



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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**IN THE MATTER OF
THE *SECURITIES ACT*, RSO 1990, c S.5**

- AND -

**IN THE MATTER OF LIAHONA MORTGAGE INVESTMENT CORP., LIAHONA
ADMINISTRATION INC., AARON RUMLEY, ROBERT RUMLEY AND ROBERT
CHAGGARES**

SETTLEMENT AGREEMENT

PART I – INTRODUCTION

1. The Ontario Securities Commission (the “**Commission**”) will issue a Notice of Hearing to announce that it will hold a hearing to consider whether, pursuant to sections 127 and 127.1 of the *Securities Act* (the “**Act**”), it is in the public interest for the Commission to approve this Settlement Agreement and to make certain orders in respect of Liahona Mortgage Investment Corp. (“**LMIC**”), Liahona Administration Inc. (“**LAI**”), Aaron Rumley, Robert Rumley and Robert Chaggares (collectively, the “**Respondents**”).

PART II - JOINT SETTLEMENT RECOMMENDATION

2. Staff of the Commission (“**Staff**”) agree to recommend settlement of the proceeding commenced against the Respondents by Notice of Hearing (the “**Proceeding**”) according to the terms and conditions set out in Part V of this Settlement Agreement (this “**Settlement Agreement**”). The Respondents agree to the making of an order in the form attached as Schedule “A” to this Settlement Agreement, based on the facts set out below.
3. For the purposes of the Proceeding, and any other regulatory proceeding commenced by a securities regulatory authority, the Respondents agree with the facts as set out in Part III and the conclusion in Part IV of this Settlement Agreement.

PART III - AGREED FACTS

A. OVERVIEW

4. Between December 30, 2007 and February 23, 2015 (the “**Material Time**”), the Respondents sold approximately \$20 million worth of shares in LMIC, a mortgage investment entity, to 95 investors. The Respondents did so without registering with the Commission, without filing a prospectus with the Commission, and without obtaining a prospectus receipt to qualify the sales of their securities.
5. Through these actions, the Respondents breached the registration and prospectus requirements of the Act, as they engaged in the business of trading in LMIC securities when no registration exemption applied, and distributed LMIC shares to investors who did not qualify for prospectus-exempt distributions.

B. THE RESPONDENTS

6. LMIC was incorporated in Ontario on December 22, 2006 with a registered office in Barrie, Ontario. It is a mortgage investment entity, as such term is defined in the CSA Staff Notice 31-323 *Guidance Relating to the Registration Obligations of Mortgage Investment Entities*, and lends capital for first and second residential mortgages and commercial mortgages. All of these mortgages have underlying properties in Ontario.
7. LAI is a non-reporting issuer that was incorporated in Ontario on March 31, 2005 with a registered office in Barrie, Ontario. LAI conducts certain management and administration functions for LMIC, as specified below.
8. Robert Chaggares is the President of LMIC and LAI and a director of these entities. He is a Chartered Accountant, and is a partner at Chaggares & Bonhomme, Chartered Professional Accountants, an accounting practice. He is a resident of Queensville, Ontario.
9. Aaron Rumley is the Secretary of LMIC and LAI and a director of these entities. He is a Chartered Accountant, and is a partner at Rumley, Holmes LLP, an accounting practice. He is a resident of Barrie, Ontario.

10. Robert Rumley is a director of LMIC, and assists in the management of LMIC's mortgage investments and the distribution of the company's shares. He is a resident of Barrie, Ontario, and was formerly a partner at Rumley & Associates.

C. CONDUCT AT ISSUE

11. Robert Chaggares, Aaron Rumley and Robert Rumley (collectively, the "Principals") began operating LMIC as a mortgage investment entity in December 2006. They received mortgage proposals from licensed brokers and evaluated the proposals based on the location and marketability of the underlying properties, as well as the creditworthiness of the underlying borrowers. After completing their due diligence process, the Principals selected certain mortgages for funding, using LMIC as their investment vehicle.
12. In December 2007, the Principals began offering preferred shares in LMIC to a number of friends, family and clients of their accounting practices. They offered the shares at a price of \$1 per share. In order to raise interest in LMIC, they actively solicited a number of prospective investors, discussing the benefits of LMIC during meetings with the prospects.
13. The Respondents also provided marketing materials to prospective investors that reviewed the characteristics of mortgage investment entities. These marketing materials included a pamphlet titled "An Introduction to Mortgage Investment Corporations" that disclosed the terms for purchase and redemption of LMIC shares, and the nature of the underlying assets of LMIC. Beginning in 2012, the Respondents executed formal subscription agreements with investors who purchased shares in LMIC.
14. The Principals used LAI to manage and administer LMIC. Through LAI, the Principals conducted underwriting and accounting functions for LMIC, including the due diligence review of mortgages for LMIC and the payment of dividends to LMIC's preferred shareholders. LAI also maintained the shareholder register and shareholder files. LMIC paid LAI an annual fee of 2.25% of the dollar value of the mortgages under its administration.
15. Through this conduct, the Respondents engaged in the business of trading in LMIC securities, but they failed to register with the Commission and failed to evaluate their

investors' needs in the manner required of registrants. Although the Respondents were aware of certain investors' financial holdings, they did not adequately collect or consider "know-your-client" information from investors and did not examine investors' portfolios to ensure that investments in LMIC were suitable for them.

16. The Respondents never filed a preliminary prospectus or a prospectus with the Commission and did not obtain a prospectus receipt to qualify the sale of LMIC securities. The Respondents also did not file exempt distribution reports or pay any activity fees to the Commission within the periods mandated under the Act.
17. The Respondents ultimately sold preferred shares of LMIC having an aggregate value of \$20,299,461 to 95 investors during the Material Time. The Respondents' sales to 12 of these investors were suitable and qualified for prospectus exemptions. Of the remaining sales:
 - a. the Respondents sold investments to 47 investors that were unsuitable for them, as the investments comprised over 10 percent of each investor's net financial assets, and thus left the investor's portfolio over-concentrated in LMIC securities;
 - b. the Respondents sold investments to 18 investors that were also unsuitable for the reason specified in subparagraph 17(a) and, in addition, did not qualify for any prospectus exemptions during the Material Time;
 - c. the Respondents sold investments to 2 investors that did not qualify for prospectus exemptions during the Material Time and do not qualify for any prospectus exemption at present; and
 - d. the Respondents sold investments to 16 investors that were redeemed during the Material Time.
18. LMIC presently has 77 investors and holds mortgage loans valued at approximately \$19 million. These loans are secured by 84 first and second residential and commercial mortgages, with an average loan-to-value ratio of 72 percent. During the Material Period,

the Respondents redeemed a total of \$4,326,564 of investors' shares and paid dividends totalling \$3,673,565 to investors.

D. COOPERATION WITH STAFF AND OTHER MITIGATING FACTORS

19. The Respondents have never been registered in any capacity with the Commission, and had no experience with securities registration requirements until the present matter. They were unaware that the distribution of mortgage investment entity shares was regulated by the Act until November 2013, when they reviewed literature outlining registration requirements under the Act.
20. After the Respondents learned of their registration requirements, they engaged a compliance consulting firm to review their activities and determine the steps necessary to apply for registration as an exempt market dealer. The Respondents subsequently applied to register Liahona Capital Inc. with the Commission as an exempt market dealer, and voluntarily reported the conduct described in paragraphs 11 through 17 above to Staff.
21. In consultation with Staff, the Respondents took the following steps to mitigate the effects of their conduct:
 - a. The Respondents voluntarily ceased trading shares in LMIC pending the resolution of this matter.
 - b. The Respondents provided comprehensive information to Staff to help identify LMIC investors whose investments posed suitability concerns and prospectus exemption concerns.
 - c. The Respondents agreed to redeem the shares of 2 investors identified by Staff who did not qualify for any prospectus exemptions (the "**Non-Exempt Investors**"), and agreed to assess 65 other investors in LMIC whose investments posed suitability and prospectus exemption concerns for Staff (the "**Identified Investors**").
 - d. The Respondents engaged an exempt market dealer (the "**EMD**") to conduct the assessment of the Identified Investors, and offered to redeem all LMIC shares from the Identified Investors who did not qualify for a prospectus exemption or for whom

the LMIC investment was unsuitable. As part of their engagement, the EMD undertook the following process:

- i. The EMD conducted “know-your-client” and suitability analyses of the Identified Investors in accordance with sections 13.2 and 13.3 of National Instrument 31-103 – *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (“**NI 31-103**”).
- ii. The EMD concluded that the purchase of LMIC shares was unsuitable for all 65 of the Identified Investors. In all cases, the EMD determined this was due to the investors’ concentration of more than 10 percent of their net financial assets in their LMIC investments.
- iii. The EMD met with all of the Identified Investors and advised each of them of the reasons for its conclusion that their LMIC investments were unsuitable. The EMD also advised each investor that the Respondents were prepared to redeem their investments. In all cases, the Identified Investors acknowledged the unsuitability of their LMIC investments, but declined to redeem their preferred shares. All of the investors signed acknowledgements indicating that:
 1. they had a meaningful discussion with the EMD about the unsuitability of their LMIC investments;
 2. they had been specifically advised of the reasons for the EMD’s conclusions regarding the unsuitability of their LMIC investments; and
 3. they instructed the EMD that they wished to retain their LMIC investments, in accordance with subsection 13.3(2) of NI 31-103.
- iv. The EMD also concluded that 18 of the Identified Investors did not qualify for prospectus exemptions during the Material Time. However, the EMD found that these investors currently qualified for exemptions due to the

family, friends, and business associate exemption in National Instrument 45-106 *Prospectus Exemptions* (the “FFBA Exemption”) that became effective in Ontario on May 5, 2015.

- v. After consultations with Staff, the Respondents qualified these 18 investors to retain their LMIC investments by having them complete the Risk Acknowledgement Form for Family, Friends and Business Associate Investors pursuant to the requirements of the FFBA Exemption.
 - e. The Respondents filed reports on exempt distributions for trades made during the Material Time, and paid the required Commission activity and late fees of \$30,200 for their exempt distributions.
 - f. The Respondents redeemed the shares of the two Non-Exempt Investors.
22. At all times, the Respondents cooperated fully with Staff and provided requested information about LMIC’s shareholders and distributions.
23. Staff have found no evidence of any dishonest or deceptive conduct by the Respondents.

PART IV - CONTRAVENTIONS OF ONTARIO SECURITIES LAW AND CONDUCT CONTRARY TO THE PUBLIC INTEREST

24. By engaging in the conduct described in paragraphs 11 through 17 above, the Respondents admit and acknowledge that they have breached Ontario securities law and engaged in conduct contrary to the public interest. In particular:
- a. The Respondents traded and engaged in, or held themselves out as engaging in, the business of trading in securities without being registered to do so, and where no registration exemption was available, contrary to subsection 25(1) of the Act;
 - b. The Respondents distributed securities where no preliminary prospectus or prospectus was issued or receipted under the Act, and where no prospectus exemption was available, contrary to section 53 of the Act;

- c. The Respondents failed to file required exempt distribution reports within the period mandated by National Instrument 45-106 - *Prospectus Exemptions*;
- d. The Respondents failed to pay required activity fees within the period mandated by Rule 13-502; and
- e. The Principals, as directors and officers of the corporate Respondents, authorized, permitted or acquiesced in the breaches set out above, and, in so doing, are deemed to have not complied with Ontario securities laws, pursuant to section 129.2 of the Act.

PART V - TERMS OF SETTLEMENT

- 25. The Respondents agree to the order in the form attached as Schedule “A” to this Settlement Agreement, to be made by the Commission pursuant to subsection 127(1) and section 127.1 of the Act, the terms of which include that:
 - a. the Settlement Agreement be approved;
 - b. pursuant to paragraph 6 of subsection 127(1) of the Act, each of the Respondents be reprimanded;
 - c. pursuant to paragraph 9 of subsection 127(1) of the Act, the Respondents shall, jointly and severally, pay to the Commission an administrative penalty of \$50,000, which is designated for allocation or for use by the Commission in accordance with subparagraphs (b)(i) or (ii) of subsection 3.4(2) of the Act; and
 - d. pursuant to section 127.1 of the Act, the Respondents shall, jointly and severally, pay costs in the amount of \$45,000 to the Commission.
- 26. The Respondents agree to attend in person or by phone at the hearing before the Commission to consider this Settlement Agreement.
- 27. The Respondents agree to make the payments specified in subparagraphs 25 (c) and (d) by certified cheque prior to the issuance of any Commission order approving this Settlement Agreement.

28. The voluntary cease trade in respect of LMIC securities shall terminate on the date of the Commission's order approving this Settlement Agreement, and any subsequent trades of securities of LMIC will be made through or to a dealer registered under the Act in a category that permits such trade, or by the Respondents directly only if and when registered to conduct such trades.
29. The Respondents acknowledge that failure to pay in full any monetary sanctions and/or costs ordered will result in the Respondents' names being added to the list of "Respondents Delinquent in Payment of Commission Orders" published on the Commission website.
30. The Respondents acknowledge that this Settlement Agreement and proposed Order may form the basis for parallel orders in other jurisdictions in Canada. The securities laws of some other Canadian jurisdictions may allow orders made in this matter to take effect in those other jurisdictions automatically, without further notice to the Respondents. The Respondents agree to contact the securities regulator of any other jurisdiction in which they may intend to engage in any securities-related activities, prior to undertaking such activities.

PART VI - STAFF COMMITMENT

31. If the Commission approves this Settlement Agreement, Staff will not commence or continue any proceeding against the Respondents under Ontario securities law in relation to the facts set out in Part III of this Settlement Agreement, subject to the provisions of paragraph 32 below.
32. If the Commission approves this Settlement Agreement and the Respondents fail to comply with any of the terms of this Settlement Agreement, Staff may bring proceedings under Ontario securities law against the Respondents. These proceedings may be based on, but will not be limited to, the facts set out in Part III of this Settlement Agreement as well as the breach of this Settlement Agreement. The Respondents agree that they will waive any defences to proceedings referenced in this paragraph that are based on the limitations period available under the Act.

PART VII - PROCEDURE FOR APPROVAL OF SETTLEMENT

33. The parties will seek approval of this Settlement Agreement at a public hearing before the Commission to be conducted according to the procedures set out in this Settlement Agreement and the Commission's Rules of Procedure.
34. This Settlement Agreement will form all of the agreed facts that will be submitted at the settlement hearing on the Respondents' conduct, unless the parties agree that additional facts should be submitted at the settlement hearing.
35. If the Commission approves this Settlement Agreement, the Respondents irrevocably waive all right to a full hearing, judicial review or appeal of this matter under the Act.
36. If the Commission approves this Settlement Agreement, neither Staff nor the Respondents will make any public statement that is inconsistent with this Settlement Agreement or with any additional agreed facts submitted at the settlement hearing.
37. Whether or not the Commission approves this Settlement Agreement, the Respondents will not use, in any proceeding, this Settlement Agreement or the negotiation or process of approval of this Settlement Agreement as the basis for any attack on the Commission's jurisdiction, alleged bias, alleged unfairness, or any other remedies or challenges that may otherwise be available.

PART VIII - DISCLOSURE OF SETTLEMENT AGREEMENT

38. If the Commission does not approve this Settlement Agreement or does not make an order in the form attached as Schedule "A" to this Settlement Agreement:
 - a. This Settlement Agreement and all discussions and negotiations between Staff and the Respondents before the settlement hearing takes place will be without prejudice to Staff and the Respondents; and
 - b. Staff and the Respondents will each be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing on the merits of the allegations contained in the Statement of Allegations of Staff in this matter. Any

such proceedings, remedies and challenges will not be affected by this Settlement Agreement, or by any discussions or negotiations relating to this Settlement Agreement.

39. Both Staff and the Respondents will keep the terms of this Settlement Agreement confidential until the Commission approves this Settlement Agreement. Any obligations of confidentiality shall terminate upon the commencement of the public settlement hearing. If, for whatever reason, the Commission does not approve this Settlement Agreement, the terms of this Settlement Agreement shall remain confidential indefinitely, unless Staff and the Respondents otherwise agree or except as may be required by law.

PART IX - EXECUTION OF SETTLEMENT AGREEMENT

40. This Settlement Agreement may be signed in one or more counterparts which, together, constitute a binding agreement.
41. A facsimile copy or other electronic copy of any signature will be as effective as an original signature.

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Dated as of this 12th day of February, 2016.

“Robert Chaggares”

Robert Chaggares

“Jill McKee”

[Name]
Witness

Dated as of this 12th day of February, 2016.

“Aaron Rumley”

Aaron Rumley

“Patricia Shank”

[Name]
Witness

Dated as of this 12th day of February, 2016.

“Robert Rumley”

Robert Rumley

“Patricia Shank”

[Name]
Witness

Dated as of this 12th day of February, 2016.

“Aaron Rumley”

[Name]
For Liahona Mortgage Investment Corp.
and Liahona Administration Inc.

“Patricia Shank”

[Name]
Witness

Dated as of this 12th day of February, 2016.

“Tom Atkinson”

Tom Atkinson
Director, Enforcement Branch

SCHEDULE "A"



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- AND -

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ADMINISTRATION INC., AARON RUMLEY, ROBERT RUMLEY AND ROBERT
CHAGGARES**

ORDER

(Sections 127 and 127.1 of the *Securities Act*)

WHEREAS:

1. on February __, 2016, the Ontario Securities Commission (the "**Commission**") issued a Notice of Hearing (the "**Notice of Hearing**") in relation to a Statement of Allegations filed by Staff of the Commission ("**Staff**") (the "**Statement of Allegations**") on February __, 2016, in respect of Liahona Mortgage Investment Corp., Liahona Administration Inc., Aaron Rumley, Robert Rumley and Robert Chaggares (collectively, the "**Respondents**");
2. the Notice of Hearing gave notice that on February __, 2016, the Commission would hold a hearing to consider whether it is in the public interest to approve a settlement agreement between Staff and the Respondents dated February __, 2016 (the "**Settlement Agreement**");
3. the Commission reviewed the Settlement Agreement, the Notice of Hearing and the Statement of Allegations, and heard submissions from counsel for the Respondents and counsel for Staff; and
4. the Commission is of the opinion that it is in the public interest to make this order;

IT IS ORDERED THAT:

1. the Settlement Agreement be approved;
2. pursuant to paragraph 6 of subsection 127(1) of the *Securities Act* (the “**Act**”), each of the Respondents be reprimanded;
3. pursuant to paragraph 9 of subsection 127(1) of the Act, the Respondents shall, jointly and severally, pay to the Commission an administrative penalty of \$50,000, which is designated for allocation or for use by the Commission in accordance with subparagraphs (b)(i) or (ii) of subsection 3.4(2) of the Act; and
4. pursuant to section 127.1 of the Act, the Respondents shall, jointly and severally, pay costs in the amount of \$45,000 to the Commission.

DATED at Toronto this ____ day of February, 2016.