



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 MORTGAGE COMPANY OF CANADA INC.,
MCC ASSET MANAGEMENT INC., MCC MORTGAGE HOLDINGS INC.,
RAJ BABBER, and GREG GOUTIS**

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

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

A. OVERVIEW

1. Between November 1, 2013 and December 1, 2014 (the “**Material Time**”), Mortgage Company of Canada Inc. (“**MCOCI**”), MCC Asset Management Inc. (“**MCC**”), MCC Mortgage Holdings Inc. (“**MCCMH**”), Raj Babber (“**Babber**”) and Greg Goutis (“**Goutis**”) (collectively, the “**Respondents**”) sold shares with a value of approximately \$32,231,040 to 147 investors. The Respondents have never been registered with the Commission and were not exempt from registration. These sales were trades in securities not previously issued and were therefore distributions. The Respondents never filed a preliminary prospectus or a prospectus with the Commission, and no prospectus receipt has ever been issued to qualify the sale of these securities. For some of these trades, prospectus exemptions were not available.
2. In addition, the Respondents failed to meet their suitability obligations, and for approximately half of the investors, some or all of their investments were not suitable.

B. THE RESPONDENTS

3. MCOCI is a non-reporting issuer that was incorporated in Ontario on August 8, 2013. MCOCI is a mortgage investment corporation, as such term is defined in the *Income Tax Act*, R.S.C., 1985, c. 1, providing residential and commercial mortgages. As at December 31, 2014, MCOCI held mortgage loans valued at approximately \$34.5 million invested in two hundred and sixty one (261) mortgages, secured by a mix of first and non-first residential mortgages, and one commercial mortgage.
4. Babber is the President, Chief Executive Officer and a director of MCOCI, MCC and MCCMH. He is a resident of Richmond Hill.
5. Goutis is the Chief Financial Officer and a director of MCOCI, Chief Financial Officer of MCC and a director of MCCMH. He is a resident of Toronto.
6. MCC was incorporated in Ontario on February 17, 2009 under the name “The Mortgage Company of Canada Inc.” MCC is registered as a mortgage administrator under the *Mortgage Brokerages, Lenders and Administrators Act, 2006*, S.O. 2006, c.29, and operates under the jurisdiction of the Financial Services Commission of Ontario. MCC has been in good standing under that legislation since it commenced operation in 2009. MCC changed its name to MCC Asset Management Inc. by articles of amendment dated August 8, 2013. MCC is engaged by MCOCI under a management services agreement.
7. MCCMH was incorporated in Ontario on August 8, 2013. MCCMH is retained by MCOCI to act as custodian in respect of the mortgages in MCOCI’s portfolio, serving as bare trustee of the mortgages registered on title.
8. None of the Respondents has ever been registered to trade in securities in Ontario and none was registered with the Commission in any capacity during the Material Time or at any other time.

C. CONDUCT AT ISSUE

9. Prior to the Material Time, MCC arranged direct investments in mortgages on behalf of its clients and administered these mortgages. During the Material Time, the Respondents distributed securities with a value of \$32,231,040 to 147 investors, as follows:
 - a. Effective November 1, 2013, MCOCI entered into mortgage purchase agreements with various direct mortgage investors and existing clients of MCC whereby such parties transferred to MCOCI the mortgage interests they held in exchange for redeemable common shares in the capital of MCOCI (“**Common Shares**”). MCOCI issued Common Shares with an aggregate value of \$12,940,480 pursuant to these exchanges which included Common Shares issued on incorporation.
 - b. Between November 1, 2013 and December 1, 2014, MCOCI issued Common Shares having an aggregate value of \$19,290,560, of which \$724,040 were issued under a dividend reinvestment plan.
10. The sales of Common Shares were trades in securities not previously issued and were, therefore, distributions. The Respondents never filed a preliminary prospectus or a prospectus with the Commission and no prospectus receipt has ever been issued to qualify the sales of the Common Shares.
11. Not all of the MCOCI investors met, or could be demonstrated to have met, applicable exemptions from the prospectus requirement contained in National Instrument 45-106 *Prospectus Exemptions*.
12. In addition, the Respondents failed to meet their suitability obligations. The Respondents failed to make appropriate enquiries relating to their investors’ financial circumstances and their investment needs and objectives to ensure the investments in Common Shares were suitable. For approximately half of the investors, some or all of their investments were not suitable.
13. MCOCI did not file exempt distribution reports for the distributions within the required time period.

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

14. The Respondents have breached Ontario securities law and engaged in conduct contrary to the public interest. In particular:

- a. MCOCI failed to file the requisite exempt distribution reports and pay the associated fees for over a year;
- b. 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 in circumstances in which no exemption was available, contrary to subsection 25(1) of the Act;
- c. The Respondents distributed securities where no preliminary prospectus and prospectus were issued or receipted by the Director under the Act, and where exemptions were not available, contrary to section 53 of the Act; and
- d. Babber and Goutis, as directors and officers of MCOCI, MCC and MCCMH, authorized, permitted or acquiesced in the breaches by MCOCI, MCC and MCCMH of sections 25 and 53 of the Act, as 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.

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

DATED at Toronto, August 13, 2015.