

IN THE MATTER OF THE *SECURITIES ACT*
R.S.N.S. 1989, CHAPTER 418, AS AMENDED ("Act")

- AND -

IN THE MATTER OF JOHN ALEXANDER ALLEN
(the "RESPONDENT")

SETTLEMENT AGREEMENT

PART I – INTRODUCTION

1. The parties to this Settlement Agreement ("Agreement") are the Respondents and Staff of the Nova Scotia Securities Commission.
2. The parties agree that the Nova Scotia Securities Commission ("Commission") has jurisdiction over this matter.
3. The parties agree to recommend to the Commission approval of this Agreement in accordance with the terms and process set out herein.

PART II – PROCEDURE FOR APPROVAL OF THE AGREEMENT

4. Staff of the Commission ("Staff") agrees to request that a Notice of Hearing be issued setting down a hearing ("Settlement Hearing") wherein the Commission will consider whether it is in the public interest to approve this Agreement and to issue an Order in the form attached as Schedule "A".
5. The parties agree that the Agreement constitutes the entirety of evidence to be submitted to the Commission at the Settlement Hearing.
6. Staff agrees to recommend that the allegations acknowledged and admitted by the Respondents be resolved and disposed of in accordance with this Agreement.
7. The Parties acknowledge that this Agreement will become a public document upon its approval by the Commission at the Settlement Hearing.

PART III – STATEMENT OF AGREED FACTS

8. Staff and the Respondent agree with the facts and conclusions set out in this Part of the Agreement.



9. The Respondent was at all relevant times a resident of Truro, Nova Scotia. He is currently a resident of Summerside, Prince Edward Island.
10. The Respondent held continuous registration with the Commission with various mutual fund dealers from January, 1993 to September, 2007. In particular, he was registered with Keybase Financial Group Inc. ("Keybase") from March 23, 2007 to September 04, 2007.
11. Keybase is a mutual fund dealer located in Markham, Ontario with offices in Nova Scotia. Keybase has been registered with the Commission since January, 2003.
12. AGF Trust Company ("AGF Trust") is a federally incorporated subsidiary of AGF Management Inc. located in Toronto, Ontario.
13. B2B Trust ("B2B") is a federally chartered trust company which is a wholly-owned subsidiary of Laurentian Bank of Canada located in Toronto, Ontario.
14. While registered with the Commission, the Respondent promoted an investment strategy whereby clients would use the proceeds from investment loans to purchase distribution paying mutual funds. Clients were encouraged and advised by the Respondent to rely on the distributions received from the mutual funds to fully fund the loan payments ("the leveraged strategy").
15. In facilitating the leveraged strategy for his clients, the Respondent forged loan applications for AGF Trust and B2B by inflating the value of clients' assets, reducing or omitting the value of their liabilities, and fabricating client employment details and salaries. By forging the loan applications and inflating the net worth of the clients, the Respondent was able to receive approval for loans for higher amounts than the client would have qualified.
16. In facilitating the leveraged strategy, the Respondent also forged Know-Your-Client ("KYC") information on Keybase new-account opening forms, by inflating the value of clients' assets and the extent of their investment knowledge and by extending the time horizon.
17. The Respondent forwarded the forged loan and KYC documents to compliance personnel at Keybase, and he received approval to open the new accounts pending receipt of the proceeds from the new loans.



18. Between March and September of 2007, the Respondent received approval for approximately 42 AGF Trust loans for his clients, most of which were in the amount of \$245,000. The total amount of loans he received for his clients during this time, from both AGF Trust and B2B, was approximately \$14 million. In all cases, the proceeds of the loans were used to fund the leveraged strategy, based upon the advice and recommendations of the Respondent.
19. In some cases, clients who received loans from AGF Trust also had investment loans from B2B, which had been facilitated by the Respondent. In many cases, the Respondent did not disclose the existence of previous loans on the client's subsequent loan applications.
20. In all cases, the Respondent did not inform his clients that he forged their loan application forms and KYC information for the purpose of inflating their net worth. In all cases, the Respondent did not inform his clients that they would not have received approval for the loans if he had not forged the forms.
21. The Respondent instructed his clients to sign the loan documentation and KYC documentation without disclosing that he had falsified their net worth and KYC information. He did not give clients any copies of the loan or KYC documentation or a prospectus for the mutual funds they purchased with the loan proceeds.
22. In all cases, the Respondent informed his clients that the leveraged strategy would not be subject to risk and that the clients would not have to make the loan payments from their own cash flow, but rather that the leveraged strategy would "pay for itself" in typically less than 10 years. The Respondent also informed his clients that the leveraged strategy would provide them with additional monthly cash flow which the clients could use as a primary or additional source of income.
23. A number of the Respondent's clients undertook the leveraged strategy as a primary or additional source of income to meet their everyday household spending requirements. Others relied upon the leveraged strategy to fund lifestyle expenses and make payments on other household debts.
24. Many of the Respondent's clients who agreed to use the leveraged strategy were unsophisticated investors, with little to no investment experience, they did not understand the strategy, but trusted the Respondent's advice and recommendations.

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25. The leveraged strategy was grossly unsuitable for many of the Respondent's clients.
26. Between March and September of 2007, the Respondent received approximately \$594,000.00 in commissions from Keybase.
27. By forging client information on the loan and KYC documentation and by encouraging and advising clients to invest in the leveraged strategy on the basis of the forged information, the Respondent engaged in unfair practice thereby violating section 44A(2) of the Act, and he failed to deal fairly, honestly and in good faith with his clients, thereby violating section 61 of the Securities Regulations, as rep. by Rule 31-801.
28. By forging client records and loan applications and forwarding them to Keybase compliance personnel for approval, the Respondent failed to maintain books and records necessary to record properly the clients business transactions and financial affairs, thereby violating section 30(1) of the Securities Regulations, as rep. by Rule 31-801.
29. By forging client information for the purpose of ensuring approval for investment loans, and by forging client information on KYC documentation, the Respondent failed to make the required enquiries or to properly record the information required to determine the clients' general investment needs and objectives and the suitability of the investment for the clients, thereby violating section 31(4) of the Securities Regulations, as rep. by Rule 31-801.

PART IV - STATEMENT OF ALLEGATIONS ACKNOWLEDGED AND ADMITTED BY THE RESPONDENTS

30. The Respondent acknowledges and admits that he violated section 44A(2) of the Act and sections 30(1), 31(4) and 61 of the Securities Regulations, as rep. by Rule 31-801.
31. The Respondent acknowledges that his actions undermined investor confidence in the fairness and efficiency of capital markets in Nova Scotia and were contrary to the public interest.
32. The Respondent admits the facts set forth in Part III herein and acknowledges that he violated the Act.

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PART V - MITIGATING FACTORS

33. The Respondent acknowledges and accepts responsibility for his conduct which is the subject matter of this Agreement.
34. The Respondent cooperated with the investigation of this matter.

PART VI – TERMS OF SETTLEMENT

35. The terms of settlement are set forth in the order contained in Schedule "A" to this Agreement which is expressly incorporated herein.
36. The Respondent consents to the order contained in Schedule "A".

PART VII – COMMITMENTS

37. If this Agreement is approved and the Order as set out in Schedule "A" is granted, the parties agree to waive any right to a full hearing and judicial review and appeal of this matter.
38. If this Agreement is approved by the Commission, the parties will not in any way make any statement, public or otherwise, that is inconsistent with the terms of this Agreement.
39. If this Agreement is approved by the Commission, the Respondent agrees to abide by all terms of this Agreement as set out in the Order attached as Schedule "A".
40. If, for any reason whatsoever, this Agreement is not approved, or the Order set forth in Schedule "A" is not granted by the Commission:
 - a. Staff and the Respondent will be entitled to proceed to a hearing of the allegations which are the subject matter of this Agreement unaffected by the Agreement or the settlement negotiations;
 - b. The terms of the Agreement will not be raised in any other proceeding or disclosed to any person except with the written consent of Staff and the Respondent or as may otherwise be required by law; and
 - c. The Respondent agrees that he will not raise in any proceeding the Agreement or the negotiations or process of approval thereof as a basis of any attack or challenge of the Commission's jurisdiction,



alleged bias, appearance of bias, alleged unfairness or any other challenge that may otherwise be available.

41. If, in the view of Staff and prior to the approval of this Agreement by the Commission, there are new facts or issues of substantial concern regarding the facts set out in Part III of this Agreement, Staff will be at liberty to withdraw from this Agreement. Notice of such intention will be provided to the Respondent in writing. In the event of such notice being given, the provisions of paragraph 40 in this Part will apply as if this Agreement had not been approved in accordance with the procedures set out herein.

PART VIII – DISCLOSURE OF SETTLEMENT AGREEMENT

42. Staff or the Respondent may refer to any or all parts of this Agreement as required by the General Rules of Practice and Procedure and in the course of the Settlement Hearing. Otherwise, this Settlement Agreement and its terms will be treated as confidential by all parties to it until approved by the Commission, and forever if, for any reason whatsoever, this settlement is not approved by the Commission.

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PART IX – EXECUTION OF SETTLEMENT AGREEMENT

43. This Agreement may be signed in one or more counterparts that together shall constitute a binding agreement and a facsimile copy of any signature shall be as effective as an original signature.

Dated this *19* day of *May*, 2011.

SIGNED, SEALED AND DELIVERED
In the presence of:

Paula Bragg
Witness

John Alexander Allen
John Alexander Allen

Dated this *26th* day of *May*, 2011.

SIGNED, SEALED AND DELIVERED
In the presence of:

Shirley Smith
Witness

Staff of the Nova Scotia
Securities Commission
Scott Peacock
R/ Scott Peacock
Director of Enforcement
Nova Scotia Securities
Commission

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SCHEDULE "A"

IN THE MATTER OF THE *SECURITIES ACT*
R.S.N.S. 1989, CHAPTER 418, AS AMENDED ("Act")

- AND -

IN THE MATTER OF JOHN ALEXANDER ALLEN
(the "RESPONDENT")

ORDER

(Sections 134, 135 and 135A)

WHEREAS on _____, 2011 the Nova Scotia Securities Commission ("Commission") issued a Notice of Hearing to the Respondent pursuant to sections 134, 135 and 135A of the Act;

AND WHEREAS the Respondent entered into a settlement agreement with Staff of the Commission ("Staff") whereby he agreed to a proposed settlement of the proceeding, subject to the approval of the Commission;

AND WHEREAS Staff and the Respondent recommended approval of the settlement agreement;

AND WHEREAS the Commission is of the opinion that the Respondent has contravened the Act and it is in the public interest to make this Order;

AND UPON reviewing the settlement agreement;

AND UPON and upon hearing submissions of counsel for Staff and the Respondent;

IT IS HEREBY ORDERED that:

1. The Settlement Agreement dated _____, a copy of which is attached, is approved;
2. Pursuant to section 134(1)(c) of the Act, that any or all of the exemptions contained in Nova Scotia securities laws do not apply to the Respondent permanently;
3. Pursuant to section 134(1)(d)(i) of the Act, the Respondent be permanently prohibited from becoming or acting as a director or officer of any issuer;

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4. Pursuant to section 134(1)(d)(ii) of the Act, the Respondent be permanently prohibited from becoming or acting as a registrant, investment fund manager or promoter;
5. Pursuant to section 134(1)(h) of the Act, the Respondent be reprimanded;
6. Pursuant to section 135 of the Act, the Respondent shall pay an administrative penalty in the amount of one million fifty thousand dollars (\$1,050,000.00) forthwith; and
7. Pursuant to section 135A of the Act, the Respondent shall pay costs in connection with the investigation and conduct of the proceedings before the Commission in the amount of seven thousand dollars (\$7,000.00) forthwith.

DATED at Halifax, Nova Scotia, this _____ day of _____ 2011.

NOVA SCOTIA SECURITIES COMMISSION

(Chairman)

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