

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

- AND -

IN THE MATTER OF
QUADRUS INVESTMENT SERVICES LTD. ("Respondent")

SETTLEMENT AGREEMENT

PART I – INTRODUCTION

1. The parties to this Settlement Agreement ("Agreement") are the Respondent 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 Respondent 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.

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9. The Respondent is a mutual fund dealer whose head office is in London, Ontario. The Respondent has held registration with the Commission since 2000.
10. Grant Stuart Rust ("Rust") is a resident of Hubbards, Nova Scotia.
11. Rust is registered with the Commission as a Dealing Representative. From February, 2004 until May, 2011, he was registered as a Dealing Representative with the Respondent.
12. On February 25, 2004, terms and conditions were placed on the registration of Rust by Brian Murphy, ("Murphy") Deputy Director of Capital Markets for the Commission wherein the Respondent agreed to provide "close supervision" of Rust and to provide monthly supervision reports directly to Murphy. Specifically, the Respondent agreed to provide procedures sufficient to monitor Rust in regard to such things as inconsistency with stated objectives, excessive trading/churning, suitability of leveraged investments, and improper use of discretion.
13. AB and CD are residents of Liverpool, Nova Scotia and are a common law couple. At all material times, AB and CD were clients of Rust and the Respondent.
14. In February, 2007, Rust submitted a Solutions Banking credit application, investment line of credit application to the Respondent in the amount of \$100,000 on behalf of CD.
15. The documentation submitted by Rust in support of the investment loan was inconsistent with information previously recorded in CD's file. Specifically, the know-your-client information ("KYC") accompanying the loan application noted CD's risk tolerance as high, whereas CD's file noted his risk tolerance on some accounts as medium and on other accounts as high. Despite Rust being subject to terms and conditions wherein the Respondent agreed to monitor for inconsistency with stated objectives, the Respondent did not make any inquiries of Rust regarding this inconsistency, and approved the loan application.
16. It was during an internal audit conducted in March 2008 that the Respondent's management became aware of this inconsistency. However, the Respondent failed to report this information to Murphy, instead requesting that Rust get clarification and update the file as appropriate.
17. In May of 2007, CD redeemed \$40,000 from his investment portfolio with the Respondent, \$8,612 of which was subject to deferred sales charges. However, approximately three weeks later, in June of 2007, Rust submitted a Solutions Banking investment line of credit application to the Respondent in the amount of \$40,000 on behalf of CD. Despite Rust being subject to terms and conditions and the Respondent agreeing to monitor for excessive trading/churning suitability

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of leveraged investments, and improper use of discretion, the Respondent did not make any inquiries of Rust regarding these transactions, and approved the loan application.

18. Furthermore, the documentation filed by Rust in support of this loan application was inconsistent in that the monthly income noted on the loan application was different the income noted on other documents attached to the loan application. The proceeds of the loan went to purchase mutual funds with a deferred sales charge. Again, despite agreeing to provide close supervision of Rust, the Respondent failed to make any inquiries of Rust and ultimately approved these transactions.
19. In the accounts of AB, a purchase plan was set up to automatically purchase a set dollar amount of funds once a month, beginning in December 2006. However, AB also set up an automatic withdrawal plan to redeem from her funds, also on a monthly basis. Despite having agreed to provide close supervision of Rust regarding excessive trading/churning, the Respondent approved these transactions.
20. Rust had clients AB and CD sign blank switch forms, which he kept in the client files. Despite agreeing to provide close supervision of Rust in relation to improper use of discretion, the Respondent failed to detect the existence of signed blank forms.
21. By failing to provide close supervision of Rust, and by failing to establish procedures sufficient to monitor Rust, the Respondent failed to establish procedures that conformed with prudent business practice, and failed to take whatever steps necessary or appropriate to supervise Rust, thereby breaching section 31(1) of the Securities Regulations, as rep. by Rule 31-801.

PART IV – ACKNOWLEDGMENT AND ADMISSION

22. The Respondent acknowledges and admits the above-referenced violations of section 31(1) of the Securities Regulations, as rep. by Rule 31-801.
23. The Respondent acknowledges that such violations undermine investor confidence in the fairness and efficiency of capital markets in Nova Scotia and are otherwise contrary to the public interest.
24. The Respondent admits the facts set forth in Part III herein and acknowledges that it violated Nova Scotia securities laws.

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PART V - MITIGATING FACTORS

25. The Respondent acknowledges and accepts responsibility for its conduct which is the subject matter of this Agreement.
26. The Respondent cooperated with the investigation of this matter.
27. The Respondent has made the following changes to its process for supervising representatives on terms and conditions and leverage recommendations:
 - a. The branch manager employed at the time and responsible for supervising Rust is no longer in a supervisory or management position.
 - b. The Respondent appointed a new Ultimate Designated Person in April 2011 and new Chief Compliance Officer in March 2013.
 - c. Implementation of an enhanced supervision structure with heightened oversight on leverage recommendations and registrants on terms and conditions;
 - d. Hiring of salaried branch managers who are responsible for only the supervision of mutual fund trading activities and registrants;
 - e. Hiring of additional branch managers to enable the firm to enhance its supervision of registrants, including those registrants on close supervision.
 - f. Since 2007, the Respondent has made enhancements to its corporate leverage policy, which includes the development and use of standard forms and worksheets that better identify client-specific details; the requirement that all leverage recommendations are pre-approved by the branch manager; and the implementation of a secondary level of review and approval by designated compliance personnel of all leverage recommendations.
28. Rust is no longer a representative for the Respondent.
29. The Respondent has offered financial compensation to AB and CD, and is currently negotiating with those clients with hopes of reaching a mutually agreeable resolution.

PART VI – TERMS OF SETTLEMENT

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

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31. The Respondents consent to the order contained in Schedule "A".

PART VII – COMMITMENTS

32. 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.
33. 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.
34. 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".
35. 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 Respondents or as may otherwise be required by law; and
 - c. The Respondent agrees that it 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.
36. 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 35 in this Part will apply as if this Agreement had not been approved in accordance with the procedures set out herein.



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PART VIII – DISCLOSURE OF SETTLEMENT AGREEMENT

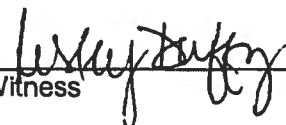
37. Staff or the Respondent may refer to any or all parts of this Agreement as required by the General Rules of Practice and Procedure and in the course of the Settlement Hearing. Otherwise, this Settlement Agreement and its terms will be treated as confidential by all parties to it until approved by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

PART IX – EXECUTION OF SETTLEMENT AGREEMENT

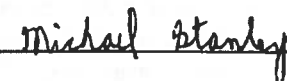
38. This Agreement may be signed in one or more counterparts that together shall constitute a binding agreement and a facsimile copy of any signature shall be as effective as an original signature.

Dated this 30th day of May 2013.

SIGNED, SEALED AND DELIVERED
In the presence of:

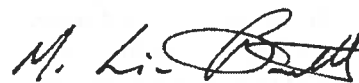

Witness

Quadrus Investment Services Ltd.

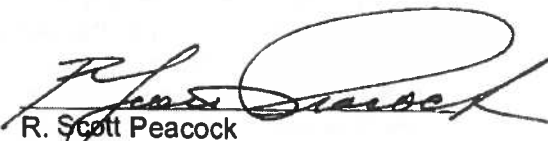

Per: _____
President

Dated this 30th day of May 2013.

SIGNED, SEALED AND DELIVERED
In the presence of:


Witness

Staff of the Nova Scotia Securities
Commission


R. Scott Peacock
Director of Enforcement
Nova Scotia Securities Commission

SCHEDULE "A"

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

- AND -

IN THE MATTER OF
QUADRUS INVESTMENT SERVICES LTD. ("Respondent")

ORDER

(Sections 135, 135A and 136A)

WHEREAS on _____, 2010 the Nova Scotia Securities Commission ("Commission") issued a Notice of Hearing to the Respondent pursuant to sections 135, 135A, and 136A of the Act;

AND WHEREAS the Respondent entered into a settlement agreement with Staff of the Commission ("Staff") whereby it 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 Respondents;

IT IS HEREBY ORDERED that:

1. The settlement agreement dated _____, 2013, a copy of which is attached, is approved; and
2. Pursuant to section 135 of the Act, the Respondent shall pay an administrative penalty in the amount of forty thousand dollars (\$40,000.00) forthwith; and
3. Pursuant to section 135A of the Act, the Respondent shall pay costs in connection with Staffs investigation and conduct of this proceeding before the Commission in an amount of one thousand dollars (\$1,000.00) forthwith; and

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4. Pursuant to section 136A of the Act, the Respondent shall ensure that its Dealing Representatives comply with any and all terms and conditions placed on their registrations by Staff of the Commission.

DATED at Halifax, Nova Scotia, this _____ day of _____, 2013.

NOVA SCOTIA SECURITIES COMMISSION

(Chair)