



STRENGTH AND RESILIENCE IN UNPRECEDENTED TIMES

CSA/ACVM

Canadian Securities Administrators
Autorités canadiennes en valeurs mobilières

FY2020/2021 ENFORCEMENT REPORT

ENFORCEMENT HIGHLIGHTS AT A GLANCE



36

cases where CSA members provided formal assistance to one another



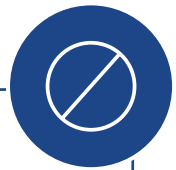
124

files referred from one jurisdiction to another for further action



159

Investor Alerts issued



38

individuals banned from participating in the capital markets



22

companies banned permanently from participating in the capital markets



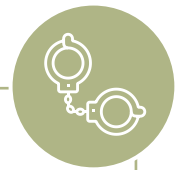
31

interim cease-trade and asset-freeze orders issued



52

matters commenced involving 133 respondents



7

individuals received a combined total of 15.4 years of jail terms for criminal and quasi-criminal cases



6

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



461

whistleblower tips received



\$42M

in restitution, compensation, and disgorgement penalties



\$20M

in sanctions, including administrative penalties and voluntary payments

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MESSAGE FROM THE CHAIR

I am pleased to share the Canadian Securities Administrators Enforcement Report for the fiscal year 2020/2021. There is no doubt that the past year has been unprecedented and extraordinary. The dedication and commitment of CSA members across the country to protect investors and maintain honest, fair, and efficient capital markets in Canada has been unwavering, and I am particularly proud of their exceptional collective work.

Despite challenges imposed by the global pandemic, and a shift to a primarily virtual setting, CSA members remained as vigilant as ever. We continued to investigate and take actions to better detect, deter and stop securities misconduct, including fraud, illegal distributions, market manipulation, insider trading, and misconduct by registrants such as broker-dealers and investment advisers.

The urgency of the pandemic-driven crisis required a high degree of collaboration between CSA members and constant coordination with law enforcement, self-regulated organizations, federal counterparts (the Bank of Canada, the Office of the Superintendent of Financial Institutions, and Finance Canada) and foreign regulators through the International Organization of Securities Commissions. Together, we adapted to the evolving circumstances and found balance between the measures meant to alleviate the burden and facilitate compliance with regulatory requirements (e.g., filings, fees, convening annual shareholder meetings) and investor protection at a time of intense market volatility.

This year, we saw an unfortunate rise in wrongdoers who attempted to capitalize on the uncertainty related to the pandemic and the economy, a common occurrence with any significant market or news event. Among our actions to protect investors against harmful activity, we quickly dedicated resources to address emerging threats and to protect investors. The CSA actively participated in the North American Securities Administrators Association (NASAA) Sweep, which targeted COVID-19 related investment scams. This initiative included disruption and prevention activities, such as reviewing and shutting down websites promoting financial fraud, as well as identifying and shutting down advertising on social media and on digital marketplaces (e.g., Kijiji, Craigslist). Out of over 150 frauds and schemes uncovered by the NASAA Sweep, close to half (64) were identified by Canadian regulators. Moreover, the CSA Cross-Border Microcap Fraud Initiative continued to coordinate actions between jurisdictions and law enforcement agencies around the world, including Australia and the United Kingdom, to collect intelligence and take swift action against pump-and-dump schemes.

To caution the public about potential harmful activity by individuals or companies that may pose risk to investors, CSA members issued 159 Investor Alerts in FY2020/2021, up 140% compared to fiscal year 2019/2020. One example was a warning about a trading scam advertised under the name of Mercury

Crypto Invest, which represented itself as a CSA-accredited trader (there is no such thing) and promised a guaranteed return and 95% “win rate” through investments in binary options and cryptocurrencies – a clear red flag of fraud. The CSA worked with Kijiji to quickly remove Mercury’s online advertisements, reducing the risk to Canadian investors.

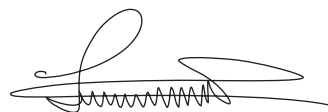
While the drive of CSA members did not diminish throughout the year, how we conducted many enforcement activities did change. Prior to 2020, not many CSA members conducted virtual investigations and virtual hearings – this became the new norm across the country. The cornerstone principles of credible deterrence are timely and transparent enforcement and accountability, and the remote hearings enabled CSA members to continue this important adjudicative function in the enforcement process. The virtual hearings also made participation by respondents and witnesses easier and more affordable, particularly for those in remote locations. Given the effectiveness of these hearings, some CSA members are likely to continue to offer them as an option.

As we have long stated, the statistics outlined in this report do not tell the full story of the CSA’s enforcement actions. Many of our activities were impacted in some way, particularly as we adjusted during Spring 2020 to confinement measures all across the country. Yet, we were pleased with our achievements in a period of constant change. This past fiscal year, we commenced 52 cases against 133 respondents. We referred 124 files from one jurisdiction to another for further action. And, we imposed or obtained \$20 million in sanctions in administrative penalties and voluntary payments and more than \$42 million in restitution, compensation, and disgorgement

penalties. This is a clear demonstration of our ongoing efforts to collaborate and achieve meaningful results.

In addition to investigations and cases, the CSA also moved forward with other enforcement activities in FY2020/2021. We launched our Market Analysis Platform (MAP) in October 2020, a data repository and analytics system designed to help all CSA members identify and analyze market misconduct more effectively. MAP has increased our efficiency and speed in accessing and analyzing trading activity, which is critical as capital markets continue to rapidly evolve. We also consulted with each other and experts around the world and continued to conduct training on critical and emerging topics, such as open-source intelligence and mobile forensics, to strengthen our technical knowledge and provide best practices and tools for enforcement staff.

Each CSA jurisdiction rose to the occasion during fiscal year 2020/2021 to quickly adapt and support investors. Together, we confronted new challenges and new ways of working head-on to carry forward our enforcement activities and stay at the forefront of emerging issues and trends. The pandemic-driven crisis has revealed the strength and resilience of the CSA, and confirmed that no matter the circumstances, we will always remain steadfast in our commitment to enforcing securities laws and protecting investors in Canada.



LOUIS MORISSET

Chair, Canadian Securities Administrators

FY2020/2021 ENFORCEMENT ACTIVITY

This report presents CSA members' enforcement activity across several categories for fiscal year 2020/2021 (April 1, 2020 to March 31, 2021). 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 FY2020/2021, CSA members commenced 52 matters involving 133 respondents (both individuals and companies).

RESPONDENTS BY CATEGORY

| TYPE OF OFFENCE | NUMBER OF RESPONDENTS FY2020/2021 |
|--|-----------------------------------|
| Illegal distribution | 49 |
| Illegal insider trading | 13 |
| Market manipulation | 4 |
| Misconduct by registrants | 27 |
| Disclosure violations | 4 |
| Fraud | 23 |
| No-contest settlements | - |
| Public interest violations and other misconduct* | 13 |

*In this year's report, this included breaches of orders, misrepresentation, misleading statements, 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).



124
ENFORCEMENT
REFERRALS



36
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 FY2020/2021, CSA members concluded a total of 43 matters involving 93 respondents (both individuals and companies).

RESPONDENTS BY CATEGORY

| TYPE OF OFFENCE | NUMBER OF RESPONDENTS FY2020/2021 |
|---|-----------------------------------|
| Illegal distribution | 53 |
| Illegal insider trading | 2 |
| Market manipulation | 4 |
| Misconduct by registrants | 5 |
| Disclosure violations | 5 |
| Fraud | 8 |
| No-contest settlements | 3 |
| Public interest violations and other misconduct | 13 |

FINES, ADMINISTRATIVE PENALTIES & OTHER

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

| FINES, ADMINISTRATIVE PENALTIES & OTHER | FY2020/2021 |
|---|---------------------|
| Illegal distribution | \$7,858,590 |
| Illegal insider trading | \$105,429 |
| Market manipulation | \$1,950,000 |
| Misconduct by registrants | \$1,060,000 |
| Disclosure violations | \$432,000 |
| Fraud | \$5,675,000 |
| No-contest settlements | \$36,676 |
| Public interest violations and other misconduct | \$3,256,011 |
| TOTAL | \$20,373,707 |

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.

| RESTITUTION, COMPENSATION & DISGORGEMENT | FY2020/2021 |
|---|---------------------|
| Illegal distribution | \$33,603,199 |
| Illegal insider trading | \$97,071 |
| Market manipulation | - |
| Misconduct by registrants | - |
| Disclosure violations | - |
| Fraud | \$3,269,527 |
| No-contest settlements | - |
| Public interest violations and other misconduct | \$5,327,241 |
| TOTAL | \$42,297,038 |

JAIL TERMS

QUASI-CRIMINAL CASES

In FY2020/2021, 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



UNDERCOVER OPERATIONS

Subsequently, provincial, and federal Crown counsel conduct related prosecutions.



6

individuals received a total of 13.4 years of jail terms under securities acts, with sentences ranging from 5 months to 4.5 years.



1

case commenced under the *Criminal Code*.



6

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



1

individual received a 2-year jail term under the *Criminal Code*.

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;
- Garnisheeing wages, seizing and selling debtors' assets;
- Working collaboratively with law enforcement and other regulatory agencies;
- Publicly posting a list of delinquent debtors; and
- Steps taken from courts to collect fines. For example, in Québec, allowing for compensatory work to pay quasi-criminal fines, when applicable.

However, imposing monetary sanctions and collecting those sanctions are entirely different matters. In some cases, monetary sanctions do not reflect 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 give priority to returning money to investors.



PREVENTATIVE MEASURES

INTERIM CEASE-TRADE AND ASSET-FREEZE ORDERS

CSA members protect investors by issuing or obtaining 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 are acting 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

49 RESPONDENTS THROUGH 31 INTERIM CEASE-TRADE AND ASSET-FREEZE ORDERS.



22 ASSET-FREEZE ORDERS WERE ISSUED RELATING TO

49 respondents, including a total of \$19.66 million in bank accounts and property liens.



CSA MEMBERS ISSUED 159 INVESTOR ALERTS.



38 INDIVIDUALS AND 22 COMPANIES WERE BANNED FROM PARTICIPATING IN THE CAPITAL MARKETS.

47% of individuals and 95% of companies were banned permanently. All other bans ranged between 1 and 20 years, with many of those bans extending until the full monetary sanction 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.

*A recidivist is someone sanctioned for breaching securities laws after being previously sanctioned for a securities violation by a securities regulator or the court.

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 FY2020/2021, THE CSA SAW A 3% RATE OF REPEAT OFFENDERS. OF THE 3 RECIDIVISTS:



2 WERE PROSECUTED IN COURT TO HOUSE ARREST RESPECTIVELY WITH 3 AND 24 MONTHS SENTENCES



IN FY2020/2021, CSA MEMBERS RECEIVED A TOTAL OF 461 TIPS THROUGH THEIR RESPECTIVE PROGRAMS



SINCE THE INCEPTION OF THE PROGRAM, THE ONTARIO SECURITIES COMMISSION HAS AWARDED OVER \$8.6 MILLION TO WHISTLEBLOWERS ON SEPARATE MATTERS

WHAT WE DO AND 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 sharing 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 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; executing best practices through the Virtual Hearings and Investigations Forum; and strategizing on the detection, disruption and deterrence of insider trading and market manipulation.



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