

IN THE MATTER OF: THE SECURITIES ACT

-and-

IN THE MATTER OF: WELLINGTON WEST CAPITAL INC.

STATEMENT OF ALLEGATIONS OF STAFF OF
THE MANITOBA SECURITIES COMMISSION

STAFF OF THE MANITOBA SECURITIES COMMISSION ALLEGE, AMONG OTHER THINGS, THAT:

A. REGISTRATION

1. Wellington West Capital Inc. has been continuously registered as a broker and investment dealer under the Securities Act, R.S.M. 1988, c. S50 (the "Act") since October 21, 1993.

B. ACTIVITY

MTS OFFERING

1. In late 1996 The Province of Manitoba, pursuant to The Reorganization Act provided for the reorganization of the capital structure of The Manitoba Telephone System from a crown corporation to a share capital corporation known as Manitoba Telecom Services Inc. ("MTS").

2. Pursuant to The Reorganization Act the authorized share capital of MTS consists of an unlimited number of common shares, an unlimited number of preference shares and one special share. In order to effect the reorganization, 70,000,000 common shares and the one special share were issued to the Province of Manitoba. Common shares would then be acquired by a group of underwriters for the purpose of distributing the shares to the public by way of an initial public offering by secondary distribution pursuant to a prospectus.

3. On December 20, 1996 MTS filed with The Manitoba Securities Commission (the "Commission") and obtained a receipt from the Director for a prospectus (the "Final Prospectus") qualifying the distribution of 70,000,000 common shares of MTS (the "MTS Shares"). The offering of the MTS Shares to the public was done by a group of underwriters which included Wellington West (the "MTS Offering").

4. The MTS Offering consisted of three parts: the offering of MTS shares in all the provinces of Canada (the "National Offering"), the offering of Common Shares to Manitoba residents only pursuant to an installment plan for which installment receipts (the "Installment Receipts") were issued (the "Installment Offering"), and an offering to MTS employees pursuant to an employee share plan (the "Employee Offering"). Of the 70,000,000 shares being offered, 50,540,706 were reserved to be issued pursuant to the Installment Offering.

5. Commission Order No. 1509, dated October 29, 1996, was issued permitting certain activities taking place in connection with the Installment Offering and the Employee Offering prior to a receipt being issued for the Final Prospectus.

6. To subscribe for Installment Receipts under the Installment Offering Commission Order No. 1509 required potential purchasers to complete a form which was referred to as a Priority Application Form Under the Installment Plan (the "PAF"). All PAFs had to be received by a Dealer, Registered Representative or Financial Institution (as those terms are defined in Commission Order No. 1509) no later than December 14, 1996.

7. The PAF was required to be completed in addition to whatever other documentation a registered dealer would require for trading on an account with that registered dealer. If the purchaser was not an existing client of the registered dealer, the registered dealer would complete the necessary documentation to establish an account with the registered dealer for the purchaser.

8. The underwriting group, pursuant to the terms of the Final Prospectus, placed limits on the number of Installment Receipts that a person could subscribe for (the "Personal Allotment"). The initial restriction was a maximum of 4,000 Installment Receipts available to each Manitoba resident which was subsequently changed to a maximum of 1,600 Installment Receipts in the Final Prospectus.

9. An Installment Receipt entitled a holder to pay for an MTS Share in two payments, the first payment of \$7.00 per MTS Share on or before January 7, 1997 and the second payment of \$6.00 per MTS Share on or before January 8, 1998.

10. CIBC Wood Gundy Securities Inc., the lead underwriter with respect to the MTS Offering, circulated a memo dated December 12, 1996 to all members of the underwriting group as well as financial institutions forming part of the selling group to deal with certain inappropriate sales practices which had been identified as occurring. One of the points raised in the memo was that the Commission had received reports that syndicate and selling group employees were counseling Manitobans to borrow the name and Social Insurance Numbers of other Manitobans for the purposes of exceeding their Personal Allotments. The memo stated that any such allocations were considered fraudulent.

11. Subsequent to January 7, 1997, Commission staff ("Staff") received information that individual investors may have acquired more than their Personal Allotment of Installment Receipts by using the name and social insurance number of other Manitoba Residents to purchase Installment Receipts for the buyers account.

12. Staff commenced an investigation requesting further information concerning the sales made by members of the underwriting group. Information was received from each member of the underwriting group as well as from the custodian, Montreal Trust.

13. In the course of the investigation as it pertained to Wellington West, one of the members of the underwriting group, the following information came to light:

(a) Wellington West supplied a number of unregistered individuals with blank Wellington West New Account Application Forms ("New Account Forms") and/or PAFs to assist the unregistered individuals in approaching Manitoba Residents who did not have an account with Wellington West to purchase Installment Receipts.

(b) Wellington West accepted New Account Forms which had been provided to unregistered persons to be completed by others without confirming the suitability information recorded on the completed forms.

(c) Wellington West completed PAFs on behalf of individuals for the purpose of processing the purchase of Installment Receipts without actually speaking to the individual prior to completion of the form and in some instances recording information on the PAF which was inconsistent with information contained on a New Account form for that person;

(d) Wellington West permitted more than one individual to purchase Installment Receipts in the same account without obtaining trading authorization from all persons who purportedly held an interest in the Installment Receipts purchased in the account.

(e) During the course of sales meetings, trading officers encouraged Wellington West salespersons to conduct multiple purchases in a single account.

(f) Wellington West failed to implement systems which would identify instances where purchases in excess of the Personal Allotment may have occurred.

(g) Wellington failed to review transactions where Installment Receipts in excess of the Personal Allotment were purchased in the existing trading account of an individual.

C. ALLEGATIONS

1. Staff of the Commission allege that Wellington West acted improperly and contrary to the public interest in that:

(a) Wellington West assisted and encouraged unregistered individuals to commit acts in furtherance of trades by supplying, or permitting the supply to, individuals which Wellington West knew or ought to have known were not registered under the Act, blank New Account Forms and/or PAFs to assist the unregistered individuals in approaching Manitoba Residents who did not have an account with Wellington West to purchase Installment Receipts, contrary to section 6 of the Act.

(b) Accepting New Account Forms which had been provided to unregistered persons to be completed by others without confirming the suitability information recorded on the completed forms in assessing whether the purchase of Installment Receipts was a suitable investment for the individual.

(c) Accepting New Account Forms which had been provided to unregistered persons to be completed by others without confirming the accuracy of information recorded on the completed forms used in assessing "Know Your Client" requirements for that individual.

(d) Completing PAFs on behalf of individuals for the purpose of processing the purchase of Installment Receipts without actually speaking to the individual prior to completion, including the declaration contained on the PAF which was used for assessing suitability.

(e) Completing PAFs on behalf of individuals for the purpose of processing the purchase of Installment Receipts without actually speaking to the individual such that the information recorded on the PAF concerning investment knowledge which was inconsistent with information contained on a New Account form for that person;

(f) Permitting more than one individual to purchase Installment Receipts in the same trading account without obtaining trading authorization from all persons who purportedly held an interest in the Installment Receipts purchased in the account.

(g) Encouraging Wellington West salespersons to conduct multiple purchases in a single account.

(h) Failing to implement systems which would identify instances where purchases in excess of the Personal Allotment may have occurred.

(i) Failing to review transactions where Installment Receipts in excess of the Personal Allotment were purchased in the existing trading account of an individual.

2. Such further and other matters as counsel may advise and the Commission may permit.

DATED this "24"th day of February, 20000

"Douglas R. Brown"
Director – Legal

TO: Wellington West Capital Inc.