



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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**IN THE MATTER OF THE *SECURITIES ACT*,
R.S.O. 1990, c. S.5, AS AMENDED**

- AND -

**IN THE MATTER OF
QUADRUS INVESTMENT SERVICES LTD.**

**ORAL RULING AND REASONS
(Section 127 of the *Securities Act*)**

Hearing: November 10, 2015

Oral Ruling: November 10, 2015

Panel: Timothy Moseley Commissioner and Chair of the Panel

Appearances: Catherine Weiler For Staff of the Commission
Jeff Galway For Quadrus Investment Services Ltd.

ORAL RULING AND REASONS

The following ruling and reasons have been prepared for the purpose of publication in the Ontario Securities Commission Bulletin and are based on portions of the transcript of the hearing. The excerpts from the transcript have been edited and supplemented, and the text has been approved by the Chair of the panel for the purpose of providing a public record of the oral ruling and reasons.

Chair of the panel:

- [1] Staff of the Ontario Securities Commission (the "**Commission**") has made allegations against Quadrus Investment Services Ltd. ("**Quadrus**") relating to a matter that was reported by Quadrus to Commission Staff ("**Staff**") in February 2015. Specifically, Staff alleges that there were inadequacies in Quadrus's systems of controls and supervision, which resulted in certain clients paying excess fees, and that these inadequacies were not detected or corrected by Quadrus in a timely manner.
- [2] If Staff's allegations had been proven at a contested hearing, the inadequacies referred to would have constituted a breach of section 11.1 of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*, which requires a registered firm such as Quadrus to establish, maintain and apply policies and procedures that establish a sufficient system of controls and supervision. However, Staff and Quadrus have entered into a settlement agreement in which Quadrus neither admits nor denies Staff's allegations or the facts underlying those allegations.
- [3] My obligation is to consider whether the settlement agreement should be approved and whether it would be in the public interest to issue the order contemplated by that agreement.
- [4] This settlement agreement has been the product of negotiation between Staff and Quadrus. Traditionally, the Commission affords some deference to the position taken by the parties. The Commission does not defer completely, but we do place significant weight on that negotiated outcome. Nevertheless, I must be satisfied, as I've said, that the sanctions called for in the settlement agreement are appropriate.
- [5] I had the opportunity to meet with counsel for Staff and Quadrus in a confidential pre-settlement conference, to hear their submissions, and to review the proposed settlement agreement and order.
- [6] The settlement agreement calls for a comprehensive compensation plan for which Quadrus clearly will be accountable going forward. Further, Quadrus has made a commitment to produce enhanced policies and procedures designed to prevent a recurrence of the alleged inadequacies. These revised policies and procedures will be subject to review by Staff.
- [7] In addition, Quadrus has made a voluntary payment of \$250,000 to the Commission for the benefit of third parties or for investor education, and a voluntary payment of \$20,000 to reimburse the Commission for costs. Those are significant components of the proposed settlement. In my view the terms of the order contemplated are appropriate and proportionate to the conduct described.

- [8] As Staff counsel has noted, it should be clear from this proposed settlement that registered firms must have in place strong compliance systems, a principal purpose of which is to provide reasonable assurance that investors are protected and that they are treated fairly.
- [9] It is very significant, in my opinion, that Quadrus took the steps that it did:
- (a) Quadrus conducted, on its own initiative, an internal review, following a reported settlement involving another firm and relating to excess fees paid by clients;
 - (b) following that review and the discovery of the issue, Quadrus self-reported this to Staff;
 - (c) Quadrus has co-operated fully with Staff; and
 - (d) Quadrus agreed to a compensation plan, the purpose of which is to restore the affected clients to the position in which they would have been had the alleged inadequacies not existed.
- [10] The reality is that compliance inadequacies do occur, even at well-meaning registered firms. What is critically important is that when such inadequacies do occur, the registrant responds in the way that Quadrus has. Quadrus is to be commended not only for its response, but for having taken the initiative in the first place to conduct the internal review.
- [11] This is a settlement where the respondent neither admits nor denies the specific allegations made. Even where a registrant responds appropriately to issues that have been raised it does not follow automatically that a registrant is entitled to have a no-contest settlement approved. However, for the reasons set out above, and with reference to the factors identified in section 17 of *OSC Staff Notice 15-702 – Revised Credit for Co-operation Program*,¹ in my view it is appropriate to approve such a settlement in this case.
- [12] In addition, this settlement succeeds in resolving a matter in a timely and effective way that is efficient and that saves the potentially substantial costs that might be incurred as a result of a contested hearing.
- [13] For all these reasons, I approve the settlement agreement and find that it is in the public interest to issue an order in the form of Schedule 'A' to that agreement.

Approved by the Chair of the Panel on 30th day of November, 2015.

"Timothy Moseley"

Timothy Moseley

¹ (2014), 37 O.S.C.B. 2583