



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
CHILDREN'S EDUCATION FUNDS INC.**

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

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

1. Children's Education Funds Inc. ("CEFI") distributes units of three distinct savings plans (the "Plans") which are Registered Education Savings Plans ("RESPs");
2. CEFI has been registered with the Commission as a scholarship plan dealer since March 22, 1991;
3. From July 2011 to August 2011 inclusive, Staff conducted a compliance review at CEFI's head office in Burlington, Ontario and at CEFI's various branch locations in the Greater Toronto Area;
4. Staff alleged a number of compliance deficiencies which were set out in Staff's compliance report dated June 14, 2012;

AND WHEREAS the terms and conditions confirm that CEFI has retained an independent consultant and will retain an independent monitor that are approved by the Compliance and Registrant Regulation ("CRR") Branch of the Commission to assist CEFI in implementing plans to strengthen its compliance system;

AND WHEREAS CEFI's counsel has advised Staff that CEFI has reviewed and consents to the terms of this Temporary Order without prejudice to any position that CEFI may take subsequently;

AND WHEREAS Staff has advised that Staff's investigation of CEFI is ongoing;

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 considers that it is in the public interest to make this Order;

AND WHEREAS by Authorization Order made June 13, 2012, pursuant to subsection 3.5(3) of the Act, each of Howard I. Wetston, James E. A. Turner, Kevin J. Kelly, James D. Carnwath, Mary G. Condon, Margot C. Howard, Paulette L. Kennedy, Vern Krishna, Christopher Portner and Edward P. Kerwin, acting alone, is authorized, to exercise the powers of the Commission under the Act, subject to subsection 3.5(4) of the Act, to make orders under section 127 of the Act;

IT IS HEREBY ORDERED pursuant to section 127 of the Act that:

1. under paragraph 1 of subsection 127(1) of the Act, the terms and conditions set out in Schedule "A" to this Order are imposed on CEFI's registration;
2. the Temporary Order shall take effect immediately and shall expire on the fifteenth day after its making unless extended by order of the Commission; and

3. the matter will be brought before the Commission on September 26, 2012 at 10:00 a.m. for the purpose of providing the Commission with an update on the implementation of the terms and conditions imposed on CEFI.
4. Staff shall be free to reapply to the Commission in the event that it has concerns with the application or operation of any provision of this Order.

Dated at Toronto this 14th day of September, 2012.

“James E. A. Turner”

James E. A. Turner

SCHEDULE "A"

Proposed Terms and Conditions Children's Education Funds Inc. ("CEFI")

1. CEFI has retained, at its own expense, an independent consultant (the "Consultant") that has been approved by a Manager in the Compliance and Registrant Regulation Branch of the Ontario Securities Commission (the "OSC Manager") and shall continue to work with the Consultant to:
 - (a) prepare and assist CEFI in implementing a plan (the "Plan") to strengthen CEFI's "compliance system" within the meaning of section 11.1 of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*, including the expected dates of completion and person(s) responsible for the implementation. In the Plan, the Consultant will examine CEFI's operations, internal policies, practices and procedures and make recommendations for rectifying all identified compliance deficiencies raised in a Compliance Report dated June 14, 2012, including but not limited to, in relation to:
 - i. documenting and collecting clients' know-your-client information ("KYC Information");
 - ii. ensuring that all trades are suitable for CEFI's clients;
 - iii. training dealing representatives and preparing training materials;
 - iv. overseeing branch locations and performing branch audits; and
 - v. preparing and distributing marketing materials;
 - (b) review CEFI's progress with respect to implementation of the Plan; and
 - (c) submit written progress reports ("Progress Reports") to the OSC Manager detailing CEFI's progress with respect to the implementation of the Plan and stating whether the specific recommendations included in the Plan have been implemented and, if not, the expected date of completion and person(s) responsible for the implementation.
2. The Plan and the Progress Reports must be reviewed and approved by the ultimate designated person ("UDP") and chief compliance officer ("CCO") of CEFI, and signed by the UDP and CCO of CEFI as evidence of their review and approval.
3. The Consultant shall provide the Plan to the OSC Manager no later than 30 days from the date of this Order for review and approval.

4. CEFI shall retain a monitor that is independent of CEFI that is approved by the OSC Manager (the "Monitor"). The Monitor must be in place no later than 10 business days from the date of this Order, to carry out the activities described in paragraph 5, for any new clients or new accounts from existing clients (collectively the "New Clients").
5. Until such time as the Plan has been approved by the OSC Manager, the Monitor will:
 - (a) review all applications from New Clients of CEFI for the purpose of ensuring adequate KYC information in order to determine suitability of the investment and should the Monitor not be satisfied with the KYC Information for this purpose, contact the New Client; and
 - (b) contact the following additional New Clients of CEFI;
 - i. 100% of all New Clients with an income less than or equal to \$50,000; and
 - ii. a random sample of 20% of all New Clients with an income greater than \$50,000.
6. The Monitor will use best efforts to contact the New Clients of CEFI as set out in paragraph 5 within 30 days of the client's investment for the purpose of confirming:
 - (a) the accuracy of the client's KYC Information;
 - (b) that the investment is suitable for the client including that the client has the ability to make the payments for the investment time horizon; and
 - (c) that the client understands the fee structure of the investment including the impact of enrolment fees on early termination of the investment and any fees and charges as a result of missed payments.
7. In the event that the Monitor determines that the investment was not suitable for the client, the investment shall be unwound at no cost to the client and any deposits made will be returned in full to the client. In the event the Monitor determines that the client did not understand the fee structure, the Monitor will explain the fee structure and advise the client of the client's option to unwind the investment, at no cost to the client, within 60 days following the investment. In the event that after using its best efforts to attempt to contact a New Client under paragraph 5(b) on at least three separate occasions, the Monitor has been unsuccessful in reaching the New Client and has been unable to confirm the information set out in paragraph 6 above, then no further efforts by the Monitor to contact that New Client in accordance with paragraph 5(b) will be required.
8. CEFI will disclose to New Clients that their investment will be reviewed by an independent Monitor retained by CEFI and will be unwound if the Monitor determines the investment is not suitable for them.
9. The Monitor shall provide bi-weekly reports of its findings to the OSC Manager.
10. The Plan to be submitted by the Consultant shall include a continuing role for the Monitor during the period after the Plan has been approved and until the Plan has been fully implemented in relation to the items set out in paragraphs 4 through 7 above and to allow for the unwinding of investments at no cost to the client where appropriate.

11. The Consultant shall submit Progress Reports to the OSC Manager every 30 days following delivery of the Plan to the OSC Manager until the Plan has been fully implemented.
12. Until the Plan has been fully implemented, CEFI shall not open any new branch locations, and may not sponsor any new dealing representatives, except so as to replace dealing representatives that depart CEFI subsequent to the date of this Order such that the aggregate number of CEFI's dealing representatives as of the date of this Order does not increase and only on the condition that the Consultant has provided a letter in writing to the OSC Manager, in respect of each proposed dealing representative, confirming that the proposed dealing representative:
 - (a) has received adequate training to sell the investment(s) offered by CEFI, including appropriate sales conduct and practices; and
 - (b) will be supervised by a branch manager that has the capacity and the demonstrated ability to properly oversee the proposed dealing representative.
13. CEFI shall immediately submit to the Commission a direction from CEFI giving consent to unrestricted access by staff of the Commission to communicate with the Monitor regarding the Monitor's work and with the Consultant regarding CEFI's progress with respect to the implementation of the Plan or any of its specific recommendations.