approve these activities.

32. On January 16, 2013, IG received a complaint from RL, the President of MASF, alleging that the Respondent was involved in promoting real estate ventures and arranging for private loans and mortgages. RL was not a client of IG.

33. IG was not previously aware that the Respondent was involved in real estate ventures or private financing, and had not approved such activities. After receiving RL's complaint, IG immediately commenced an investigation.

34. Based upon the results of its investigation (which identified the conduct described above), IG suspended the Respondent on January 30, 2013 and terminated him on February 5, 2013.

35. By engaging in the conduct described above, the Respondent had and continued in at least three other gainful occupations which were not disclosed to and approved by the Member, contrary to MFDA Rules 1.2.1(c) (formerly MFDA Rule 1.2.1(d)) and 2.1.1. In the event that the Respondent made any referrals in respect of these undisclosed and unapproved other gainful occupations, these referrals did not comply with the requirements set out in MFDA Rule 24.2.

B. CONTRAVENTIONS

36. The Respondent admits that, between September 2003 and February 2013, he had and continued in at least three (3) other gainful occupations which were not disclosed to and approved by the Member, including:

a) acting as the sole director, secretary and operator of a financing corporation;
b) acting as the sole director, president, secretary, treasurer, and controlling shareholder of a corporation to develop a hotel in Quebec; and
c) acting as a director and operator of a corporation to develop an aquaculture plant in British Columbia,

contrary to MFDA Rules 1.2.1(c) (formerly MFDA Rule 1.2.1(d)), 2.4.2 and 2.1.1.

C. TERMS OF SETTLEMENT

37. The Respondent agrees to the following terms of settlement:

a) the Respondent shall, for a period of two (2) years, be prohibited from conducting securities related business while in the employ of or associated with any MFDA Member, pursuant to s. 24.1.1(e) of MFDA By-law No. 1;

b) the Respondent shall pay a fine in the amount of $10,000 pursuant to s. 24.1.1 (b) of MFDA By-law No. 1 upon acceptance of this Settlement Agreement;
c) the Respondent shall pay costs in the amount of $2,500 pursuant to s. 24.2 of MFDA By-law No. 1 upon acceptance of this Settlement Agreement;
d) the Respondent shall in the future comply with MFDA Rules 1.2.1 (c) and 2.1.1; and
e) the Respondent will attend the Settlement Hearing in person.

38. The primary goal of securities regulation, whether in the context of a settlement hearing or a contested hearing, is protection of the investor.

> *Pezim v. British Columbia (Superintendent of Brokers)*, [1994] 2 S.C.R. 557 (S.C.C.) at paras. 59, 68, Staff's Book of Authorities, Tab 9.

> *Breckenridge (Re)*, MFDA File No. 200718, Hearing Panel of the Central Regional Council, Decision and Reasons dated November 14, 2007 at para. 74, Staff's Book of Authorities, Tab 10.

39. In addition to protection of the public, the goals of securities regulation also includes fostering public confidence in the capital markets and the securities industry.

> *Pezim v. British Columbia (Superintendent of Brokers)*, supra, at paras. 59, 68, Staff's Book of Authorities, Tab 9.

40. Hearing Panels frequently consider the following factors when determining whether a penalty is appropriate:

a) The seriousness of the allegations proved against the Respondent;
b) The Respondent's past conduct, including prior sanctions;
c) The Respondent's experience and level of activity in the capital markets;
d) Whether the Respondent recognizes the seriousness of the improper activity;
e) The harm suffered by investors as a result of the Respondent's activities;
f) The benefits received by the Respondent as a result of the improper activity;

g) The risk to investors and the capital markets in the jurisdiction, were the Respondent to continue to operate in capital markets in the jurisdiction;
h) The damage caused to the integrity of the capital markets in the jurisdiction by the Respondent's improper activities;
i) The need to deter not only those involved in the case being considered, but also any others who participate in the capital markets, from engaging in similar improper activity;
j) The need to alert others to the consequences of inappropriate activities to those who are permitted to participate in the capital markets; and
k) Previous decisions made in similar circumstances.

Breckenridge (Re), supra, at para. 77 and the decisions cited therein, Staff's Book of Authorities, Tab 10.

D. MITIGATING FACTORS

41. There is no evidence that any clients were involved in the Respondent's activities described above.

42. The Respondent states that no investors incurred any losses as a result of his misconduct and there is no evidence that investors incurred any losses as a result of his misconduct.

43. The Respondent has not previously been the subject of MFDA disciplinary proceedings.

44. The Respondent cooperated with Staff during its investigation into his conduct.

45. By entering into this Settlement Agreement, the Respondent has saved the MFDA the time, resources and expense associated with conducting a full hearing of the allegations set out in the Notice of Hearing.

E. COMMENTS

46. It is acknowledged that the suggested fine of $10,000 is $5,000 less than the suggested MFDA Penalty Guidelines. However, we are of the opinion that such reduction is warranted by reason of the mitigating circumstances, particularly the circumstance that this is the first breach by the Respondent and further, there was no connection or overlap between his prohibited outside activities and those of his activities as an MFDA representative.

F. POSITION OF COUNSEL FOR THE MFDA

47. Counsel submits that the Respondent's misconduct was serious and went to the very core of the supervisory regime implemented and administered by the MFDA.

48. MFDA Rule 1.2.1(c) (formerly 1.2.1(d)), the Outside Business Activities Rule, requires that an Approved Person must obtain prior approval from the Member before engaging in business activities outside the Member or a dual occupation.

49. MFDA Rule 1.2.1(c) sets out the conditions that must be satisfied and complied with if an Approved Person wishes to engage in outside business activities. In particular, the Rule requires Approved Persons to ensure that outside business activities ae disclosed to and approved by the Member and permitted by applicable provincial securities legislation.

50. The Respondent did not notify the Member of his involvement in outside business activities, contrary to MFDA Rule 1.2.1(c). The Member's policies and procedures requiring disclosure and approval by the Member of all outside business activities was violated by the Respondent.

51. The Respondent failed to obtain the approval from the Member for the outside business activities outlined in the Settlement Agreement. The Member had a policy in place requiring Approved Persons to obtain approval from the Member prior to engaging in outside business activities.

52. The obligation of the Approved Persons to comply with the policies and procedures of the Member that they are registered with is a cornerstone of the self-regulatory system. MFDA Members are expected to be aware of their regulatory obligations and to implement policies and procedures to ensure compliance. When Approved Persons disregard those obligations, the Member's ability to supervise the conduct of such Approved Persons and protect the interest of clients and the public is undermined.

G. CONCLUSION

53. In all of the circumstances, the Hearing Panel is unanimously of the opinion that the penalty agreed upon between the parties is appropriate and further fosters public confidence in the capital markets and the securities industry and accordingly is in the public interest.

DATED this 26th day of August, 2015.

"Thomas R. Braidwood"

The Hon Thomas R. Braidwood, Q.C.
Chair

"Brian Cheung"

Brian Cheung
Industry Representative

"Holly Millar"

Holly Millar
Industry Representative

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