



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**

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

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

A. OVERVIEW

1. Between December 30, 2007 and February 23, 2015 (the “Material Time”), Liahona Mortgage Investment Corp. (“LMIC”), Liahona Administration Inc. (“LAI”), Aaron Rumley, Robert Rumley and Robert Chaggares (collectively, 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.
2. Through these actions, the Respondents breached the registration and prospectus requirements of the *Securities Act* (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

3. 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.
4. 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.
5. 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.
6. 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.
7. 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.
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.

C. CONDUCT AT ISSUE

9. 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.

10. 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.
11. 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.
12. 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 maintaining the shareholder register and maintained shareholder files. LAI received a fee of 2.25% per annum from LMIC based upon the amount of mortgages under its administration.
13. 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.
14. 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.

15. 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 for them 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-exposed to LMIC securities;
 - b. the Respondents sold investments to 18 other investors that did not qualify for any prospectus exemptions during the Material Time, and were also unsuitable because they left investors' portfolios over-exposed to LMIC securities;
 - c. the Respondents sold investments to an additional 2 other 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 other investors that were redeemed during the Material Time.
16. LMIC presently has 77 investors and holds mortgage loans valued at approximately \$19 million.

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

17. Through the conduct described above, the Respondents have breached Ontario securities law and engaged in 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.
18. Staff reserve the right to make such other allegations as Staff may advise and the Commission may permit.

DATED at Toronto, February 16, 2016.