



Evolving Securities Enforcement for a Digital World

FY2018/19
Enforcement Report

Enforcement Highlights at a Glance

FY2018/19

100
cease-trade and
asset-freeze
orders issued

200+
public inquiries were
received by NASAA from
Operation Cryptosweep

Provided formal
assistance to one
another in
42
cases

46
Investor Alerts
issued

11
individuals received a total
of 12.7 years of jail terms for
quasi-criminal cases

12
offenders received
jail sentences for
criminal cases for a
combined **total of**
36 years of jail time

63
individuals were
banned from
participating in the
capital market

82
files referred
among the
jurisdictions for
further action

\$24 Million+
imposed in penalties for fraud cases

HIRED

- DATA SCIENTISTS
- ANALYSTS
- BLOCKCHAIN SPECIALISTS

Table of Contents

4	Introduction
5	Message from the Chair
7	What We Do and How We Do It
8	CSA Members' Role in Securities Enforcement
10	Working Together to Fight Securities Misconduct
11	Enhancing Technological Capabilities
12	Crypto-Assets and Initial Coin Offerings (ICOs)
13	Leveraging International Enforcement Relationships
14	FY2018/19 Enforcement Activity

The Canadian Securities Administrators (CSA) plays a vital role in ensuring that Canada’s capital markets are honest, fair and efficient by safeguarding Canadian investors through vigilant enforcement of securities law.

As the umbrella organization for the 10 provincial and three territorial securities regulators in Canada, CSA members are responsible for improving, coordinating and enforcing securities law across the country. Our members bring regional expertise and insights and strong relationships with local and federal law enforcement organizations, while our national approach enables collaboration on policies, regulations and enforcement, creates efficiencies, and drives innovation. We also maintain an international mindset, since perpetrators of securities misconduct know no borders.

As our world becomes increasingly digital, so too does the focus of the CSA. By deploying sophisticated investigative tools and techniques and by strengthening our connections – with regulatory peers, global enforcement partners and each other – we strive to keep pace with emerging trends in capital markets. We do this while maintaining our focus on our core enforcement mission, protecting investors from unfair, improper or fraudulent practices.

This enforcement report outlines our fiscal year 2018/19 efforts to bring that commitment to life.



Alberta

Alberta Securities Commission

British Columbia

British Columbia Securities Commission

Manitoba

Manitoba Securities Commission

New Brunswick

Financial and Consumer Services Commission

Newfoundland and Labrador

Office of the Superintendent of Securities, Service Newfoundland and Labrador

Northwest Territories

Office of the Superintendent of Securities

Nova Scotia

Nova Scotia Securities Commission

Nunavut

Nunavut Securities Office

Ontario

Ontario Securities Commission

Prince Edward Island

Office of the Superintendent of Securities

Québec

Autorité des marchés financiers

Saskatchewan

Financial and Consumer Affairs Authority of Saskatchewan

Yukon

Office of the Yukon Superintendent of Securities

Message From the Chair

The pace of change in today's digital-first world is fast-moving. Investors have more opportunities than ever to access investment products in an increasingly borderless landscape. While disruptive technology is impacting our markets, it is also influencing the ability of perpetrators of securities misconduct to engage in wrongdoing.

Over the past year, the CSA has been focused on keeping pace with these unfolding changes. That's why the theme of this year's enforcement report is "Evolving securities enforcement for a digital world." Technologies and threats continue to emerge and the CSA's role in protecting investors and deterring wrongdoers is more vital than ever today.

In fiscal year 2018/19, our focus on enforcing and deterring misconduct amidst the growing digital economy steadily increased through new tools, driving knowledge-sharing and collaboration, and enhancing the skills of enforcement teams across the country.

We remained vigilant in our actions against fraudulent digital schemes impacting capital markets. For example, several CSA members participated in *Operation Cryptosweep*, a coordinated series of enforcement actions by North American securities regulators to crack down on illegal Initial Coin Offerings (ICOs) and crypto-asset related investment products, and the

people orchestrating them. We also communicated the CSA's stance on emerging trends and supplemented our enforcement efforts by providing objective information to help Canadians make informed investment decisions.

CSA members continued to develop and leverage new technologies that enhance our ability to examine, with greater detail, the way our markets function. This includes the *Market Analysis Platform* (MAP), which is being designed to help CSA members better identify and analyze market misconduct through a central data repository and analysis system. Such tools and resources foster collaboration across jurisdictions and with other market participants, and allow CSA members to better leverage the data available and cover more ground in today's exceedingly fast markets.

Lastly, CSA members developed and hired digital specialists to increase their in-house capabilities and address opportunities. These individuals – including data scientists, analysts and blockchain specialists – are embedded within the CSA members' teams to advance their enforcement efforts. With these specialized skills, we are keeping an eye on the future, constantly anticipating, evaluating, and working against emerging threats.



In addition to digitizing our enforcement efforts, the CSA took other actions in fiscal year 2018/19 that addressed a wide array of misconduct. As part of our ongoing enforcement and deterrence activities, we collaborated with each other, international regulatory agencies, law enforcement agencies and other partners to stay one-step ahead of individuals and companies who violate securities law in Canada and to protect investors from unfair, improper and fraudulent practices. For example, CSA members hosted the Insider Trading and Market Manipulation Conference to learn and share best practices and advanced the multijurisdictional response to emerging pump-and-dump threats as part of the Cross-Border Market Fraud Initiative.

Taken as a whole, the actions taken by CSA members are paying off, as evidenced by the results of enforcement activity outlined in this report. This past year alone, CSA members:

- **Provided formal assistance to one another in 42 cases;**
- **Issued 100 cease-trade and asset-freeze orders;**
- **Banned 63 individuals from participating in the capital market;**
- **Supported the investigation of *Criminal Code* cases, in which 12 offenders received jail sentences for a combined total of 36 years of jail time;**
- **Supported the investigation of quasi-criminal cases, in which 11 individuals received a total of 12.7 years of jail terms with sentences ranging from 90 days to three years; and**
- **Issued 46 Investor Alerts to inform the public about individuals and companies that may act in harmful ways.**

Moving forward, the CSA is confident that we are building the right teams and leveraging the right technology to enhance our enforcement mandate. We will keep working together, locally, nationally, and around the globe to employ sophisticated tools and techniques, evolve our methods and deepen our resources to protect Canadian investors and stop securities misconduct in its tracks.



Louis Morisset

Chair, Canadian Securities Administrators

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To conduct effective securities enforcement in today's complex global environment, regulators and law enforcement need to collaborate. We are committed to working together with all of our partners to strengthen our collective expertise and intelligence in order to protect investors.

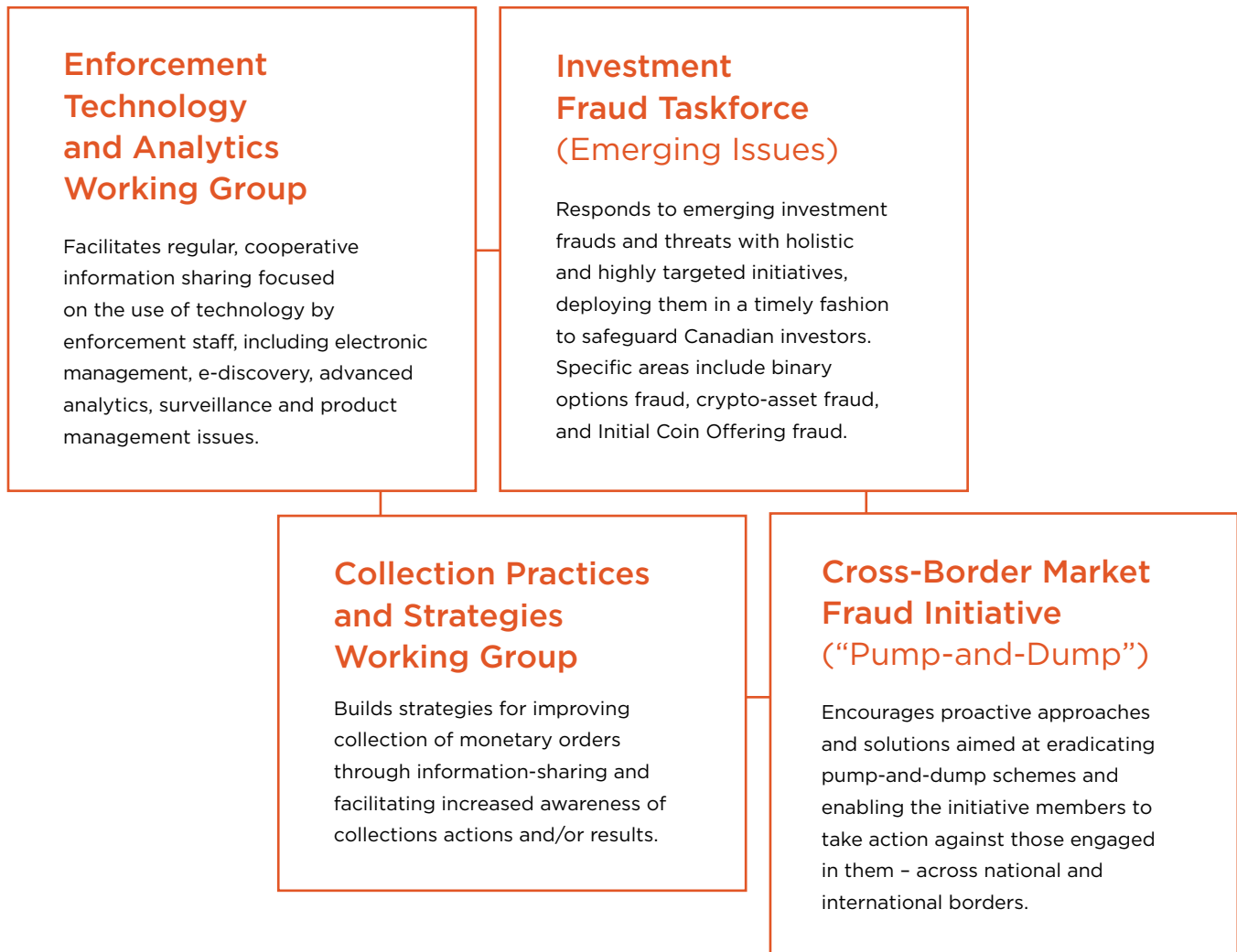
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What We Do and How We Do It

Enforcement demands a highly collaborative approach to protect Canadian investors. In addition to local enforcement actions, the CSA Enforcement Committee (“the Committee”) members coordinate multijurisdictional investigations and share tools and techniques that help their staff investigate and prosecute securities law violations that cross domestic and international borders. The Committee provides a forum for jurisdictions to share enforcement intelligence, helping to identify trends and threats as well as transfer ideas and processes among Committee members.

The Committee undertakes initiatives that improve enforcement across the country through the work of the following specialized taskforces and working groups:

CSA ENFORCEMENT COMMITTEE



CSA Members' Role in Securities Enforcement

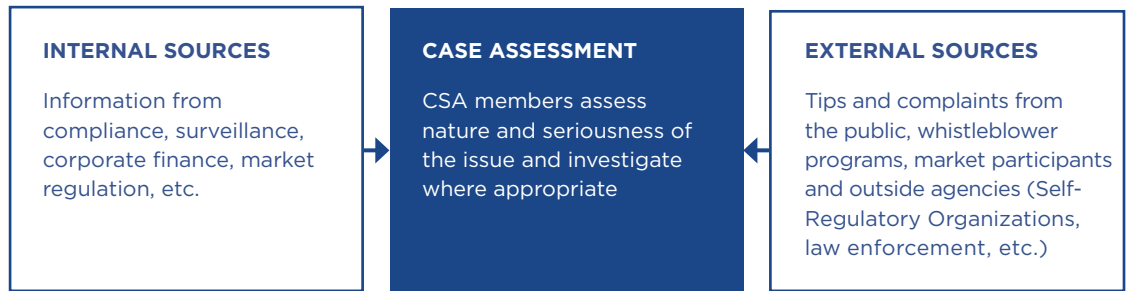
All CSA members share the same goal: protecting investors and safeguarding the integrity of Canada's capital markets. In pursuit of this, members facilitate the development of efficient and harmonized policies and procedures.



The Four Stages of Enforcement

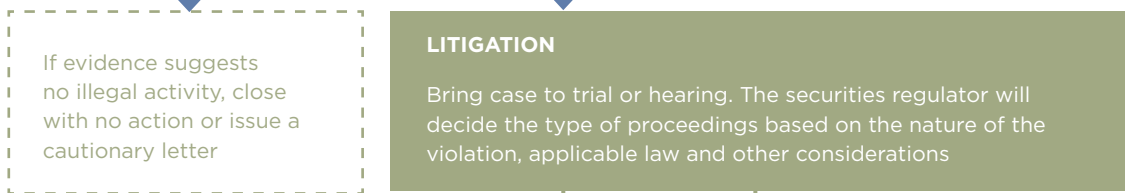
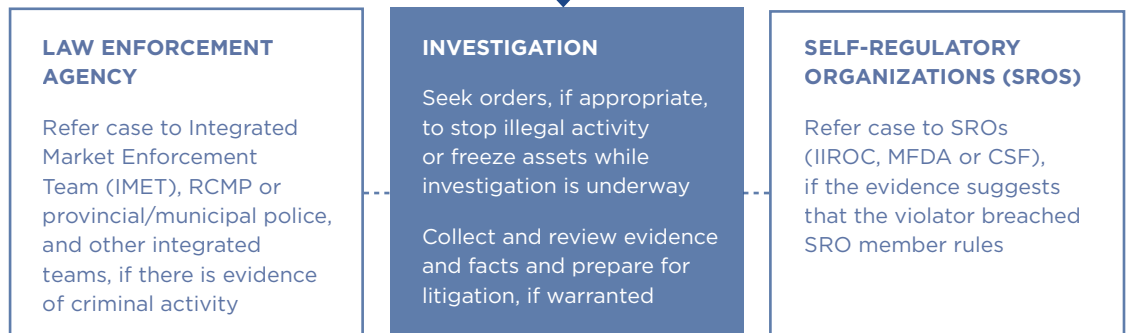
1

MISCONDUCT IS REPORTED



2

ASSESSED BY AN ENFORCEMENT BODY



3

CASE IS PROSECUTED



4

SANCTIONS ARE IMPOSED



A settlement agreement, including a no-contest settlement, may be concluded at any stage of the enforcement process.

Working Together to Fight Securities Misconduct

Securities law violators don't limit their work within provincial borders. That's why CSA members collaborate across provinces and territories and with the public in their communities to better deter, detect, disrupt, investigate, prosecute and sanction violations of securities laws. In today's interconnected digital world, this cooperation is more important than ever.

In addition to responding to public complaints, several CSA members have whistleblower programs that enable individuals and employees to report possible securities law violations. These programs offer key protections, including confidentiality, the option to report anonymously and anti-reprisal measures. These innovative programs continue to provide valuable information about complex securities misconduct that may not otherwise have come to light. In fiscal year 2018/19, CSA members received a total of 156 tips through their respective programs, and \$7.5 million was awarded to three whistleblowers on separate matters.

Successful collaboration also enables the CSA to send more consistent, powerful messages of deterrence while reducing delays in legal proceedings. For example, several CSA members have a statutory reciprocal order provision, under which an order imposing sanctions, conditions, restrictions or requirements issued by one regulator is automatically reciprocated by those regulators that have this type of provision in their legislation.

FY2018/19 ENFORCEMENT WORK/KEY RESULTS

- CSA members issued 46 Investor Alerts;
- Provided formal assistance to one another in 42 cases;
- Referred 82 files among the jurisdictions for further enforcement action;
- Actively worked with local, federal and international law enforcement and other criminal law authorities and self-regulatory organizations to identify, and where possible, prosecute cases; and
- Cooperated with Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), Canada's financial intelligence unit, to support anti-money laundering activities under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*.



CSA's Work With Self-Regulatory Organizations (SROs)

The CSA facilitates and enhances cooperation among its members and with other enforcement partners including SROs such as the Investment Industry Regulatory Organization of Canada (IIROC), the Chambre de la sécurité financière (CSF) and the Mutual Fund Dealers Association of Canada (MFDA). SROs can discipline member dealers or their employees for breaching SRO rules, which includes fines and/or market access restrictions.

Enhancing Technological Capabilities

Strengthening our technological capabilities is critical in the fight against securities misconduct, as Canada's capital markets advance in today's digital era. Over the past year, CSA members have been collaborating on new resources and tools to better recognize and target fraudulent activity.

CSA members have made great strides in this area by introducing tools to analyze large data sets and by deploying dedicated teams focused on advanced analytics, allowing them to detect misconduct faster and earlier and increase efficiencies.

CSA members are also embracing new skills and roles. Data scientists, analysts and blockchain specialists are among the new roles joining investigators and lawyers in the fight to protect investors.

FY2018/19 ENFORCEMENT WORK/KEY RESULTS

- Ongoing training modules/webinars focused on topics such as artificial intelligence and advanced analytics, keeping CSA members up to date on the latest trends and advancements;
- Continued efforts to share information across jurisdictions about how to normalize data sources; and
- Ongoing efforts to establish and refine a repository of computer programming codes that all CSA members can leverage to analyze data, helping to implement best practices across jurisdictions and improve efficiencies.



TRAINING MODULES/
WEBINARS FOCUSED ON
TOPICS SUCH AS

ARTIFICIAL INTELLIGENCE / ADVANCED ANALYTICS

Market Analysis Platform

The CSA is committed to launching its *Market Analysis Platform* (MAP), a data repository and analytics system that will help CSA members efficiently identify and analyze securities misconduct and improve insight into the Canadian capital markets structure. MAP will replace the CSA's existing process and software with an automated, centralized solution that can handle the sophistication and size of current market practices.

Crypto-Assets and Initial Coin Offerings (ICOs)

Since the creation of Bitcoin in 2009, interest in crypto-assets has continued to increase. As with any high-risk opportunity, the need to protect investors from fraudulent activities is important. As such, crypto-assets and ICOs remained a prominent focus for the CSA in fiscal year 2018/19.

Operation Cryptosweep

In April 2018, the North American Securities Administrators Association (NASAA) organized a task force to begin a coordinated series of investigations into ICOs, crypto-asset related investment products and the people behind them. NASAA members from more than 40 jurisdictions throughout North America, including members of the CSA, participated in *Operation Cryptosweep*. The initiative, which included a widespread awareness campaign and a series of enforcement actions, resulted in numerous investigations, almost 50 enforcement actions and the closure of dozens of unregistered ICOs. NASAA received more than 200 public inquiries as a result of the operation.

Operation Cryptosweep ran concurrently with the CSA's year-long national crypto-asset awareness campaign, which warned Canadians of the high risks and hazards of crypto-asset and ICO investments. Running on social media, search engine marketing (SEM) and programmatic channels, the CSA's campaign achieved over 1.9 million impressions.

The CSA Enforcement Committee worked with Investor Education and our policy colleagues to provide additional direction to investors and the marketplace, including:

- A joint consultation paper with IIROC to solicit feedback from the fintech community, market participants, investors and other stakeholders on a proposed framework for regulating crypto-asset trading platforms; and
- A CSA Investor Alert, which urged Canadians to be cautious when considering buying crypto-assets through trading platforms.

What are crypto-assets and ICOs?

- A **crypto-asset** is a digital representation of value, the entitlement to which is usually tracked in a blockchain (a network of interconnected computers which track transactions and balances in a way which cannot be altered). Crypto-assets include cryptocurrencies (like Bitcoin), platform tokens (like Ethereum), as well as many other utility and transactional tokens.
- **Initial coin offering (ICO)*** refers to a form of funding whereby investors are sold digital tokens usually representing some utility or benefit in a product or service to be created by an ICO project.



* Some variants of this approach are also referred to as a STO (Security Token Offering), a TGE (a Token Generation Event), or an IEO (Initial Exchange Offering)

Leveraging International Enforcement Relationships

The increasing pace of change in Canada's capital markets and the new, global, data-driven landscape demands rapid adaptation and the recognition that securities misconduct goes beyond local, provincial and federal borders. The CSA has accelerated efforts to collaborate across global jurisdictions, share best practices and align on enforcement priorities.

FY2018/19 ENFORCEMENT WORK/KEY RESULTS

Cross-Border Market Fraud Initiative (CBMFI)

The CBMFI coordinates multijurisdictional responses to emerging pump-and-dump threats, which leads to cease trade orders, trade suspensions, freeze orders and the issuance of notices of hearing. Supported by this ongoing initiative, the U.S. Securities Exchange Commission (SEC) temporarily suspended the trading of 49 Canadian-based issuers quoted on over-the-counter markets in the U.S.

The German securities regulator, Bundesanstalt für Finanzdienstleistungsaufsicht (Federal Financial Supervisory or BaFin), joined the CBMFI this year. This was a significant development in international coordination, as pump-and-dump schemes often involve companies listed or quoted on stock exchanges in Canada, the U.S. and Germany.

Insider Trading and Market Manipulation (ITMM) Conference

In September 2018, the CSA hosted more than 120 guests from 24 organizations and nine countries (Canada, the U.S., France, Australia, Germany, Singapore, Portugal, Japan, and Hong Kong) at the sixth edition of the ITMM Conference in Quebec City. The conference brought together investigators and litigators of participating securities commissions and self-regulatory organizations, as well as other law enforcement agencies, to develop their skills and share best practices on investigating and prosecuting insider trading and market manipulation. This year's highlights included a panel of four Canadian investigators sharing interview techniques, Canadian prosecutors discussing recent legal theory and several insightful presentations from international speakers and panelists.

What Are Pump-and-Dump Schemes?

Pump-and-dump schemes involve the artificial inflation, or "pumping," of a stock price through false and misleading positive statements, so that the perpetrators can later sell their cheaply purchased shares at a higher price. Once the scheme organizers "dump" their stock, the price falls and other investors, not aware of the scheme, lose money. Most common with smaller-cap stocks and some crypto-assets, this type of securities fraud can cause harm in several ways:

- Financial losses to individual investors;
- Damage to the reputation of Canada's capital markets; and
- Support of funds for organized crime.

International Relationships

CSA members actively participate and collaborate with foreign securities authorities and associations such as the U.S. SEC, the U.S. Commodity Futures Trading Commission, U.S. state securities administrators, the North American Securities Administrators Association (NASAA), the Council of Securities Regulators of the Americas, the Financial Conduct Authority (UK), the Autorité des marchés financiers (France), the Australian Securities & Investment Commission, the International Organization of Securities Commissions and the International Joint Forum.

FY2018/19 Enforcement Activity

This report presents CSA member enforcement activity across several categories for fiscal year 2018/19 (April 1, 2018 to March 31, 2019). Results may vary considerably from year to year, depending on the number and complexity of cases, respondents and victims. For previous reporting periods, visit the CSA website.



Concluded Matters

“Concluded matters” refers to cases in which a final decision has been issued or a settlement reached.

RESPONDENTS BY CATEGORY FY2018/19

From April 1, 2018 to March 31, 2019, CSA members concluded a total of 94 matters involving 177 respondents.

177 TOTAL

9 Disclosure violations



32 Fraud



72 Illegal distribution



8 Illegal insider trading



14 Market manipulation



18 Misconduct by registrants



2 No-contest settlements



22 Other cases



Spotlight on Sanctions and Collection Methods

CSA members vigorously pursue all available avenues to collect outstanding monetary sanctions, including:

- Registering orders in the courts and enforcing them as court judgments;
- Conducting interviews, obtaining financial records and filing lawsuits;
- Hiring external services, including private investigators, collection specialists and agencies, bailiffs and legal counsel;
- Garnishing wages, seizing and selling debtors’ assets;
- Working collaboratively with law enforcement and other regulatory agencies in other jurisdictions;
- Publicly posting a list of delinquent debtors;
- In Québec, allowing for compensatory works to pay quasi-criminal fines, when applicable; and
- In Ontario, successfully piloting a program to have a specialized collections law firm pursue claims.

Yet, imposing a monetary sanction and collecting are two entirely different matters. In some cases, monetary sanctions do not align with a person or company’s ability to pay. Respondents often do not have assets to collect because:

- Funds may have been moved to an offshore location from which they are not recoverable;
- Respondents may never have had or may not have retained the amount of money they are required to pay;
- Other amounts owing by the respondent, such as outstanding taxes, can take legal priority over collection of sanctions;
- There may be legal constraints on collecting from a bankrupt respondent; and
- The respondent may have forfeited assets as part of a criminal process.

Where assets do exist, securities regulators seek to direct those amounts where possible.

Fines, Administrative Penalties & Other

CSA members impose sanctions for securities law violations, for conduct contrary to public interest, or through no-contest settlements. Sanctions range from bans on future activities (e.g., trading in securities or acting as a director of a public company) to financial penalties, disgorgement and voluntary payments.

Fines, Administrative Penalties & Other	FY2018/19
Disclosure violations	\$ 34,450,000
Fraud	\$ 24,201,000
Illegal distribution	\$ 3,983,906
Illegal insider trading	\$ 1,639,177
Market manipulation	\$ 4,864,940
Misconduct by registrants	\$ 7,486,971
No-contest settlements	\$ 460,000
Other cases	\$ 422,500
TOTAL	\$ \$77,508,494

Restitution, Compensation & Disgorgement

In specific circumstances, some regulators or courts possess restitution, compensation, and disgorgement powers. In specific circumstances, some regulators can make financial orders that can result in money getting back to investors.

Restitution, Compensation & Disgorgement	FY 2018/19
Disclosure violations	-
Fraud	\$ 90,613,475
Illegal distribution	\$ 6,702,459
Illegal insider trading	-
Market manipulation	\$ 191,253
Misconduct by registrants	\$ 1,181,397
No-contest settlements	\$ 10,970,518
Other cases	\$ 272,000
TOTAL	\$ 109,931,102



QUASI-CRIMINAL JAIL TERMS

In FY2018/19, courts in British Columbia, Québec and Ontario ordered jail terms under their respective securities acts. **11* individuals** received a total of **12.7 years of jail terms** with sentences ranging from **90 days to three years**.

* In three of these cases, the individuals were also sentenced under the *Criminal Code*.

Proceedings Commenced

“Proceedings commenced” represents cases in which CSA member staff filed a notice of hearing or statement of allegations, swore in information before the courts or, in the case of Québec, served a statement of offense.

RESPONDENTS BY CATEGORY FY2018/19

From April 1, 2018 to March 31, 2019, CSA members commenced 63 matters involving 172 respondents (both individuals and companies).

172 TOTAL

9 Disclosure violations



51 Fraud



54 Illegal distribution



9 Illegal insider trading



7 Market manipulation



12 Misconduct by registrants



2 No-contest settlements



28 Other cases



Preventive Measures

Interim Cease-trade and Asset-freeze Orders

CSA members protect investors with interim cease-trade and asset-freeze orders, which restrict certain business activities or property transfers when an investigation is underway. Certain jurisdictions have the legislative authority to halt trading on public exchanges when they suspect or identify irregular trading of securities or derivatives, in turn stopping potential market manipulation.

Asset-freeze orders help prevent the loss of assets – for example, bank accounts and personal property, including vehicles and houses – pending the completion of investigations. In some circumstances, regulators can also apply to the court to facilitate an orderly distribution of assets back to investors.

Market Bans

As a tool to prevent further market misconduct and harm, a tribunal or panel can impose market bans on an individual or company when they have violated securities laws. Individuals or companies can be banned from trading, registration or acquisitions, using exemptions, acting as a director or officer, advising in securities, investor relations, or acting in a management or consultative capacity in connection with activities in the market.

Investor Warnings and Alerts

CSA members issue investor warnings and alerts through their respective websites, email, social media channels and the CSA website. These inform the public about individuals and companies that may act in harmful ways. Often, these relate to foreign-based businesses that are not registered to trade in Canada yet target Canadian investors.



Under the
100

interim cease-trade and asset-freeze orders issued, CSA members placed trading and other restrictions on **145** respondents



89

asset-freeze orders were issued relating to **107** respondents, including a total of **\$38.6 million** in bank accounts and through property liens



63 & 18

INDIVIDUALS COMPANIES

banned from participating in the capital market.

48% & 78%

OF INDIVIDUALS OF COMPANIES

were banned permanently. All other bans ranged between 1 and 20 years.



46

Investor Alerts issued by CSA members from April 1, 2018 to March 31, 2019

Criminal Code Cases

In certain cases, securities regulators investigate breaches of the *Criminal Code*, either independently or in collaboration with law enforcement agencies. These can involve search warrants, surveillance and undercover operations. Subsequently, provincial and federal Crown counsel conduct related prosecutions.



Referrals and Assistance

Enforcement referrals are files referred by a CSA member to another CSA member (excluding self-regulatory organizations and foreign regulators).

Formal assistance in enforcement cases includes the number of times a CSA member formally assisted another CSA member in an enforcement file (e.g., interview of witnesses, obtaining documents).



Tackling the Challenge of Recidivism

Repeat offenders, or recidivists, are a reality in every legal enforcement system in Canada. CSA members collaborate to identify recidivists across Canada and impose fair, credible and progressive sanctions that are proportionate to each case and aim to be more severe than those incurred by first-time violators. Based on past sanctions, investigations can lead to administrative proceedings, quasi-criminal proceedings, or referral of the case to other authorities for criminal proceedings.

To monitor, address, and deter recidivism, the CSA has strategies in place to identify, pursue and prosecute repeat violators of securities laws, and where appropriate, seek jail terms. CSA members consider an individual to be a recidivist if they are sanctioned for breaching securities laws after being previously sanctioned for a securities violation by a securities regulator or the court.

The CSA saw a 6.4% rate of repeat violators from April 1, 2018 to March 31, 2019. Of the 12 recidivists, three received administrative penalties and nine were prosecuted in court. Of those prosecuted in court, seven were sentenced to prison terms, one received 18-months of probation, and one received 24-months of probation.

The recidivism rate does not include individuals subject only to reciprocal orders or multiple sanctions for the same events or simultaneously occurring events during the same period.



* In three of these cases, the individuals were also sentenced under the *Securities Act*.





[CSASANCTIONS.CA](https://csasanctions.ca) | [ACVMSANCTIONS.CA](https://acvmsanctions.ca)