



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 PRO-FINANCIAL ASSET MANAGEMENT INC.

**TEMPORARY ORDER
Subsections 127(1) & 127(5)**

WHEREAS it appears to the Ontario Securities Commission (the “Commission”) that:

PFAM’s Business

1. Pro-Financial Asset Management Inc. (“PFAM”), formerly Pro-Hedge Funds Inc., is a company incorporated under the laws of Ontario with its registered office located in Oakville, Ontario. From 2005 to 2009, PFAM was registered under the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the “Act”) as a limited market dealer and an investment counsel and portfolio manager. From 2009 to the present, PFAM has been registered as a dealer in the category of exempt market dealer and as an adviser in the category of portfolio manager.
2. On September 20, 2010, PFAM applied for registration as an investment fund manager but the decision to grant or refuse PFAM’s registration as an investment fund manager has been held in abeyance. As a result, PFAM has been operating as an investment fund manager under the grandfathering provision found in subsection 16.4(1) of National Instrument 31-103 – *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (“NI 31-103”).
3. As a limited market dealer or as an exempt market dealer, PFAM sold by way of private placement interests in three hedge funds: Pro-Hedge Capital Preservation Fund, Pro-Hedge Elite Fund, and Pro-Hedge Millenium Wave Global Opportunities Fund, collectively referred to as

the “Pro-Hedge Funds”. The Pro-Hedge Funds are not being marketed to investors. As at November 28, 2012, the Pro-Hedge Funds had approximately \$450,000 in assets under management.

4. PFAM is the portfolio manager and the investment fund manager for the Pro-Hedge Funds and for prospectus-qualified mutual funds. The mutual funds, Pro FTSE RAFI Canadian Index Fund, Pro FTSE RAFI US Index Fund, Pro FTSE RAFI Global Index Fund, Pro Money Market Fund, Pro FTSE RAFI Hong Kong China Index Fund, Pro FTSE RAFI Emerging Markets Index Fund, Pro FTSE NA Dividend Index Fund, Pro-Fundamental Balanced Index Fund and Pro-Fundamental Bond Index Fund, are collectively referred to as the “Pro-Index Funds”. As at November 28, 2012, the Pro-Index Funds had approximately \$120 million in assets under management.

5. PFAM acts as the portfolio manager for managed accounts with total assets under management of approximately \$10 million (the “Managed Accounts”).

6. PFAM, operating under its former name Pro-Hedge Funds Inc., acted as a sales agent in the distribution of exempt products known as principal protected notes (“PPNs”) in or between 2003 and 2007.

PFAM’s Working Capital Deficiency

7. On November 30, 2012, PFAM’s chief financial officer advised Staff that, based on her review, PFAM had a working capital deficiency of \$183,367 as at October 31, 2012.

8. On February 22, 2013, PFAM advised Staff that PFAM had a continuing working capital deficiency and filed a Form 31-103F1 – *Calculation of Excess Working Capital* (“Form 31-103F1”) with the Commission which showed that PFAM had a working capital deficiency of \$726,746 as at October 31, 2012 based on its annual audited financial statements.

9. Subsection 12.1(1) of N1 31-103 states that if, at any time, the excess working capital of a registered firm, as calculated in accordance with Form 31-103F1 is less than zero, the registered firm must notify the regulator as soon as possible. Subsection 12.1(2) of N1 31-103

states that the excess working capital of a registered firm as calculated in accordance with Form 31-103F1 must not be less than zero for two consecutive days.

10. PFAM has not rectified its working capital deficiency to this date.

Principal Protected Notes (“PPNs”)

11. PFAM has participated as sales agent for Société Générale (Canada) and BNP Paribas Canada (the “Banks”) in the distribution of nine series of PPNs from approximately mid 2003 to early 2007 inclusive. The PPNs issued by the Banks have maturity dates which ranged from December 2010 to October 31, 2016.

12. In or about December 2012, Staff became aware of a discrepancy in the number of outstanding PPNs reported in the records of the record-keeper for the notes and in the records of the trustee. Staff requested a reconciliation be prepared by PFAM with the involvement of an independent third party.

13. On or about February 15, 2013, PFAM provided Staff with an outline of PFAM’s work plan for its reconciliation process.

14. On or about March 22, 2013, PFAM provided an update on the reconciliation process which stated that the opening unit discrepancies between the records of the record-keeper and the records of the trustee were 2,302,9356 units equivalent to \$230,293.56. The update also set out a “price discrepancy” in the early redemptions of PPNs totalling \$566,839.26 across nine series of PPNs.

15. On or about April 23, 2013, PFAM provided a PPN reconciliation report (the “Reconciliation Report”) to Staff which provided that the current discrepancy between the record-keeper and the trustee was \$1,222,549.45, meaning that the total cash obligations to PPN noteholders disclosed in the record-keeper’s records exceeded the amount in the trustee’s records by \$1,222,549.45. The Reconciliation Report stated that PFAM expects to finalize its reconciliation by the end of May 2013.

AND WHEREAS Staff's investigation is ongoing;

AND WHEREAS it appears to the Commission that PFAM: (i) is capital deficient contrary to subsection 12.1(2) of NI 31-103; and (ii) there is an ongoing reconciliation being conducted by PFAM for the nine series of PPNs;

AND WHEREAS the Commission is of the opinion that the time required to conclude a hearing could be prejudicial to the public interest as set out in subsection 127(5) of the Act;

AND WHEREAS the Commission is of the opinion that it is in the public interest to make this order;

AND WHEREAS by Authorization Order made April 12, 2013, pursuant to subsection 3.5(3) of the Act, the Commission authorized each of Howard I. Wetston, James E. A. Turner, Mary G. Condon, James D. Carnwath, Edward P. Kerwin, Vern Krishna, Alan J. Lenczner, Christopher Portner and C. Wesley M. Scott acting alone, to exercise the powers of the Commission to make Orders under section 127 of the Act;

IT IS ORDERED that the registration of PFAM as a dealer in the category of an exempt market dealer is suspended;

IT IS FURTHER ORDERED that the following terms and conditions apply to the registration of PFAM as an adviser in the category of portfolio manager and to its operation as an investment fund manager;

- (i) PFAM's activities as a portfolio manager and investment fund manager shall be applied exclusively to the Managed Accounts and to the Pro-Hedge Funds and Pro-Index Funds; and
- (ii) PFAM shall not accept any new clients or open any new client accounts of any kind in respect of the Managed Accounts;

IT IS FURTHER ORDERED that a copy of this Temporary Order will be prominently posted by PFAM on the home page of its website at www.pro-financial.ca; and

IT IS FURTHER ORDERED that this order shall take effect immediately and shall expire on the fifteenth day after its making unless extended by order of the Commission.

DATED at Toronto this 17th day of May, 2013.

“Mary Condon”

Mary G. Condon