

MAY 2, 2014 ISSUE

MONARCH REFUSES TO COMPENSATE UNSUITABLY LEVERAGED COUPLE

The Ombudsman for Banking Services and Investments (OBSI) today announced the refusal of Monarch Wealth Corporation ('Monarch') to compensate a young couple new to Canada in the amount of \$30,628.

Monarch is a mutual fund dealer based in Toronto. The complainants, Mr. H and Ms. W, came to Canada from China in 2001 and had no family or friends here at the time. They met their advisor, who is of the same cultural background, through the church they all attended.

Their advisor, Mr. Z, recommended a strategy of borrowing money to invest (also known as leveraging) that was unsuitable given the complainants' personal financial situation and risk tolerance. The complainants had very limited investment knowledge and minimal investment experience, and did not understand the risks of leveraged investing. The leveraging strategy was not even reviewed by Mr. Z after significant changes in the complainants financial circumstances (they purchased a house and Ms. W went on maternity leave). The couple was assured by Mr. Z that they would not incur any losses.

OBSI found evidence of irregularities with the signatures of Mr. H and Ms. W on several documents. Although Monarch received complaints from other clients of Mr. Z about unauthorized transactions, including leveraged investment transactions, falsified signatures, and inaccurate documents, Monarch did not contact Mr. H and Ms. W about their accounts.

Mr. H and Ms. W suffered losses of over \$61,000 as a result of the unsuitable leverage strategy. Because the leverage strategy was first implemented when the complainants were clients of Mr. Z at a different firm (Firm A), we apportioned only 50% of the losses to Monarch. The complainants and Firm A agreed on a settlement in this matter, while Monarch refused to compensate the couple.

A copy of OBSI's investigation report for [Mr. H's and Ms. W's complaint](#) is available on OBSI's website. Some names and personal information have been edited from the original version to protect the identity of certain individuals involved, including the complainants.

Where a complaint is found to have merit, OBSI makes a recommendation for compensation where it would be fair to do so, taking into account all of the facts and circumstances of the case. A refusal by a participating firm to follow a recommendation means that OBSI must publicize that refusal and the details of the complaint under Section 27 of our Terms of Reference.

OBSI is Canada's national independent dispute resolution service for consumers and small businesses with a complaint they can't resolve with their banking services or investment firm. As a free alternative to the legal system, we work informally and confidentially to find fair outcomes to disputes about banking and investment products and services.

OBSI looks into complaints about most banking and investment matters including: mutual funds; bonds and GICs; stocks, exchange traded funds, income trusts and other securities; investment advice; unauthorized trading; fraud; debit and credit cards; mortgages; loans and credit; fees and rates; transaction errors; misrepresentation; and accounts sent to collections. Where a complaint has merit, OBSI may recommend compensation up to a maximum of \$350,000.

OBSI has an excellent record of acceptance of recommendations from both firms and complainants: over 99% of the thousands of complaints brought to our office have been successfully resolved.

-30-

For more information, contact:

Tyler Fleming
Director, Stakeholder Relations and Communications
publicaffairs@obsi.ca
416-218-4244