

THE SECURITIES ACT

)

Order No. 3187

)

Section 8(1) and 19(5)

)

December 20, 2000

GREGORY DAVID KLASSEN

WHEREAS:

(A) On January 31st, 2000, The Manitoba Securities Commission (the "Commission") issued a Notice of Hearing (the "Notice") giving notice of its intention to hold a hearing (the "Hearing") to consider, inter alia, whether or not it was in the public interest to suspend or cancel the registration of Gregory David Klassen ("Klassen") as a salesman under The Securities Act (the "Act") and/or issue an order naming Klassen pursuant to subsection 19(5) of the Act;

(B) Staff of the Commission and the respondent entered into a Settlement Agreement (a copy of which is attached as Schedule "A") dated December 18, 2000 (the "Settlement Agreement"), which proposed settlement of the proceedings initiated by the Notice, subject to the approval of the Commission;

(C) The respondent has consented to the issuance of this Order and has waived his respective rights to a full hearing;

(D) The Commission has reviewed the Settlement Agreement and is of the opinion that it is in the public interest to make this Order.

IT IS ORDERED:

1. **THAT** the Settlement Agreement, Schedule "A", be and the same is hereby approved.
2. **THAT** a written reprimand will be placed in Klassen's registration file relating to the matters set out in the Settlement Agreement attached as schedule "A".
3. **THAT** Klassen make a one time payment to the Treasury of the Province of Manitoba of \$2,500.00, to be paid within two weeks of the date of this Order.
4. **THAT** Klassen pay to the Commission costs in the amount of \$1,500.00 to be paid within two weeks of the date of this Order.

BY ORDER OF THE COMMISSION

Director, Legal and Enforcement

Settlement Agreement

Gregory David Klassen

and

The Staff of The Manitoba Securities Commission

The Manitoba Securities Commission
1130 - 405 Broadway
Winnipeg, Manitoba
R3C 3L6

SETTLEMENT AGREEMENT

A. Introduction

A1. On January 31, 2000, The Manitoba Securities Commission (the "Commission") issued a notice of hearing and a statement of allegations (collectively referred to as the "Notice of Hearing") giving notice of its intention to hold a hearing under The Securities Act (the "Act") to consider:

(a) whether or not it is in the public interest to order, pursuant to subsection 8(1) of The Securities Act (the "Act"), that the registration of Gregory David Klassen ("Klassen") as a salesman under the Act in the employ of Wellington West Capital Inc. ("Wellington West") be suspended or cancelled;

(b) whether or not it is in the public interest or pursuant to subsection 19(5) of the Act that subsections 19(1) and 19(3) of the Act do not apply to Klassen, with respect to such of the trades referred to in those sections and that subsection 19(2) of the Act does not, with respect to such of the securities referred to in that section, apply to Klassen;

(c) whether or not it is in the public interest to order that Klassen pays the costs of the investigation and hearing in this matter.

A2. Discussions have been held between Klassen and staff of the Commission ("Staff") in an effort to settle all issues in connection with the matters set out in the Notice of Hearing (the "Proceedings") and this agreement. A settlement (the "Settlement") has been reached based on the terms and conditions set forth in this agreement (the "Settlement Agreement").

A3. Pursuant to the Settlement, Staff agrees to recommend to the Commission that the Proceedings initiated against Klassen be resolved and disposed of in accordance with the terms and conditions of this Settlement Agreement as set forth below. Klassen consents to the Settlement and to the making of the consent order referred to in subparagraph D1. below, on the terms and conditions set forth in this Settlement Agreement.

B. STATEMENT OF FACTS

The Parties

B1. Gregory David Klassen ("Klassen") has been more or less continuously registered under the Act since July 14 1993. He was first registered as a salesman on July 14, 1993 with Royal Bank Mutual Fund Services Inc. until January 12, 1994. Commencing January 25, 1994 to the present Klassen has been registered as a salesman with Wellington West.

B2. Wellington West has been continuously registered as a broker and investment dealer under the Act since October 21, 1993.

The Manitoba Telephone System Offering

B3. Pursuant to The Reorganization Act (Manitoba) the authorized share capital of Manitoba Telecom Services Inc. ("MTS") consisted 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 one special share were issued to the Province of Manitoba. Common shares were acquired by a group of underwriters for the purpose of distributing the shares to the public (the "Offering") by way of an initial public offering by secondary distribution pursuant to a prospectus.

B4. On December 20, 1996 MTS filed with 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.

B5. The Offering included an offering of common shares to Manitoba residents only pursuant to an instalment plan for which the instalment receipts ("Instalment Receipts") were issued (the "Instalment Offering").

B6. Commission Order No. 1509, dated October 29, 1996, was issued permitting, amongst other things, certain activities taking place in connection with the Instalment Offering prior to a receipt being issued for the Final Prospectus. Commission Order No. 1509 provided, among other things, that specified non-registered persons were entitled to sell Instalment Receipts, including Specified Employees of MTS and certain staff of financial institutions

B7. Commission Order No. 1509 prescribed certain special procedures for the sale of Instalment Receipts. To subscribe for Instalment Receipts under the Instalment Offering, Commission Order No. 1509 required potential purchasers to complete a form which was referred to as a Priority Application Form Under the Instalment 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. The PAF's were submitted by the Dealer, Registered Representative or Financial Institution to Montreal Trust Company of Canada, which processed the forms and allotted the Instalment Receipts.

B8. The PAF contained a series of four screening questions relating to the suitability of the investment for the particular investor (the "Suitability Questions"). If any of the Suitability

Questions were answered in the negative, the PAF stated that the investor should consider seeking investment advice from a Registered Representative.

B9. The PAF was required to be completed in addition to whatever other documentation a Dealer would require for trading on an account with that registered dealer.

B10. The underwriting group, pursuant to the terms of the Final Prospectus, placed limits on the number of Instalment Receipts that a person could subscribe for (the "Personal Allotment"). The initial restriction was a maximum of 4,000 Instalment Receipts available to each Manitoba resident. The Personal Allotment was subsequently changed to a maximum of 1,600 Instalment Receipts in the Final Prospectus.

B11. An Instalment Receipt entitled a holder to pay for an MTS Share in two payments, the first payment of \$7.00 per MTS Share being due on or before January 7, 1997 and the second payment of \$6.00 per MTS Share being due on or before January 8, 1998.

B12. The Final Prospectus provided that "for the purposes of calculating a Manitoba Resident's limit, when Common Shares are jointly purchased under the Instalment Plan by more than one person, each person will be considered to have purchased the number of Common Shares divided by the number of joint purchasers."

EDGEWATER INVESTMENT CLUB

B12. Dr. Som Datt Soni ("Dr. Soni") was at all material times a resident of Manitoba and a client of Wellington West who dealt with Klassen.

B13. After the MTS Offering was announced, Dr. Soni approached Klassen to obtain further information concerning the Offering. In particular Dr. Soni was aware that there were limits on the number of Instalment Receipts that could be purchased pursuant to the Installment Offering. He asked Klassen whether there was any means whereby he could purchase Installment Receipts over and above the Personal Allotment.

B14. Klassen confirmed the Personal Allotment but did advise Dr. Soni that close friends and associates could combine their Personal Allotments by establishing an investment club. Dr. Soni indicated that he wished to form an investment club.

B15. Klassen provided Dr. Soni with the necessary documents for the purposes of establishing an investment club account with Wellington West (the "Edgewater Investment Club"). A trading account was established at Wellington West for the Edgewater Investment Club, Account No. 4A-3454-A (the "Edgewater Account"). The account information listed Dr. Soni as the person appointed to give all trading instructions with respect to the Edgewater Account. Dr. Soni completed all of the required documentation provided by Klassen and returned it to Klassen. Dr. Soni also arranged for all the financing which was used for the purposes of purchasing Instalment Receipts.

B16. On or about December 15, 1996, Dr. Soni telephoned Klassen and left the names and Social Insurance Numbers of the persons whom he said were members of the Edgewater Investment Club on Klassen's voicemail. At the time, Dr. Soni did not intend that all of the members of the investment club would benefit from the transaction, however, Dr. Soni did not indicate this to Klassen.

B17. Klassen completed PAFs for each of Dr. Soni and for the persons who had given Dr. Soni their name and social insurance number. Klassen signed each of the PAFs as agent.

B18. On January 7, 1997, the Edgewater Investment Club purchased 68,600 installment receipts for \$480,200.00. The funds for the purchase originated from Dr. Soni and his immediate family, but not from other members of the Edgewater Investment Club.

B19. Subsequent to January 7, 1997, Dr. Soni became aware of media reports that implied that a Winnipeg doctor had been involved with certain irregularities to enable him to procure additional Instalment Receipts beyond the Personal Allotment. Dr. Soni met with Staff concerning these reports.

B20. Subsequent to this media attention and following a meeting with Staff, Dr. Soni attended at Wellington West to discuss media reports and the Edgewater Investment Club. Dr. Soni met with both Klassen and with others at Wellington West.

B21. Following the meeting at Wellington West, Dr. Soni gave instructions to Klassen to sell all the Instalment Receipts in the Edgewater Investment Club account, return the principal amount to the persons who provided the funds for the purchase, forward a certain amount to Dr. Soni's solicitors for anticipated legal costs relating to the Edgewater Investment Club and forward to each member of the Edgewater Investment Club a cheque in the amount of that member's prorated share of the remaining profits.

B22. Klassen followed these instructions, such that each of the members of the Edgewater Investment Club did receive his/her pro rata share of the net proceeds of the purchase and sale of the Instalment Receipts.

B23. Dr. Soni has advised Staff that, prior to the press coverage and the subsequent meeting with Staff, it had been his intention to keep the profits from the Edgewater Investment Club for himself and/or his family, however, at no time did Dr. Soni indicate this intention to Klassen. Dr. Soni claimed that he did not understand that members of the club had to have a beneficial interest in the Instalment Receipts acquired by the club.

C. ACKNOWLEDGEMENTS BY KLASSEN

C1. Klassen admits that he acted contrary to the public interest in that, in the circumstances, he ought to have more specifically explained to Dr. Soni that the members of the Edgewater Investment Club were to have a beneficial interest in the Instalment Receipts acquired by the Edgewater Investment Club.

D. TERMS OF SETTLEMENT

D1. Staff seek an order (the "Consent Order") from the Commission consistent with the terms contained in section D2 of this Settlement Agreement, pursuant to the provisions of the Act.

D2. The Consent Order sought by Staff is as follows.

(a) A written reprimand will be placed on Klassen's registration file relating to the matters set out in this Settlement Agreement.

(b) Klassen will make a one time payment to the Treasury of the Province of Manitoba in the amount of \$2,500 within two weeks of the signing of the Order.

(c) Klassen will make a contribution to costs of the investigation in the sum of \$1,500. The money is payable to the Commission within two weeks of the signing of the Order.

E. PROCEDURE

E1. The approval of this Settlement Agreement shall be sought at a public hearing.

E2. If this Settlement Agreement is approved by the Commission, and if a Consent Order issues in accordance with this Settlement Agreement, this Settlement Agreement will constitute the entirety of the evidence to be submitted to the Commission in connection with the Proceedings and, upon the making of the Order contemplated by this Settlement Agreement, Klassen waives his right to a full hearing and appeal of this matter.

E3. If this Settlement Agreement is approved by the Commission, neither Staff or Klassen will make any statement that is inconsistent with this Settlement Agreement.

E4. Notwithstanding any other provision of this Settlement Agreement, if, for any reason whatsoever, this Settlement Agreement is not approved by the Commission or the Consent Order referred to in section D. above is not made by the Commission, Staff will be entitled to proceed with whatever steps it is entitled by law to take, including but not restricted to, the commencement of a hearing before the Commission, unaffected by this Settlement Agreement or the settlement discussions. In the event that such steps are taken, Klassen shall have all of the usual rights of a person subject to such proceedings. If the Settlement Agreement is not approved or the Consent Order set out in section D. above is not made by the Commission, the terms of this Settlement Agreement will not be raised in any other proceeding, and any admissions contained in this Settlement Agreement shall be considered as without prejudice communications in furtherance of settlement discussions which will not be binding upon the parties and which will be inadmissible in any proceeding whatsoever.

E5. If this Settlement Agreement is approved by the Commission and the Consent Order made upon the terms set out in this Settlement Agreement, this Settlement Agreement will be a public document.

E6. Klassen agrees that, if this Settlement Agreement is approved by the Commission and the Consent order is made upon the terms set out in this Settlement Agreement, Klassen will not raise as a basis for attack on the Order this Settlement Agreement or the negotiation or process of approval of this Settlement Agreement, alleged bias, alleged unfairness or any other such challenge to the validity of the Order.

DATED at Winnipeg, Manitoba, this "18th" day of December, 2000.

Gregory David Klassen.
"Gregory David Klassen"

DATED at Winnipeg, Manitoba, this "14" day of December, 2000.

Staff of The Manitoba Securities Commission
Per: "Douglas R. Brown"
Director Legal