



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 (the “Act”)**

- AND -

**IN THE MATTER OF ONTARIO WEALTH MANAGEMENT CORPORATION,
carrying on business as OWEMANCO**

**STATEMENT OF ALLEGATIONS
OF STAFF OF THE ONTARIO SECURITIES COMMISSION**

Staff (“Staff”) of the Ontario Securities Commission (the “Commission”) make the following allegations:

I. THE RESPONDENT

1. Ontario Wealth Management Corporation, carrying on business as OWEMANCO (“OWEMANCO”) was incorporated in Ontario on February 20, 2001 and is a registered as a mortgage brokerage and administrator under the *Mortgage Brokerages, Lenders and Administrators Act*, R.S.O (2006), c.29, with the Financial Services Commissions of Ontario.

2. In addition, OWEMANCO trades in units of OWEMANCO Mortgage Trust, a non-investment fund pooled mortgage investment entity. OWEMANCO Mortgage Trust commenced operation on July 9, 2010 under an exchange offering pursuant to an Offering Memorandum whereby existing clients of OWEMANCO holding interests in syndicated mortgage loans originated and administered by OWEMANCO were offered units in the OWEMANCO Mortgage Trust in exchange for their shares in the syndicated mortgages. The syndicated mortgages were then rolled into the OWEMANCO Mortgage Trust.

II. BACKGROUND

3. On or about March 30, 2011, OWEMANCO applied to the Commission for registration under the Act as an exempt market dealer (“EMD”).

4. In or about September 2011, OWEMANCO advised Staff that:
 - (a) Warren Morris (“Morris”), a mortgage broker at OWEMANCO and OWEMANCO’s proposed chief compliance officer (“CCO”), would be the firm’s sole dealing representative;
 - (b) Jonah Bonn (“Bonn”), OWEMANCO’s chief operating officer, was completing the requisite proficiency requirements to become a dealing representative and that he would apply for registration upon completion of the applicable course(s); and
 - (c) Morris was the only individual who would be dealing with investors on behalf of OWEMANCO and that the other members of OWEMANCO did not and would not deal with investors.
5. On or about May 18, 2012, Staff advised OWEMANCO that it was prepared to register OWEMANCO as a dealer in the category of EMD provided that an undertaking (the “OWEMANCO Undertaking”) be signed by an approved officer of OWEMANCO.
6. The OWEMANCO Undertaking required OWEMANCO to do the following within 6 months from the grant of the EMD registration, with respect to each person who had since September 14, 2005 purchased securities in OWEMANCO Mortgage Trust and continued to hold such securities:
 - (a) to make reasonable inquiry to confirm that a valid prospectus exemption was available for the purchase of such securities, excluding the \$150,000 minimum amount investment exemption, and in the case of persons seeking to rely on the “accredited investor” exemption contained in National Instrument 45-106 - *Prospectus and Registration Exemptions* (“NI 45-106”) such reasonable inquiry would take the form of obtaining a signed and completed Investor Information Form (“IIF”); and
 - (b) where the inquiry did not reasonably demonstrate that a prospectus exemption was available, require such person to redeem such securities.
7. On May 18, 2012, the OWEMANCO Undertaking was signed. On that same day, OWEMANCO was registered with the Commission in the category of EMD and Morris was registered as OWEMANCO’s dealing representative and CCO.
8. Bonn was not registered in any capacity with the Commission until December 19, 2012 when Bonn became registered as a dealing representative of OWEMANCO.

9. On May 14, 2014, Bonn surrendered his registration in the category of dealing representative and Morris surrendered his registration in the categories of dealing representative and CCO.

III. RESPONDENT'S CONDUCT

10. Commencing on or about January 24, 2013, Staff commenced a review of OWEMANCO under section 20 of the Act (the "Compliance Review") for the review period of January 1, 2012 to December 31, 2012 (the "Review Period").

11. By means of a compliance field review report delivered to OWEMANCO on or about August 12, 2013 (the "Compliance Report"), Staff advised OWEMANCO that it had identified a number of significant deficiencies during the Compliance Review ("Significant Deficiencies").

12. Among the Significant Deficiencies raised in the Compliance Report, Staff noted that OWEMANCO failed to comply with the OWEMANCO Undertaking and/or failed to comply with the OWEMANCO Undertaking by the required deadline of November 18, 2012. In particular, Staff found that:

- (a) Five months after the November 18, 2012 deadline had expired, the procedures set out in the OWEMANCO Undertaking had not yet been performed for 36 clients and, in respect of most of these clients, OWEMANCO had insufficient "know your client" ("KYC") documentation to demonstrate sufficient information to ascertain whether these clients qualified to purchase prospectus-exempt securities or whether these investments needed to be redeemed;
- (b) In the case of four of the clients referred to in (a) above, IIFs were not obtained as OWEMANCO improperly relied on the "founder, control person and family" prospectus exemption set out in section 2.7 of NI 45-106 in relation to these four clients; and
- (c) In at least two instances, OWEMANCO recommended to clients who were not accredited investors to increase the aggregate amount of their investment up to \$150,000, or to add to the aggregate amount of their investment in increments smaller than \$150,000 (collectively, "Top-Up Investments") to meet the "minimum amount exemption" when this exemption, set out in section 2.10 of NI 45-106, did not apply in such circumstances and after Staff advised OWEMANCO during the Compliance Review that this exemption could not be used in this manner.

13. In addition, during the period May 18, 2012 to December 19, 2012, when Bonn was not registered in any capacity with the Commission, Bonn engaged in acts in furtherance of a trade on behalf of OWEMANCO including:

- (a) Meeting with investors to discuss investments in OWEMANCO Mortgage Trust;
- (b) Collecting KYC and other information from clients;
- (c) Providing clients with offering documents (including offering memorandum and subscription agreements);
- (d) Accepting investor funds; and
- (e) Executing trade transactions.

14. Further, on at least four occasions after the Review Period, OWEMANCO allowed clients who had previously met the “minimum amount exemption” set out in section 2.10 of NI 45-106 to make additional investments in amounts of less than \$150,000. These investors did not otherwise qualify for exemptions from the prospectus requirement.

BREACHES OF ONTARIO SECURITIES LAW AND CONDUCT CONTRARY TO THE PUBLIC INTEREST

15. OWEMANCO contravened Ontario securities law, which was contrary to the public interest, in the following ways:

- (a) OWEMANCO improperly purported to rely on exemptions from the prospectus requirement;
- (b) OWEMANCO engaged in trading without registration contrary to subsection 25(1) of the Act; and
- (c) OWEMANCO failed to establish and maintain systems of controls and supervision to provide reasonable assurance that the firm and each individual acting on its behalf complied with securities legislation, in breach of subsection 32(2) of the Act and section 11.1 of National Instrument 31-103 – *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (“NI 31-103”).

16. Further, the failure by OWEMANCO to comply with the OWEMANCO Undertaking was contrary to the public interest.

17. Staff reserve the right to make such other allegations as Staff may advise and the Commission may permit.

DATED at Toronto, this 5th day February, 2015.