

And in the Matter of

**Keybase Financial Group Inc. (Keybase),
And James Edward Sellars (Sellars)**
(Respondents)

ORDER

WHEREAS Staff of the Commission filed an Application on 11 December 2009 for relief and remedies by imposing terms and conditions on the respective registrations of the Respondents pursuant to section 48(2) of the *Securities Act*;

AND WHEREAS the Respondents and their respective counsels met with the Executive Director on 2 February 2010 for an opportunity to be heard in accordance with section 48(4) of the *Securities Act*;

AND UPON HEARING the evidence of Mark McElman as Counsel for Staff; and the evidence of Respondents Dax Sukhraj for Keybase and James Sellars; and the arguments of Arthur Doyle as Counsel for Keybase and Bruce Johnson as Counsel for Sellars;

AND UPON REVIEWING the documents provided by Staff and the Respondents on 2 February 2010 and subsequently;

AND WHEREAS pursuant to section 48(1) of the *Securities Act*, Keybase has been granted registration as a Mutual Fund Dealer in New Brunswick;

AND WHEREAS pursuant to section 48(1) of the *Securities Act*, Sellars has been granted registration as a Branch Manager and Dealing Representative in New Brunswick;

AND WHEREAS pursuant to Part 9.2 of National Instrument 31-103 – *Registration Requirements and Exemptions*, Keybase is required to be a member of the Mutual Funds Dealers Association (MFDA);

AND WHEREAS pursuant to Part 3.15(2) of National Instrument 31-103 – *Registration Requirements and Exemptions*, Sellars is required to be an approved person under the rules of the MFDA;

AND WHEREAS pursuant to section 54 of the *Securities Act*, the Respondents have a responsibility to exercise a duty of care towards their clients;

AND WHEREAS pursuant to section 2.5 of the MFDA rules, the Respondents have a responsibility to ensure that their business is conducted in accordance with the MFDA bylaws, rules and policies;



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AND WHEREAS, pursuant to subsection 48(2) of the *Securities Act*, the Executive Director may restrict a registration by imposing terms and conditions;

AND WHEREAS the Executive Director considers it appropriate to impose terms and conditions on the registrations of the Respondents;

IT IS HEREBY ORDERED THAT:

1. The Respondents and their personnel are prohibited from acting in furtherance of any trade involving the use of borrowed money to invest, including:
 - a) counselling or recommending to any client the use of borrowed money to purchase securities for the purpose of investing;
 - b) referring any client to a lender or arranging for any client to borrow money for the purpose of investing;
 - c) investing on behalf of a client, knowing the client has borrowed money from a third-party lender for the purpose of investing; and
 - d) opening any new leverage account for new or existing clients.
2. This prohibition shall remain in place until the following conditions are met to the satisfaction of the Executive Director and until further order of the Executive Director:
 - a) The Respondents shall present policies, procedures and guidelines with respect to all aspects of "leveraging" for use by Keybase Financial Group Inc. and its personnel that:
 - i. at a minimum, meet all the current MFDA requirements;
 - ii. are satisfactory to the MFDA; and
 - iii. are satisfactory to the Executive Director.
 - b) Keybase documentation with respect to the use of "leveraging" must cover, at a minimum:
 - i. the determination of and specific calculations related to client suitability;
 - ii. disclosure to clients of the costs of borrowing, together with all fees and charges related to referrals and commissions;
 - iii. disclosure to clients of risk scenarios;
 - iv. internal controls related to account opening approvals and follow up supervision;
 - v. client reporting and follow up.



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- c) Keybase is required to review all of its current leverage accounts in New Brunswick for suitability with respect to the current MFDA guidelines, and in accordance with the following:
- i. the Chief Compliance Officer shall conduct this review;
 - ii. the review shall commence within 30 days of the date of this order;
 - iii. Keybase shall take appropriate steps, in a timely manner to correct those accounts determined to be unsuitable;
 - iv. Keybase shall provide to the Executive Director a report of its review and any corrective steps taken within 60 days of completion of the review;
 - v. the report shall be signed by both Keybase's Chief Compliance Officer and Ultimate Designated Person.
- d) Keybase shall advise all of its New Brunswick clients that are in, or have been in a leverage account or otherwise in a "leveraged" situation since October 2005, of the terms and conditions placed on the registration of the Respondents. The advisory notice shall be issued within 30 days of the date of this order in a manner and message that are satisfactory to the Executive Director.
3. The policies, procedures and guidelines approved as a result of the action to be taken in 2a above shall not be amended without the approval of the Executive Director.
4. Keybase Financial Group Inc. and its personnel shall comply with the approved policies, procedures and guidelines issued as a result of the action taken in accordance with 2a above.

DATED at the City of Saint John this 6th day of August 2010.

Original signed by

Kenrick G. Hancox
Executive Director
New Brunswick Securities Commission