



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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**IN THE MATTER OF
GREGORY DEACON**

**STATEMENT OF ALLEGATIONS OF
STAFF OF THE ONTARIO SECURITIES COMMISSION**

Staff (“Staff”) of the Ontario Securities Commission (the “Commission”) make the following allegations:

A. Overview

1. Gregory Deacon (the “Respondent”) is a licensed insurance agent who sold securities to his clients without the registration, product knowledge, suitability analyses or prospectus disclosure required by Ontario securities law.

B. The Respondent

2. The Respondent is a 61-year-old resident of Ontario who has worked in the insurance industry for approximately 40 years. He is licensed with the Financial Services Commission of Ontario (“FSCO”) as a Life Insurance and Accident & Sickness Insurance Agent, but has never been registered with the Commission in any capacity.

C. Details of Conduct

3. Between June and December 2014 (the “Material Time”), the Respondent sold to 20 individuals, most of whom were his insurance clients, convertible debentures in the aggregate principal amount of \$2,720,000. The convertible debentures were issued by Biosenta Inc. (“Biosenta”), an Ontario corporation in the business of developing, producing and selling mold-elimination products. The convertible debentures provided for a two-year term, a 6% annual

interest rate and that, upon conversion, a holder would receive common shares of Biosenta (“Shares”), which are listed on the Canadian Stock Exchange.

4. The Respondent’s sales activities included:

- (a) soliciting investors, including meeting with them in their homes to discuss the merits of Biosenta, its products and the convertible debentures and providing them with product samples;
- (b) taking orders for the convertible debentures and communicating them to Biosenta;
- (c) collecting subscription proceeds; and
- (d) delivering to investors executed convertible debentures.

5. In exchange, Biosenta or an authorized representative paid the Respondent \$153,000 in commissions.

6. The Respondent’s activities in relation to the convertible debentures constitute the business of trading in securities without an exemption from the registration requirement. Although the Respondent was aware that a license from FSCO is required to sell insurance, he never registered or sought to register with the Commission to sell securities, in breach of the registration requirement of the *Securities Act*, R.S.O. 1990, c. S-5, as amended (the “Act”).

7. The Respondent did not comply with the know-your-product and suitability obligations applicable to him as a registrant, being a person required to be registered under the Act. He lacked the education, training and experience that a reasonable person would consider necessary to engage in the business of trading in securities competently. His understanding of the convertible debentures, including their key features and risks, was limited. The Respondent did not evaluate investors’ needs in the manner required of registrants and did not ensure that purchases of the convertible debentures were suitable for them.

8. The Respondent’s sales of the convertible debentures were in breach of the prospectus requirement of Ontario securities law. As trades in securities that had not been previously issued, the sales were distributions. No preliminary prospectus or prospectus was filed with the

Commission in respect of the convertible debentures and no prospectus receipts were issued to qualify their sale.

9. The Respondent did not determine whether any exemptions from the prospectus requirement applied to the distributions. He did not obtain any documents from investors to demonstrate that any exemptions were available. None applied to five of the distributions.

10. Eighteen of the convertible debentures stated on their face that they were issued to the Respondent's insurance company "in trust" for the applicable investor; however, neither the Respondent nor his company acted as trustee for any of these holders. During the Material Time, the Respondent understood that the purpose of the "in trust" language was to reduce the paperwork regarding investors' financial situations that would otherwise be required. The Respondent advised certain investors that grouping their investments in this manner allowed them to invest in Biosenta when they otherwise would not have been able to do so.

11. None of the convertible debentures sold by the Respondent is outstanding. In 2016, Biosenta completed a court-supervised restructuring, in connection with which investors in convertible debentures could choose to receive cash or Shares in partial satisfaction of their claims. In connection with the restructuring, all of the investors to whom the Respondent sold convertible debentures received Shares.

D. Breaches of Ontario Securities Law and Conduct Contrary to the Public Interest

12. The specific allegations advanced by Staff are that, by engaging in the conduct described above:

- (a) the Respondent engaged or held himself out as engaging in the business of trading in securities without being registered to do so and where no exemption from the registration requirement was available, contrary to subsection 25(1) of the Act;
- (b) the Respondent performed an activity which requires registration without having the education, training and experience that a reasonable person would consider necessary to perform the activity competently, and in particular did not have the requisite understanding of the convertible debentures, contrary to subsection

3.4(1) of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (“NI 31-103”);

- (c) the Respondent did not take reasonable steps to ensure that purchases of the convertible debentures were suitable for investors, contrary to subsection 13.3(1) of NI 31-103;
- (d) the Respondent distributed securities when neither a preliminary prospectus nor a prospectus in respect of the securities had been filed nor receipts issued for them and where no exemption from the prospectus requirement was available, contrary to subsection 53(1) of the Act; and
- (e) as set out in sub-paragraphs (a) through (d) above, the Respondent engaged in conduct contrary to the public interest.

13. Staff reserve the right to make such other allegations as Staff may advise and the Commission may permit.

DATED at Toronto, Ontario this 13th day of July, 2017.