

COLLABORATING TO PROTECT INVESTORS AND ENFORCE SECURITIES LAW

FY2019/20
ENFORCEMENT REPORT

CSA/ACVM

Canadian Securities Administrators
Autorités canadiennes en valeurs mobilières

FY2019/20


ENFORCEMENT HIGHLIGHTS AT A GLANCE

63
CASES



where CSA members provided **formal assistance** to one another

91 FILES REFERRED



from one jurisdiction to another **for further action**

66
INVESTOR
ALERTS ISSUED

65
INDIVIDUALS
banned from participating
in the capital markets



95



INTERIM CEASE-TRADE AND
ASSET-FREEZE ORDERS ISSUED

8



INDIVIDUALS RECEIVED A TOTAL
OF 10.8 YEARS OF JAIL TERMS
FOR QUASI-CRIMINAL CASES

4 INDIVIDUALS
RECEIVED A
COMBINED TOTAL
OF 18 YEARS AND
11 MONTHS OF JAIL
TERMS FOR CRIMINAL
CASES



\$3M
IMPOSED
IN PENALTIES
FOR FRAUD CASES

\$45M
IN SANCTIONS



in administrative penalties
and voluntary payments

291



WHISTLEBLOWER
TIPS RECEIVED

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MESSAGE FROM THE CHAIR

Vibrant capital markets depend on rules aimed at transparency and investor protection. But rules alone are not enough. There must also be a way to detect misconduct, decisively stop it, and deter those who might be tempted to break securities laws. In Canada, that job is entrusted to members of the Canadian Securities Administrators (CSA).

As the pan-Canadian organization for the country's 10 provincial and three territorial securities regulators, the CSA is a vital platform for nationwide collaboration and information sharing in the enforcement of securities laws in Canada.

Our resolve to work together was particularly critical in the last quarter of the 2019/20 fiscal year when the COVID-19 pandemic hit and drove immense economic uncertainty. CSA members quickly mobilized to ensure the safety of their staff, while collaborating with government authorities, market participants and other regulators in Canada and globally to monitor the situation and coordinate our response to the pandemic. Our mission to safeguard investors and ensure that Canada's capital markets are honest, fair and efficient has never been more important than it is today.

Detecting, disrupting and deterring securities misconduct

This report provides a statistical summary of CSA members' enforcement actions between April 1, 2019 and March 31, 2020. In fiscal year 2019/20, CSA members protected Canadians from those who prey on investors and undermine confidence in the capital markets by:

- **Adjudicating allegations of securities misconduct (113 cases commenced or concluded);**
- **Seeking prosecution for criminal or quasi-criminal offences (12 individuals sentenced to jail);**
- **Freezing the assets of people or companies under investigation (84 freeze orders); and**
- **Imposing on lawbreakers financial sanctions (almost \$60 million) or banishment from the capital markets (38 individuals and 24 companies forever barred from participating in at least one type of market activity).**

But these raw numbers, as important as they are in conveying a nationwide snapshot of securities laws enforcement, do not capture the entire picture. Many actions taken to detect and disrupt securities misconduct don't involve the kind of formal legal action captured in this report. One such tactic is issuing Investor Alerts. Over the past year CSA members issued

66 Investor Alerts, which ramped up in particular in late March as the COVID-19 pandemic led to an increase in fraudulent investment schemes and misleading promotions targeting investors.

Collaborating with each other and across borders

Since the trading of securities and derivatives spans provincial and national boundaries, CSA members worked closely with each other to share information, refer cases, and seek assistance – particularly in obtaining records or conducting interviews. This past fiscal year, our members referred 91 cases to each other and provided assistance in 63 cases. They also engaged in similar cooperation with self-regulatory organizations in Canada, securities regulators in other countries, and law enforcement agencies in Canada and abroad.

Our collaboration also extended beyond the urgent task of investigations to developmental work, especially in technology, that enhances our ability to conduct those investigations. The CSA is preparing to launch the Market Analysis Platform, a data repository and analytics system that will help members identify and analyze market misconduct. Through training sessions and shared digital resources, members are exchanging their insights into certain specialized tactics, such as open source intelligence, and leveraging tools to better recognize and target fraudulent activity.

All of these efforts have led the CSA to be regarded as an effective regulator on the world stage. The CSA's four largest members are, to date, among only nine regulators worldwide to become signatories to the International Organization of Securities Commissions' Enhanced Memorandum of Multilateral Understanding – a mutual assistance pact that enables signatories to gain crucial evidence in signatory countries. In another testament to Canada's leading role, this past year international securities regulators invited CSA members to present their insights about binary options fraud – a type of investment fraud that was common in Canada before CSA members instituted a ban.

The results of the 2019/20 Enforcement Report demonstrate the effectiveness of Canada's securities regulators in monitoring market participants and upholding securities laws. As we look ahead, Canada's capital markets – like those around the world – are adapting in the midst of economic uncertainty. However, there is one certainty on which Canadians can depend: the CSA and its members will continue to protect investors and maintain the integrity of our capital markets.



Louis Morisset

Chair, Canadian Securities Administrators

FY2019/20 ENFORCEMENT ACTIVITY

This report presents CSA members' enforcement activity across several categories for fiscal year 2019/20 (April 1, 2019 to March 31, 2020). For previous reporting periods, visit the CSA website.

PROCEEDINGS COMMENCED

“Proceedings commenced” represent cases where a CSA member filed a notice of hearing or statement of allegations, swore an information before the courts or, in the case of Québec, served a statement of offence.

In FY2019/20, CSA members commenced 38 matters involving 86 respondents (both individuals and companies).

Respondents by category

Types of offence	Number of respondents FY2019/20
Illegal distribution	20
Illegal insider trading	1
Market manipulation	8
Misconduct by registrants	4
Disclosure violations	6
Fraud	33
No-contest settlements	-
Public interest violations and other misconduct*	14

* This category includes breaches of orders, misrepresentation, misconduct by a company's auditors, obstructing staff in an investigation, reciprocal orders and failure to exercise proper control over foreign exchange trading.

REFERRALS & ASSISTANCE

Enforcement referrals are files referred by a CSA member to another CSA member.

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

91 ENFORCEMENT REFERRALS

63 INSTANCES OF ASSISTANCE IN ENFORCEMENT CASES

CONCLUDED MATTERS

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

In FY2019/20, CSA members concluded a total of 75 matters involving 163 respondents (both individuals and companies).

FINES, ADMINISTRATIVE PENALTIES & OTHER

CSA members impose sanctions for securities laws violations, for conduct contrary to public interest, or through no-contest settlements. Financial sanctions include penalties, disgorgement and voluntary payments.

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 being returned to investors.

Respondents by category

Types of offence	Number of respondents FY2019/20
Illegal distribution	70
Illegal insider trading	6
Market manipulation	4
Misconduct by registrants	16
Disclosure violations	15
Fraud	23
No-contest settlements	1
Public interest violations and other misconduct*	28

Fines, administrative penalties & other	FY2019/20
Illegal distribution	\$ 3,696,500
Illegal insider trading	\$ 754,174
Market manipulation	\$ 135,000
Misconduct by registrants	\$ 2,319,000
Disclosure violations	\$ 2,043,114
Fraud	\$ 3,325,000
No-contest settlements	\$ 5,908,400
Public interest violations and other misconduct*	\$ 27,387,900
TOTAL	\$ 45,569,088

Restitution, compensation & disgorgement	FY2019/20
Illegal distribution	\$ 4,003,661
Illegal insider trading	\$ 128,000
Market manipulation	-
Misconduct by registrants	\$ 1,996,063
Disclosure violations	\$ 1,348,226
Fraud	\$ 6,286,363
No-contest settlements	-
Public interest violations and other misconduct*	-
TOTAL	\$ 13,762,313

* This category includes breaches of orders, misrepresentation, misconduct by a company's auditors, obstructing staff in an investigation, reciprocal orders and failure to exercise proper control over foreign exchange trading.

JAIL TERMS

QUASI-CRIMINAL CASES

In FY2019/20, courts in British Columbia, Ontario and Québec ordered jail terms under their respective securities acts.

CRIMINAL 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.



Eight individuals received a total of **10.8 years** of jail terms under securities acts, with sentences ranging from **90 days to 1.5 years**.



7
CASES

commenced under the *Criminal Code*.



7
INDIVIDUALS

found guilty by the courts under the *Criminal Code*.



4
INDIVIDUALS

received a combined total of **18 years and 11 months** of jail terms, which ranged from **eight months to nine years**.

SPOTLIGHT ON SANCTIONS AND COLLECTION METHODS

CSA members pursue all avenues available to them 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
- Leveraging CSA member staff dedicated to collections
- 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
- Publicly posting a list of delinquent debtors
- Steps taken by the courts to collect fines; for example, in Québec, allowing for compensatory work to pay quasi-criminal fines, when applicable

However, imposing monetary sanctions do not reflect a person or company's ability to pay. Respondents often do not have assets to collect because:

- 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
- Funds may have been moved to an offshore location from which they are not recoverable
- There may be legal constraints on collecting from a bankrupt respondent
- The respondent may have forfeited assets as part of a criminal process

Where assets do exist, securities regulators give priority to returning money to investors.

PREVENTIVE MEASURES

Interim cease-trade and asset-freeze orders

CSA members protect investors by issuing interim cease-trade orders or freezing assets while they conduct investigations. 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 deposits and personal property, including vehicles and buildings – pending the completion of investigations.

Investor warnings and alerts

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

Market bans

As a tool to prevent further 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 or purchasing, registration, 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.



CSA members imposed trading and other restrictions on **79 respondents through 95 interim cease-trade and asset-freeze orders.**



84 asset-freeze orders were issued relating to 50 respondents, including a total of **\$34.6 million** in bank accounts and property liens.



CSA members issued 66 investor alerts



65 individuals and 33 companies were banned from participating in the capital markets.

58% of individuals and 73% of companies were banned permanently. All other bans ranged between **1 and 15 years**, with many of those bans extending until the full penalty is paid.

TACKLING THE CHALLENGE OF RECIDIVISM

Repeat offenders, or recidivists*, are a reality in every legal system. 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. Investigations of potential recidivists can lead to administrative proceedings, quasi-criminal prosecution, or referral of the case to other authorities for criminal prosecution.

WHISTLEBLOWER PROGRAMS

Several CSA members have whistleblower programs that enable individuals and employees to report possible securities laws 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 the context of this report, a recidivist is someone sanctioned for breaching securities laws after being previously sanctioned for a securities violation by a securities regulator or the court.



In FY2019/20, the CSA saw a **5.5% rate of repeat offenders.**

Of the 9 recidivists, **4 were prosecuted in court, 3 of whom were sentenced to jail terms.**

In FY2019/20, CSA members received a total of

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TIPS THROUGH THEIR RESPECTIVE PROGRAMS



Since the inception of the program, the Ontario Securities Commission has **awarded over \$8 million to four whistleblowers on separate matters.**

WHAT WE DO & HOW WE DO IT

The Canadian Securities Administrators (CSA) plays a vital role in ensuring that Canada’s capital markets are ranked among the world’s most fair and efficient.

By deploying sophisticated investigative tools and techniques and strengthening connections with law enforcement, financial regulators, global securities regulators and each other, we anticipate and respond to emerging trends in the capital markets. That collaboration is a crucial ingredient in fulfilling our core enforcement mission of protecting investors from unfair, improper or fraudulent practices.



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

CSA MEMBERS' ROLE IN SECURITIES ENFORCEMENT

Given the increasingly complex securities landscape and the evolving nature of threats, enforcement demands a highly collaborative approach to protect Canadian investors. In addition to local enforcement actions, the CSA Enforcement Committee and related teams coordinate multijurisdictional investigations and share tools and techniques to help members investigate and prosecute securities laws violations that span multiple jurisdictions. The Committee provides a forum to share enforcement intelligence, identify trends and threats, and exchange ideas and processes.

The CSA and its members undertake initiatives through working groups, task forces and forums:

ENFORCEMENT TECHNOLOGY AND ANALYTICS WORKING GROUP

Facilitates regular, cooperative information sharing focused on the use of technology by enforcement staff, including electronic evidence management, e-discovery, advanced analytics and surveillance. Assesses and acts upon current and emerging technology-enabled threats.

INVESTMENT FRAUD TASK FORCE (EMERGING ISSUES)

Responds to emerging investment frauds and threats with coordinated and highly targeted initiatives in a timely fashion to protect Canadian investors. Specific focuses include misbehaviour utilizing forex and crypto assets.

COOPERATION WITH FEDERAL AGENCIES WORKING GROUP

Explores new cooperation opportunities with federal agencies to strengthen the detection, prosecution and deterrence of white-collar crime and securities laws violations.

FORUMS AND OTHER INITIATIVES

This includes guiding the development of the Market Analysis Platform; participating in the Cross-Border Microcap Fraud Initiative (CBMFI), which seeks to eradicate pump-and-dump schemes and to take action against the perpetrators; and strategizing on the detection, disruption and deterrence of insider trading and market manipulation.



CSA/ACVM

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WWW.CSASANCTIONS.CA/ | WWW.ACVMSANCTIONS.CA/