

IN THE MATTER OF:

**THE RULES OF THE INVESTMENT INDUSTRY REGULATORY
ORGANIZATION OF CANADA**

AND

DARREN MAURICE SAMPSON

SETTLEMENT AGREEMENT

PART I – INTRODUCTION

1. The Investment Industry Regulatory Organization of Canada (“IIROC”) will issue a Notice of Application to announce that it will hold a settlement hearing to consider whether, pursuant to Section 8215 of the Consolidated Enforcement, Examination and Approval Rules of IIROC, a hearing panel (“Hearing Panel”) should accept the settlement agreement (“Settlement Agreement”) entered into between the staff of IIROC (“Staff”) and Darren Maurice Sampson (“Respondent”).

PART II – JOINT SETTLEMENT RECOMMENDATION

2. Staff and the Respondent jointly recommend that the Hearing Panel accept this Settlement Agreement in accordance with the terms and conditions set out below.

PART III – AGREED FACTS

3. For the purposes of this Settlement Agreement, the Respondent agrees with the facts as set out in Part III of this Settlement Agreement.

Overview

4. The Respondent accepted orders to purchase a high risk, speculative security without knowledge of the personal and financial circumstances of certain clients needed to determine whether an investment in the security was suitable to them. The requirement to know your client and know your product are essential to satisfying a registrant's suitability obligations.

Registration History

5. The Respondent was registered as a Registered Representative with Gravititas Securities Inc. ("Gravititas") from February 2011 until June 2, 2017. The Respondent was newly employed and subject to Gravititas' 90 day training program from February 2011 to May 2011, during which period he executed no trades. The Respondent was previously registered as a mutual fund salesperson from February 2010 until December 2010 and then as an Investment Representative from December 2010 until February 2011 with another Dealer Member. The Respondent has not been registered in the securities industry since June 2017.

Creative Wealth Monthly Pay Trust

6. The Creative Wealth Monthly Pay Trust ("Creative Wealth") was an open ended unit trust established pursuant to a declaration of trust dated April 8, 2011.

7. Gravitas acted as the lead agent of the Creative Wealth offerings. The Respondent was the registered representative on the accounts of the majority of investors who purchased Creative Wealth.
8. A continuous offering was made of Creative Wealth in a separate series for each calendar year in which units of Creative Wealth were offered and sold. Units of Creative Wealth were offered at sold in 2011 at a fixed price of \$10 per unit.
9. The investment objective of Creative Wealth was to provide unitholders a fixed rate of return equal to 9% annually.
10. The primary assets held by Creative Wealth were a series of promissory notes (the "Promissory Notes") issued by Cangap Merchant Capital LP ("Cangap") with a fixed maturity date of December 31 in the ninth calendar year following the execution and delivery of the promissory note and bearing interest at 9% annually calculated and payable on the last day of each month. The interest rate payable on each series of the Promissory Notes was equal to the distributions payable to unitholders of Creative Wealth.
11. The Creative Wealth OM stated that Cangap had been "created to acquire a diversified portfolio of income producing businesses and lending opportunities" and that Cangap is "specialized in investing in and actively participating in the management of small to mid-sized privately held businesses".
12. The OM stated that the securities were "only suitable for sophisticated investors with a high tolerance for risk and seeking a targeted fixed yield over the long term. These securities are more suitable to diversify assets in a larger portfolio rather than as a core portfolio holding." The OM also noted that Creative Wealth was an eligible investment for registered accounts including RSP, LIRA, RESP, RIF and TFSA accounts.

13. During the material time, the Respondent accepted orders for units of Creative Wealth from RL, AM, and RM and recommended them to JO.

The Role of JC

14. JC was one of two trustees of Creative Wealth and a director of Cangap Capital Corp., the General Partner of Cangap. Until January 2012, JC had been registered as a mutual fund dealing representative and as an exempt market dealing representative. JC had also been a certified financial planner and was the financial planner for RL, AM and RM with whom he had longstanding relationships. Following October 2014, the Financial Planning Standards Council issued a Letter of Admonishment to JC and suspended his right to use the Certified Financial Planner certification for a period of one year for failing to properly explain an insurance product to a client.
15. JC had previously recommended a product similar to Creative Wealth ("Cangap I") to several clients who received or were to receive distributions of 12% per annum.
16. In 2010, JC was referred to Gravitas and discussed establishing a distribution channel for units of Creative Wealth with Gravitas. Gravitas agreed to become the agent for Creative Wealth.
17. In addition, Gravitas agreed to sponsor the Respondent's registration as an RR in order to facilitate the sale of Creative Wealth units to existing clients of JC. The Respondent had no experience as an RR, apart from partially completing the 90-day training program with another Dealer Member. The Respondent was also JC's brother in law.
18. The Respondent recommended and/or accepted orders for units of Creative Wealth from clients without taking steps to ensure that they had sufficient tolerance for high risk

securities or properly qualified to purchase exempt securities. In most cases, Creative Wealth was the only or the primary holding in the clients' accounts that were open with the Respondent.

Failure to Know the Clients

RL

19. RL became a client of the Respondent in September 2011. The New Account Application Form ("NAAF") that was completed on her behalf at the time indicated the following:
 - (i) she was 71 years old and was retired;
 - (ii) she had an annual income of approximately \$75,000, net liquid assets of \$1,000,000 and net fixed assets of \$600,000; and
 - (iii) her investment knowledge was recorded as "Good", her risk tolerance level was recorded as 50% "Medium" and 50% "High" and her investment objectives were recorded as 100% "Long Term Conservative Growth".
20. Although the NAAF indicated that the Respondent and RL met face to face, the Respondent did not in fact meet with her. The Respondent did not personally collect any of the information listed in the NAAF and could not confirm if any or all of it was accurate.
21. In October 2011, RL transferred approximately \$230,000 into her RRIF account at Gravitas. These were her only assets held at Gravitas. These funds were invested entirely in units of Creative Wealth. These purchases were not solicited by the Respondent.
22. The subscription agreement for the purchase stated that RL relied on the exemption available to accredited investors outlined in s. 1.1(j) of National Instrument 45-106 – Prospectus and Registration Exemptions ("NI 45-106") which stated:

(j) an individual who, either alone or with a spouse, beneficially owns financial assets having an aggregate realizable value that before taxes, but net of any related liabilities, exceeds \$1,000,000.

23. Although the NAAF RL signed indicated she had net liquid assets of \$1,000,000, RL states that her financial assets did not exceed \$1,000,000. As such, she states she did not qualify as an accredited investor and was prohibited from purchasing units of Creative Wealth.
24. The Respondent relied upon the documentation signed by RL, but because the Respondent failed to meet with RL, he could not properly assess her risk tolerance, her financial situation, or her ability to qualify as an accredited investor. Nonetheless, he facilitated her purchase of units of Creative Wealth and earned commissions of \$8,050 and trailer fees of \$3,150 on RL's investment in Creative Wealth.

AM and RM

25. AM and RM became clients of the Respondent in March 2011. The NAAFs that were completed on their behalf at the time indicated the following:
- (i) AM was 69 years old and RM was 73 years old and both were retired;
 - (ii) AM had income of \$85,000, net liquid assets of \$400,000 and net fixed assets of \$600,000;
 - (iii) RM had income of \$25,000, net liquid assets of \$400,000 and net fixed assets of \$600,000; and
 - (iv) The Ms investment knowledge was recorded as "Good", their risk tolerance levels were recorded as 100% "High" and their investment objectives were recorded as 50% "Medium Term Moderate Growth" and 50% "Long Term Conservative Growth".

26. The Respondent did not personally collect any of the information listed in the NAAF and could not confirm if any or all of it was accurate.
27. In April 2011, AM purchased \$179,000 worth of units of Creative Wealth and RM purchased \$131,000. The Respondent was completing his 90 day training program at the time. As a result, he was not the advisor of record on their account. However, he did facilitate these purchases by obtaining and submitting paperwork required for the purchases, including the NAAFs and subscription agreements. He did so without meeting personally with AM and RM. Upon expiry of his training program, he did inherit the accounts with the approval of Gravitas.
28. RM subsequently purchased an additional \$24,860 worth of units of Creative Wealth, for which the Respondent was the advisor of record.
29. These purchases of Creative Wealth were their only assets held at Gravitas.
30. The subscription agreement for each of the purchases stated that AM and RM relied on the exemption available to accredited investors outlined in s. 1.1 (j) of National Instrument 45-106 – Prospectus and Registration Exemptions (“NI 45-106”) which stated:
 - (j) an individual who, either alone or with a spouse, beneficially owns financial assets having an aggregate realizable value that before taxes, but net of any related liabilities, exceeds \$1,000,000.
31. At the time, the NAAFs for AM and RM indicated that their liquid assets did not exceed \$1,000,000. As such, they did not appear to qualify as accredited investors and were prohibited from purchasing units of Creative Wealth. Despite this, the Respondent did not question the Ms’ reliance on this exemption nor did he take any steps to confirm that the Ms had the net financial assets required to rely on this exemption.

32. The Respondent failed to properly assess AM and RM's risk tolerance, their financial situation and their ability to qualify as accredited investors. Nonetheless, he facilitated their purchase of units of Creative Wealth and earned commissions of \$870 and trailer fees of approximately \$5,180.

JO

33. JO became a client of the Respondent in June 2011. The NAAF that was completed at the time indicated the following:
- (i) he was 44 years old and was self-employed in the restaurant industry;
 - (ii) he had an annual income of approximately \$72,000, net liquid assets of \$200,000 and net fixed assets of \$20,000;
 - (iii) his investment knowledge was recorded as "Average", his risk tolerance level was recorded as 100% "High" and his investment objectives were recorded as 100% "Medium Term Moderate Growth".
34. In August 2011, JO purchased \$200,000 of units of Creative Wealth. The subscription agreement for the purchase stated that JO relied on the "Minimum amount investment" exemption which provides an exemption for purchases of over \$150,000.
35. JO's investment in Creative Wealth represented almost 100% of his net liquid assets as set out on his NAAF. The Respondent did not question whether this concentration in a high risk, exempt market product was appropriate in the circumstances.
36. The Respondent earned commissions of \$7,000 and trailer fees of approximately \$2,800 on JO's investment in Creative Wealth.

Status of Creative Wealth

37. In October 2015, Creative Wealth advised unitholders that Creative Wealth would be implementing temporary changes, including reducing the NAV to \$5.00 per unit, from \$10.00 per unit, reducing the rate of return to unitholders from 9% per annum to 0% per annum, and suspending all redemptions for a period of no more than 24 months.
38. In November 2018, upon an application made by Creative Wealth, a receiver was appointed over the assets of CanGap. The First Report of the Court Appointed Receiver and Receiver and Manager dated December 14, 2018 indicated that there is “no prospect that the investors will receive the full return of their principal investments.”

Respondent’s Inability to Pay

39. The Respondent has provided satisfactory evidence to Staff as to the financial impact that the monetary sanctions and costs will have on him.

PART IV – CONTRAVENTIONS

40. By engaging in the conduct described above, the Respondent committed the following contraventions of IIROC’s Rules:

Between April 2011 and October 2015, the Respondent failed to use due diligence to ensure whether or not orders accepted and recommendations made were suitable for certain clients and within the bounds of good business practice, contrary to IIROC Dealer Member Rules 1300.1(a), (o), (p), (q) and (s).

PART V – TERMS OF SETTLEMENT

41. The Respondent agrees to the following sanctions and costs:
- i) A five year prohibition on the Respondent's re-registration with IIROC;
 - ii) A fine in the amount of \$25,000; and
 - iii) Costs in the amount of \$2,500.00
42. If this Settlement Agreement is accepted by the Hearing Panel, the Respondent agrees to pay the amounts referred to above within 30 days of such acceptance unless otherwise agreed between Staff and the Respondent.

PART VI – STAFF COMMITMENT

43. If the Hearing Panel accepts this Settlement Agreement, Staff will not initiate any further action against the Respondent in relation to the facts set out in Part III and the contraventions in Part IV of this Settlement Agreement, subject to the provisions of the paragraph below.
44. If the Hearing Panel accepts this Settlement Agreement and the Respondent fails to comply with any of the terms of the Settlement Agreement, Staff may bring proceedings under Rule 8200 against the Respondent. These proceedings may be based on, but are not limited to, the facts set out Part III of this Settlement Agreement.

PART VII – PROCEDURE FOR ACCEPTANCE OF SETTLEMENT

45. This Settlement Agreement is conditional on acceptance by the Hearing Panel.

46. This Settlement Agreement shall be presented to a Hearing Panel at a settlement hearing in accordance with the procedures described in Sections 8215 and 8428, in addition to any other procedures that may be agreed upon between the parties.
47. Staff and the Respondent agree that this Settlement Agreement will form all of the agreed facts that will be submitted at the settlement hearing, unless the parties agree that additional facts should be submitted at the settlement hearing. If the Respondent does not appear at the settlement hearing, Staff may disclose additional relevant facts, if requested by the Hearing Panel.
48. If the Hearing Panel accepts the Settlement Agreement, the Respondent agrees to waive all rights under the IIROC Rules and any applicable legislation to any further hearing, appeal and review.
49. If the Hearing Panel rejects the Settlement Agreement, Staff and the Respondent may enter into another settlement agreement or Staff may proceed to a disciplinary hearing based on the same or related allegations.
50. The terms of this Settlement Agreement are confidential unless and until this Settlement Agreement has been accepted by the Hearing Panel.
51. The Settlement Agreement will become available to the public upon its acceptance by the Hearing Panel and IIROC will post a full of copy of this Settlement Agreement on the IIROC website. IIROC will also publish a summary of the facts, contraventions, and the sanctions agreed upon in this Settlement Agreement.
52. If this Settlement Agreement is accepted, the Respondent agrees that neither he nor anyone on his behalf, will make a public statement inconsistent with this Settlement Agreement.

53. The Settlement Agreement is effective and binding upon the Respondent and Staff as of the date of its acceptance by the Hearing Panel.

PART VIII – EXECUTION OF SETTLEMENT AGREEMENT

54. This Settlement Agreement may be signed in one or more counterparts which together will constitute a binding agreement.

55. A fax or electronic copy of any signature will be treated as an original signature.

DATED this “18” day of “June”, 2020.

“Witness”
Witness

“Darren Maurice Sampson”
Darren Maurice Sampson
Respondent

Witness

“Rob DelFrate”
Rob DelFrate
Senior Enforcement Counsel on
behalf of Staff of the Investment
Industry Regulatory Organization
of Canada

The Settlement Agreement is hereby accepted this "2" day of "July", 2020 by the following Hearing Panel:

Per: "Fred Webber"
Panel Chair

Per: "Shaine Pollock"
Panel Member

Per: "Leo Ciccone"
Panel Member