

CSA

2015 ENFORCEMENT REPORT



CANADIAN SECURITIES ADMINISTRATORS • AUTORITES CANADIENNES EN VALEURS MOBILIERES

## TABLE OF CONTENTS

---

3	ABOUT THE CSA
5	MESSAGE FROM THE CHAIR
7	KEY PLAYERS IN THE ENFORCEMENT
11	2015 RESULTS
20	2015 CASE HIGHLIGHTS

# THIS SECTION OF THE 2015 ENFORCEMENT REPORT PROVIDES BACKGROUND INFORMATION ON SECURITIES ENFORCEMENT IN CANADA BY THE CANADIAN SECURITIES ADMINISTRATORS (CSA) AND OTHER KEY PLAYERS IN ENFORCEMENT, IN ADDITION TO THE ROLES THEY PLAY IN THIS ENFORCEMENT.

The CSA is the council of the 10 provincial and three territorial securities regulators in Canada. The mission of the CSA is to facilitate Canada's securities regulatory system, providing protection to investors from unfair, improper or fraudulent practices and to promote fair, efficient and transparent capital markets, through

the development of harmonized securities regulation, policy and practice.

The CSA seeks to streamline the regulatory process for companies that wish to raise capital, and individuals and companies working in the investment industry. While most enforcement activity is conducted locally,

CSA members also coordinate multi-jurisdictional investigations and share tools and techniques that help their staff investigate and prosecute securities law violations that cross borders.

---

**RESPONSIVE**

RESPONSIVE ENFORCEMENT ACTS QUICKLY AND APPROPRIATELY TO IDENTIFY, INVESTIGATE AND INITIATE PROCEEDINGS IN CASES OF MISCONDUCT.

---

**COLLABORATIVE**

COLLABORATIVE ENFORCEMENT PREVENTS MISCONDUCT FROM SPREADING ACROSS BORDERS AND PROMOTES EFFICIENCY WITHIN AND ACROSS JURISDICTIONS.

---

**EFFECTIVE**

EFFECTIVE ENFORCEMENT STRENGTHENS PUBLIC CONFIDENCE IN CANADIAN CAPITAL MARKETS.

# IN ENFORCING CANADA'S SECURITIES LAWS, CSA MEMBERS SEEK NOT ONLY TO SANCTION THOSE WHO DAMAGE THE INTEGRITY OF OUR MARKETS OR CAUSE HARM TO INVESTORS, WE SEEK TO DETER FINANCIAL MISCONDUCT.

Credible deterrence involves several key elements: a strong legal framework with clear repercussions for misconduct; sophisticated mechanisms for detecting and investigating that misconduct; and decisive action and sanctioning against those who violate our securities laws. The CSA's enforcement efforts focus on all of these areas.

As the world and financial markets evolve, securities laws and their enforcement must keep up. CSA members need to stay on top of emerging trends in financial misconduct and improve our enforcement process accordingly. We made impressive progress in 2015, including building upon increased collaboration, information sharing and innovation amongst our members.

Collaboration is integral to the enforcement process. Securities law violations often transcend jurisdictions,

either in geographic terms or from a legal standpoint in cases involving criminal conduct. This demands cooperation amongst our members, foreign regulators and police forces. Several cases from this past year exemplified this cooperation. One, the *Bucci et al.* market manipulation case, was led by the Alberta Securities Commission (ASC) and involved provincial regulators in British Columbia, Québec and Ontario, as well as the Royal Canadian Mounted Police (RCMP), the U.S. Financial Industry Regulatory Authority, the U.S. Securities and Exchange Commission, the U.S. Department of Justice and the Federal Bureau of Investigation. This collaboration resulted in guilty pleas by both accused.

Overall, our members' ties to law enforcement agencies became stronger in 2015. In January, the RCMP's Integrated

Market Enforcement Team co-located on the premises of the Ontario Securities Commission (OSC). This was in addition to the OSC Joint Serious Offences Team's ongoing work with the RCMP and the Ontario Provincial Police to investigate and prosecute quasi-criminal and criminal offences.

The *Asim Ahmed* case is a great example of our increasingly fruitful partnership with the police and strong collaboration between CSA members, specifically when a respondent accused in one province is registered or holds assets in another. The respondent was first investigated in 2014 by the Autorité des marchés financiers (AMF), which froze its assets and requested the OSC to promptly freeze relevant accounts in Ontario. Ahmed eventually pleaded guilty to criminal fraud charges laid by the Attorney General of Québec and was sentenced to four years in jail.

Innovation in the enforcement process takes many forms. A number of tools and regulatory initiatives were implemented in 2015 that will contribute to the deterrence of securities law violations. The ASC implemented legislation for automatic reciprocation of other securities regulators' decisions, and gained legislative authority to halt trading on public exchanges when it suspects or identifies irregular trading of securities and derivatives, helping to thwart potential market manipulations by stopping them in their tracks. In British Columbia, a special investigation unit was developed to monitor offshore trading activity. Moving forward, this unit will help detect misconduct in cases similar to the *Wood* case, where the respondent used an offshore account for trading securities that were on his employer's restricted list. The OSC published a draft whistleblower policy to encourage individuals to report serious misconduct in the capital markets to the OSC. The AMF also developed new tracing tools that are very effective in insider trading cases to establish links between tippers and tippees.

One accomplishment deserves special recognition due to its anticipated impact on future collaboration, information sharing and innovation. After many requests over the last number of years, we were finally successful in our pursuit of federal legislation changes that will allow the Financial Transactions and Reports Analysis Centre (FINTRAC) to work with the CSA. The data that will be shared through this partnership is expected to provide

our members with important new market insights. This will help us keep up with evolving financial markets, guiding regulatory changes and enforcement practices along the way.

I am proud of the great strides in enforcement made by CSA members in 2015. But we must continue to be diligent in improving the enforcement process and deterring misconduct. The current economic downturn and low interest rates are placing financial pressure on many Canadians, and there is a possibility of an increase in

fraudulent activity and wrongdoing in the capital markets.

Our members are well-equipped to respond, and I am confident that we will have even more success stories to share in 2016.

Sincerely,



Louis Morisset  
Chair, CSA

## THE CANADIAN SECURITIES MARKET

Market capitalization <sup>1</sup>	\$2.39 trillion
Total Issuers <sup>2</sup>	4,192
Total Registrants (firms) <sup>3</sup>	3,034
Total Registrants (individuals) <sup>3</sup>	123,883
Registered Plan Assets <sup>4</sup>	\$1.4 trillion
Pension Fund Assets <sup>4</sup>	\$1.8 trillion
Total Financial Wealth <sup>4</sup>	\$3.6 trillion
Size of Exempt Market <sup>5</sup>	approx. \$150 billion

<sup>1</sup> Data from the TMX Market Intelligence Group Report as of November 2015 (includes only equity).

<sup>2</sup> For 2015, total issuers was calculated by adding the number of reporting issuers in the jurisdiction that is their Principal Regulator, as at December 31, 2015, across the CSA. Number of issuers does not include investment fund issuers or cease-traded issuers.

<sup>3</sup> Data compiled from the National Registration Database (NRD), and includes registered and exempt firms and registered and permitted individuals.

<sup>4</sup> Data from Investor Economics, Household Balance Sheet, through December 2014. Pension fund assets include CPP and QPP. Registered plan assets include assets in RRSPs, DPSPs, TFSAs, RDSPs and RRIFs.

<sup>5</sup> Data from reports of exempt distribution filed in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, New Brunswick and Nova Scotia for investments made by Canadian resident companies, institutional investors, investment funds and individuals using prospectus exemptions in 2012. The figure includes only investments made under five of the available prospectus exemptions that trigger reporting requirements under securities laws.



**KEY PLAYERS  
IN ENFORCEMENT**

## KEY PLAYERS IN ENFORCEMENT

# IN CANADA, A NUMBER OF LAWS AND RULES GOVERN CAPITAL MARKETS AND MARKET PARTICIPANTS, WITH DIFFERENT AGENCIES ENFORCING THESE LAWS AND RULES.

Each agency fulfills a different role in the overall regulation of capital markets. CSA members administer and enforce the securities legislation in each jurisdiction, whereas criminal authorities enforce the *Criminal Code*.

### SECURITIES LAWS & REGULATORS

Securities laws in each province and territory provide the legal foundation for regulatory requirements related to the capital markets. Securities laws also include any regulations or rules under each *Securities Act* and any blanket rulings, orders and decisions issued by securities regulators. Securities laws impose duties on issuers, registrants and other market participants.

An effective regulatory enforcement regime is rooted in strategies that focus on protection and the

prevention of harm to investors. CSA members, as securities regulators, investigate suspected securities-related misconduct, such as breaches of obligations by registrants with respect to clients, illegal sales of securities, or other securities law infractions.

Securities regulators may bring allegations of securities misconduct to a hearing before an adjudicative panel of a securities commission or an associated tribunal. Securities legislation authorizes CSA members to seek administrative sanctions for securities-related misconduct, including monetary sanctions and prohibitions on market participation or access. Such sanctions are intended to deter misconduct and to protect investors from harm.

Securities legislation also establishes quasi-criminal offences for contraventions of regulatory

requirements and prohibitions of certain activities related to the capital markets. Penalties for committing these types of offences can include a term of imprisonment and/or a fine. In some jurisdictions, staff may directly prosecute such cases in court. In others, securities regulators may investigate and refer cases of quasi-criminal offences to Crown counsel for prosecution. CSA members have no authority to order a term of imprisonment; this can only be done by a judge.

### CRIMINAL CODE & LAW ENFORCEMENT AGENCIES

The *Criminal Code*, a federal statute, establishes both specific securities-related criminal offences (such as market manipulation), and more general economic crimes (such as fraud) that could also capture some securities-



related misconduct. Penalties imposed by the courts for criminal offences are intended to, among other things, punish those persons who have committed securities-related misconduct. Penalties for committing offences can include a term of imprisonment and a fine under the *Criminal Code*. The pursuit of an offence under the *Criminal Code* requires charges to be laid by law enforcement or the Crown. The prosecution is then pursued by Crown counsel.

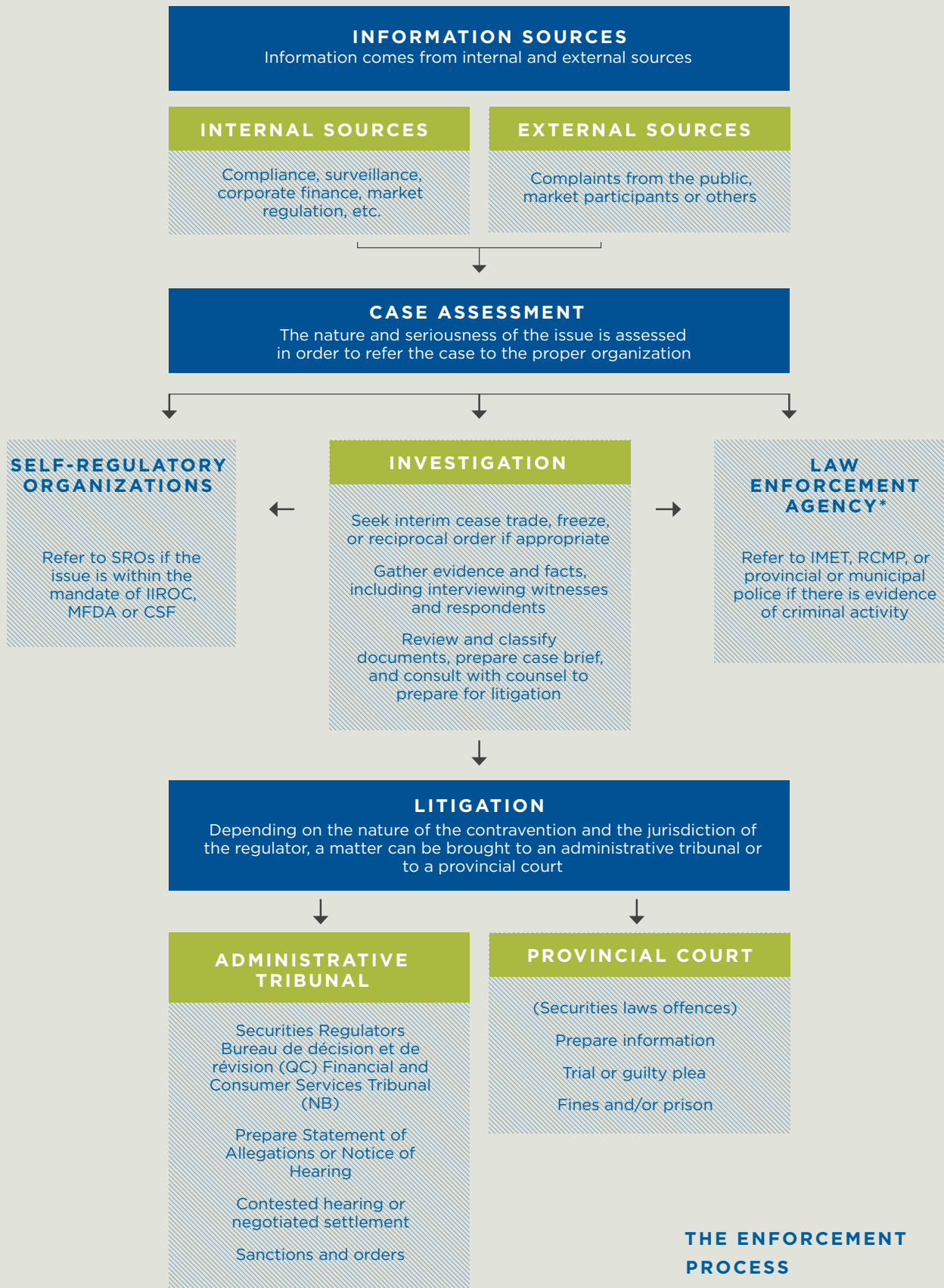
CSA members collaborate with law enforcement agencies on a regular basis and staff from certain members provide specific expertise, such as forensic accounting and knowledge of the capital markets, and joint investigations with police into alleged violations of the *Criminal Code*. The British Columbia Securities Commission's (BCSC) Criminal Investigations Team cooperates with police to investigate individuals suspected of committing offences under the *Criminal Code* and *Securities Act* (B.C.). Québec's

Autorité des marchés financiers (AMF) has enforcement partnerships with the Sûreté du Québec's Financial Crime Market Unit and the Royal Canadian Mounted Police (RCMP). The Joint Serious Offences Team of the Ontario Securities Commission (OSC) is a partnership with both the RCMP Financial Crime program and the Ontario Provincial Police Anti-Rackets Branch to conduct joint investigations using provisions of the *Securities Act* (Ontario) and/or the *Criminal Code*. Collaborative investigations can lead to convictions under the *Criminal Code* and court-imposed sanctions, including jail terms.

## SELF-REGULATORY ORGANIZATIONS

Canadian securities regulators have recognized self-regulatory organizations (SROs) to regulate investment dealers and mutual fund dealers, under the oversight of CSA members. The key SROs in Canada are

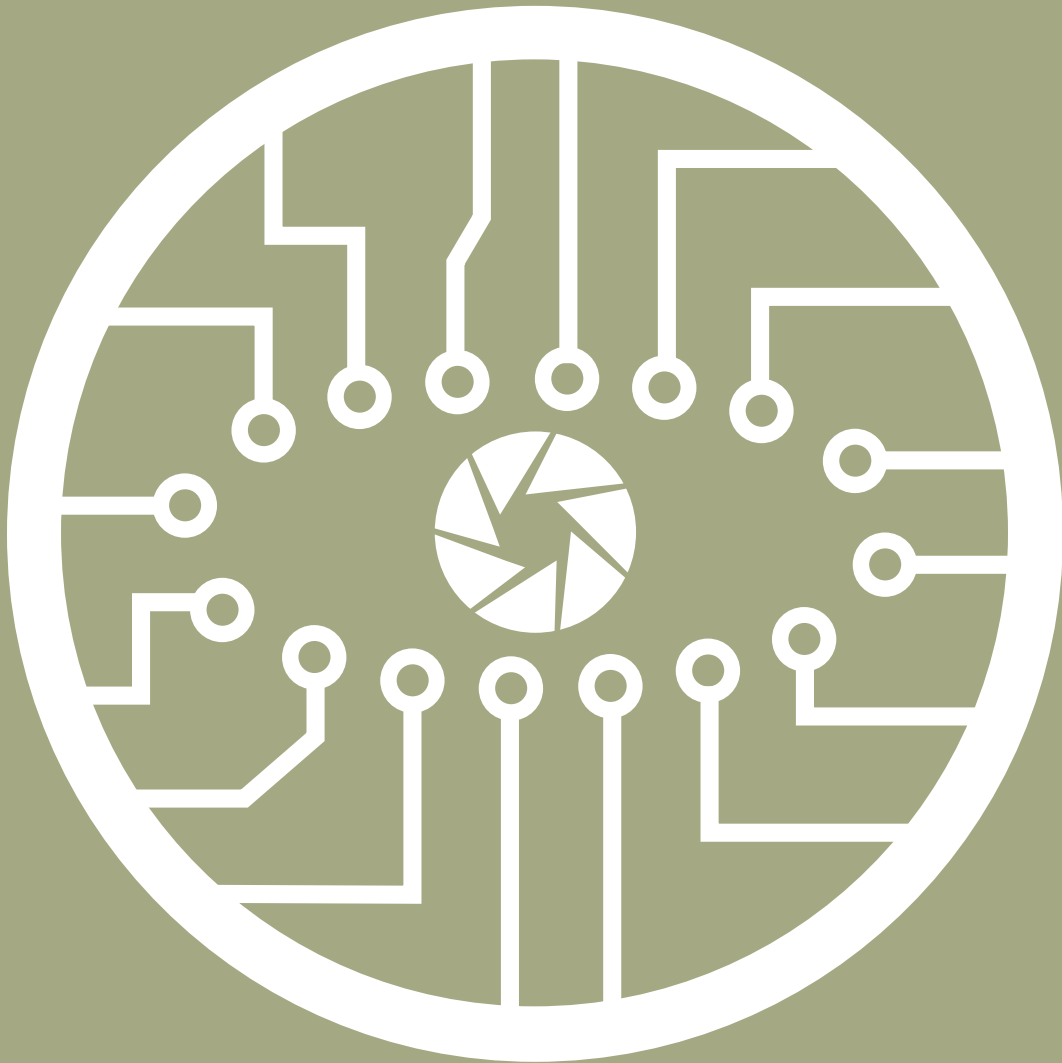
the Investment Industry Regulatory Organization of Canada (IIROC), the Chambre de la sécurité financière (CSF) and the Mutual Fund Dealers Association of Canada (MFDA). SROs can discipline member dealers or their employees for breaching SRO rules. Sanctions include suspension or termination of membership or market access and monetary penalties.



\*Some securities regulators work in partnership with law enforcement agencies to investigate and prosecute offences under the *Criminal Code* relating to financial misconduct.

This graphic breaks down the securities enforcement process from identification of a potential securities breach through to sanction.

2015  
RESULTS



## 2015 RESULTS

# THIS SECTION PRESENTS DATA IN SEVERAL ENFORCEMENT CATEGORIES. THE RESULTS VARY CONSIDERABLY FROM YEAR TO YEAR.

Cases differ widely in their complexity and in the number of respondents and victims involved. The time required to conclude a case can range from a few weeks to a year or longer, with complex cases requiring substantial resources. These results should therefore be considered in aggregate; changes in one category are not necessarily a trend.

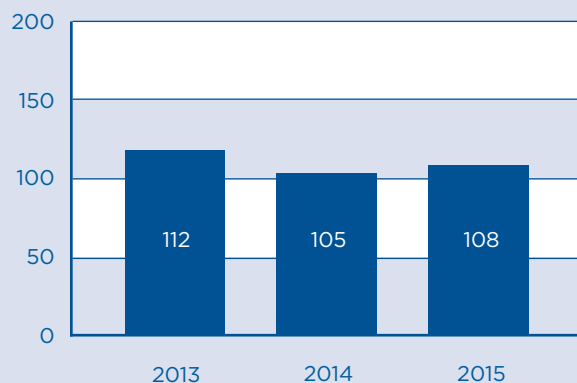
### PROCEEDINGS COMMENCED

Proceedings commenced are cases in which CSA member staff have filed a statement of allegations or sworn an Information before the courts (or served a statement of offence in Québec), any of which allege wrongdoing. Many of the proceedings commenced in 2015 were still underway at the end of the year, and in such cases, decisions have yet to

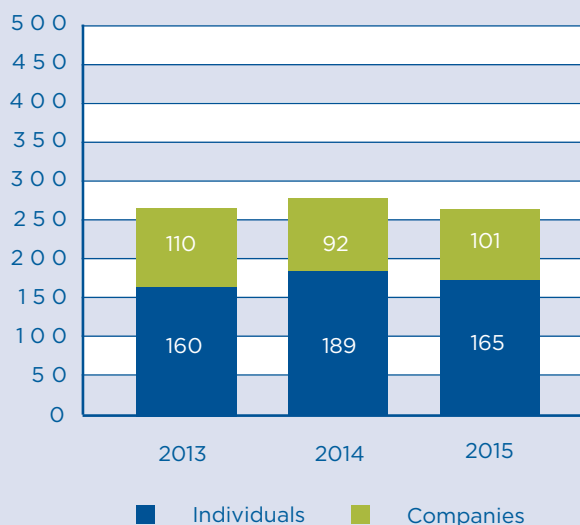
be rendered. One proceeding, targeting an illegal distribution scheme, for example, might involve a number of respondents, including several individuals and one or more companies. The 108 total proceedings commenced in 2015 involve, in aggregate, 165 individuals and 101 companies.

By comparison the 105 total proceedings commenced in 2014 included 189 individuals and 92 companies.

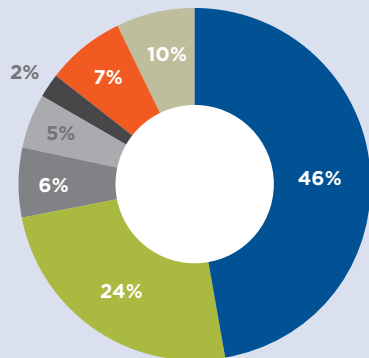
### PROCEEDINGS COMMENCED



### RESPONDENTS



## RESPONDENTS 2015

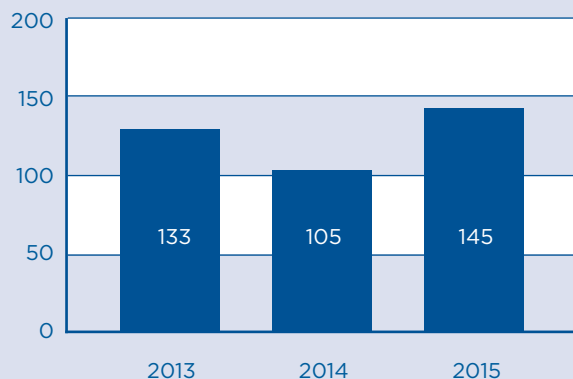


## TABLE 1: RESPONDENTS BY CATEGORY

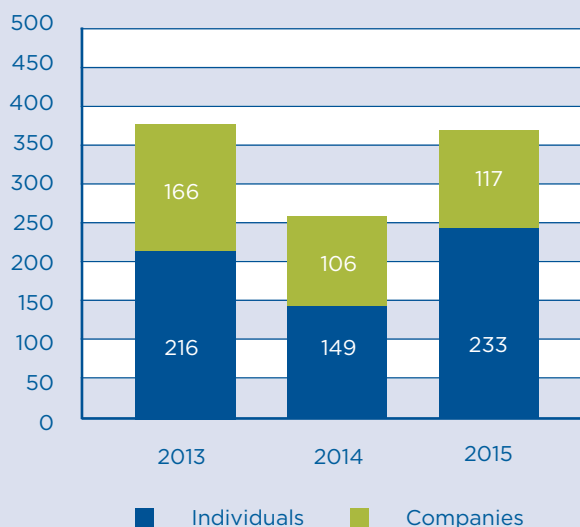
Type of Offence	2013	2014	2015
Illegal Distributions	144	127	123
Fraud	56	81	64
Misconduct by Registrants	19	23	15
Illegal Insider Trading	13	7	14
Disclosure Violations	14	4	5
Market Manipulation	6	23	18
Other Cases	18	16	27
<b>Total</b>	<b>270</b>	<b>281</b>	<b>266</b>

Table 1 above shows proceedings commenced by category of wrongdoing over the last three years. The table considers both individual and company respondents. The pie chart gives a visual representation of the 2015 data, showing the proportion of activity in each category.

## CONCLUDED CASES



## RESPONDENTS



## CONCLUDED MATTERS

Concluded matters are cases in which a final decision, either a sanction or dismissal, has been issued. The first chart above shows the number of concluded enforcement cases in each of the last three years. The second chart shows the number of individual and company respondents against whom matters have been concluded.

The data points in the two charts above are not directly related to one another in any given year. A single enforcement case often names several individuals and one or more companies as respondents. Large or complex cases can have numerous respondents. While cases are typically counted as concluded in the year in which the case against the first respondent or

respondents is concluded, proceedings against other respondents can often carry on into the next year or beyond. Some of the respondents counted in 2015 may actually relate to cases that counted as concluded in previous years. The data in the charts above should therefore be treated independently.

CSA members concluded an aggregate total of 145 cases in 2015, compared to 105 concluded cases in 2014. The tables provide more detail about these cases and how they were concluded. Each case is counted once, even if more than one person or company was sanctioned in a single case. All 145 cases are listed in the [CSA concluded cases database](#).

In 2015, CSA members concluded matters involving 233 individuals and 117 companies, or 350 total respondents. By comparison, concluded matters in 2014 involved 149 individuals and 106 companies (255 respondents). As explained above, not all of these individual proceedings are connected to cases that were counted as concluded in 2015.

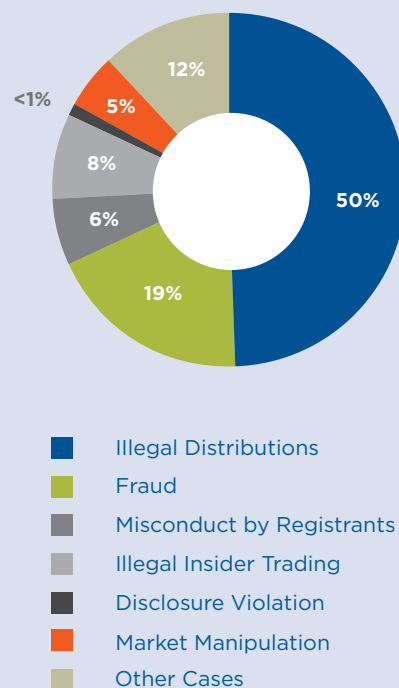
**TABLE 2: RESPONDENTS BY CATEGORY<sup>1</sup>**

Type of Offence	2013	2014	2015
Illegal Distributions	220	122	174
Fraud	78	52	66
Misconduct by Registrants	36	41	20
Illegal Insider Trading	17	8	28
Disclosure Violations	10	8	2
Market Manipulation	2	2	17
Other Cases	19	22	43
<b>Total</b>	<b>382</b>	<b>255</b>	<b>350</b>

Table 2 shows completed Canadian enforcement matters against individual and company respondents, by category of wrongdoing, for 2013, 2014 and 2015. The pie chart provides a visual representation of the proportion of respondents in each category. Illegal distributions (distributing securities without registration or a prospectus) continue to form the largest category.

<sup>1</sup> Reciprocal orders and interim cease trade orders are not included.

**RESPONDENTS BY CATEGORY 2015**



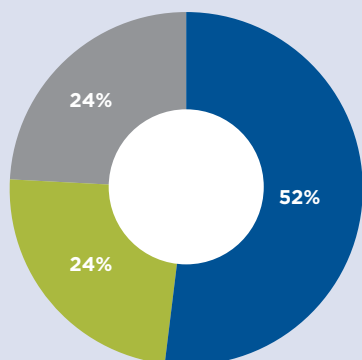
## HOW PROCEEDINGS AGAINST RESPONDENTS WERE CONCLUDED

The pie chart below provides a breakdown of how matters against respondents were concluded in 2015, whether by a tribunal decision, a settlement agreement with a CSA member, or a court decision under securities legislation. Matters were concluded against 184 respondents following contested hearings, 83 respondents by settlement agreements

and 83 respondents by court decision. Recently, a no-contest settlement alternative was added in Ontario as a form of resolution of enforcement matters under which respondents are allowed to settle their cases without admissions of fact or liability. However, such cases must meet specific criteria and settlement agreements must be approved by a panel of the OSC,

resulting in an order. The OSC believes this initiative complements compliance policies that encourage market participants and others participating in the capital markets to self-police, self-report and self-correct matters that may involve breaches of securities law or other types of misconduct that would be contrary to the public interest.

## HOW MATTERS WERE CONCLUDED 2015



- Contested hearing before a tribunal
- Settlement agreement
- Court decision (under securities legislation)

## TABLE 3: FINES AND ADMINISTRATIVE PENALTIES

Type of Offence	2013	2014	2015
Illegal Distributions	\$16,976,063	\$17,600,090	\$36,571,080*
Fraud	\$12,997,120	\$25,038,461	\$68,460,000*
Misconduct by Registrants	\$1,305,004	\$7,476,755	\$2,485,394
Illegal Insider Trading	\$3,428,000	\$87,850	\$5,240,872
Disclosure Violations	\$60,000	\$79,500	\$30,000
Market Manipulation	\$75,000	\$61,500	\$24,187,450*
Other Cases	\$520,000	\$7,895,000	\$1,324,000
<b>Total</b>	<b>\$35,361,187</b>	<b>\$58,239,156</b>	<b>\$138,298,796</b>

\*The Bossteam illegal distribution case involved penalties/administrative fines totalling \$28M. The Rashida Samji and Freedom Investment Club fraud cases involved fines/administrative penalties totalling \$33 million and \$30 million, respectively. The OSE Corp. market manipulation case involved fines/administrative penalties totalling \$21 million.

## PENALTIES

The sanctions imposed for securities law violations or conduct that is contrary to the public interest range from bans on future activity, from trading in securities or from acting as a director or officer of a public company, to financial penalties and jail terms. Tables 3 and 4 outline monetary orders imposed by securities regulators and the courts over the last three years, including settlements.

Total penalties can vary considerably year to year, depending on the nature of the cases. In 2015, approximately

\$138.3 million was ordered in fines and administrative penalties. While penalties, costs and other monetary sanctions/orders can be difficult to collect, every effort is made by regulators to do so, including using the services of collection agencies.

Restitution, compensation and disgorgement are powers available in specific circumstances to some regulators or courts under securities legislation. Restitution is a remedy that aims to restore a person to the

position he or she would have been in had it not been for the improper conduct of another. Compensation is a payment to an aggrieved investor to compensate for losses, either in whole or in part. An order for disgorgement requires a payment to the regulator of amounts obtained or losses avoided as a result of a failure to comply with, or a contravention of, securities laws. Investor compensation may also be effected through a settlement agreement.



**TABLE 4: RESTITUTION, COMPENSATION AND DISGORGEMENT**

Type of Offence	2013	2014	2015
Illegal Distributions	\$19,872,816	\$12,723,110	\$27,221,497
Fraud	\$33,495,860	\$23,724,705	\$49,206,788
Misconduct by Registrants	\$534,420	\$26,418,512	\$18,928,330
Illegal Insider Trading	\$889,483	\$27,280	\$858,839
Disclosure Violations	-	-	-
Market Manipulation	-	-	\$7,424,245
Other Cases	\$155,000	\$2,824,153	\$8,011,730*
<b>Total</b>	<b>\$54,947,579</b>	<b>\$65,717,760</b>	<b>\$111,651,429</b>

\* \$8M in compensation from the Quadrus case is an approximate amount.

**TABLE 5: APPEALS**

Appeals	2013	2014	2015
Cases Appealed	10	17	31
Appealed Decisions Rendered	24	16	18

As well as fines and administrative penalties, respondents are also often ordered by the regulators or courts to pay part or all of the costs of the proceedings. Total costs assigned to respondents by CSA members in 2015 were \$4,374,456 as compared to \$5,502,899 in 2014.

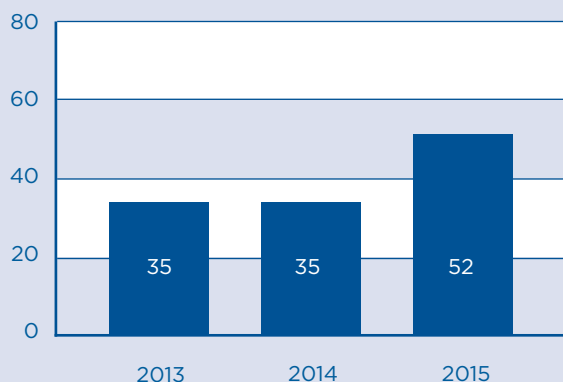
In addition to monetary orders, courts in Ontario, Alberta, Québec, British Columbia and Manitoba ordered jail terms under the *Securities Acts*

for 15 individuals in 2015, ranging from 30 days to two years. In total, approximately ten years of jail time was handed down to offenders in 2015, as compared with seven and a half years in 2014.

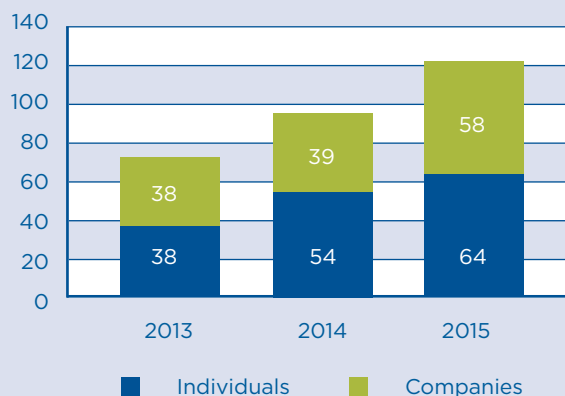
Legislation provides for a statutory right of appeal of both tribunal and court decisions, and securities regulators expend significant resources responding to appeals brought by respondents. Occasionally a CSA

member will appeal a court decision. These appeals may not have a decision rendered until a subsequent year. As well as the appeals of decisions included in the table above, procedural appeals are quite common as cases proceed through the enforcement system.

## INTERIM AND ASSET FREEZE ORDERS



## RESPONDENTS



## PREVENTIVE MEASURES

### INTERIM AND FREEZE ORDERS

As the charts above illustrate, CSA members continue to use measures such as interim cease trade and asset freeze orders to protect investors by prohibiting or inhibiting a potentially illegal activity while an investigation is underway.

Under the 52 interim orders and asset freeze orders issued in 2015, trading and other restrictions were placed on 64 individuals and 58 companies. In 2014, that number was 35 interim orders and asset freeze orders, and trading restrictions were placed on 54 individuals and 39 companies.

Asset freeze orders are used by securities regulators to prevent the loss of assets pending completion of an investigation. Where circumstances merit, regulators can also apply to the court to appoint a receiver to

manage assets that have been frozen to facilitate an orderly distribution of assets back to investors. Assets can include bank accounts and personal property such as vehicles, buildings and other physical assets. In 2015, 35 freeze orders were issued relating to 50 individuals and 34 companies, including a total of \$13,644,003 in bank accounts.

### INVESTOR WARNINGS AND ALERTS

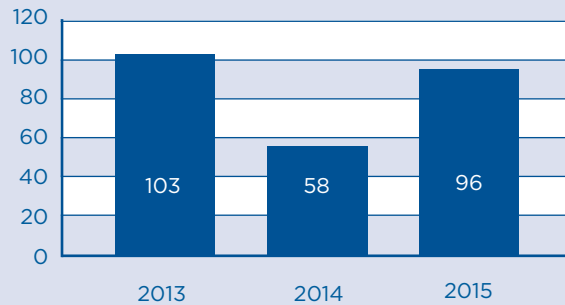
CSA members also issue investor warnings and alerts through their respective websites, e-mail, social media channels and through the CSA website to warn the public about individuals and companies that may be involved in harmful activity. In 2015, CSA members issued 84 investor alerts to warn the public not to invest with certain companies or their representatives. Many of the alerts were related to businesses

located in other countries that are not registered in Canada to engage in the business of trading in securities or advising anyone with respect to investing in, buying or selling securities. Investors are urged to be cautious about these individuals and companies and to contact the CSA member in their jurisdiction if they are approached by any of the identified parties.

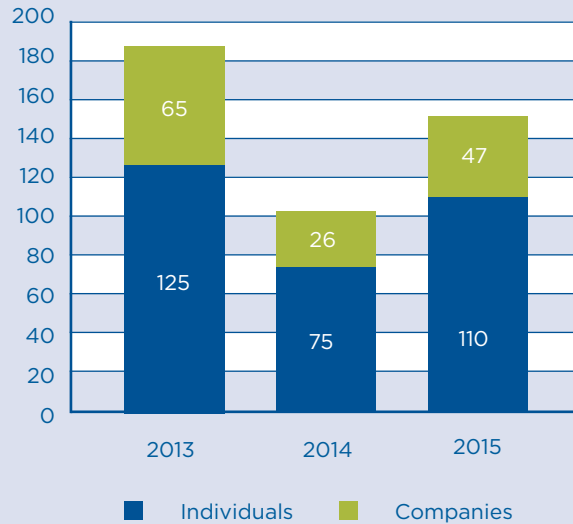
### RECIPROCAL ORDERS

Orders issued by a court or other securities regulatory authorities may be reciprocated. Reciprocal orders allow securities regulators to apply orders issued in another jurisdiction or by another regulatory authority in their own jurisdiction. This helps prevent individuals or companies sanctioned in one jurisdiction from moving and carrying on their conduct in another jurisdiction. The use of reciprocal

## RECIPROCAL ORDERS



## RESPONDENTS



orders demonstrates the commitment of CSA members to strengthening investor protection and enforcement coordination across Canada. The charts above indicate the number of reciprocal orders issued in each of the last three years, and the number of individual and company respondents affected by those reciprocal orders.

In July of this year, a new section of the *Securities Act* (Alberta) came into effect that provides for most new orders and settlement agreements made by other securities regulatory authorities in Canada to automatically take effect in Alberta. Therefore, when another securities regulatory authority in Canada issues an order or enters into an agreement that imposes sanctions, conditions, restrictions or requirements on a person or company, it will automatically apply in Alberta without the need for Alberta Securities Commission (ASC) staff to bring a formal application

for a reciprocal order, making the process faster and more effective. Orders or agreements made by international regulators – such as the U.S. Securities and Exchange Commission – can continue to be reciprocated in Alberta by an order of the ASC, but it will not occur automatically.

## CRIMINAL CODE CASES

In certain cases, securities regulators collaborate with law enforcement bodies to investigate breaches of the *Criminal Code* involving complex matters related to financial misconduct. These prosecutions can involve search warrants, surveillance and undercover operations, and are conducted by Crown counsel with advice and input provided by securities regulators. In 2015, there were four sentences under the *Criminal Code*: two in Québec, one in Ontario and one in B.C. These sentences were handed down to four accused and ranged from

15 months to four years. There were also six cases commenced under the *Criminal Code* in 2015.

## CASES CONCLUDED BY SROs

Self-regulatory organizations (SROs) are an important part of the enforcement mosaic in Canada. The three key SROs, as overseen by CSA members, are IIROC, the MFDA, and the CSF. These three organizations concluded 139 enforcement cases in 2015, compared with 112 in 2014.



2015  
CASE HIGHLIGHTS



## 2015 CASE HIGHLIGHTS

---

# ENFORCEMENT CASES TYPICALLY FALL INTO ONE OF SIX CATEGORIES, ALTHOUGH SOME CASES ARE RELEVANT TO MORE THAN ONE CATEGORY.

We have shortened case names here for simplicity; [the CSA concluded cases database](#) contains full case names for the year 2015.

The CSA also publishes a [list of disciplinary decisions](#), which is intended to assist the public and the securities industry in conducting due diligence. The list contains information on disciplinary actions undertaken by CSA members, Québec Courts, IIROC, the MFDA, and the CSF.



## FRAUD

While the precise definition of fraud varies by jurisdiction, the consistent elements in fraud cases are deceit and deprivation.

The Rashida Samji case in B.C. is a strong example of both **affinity fraud** and a **Ponzi scheme**. In fact, the case is thought to be the largest Ponzi scheme in B.C.'s history. From 2003 to 2012, Rashida Samji told approximately 200 investors, many within the Ismaili community, that she would hold their money in trust and use it to secure letters of comfort for the financing of a British Columbia winery overseas. None of this was true. There was no winery, nor was there an actual investment. The \$100 million Samji solicited was used to pay returns to other investors

and for her own personal use. The case was brought to light after a registrant at a financial institution was caught selling the fraudulent securities to clients. That registrant settled with the BCSC and was later arrested and charged with 31 counts of illegal distribution and one count of making misrepresentations. A BCSC panel fined Samji \$33 million for committing fraud, and ordered her to disgorge approximately \$10.8 million, which was determined to be the difference between the money deposited by defrauded investors and the amount paid out to them as returns by Samji.

The Title One Closing Inc. case in Ontario also involved the fraudulent use of investor money. In this case, Ravindra

and Chandramattie Dave used their companies, including Title One Closing, to promote and sell promissory notes to clients. Investors were led to believe that their funds would be loaned to other individuals or companies, offering an annual fixed return between 10 and 20 per cent. Approximately \$5.4 million was raised through the scheme, with roughly \$2.1 million paid back to investors and the remainder used for personal or business purposes by the Daves. Not only were the respondents' representations towards investors fraudulent, none of the respondents were registered with the OSC to sell the promissory notes, and no prospectus was ever filed for the securities. As such, the respondents

were ordered to disgorge \$3.3 million and pay \$325,000 in administrative penalties and costs. Chandramattie Dave received permanent cease trading, registration, and director/officer bans. Similar bans were imposed on Ravindra Dave for 20 years, and permanent cease trading bans were imposed on the corporate respondents.

Some securities fraud cases result in imprisonment, as evidenced by the Neil Andrew McDonald case in Alberta. A provincial court ruled against the respondent, who was sentenced to two years in prison for three counts of fraud, making misrepresentations to investors and violating the terms of a previous ASC Settlement Agreement. The judge also imposed a three-year probation order and made restitution payments of \$240,000 a term of that probation. In addition, the judge ordered that each

victim receive a share of the \$36,000 in bank accounts controlled by McDonald that had been frozen by the ASC. In the court proceedings, McDonald admitted to deceiving three investors into believing he would use their funds to purchase real estate investments. Instead, he placed the money in personal accounts for his own use. McDonald was already prohibited from selling securities under the terms of an ASC Settlement Agreement stemming from previous misconduct.

on an investment is paid to the initial investors using funds provided by subsequent investors. These schemes eventually collapse because there is usually no underlying asset and the perpetrator is unable to continue to make payments to investors.

---

**Affinity fraud** – Investment scams that exploit the trust or affinity among the members of identifiable groups, such as religious or ethnic communities, the elderly or professional groups.

**Ponzi scheme** – A fraudulent activity in which the promised rate of return



**“SAMJI PERPETRATED A FRAUD EACH TIME SHE TRADED SECURITIES TO AN INVESTOR...THE MAGNITUDE AND DURATION OF THE FRAUDULENT INVESTMENT SCHEME AND THE NUMBER OF INVESTORS AFFECTED JUSTIFY A SIGNIFICANT PENALTY.”**

BCSC panel, ruling on the Rashida Samji case

**“CHANDRAMATTIE AND RAVINDRA REPRESENTED TO INVESTORS THAT THEIR FUNDS WOULD BE LOANED TO OTHER INDIVIDUALS OR COMPANIES, AND THAT INVESTORS WOULD RECEIVE A FIXED RETURN BASED ON THE PROFITS GENERATED FROM THESE LOANS. THESE STATEMENTS WERE UNTRUE OR MISLEADING AND PERPETRATED A FRAUD ON INVESTORS.”**

OSC settlement, approved by panel on the Title One Closing case

**“THE ACCUSED’S ACTIONS WERE PLANNED AND DELIBERATE...I AM NOT SATISFIED THAT THE COMMUNITY WOULD BE SAFE IF THE ACCUSED WERE COMMITTED TO SERVE HIS SENTENCE IN THE COMMUNITY RATHER THAN GAOL.”**

Alberta provincial court Judge Van de Veen, ruling on the Neil Andrew McDonald case







## ILLEGAL DISTRIBUTIONS

An illegal distribution is a sale or attempted sale of securities to investors that does not comply with securities law registration, trading or disclosure requirements. Some illegal distributions also constitute fraud; for examples of such cases in 2015, see the fraud page of the case highlights section.

The ASC sanctioned Ryan Steve Magee, David Wayne Magee, Dalayne Rae Magee, Master Daytraders Inc. and Magee International Inc. for illegally trading and distributing securities. The respondents ran a scheme where they solicited approximately \$2 million from investors for day trading in a pooled brokerage account. Ryan Magee made false claims to investors about the size

of the gains he had realized, going so far as creating false account statements to cover up actual losses. Investors were later told that their money had been lost because Ryan Magee collapsed at his computer and was rushed to the hospital, leaving the trading account open and unattended. This story was determined to be untrue; in reality, investors' money had either been used to pay returns to other investors or was withdrawn by the respondents for their personal use. As a result, Ryan Magee, David Magee and Dalayne Magee were permanently banned from the market and were ordered to pay administrative penalties of \$200,000, \$75,000 and \$50,000, respectively. The three were

also ordered to disgorge, jointly or individually, \$893,837.

A case in British Columbia involved an illegal distribution of securities and several other securities-related infractions. Many of the investors were from the Chinese community. Yan Zhu and Guan Qiang Zhang operated a company called Bossteam E-Commerce and sold securities in that company without ever filing a prospectus in B.C. Bossteam described itself as an online advertising business. It sold memberships to advertisers who could post links to their own webpages on the Bossteam platform. The BCSC panel found that Zhu, Zhang and Bossteam committed fraud by

creating the false impression that members and well-known local and international businesses were paying Bossteam to advertise on its websites. This was untrue, as the majority of advertisements appearing on Bossteam's websites were associated with Bossteam's own accounts, not accounts for parties that had paid Bossteam to post their links. Both Zhu and Zhang were each ordered to pay a \$14 million administrative penalty and to disgorge the \$14 million obtained as a result of their misconduct. The securities of Bossteam were permanently cease-traded.

In Québec, a provincial court judge imposed \$1 million in fines on Jacques Rancourt and Guylain Pelletier, respectively the General Manager and the Chief Executive Officer of Vehicules Nemo Inc. (Nemo), for offences related to the illegal distribution of securities between 2004 and 2007. The respondents pleaded guilty to 56 and 21 charges, respectively. A **cease trade order** was originally issued on the matter in 2010 in respect to the described violations. Following their pleas, the respondents were determined to have distributed Nemo securities without a prospectus and

without being registered as dealers. Their actions affected 27 investors, who were led to believe in the potential of the commercialization of small electric trucks that would be marketed for use by municipalities, parks and schools. The investors ultimately lost their \$420,000 investment.

A case in Ontario involved an immigration-linked investment scheme targeting residents of Kuwait, the United Arab Emirates and Saudi Arabia. GITC Investments and Trading Canada Ltd., GITC Inc. and Amal Tawfiq Asfour reached a settlement agreement with the OSC with respect to the illegal distribution and unregistered trading of the companies' shares. The respondents sold shares to foreign investors promising returns between five and 20 per cent and that investments could qualify the investors to obtain permanent resident status in Canada through Provincial Nominee Programs (PNPs). They told investors that they would make PNP applications in B.C., Manitoba and New Brunswick, but they only submitted applications in B.C., which were rejected. The investments in the companies were prohibited by Immigration and Refugee Protection Regulations, and the respondents were

not registered with the OSC in any capacity. Approximately \$6.7 million was raised from 48 investors, although the respondents were unable to account for the funds. The OSC ordered that the respondents jointly disgorge the \$6.7 million. Administrative penalties and costs totaling \$225,000 and permanent trading, registration and director/officer bans were also imposed.

---

**Cease trade order** – A decision banning trading in securities, issued by a provincial or territorial securities regulatory authority, or similar regulatory body, against a company or individual for reasons such as failing to meet disclosure requirements or as a result of an enforcement action that involves an investigation of potential wrongdoing.



**“WE AGREE WITH STAFF THAT THE RESPONDENTS POSE SUBSTANTIAL RISK OF FUTURE HARM TO INVESTORS AND OUR CAPITAL MARKET... MOREOVER, NONE OF THE INDIVIDUAL RESPONDENTS (THROUGH WHOM THE CORPORATE RESPONDENTS OPERATED) RECOGNIZES FULLY, OR IN ANY APPRECIABLE MEASURE, THE SERIOUSNESS OF THEIR RESPECTIVE MISCONDUCT OR THE RESULTING HARM. WE THEREFORE PERCEIVE A NEED FOR SUBSTANTIAL SPECIFIC DETERRENCE. WE ALSO PERCEIVE A NEED FOR SUBSTANTIAL GENERAL DETERRENCE TO DISSUADE OTHERS FROM ENGAGING IN SIMILAR MISCONDUCT.”**

ASC panel, ruling on the Magee case

**“THEIR ACTIVITIES WERE AT THE MOST SERIOUS END OF THE RANGE OF MISCONDUCT UNDER THE ACT, CAUSED SERIOUS HARM TO INVESTORS AND DAMAGED THE INTEGRITY OF OUR CAPITAL MARKETS.”**

BCSC panel, ruling on the Bossteam E-Commerce case





## MISCONDUCT BY REGISTRANTS

Any person or company in the business of advising or trading in securities in Canada must be registered under the securities laws of each Canadian jurisdiction in which they conduct this activity, unless an exemption is provided in legislation or by order from the securities regulators. Misconduct by registrants occurs when a registered person or company violates securities laws, fails to register when required to do so or fails to adhere to the conditions of a registration exemption. The cases involving registered firms showcase the importance of diligence by regulators both in the supervision of portfolio advisors, who manage

large investment funds, and also in disclosure to investors.

The National Registration Search (NRS) is a CSA web-based tool that provides information about individuals and firms registered with securities regulators in Canada. To check whether your advisor or dealer is registered, visit the [NRS](#) webpage.

The CSA takes a proactive approach to securities regulation. Our provincial bodies conduct regular compliance reviews as part of this effort. In 2015, a compliance review and subsequent investigation by the OSC resulted in several sanctions against mutual fund manager The Juniper Fund

Management Corporation (JFM), its owner and two of the funds it managed. JFM acted as a mutual fund dealer for purchases and redemptions in fund units without being registered to do so. The respondents failed to provide full, true and plain disclosure of all material facts in certain prospectus filings, and made inaccurate and misleading statements in certain disclosure documents. They also breached their custodial obligations when one of the funds made prohibited loans and held prohibited investments. The OSC staff's investigation revealed undisclosed bank accounts and missing funds, and a receiver was

appointed to wind up the funds. The OSC ordered that JFM and its owner, Roy Brown, jointly disgorge \$2.3 million, pay an administrative penalty and costs totaling almost \$1.1 million, and be permanently banned from trading.

A BCSC panel sanctioned Douglas William Falconer Wood for lying to regulators and acting contrary to the public interest. In January 2015, the panel found that Wood, a registered broker during the relevant period, repeatedly traded in securities that were on his employer's restricted list. He used an offshore trading structure to conceal his trading activity from his employer, and lied to staff from the BCSC and IIROC. For his misconduct, the panel ordered Wood to pay an administrative penalty of \$30,000. He was prohibited, for a period of one year, from becoming or acting as a registrant, and from acting in a management or consultative capacity in connection with the securities market.

Another mutual fund dealer, in Québec, was subject to sanctions for misconduct. The Bureau de décision et de révision (BDR) imposed a total of \$35,000 in administrative penalties and issued several orders against

mutual fund dealer Beaudoin, Rigolt & Associés; Philippe Beaudoin, its Responsible Officer; and Pierre-Luc Bernier, its Chief Compliance Officer. Specifically, the company was fined a total of \$32,500 for failing to report a change of auditor in the **National Registration Database (NRD)** and for various offences relating to the compliance system, the commissions register, leveraged loans, commercial practices, risk tolerance forms and portfolio suitability. Philippe Beaudoin was also fined \$2,500. The AMF claimed that he failed to report the filing of a charge against the company in NRD. At the AMF's request, the BDR also ordered the company to replace Pierre-Luc Bernier and Philippe Beaudoin, and to appoint an independent auditor. The mutual fund dealer had been previously sanctioned by the BDR, but failed to address the areas of concern. This was taken into consideration by the BDR when determining penalties.

Quadras Investment Services Inc. and the Nova Scotia Securities Commission reached a settlement agreement for a second violation of misconduct by the respondent. Specifically, Quadras failed to properly

supervise one of its mutual fund representatives and failed to ensure the suitability of the representative's investment strategy for a specific client. Quadras acknowledged that it should have followed up directly with the client to confirm that certain trades were appropriate. The settlement agreement applied to both violations by Quadras, which was ordered to pay an administrative penalty of \$40,000 and costs in connection with the commission proceedings of \$1,000.

---

**NRD** - The National Registration Database is a web-based system that permits dealers and advisers to file registration forms electronically. It has been designed, in consultation with industry representatives, to harmonize and improve the registration process across Canada.



**“THE NATURE OF WOOD’S MISCONDUCT DOES RAISE CONCERNS ABOUT HIS FITNESS TO BE A REGISTRANT AND WHETHER HE REPRESENTS A RISK TO THE CAPITAL MARKETS”.**

BCSC panel, ruling on the Douglas William Falconer Wood case

**“RECORDKEEPING IS VITAL FOR THE PROPER, TRANSPARENT MAINTENANCE OF A FUND AND PROPER PARTICIPATION IN THE CAPITAL MARKETS AND THE RESPONDENTS HAVE FAILED TO ACT RESPONSIBLY AND WITHIN THE STANDARDS REQUIRED IN ACCORDANCE WITH THE ACT AND NI 81-102 AND NI 81-106.”**

OSC panel, ruling on the Juniper Fund Management Corporation case





## ILLEGAL INSIDER TRADING

Illegal insider trading involves buying or selling a security of an issuer while possessing undisclosed material information about the issuer, and includes related violations such as “tipping” information and trading by the person “tipped.” Material information (or “privileged information” in some jurisdictions) can include everything from financial results to executive appointments to operational events. Illegal insider trading strikes at the integrity of Canada’s capital markets and the confidence of investors.

In Ontario, the *Eda Marie Agueci et al.* case involved repeated instances of illegal insider trading and tipping, misleading OSC staff, breach of confidentiality and other conduct

that was contrary to the public interest. As an executive assistant in the investment banking department of brokerage firm GMP Securities L.P., Eda Marie Agueci acquired knowledge of material undisclosed information on several companies. On numerous occasions she passed this information on to her friends and associates. Henry Fiorillo, Kimberley Stephany and Dennis Wing purchased securities with knowledge of the information provided by Agueci. The OSC panel determined that given Agueci’s position, her friends and associates knew, or ought to have known, that she was in a special relationship with the companies that she was providing information about. The OSC hearing

panel concluded that Wing, CEO of investment dealer Fort House Inc., traded securities in advance of two deals in his personal capacity and conducted four other illegal insider trades through his own company, Pollen Services Limited. Fiorillo and Stephany were found to have traded securities in advance of three deals. The hearing panel also determined that Agueci and Wing had misled OSC investigators, and that Agueci had illegally disclosed the OSC staff’s confidential investigation. She was found to have acted contrary to the public interest by improperly hiding the existence of a secret trading account from her employer. The OSC ordered that a total of \$703,565 be

disgorged and that a total of \$3.1 million be paid for administrative penalties and costs. Several bans were also imposed on the respondents.

A BCSC panel sanctioned Robert Frederick Weicker for tipping, and his wife, Amina Umutoni Weicker, for insider trading. Robert Weicker was in a special relationship with Geo Minerals Ltd. because of his role as a consulting geologist. He informed his wife of material, undisclosed information regarding the acquisition of the company. Amina Weicker then used this information, prior to its public disclosure, to purchase securities of Geo Minerals Ltd. Her trading resulted in her earning a profit of approximately \$40,000. The panel concluded that Amina Weicker contravened securities laws regarding insider trading, and that Robert Weicker breached securities laws regarding the disclosure of material facts by someone in a special relationship with an issuer. The panel ordered that Amina Weicker and Robert Weicker cease trading in, and are prohibited from purchasing, any securities or exchange contracts of any issuer with whom they are in a special relationship for two and three years, respectively. Any profits gained from the misconduct were to be returned to the BCSC. Finally, the panel also ordered that Amina and Robert Weicker pay administrative penalties of \$40,000 and \$60,000, respectively.

The Renée Roy and Jean-Pierre Lavallée case in Québec serves as a lesson on how failure to rectify a mistake can lead to serious consequences. Ms. Roy traded in

securities of a reporting issuer for which she was an employee using privileged information, obtained from Jean-Pierre Lavallée, an insider and vice-president of the company. Lavallée erroneously transmitted an e-mail intended for his company's CEO to Roy. The e-mail contained privileged information about the company, which Roy used for trading purposes, helping her earn a profit of \$30,570. Roy was ordered to pay an administrative penalty of \$60,000 associated with insider trading. Because Lavallée did not take appropriate measures to retract the e-mail and denounce the mistake, he was ordered to pay a \$5,000 penalty.

## DISCLOSURE VIOLATIONS

Confidence in the capital markets requires confidence in the accuracy of the information that companies disclose about their business activities. Timely, accurate and complete financial statements are the core of good disclosure practice. In disclosure cases, the victims are typically company shareholders. Continuous disclosure review programs undertaken by CSA members aim to ensure that investors have accurate and timely information about public companies on which to base their investment decisions. When appropriate, continuous disclosure reviews may result in a referral to the enforcement branch of a CSA member.

In Ontario, an OSC hearing panel sanctioned GOOD Mining Exploration Inc. for failure to file an independent technical report, prepared by an

independent Qualified Person, in connection with its disclosure of mineral resource estimates, as required by Ontario securities law. The company had posted several press releases on its website to disclose the results of a series of inferred and indicated mineral resource estimates for its project in northern Ontario. However, it did not file the required independent technical report with the OSC within the prescribed time period. The hearing panel ordered that all trading in the securities of GOOD Mining Exploration be ceased and that trading in securities or derivatives by the company be ceased as well, with a limited exception.





**“AGUECI’S CONDUCT IN TIPPING THE OTHER RESPONDENTS IN BREACH OF [THE TIPPING PROHIBITION] OF THE ACT AND THE CONDUCT OF THE OTHER RESPONDENTS IN TRADING IN BREACH OF [THE INSIDER TRADING PROVISIONS] OF THE ACT ARE AMONG THE MOST SERIOUS CONTRAVENTIONS OF THE ACT... HER CONDUCT IN INFORMING OTHERS OF GENERALLY UNDISCLOSED MATERIAL FACTS OBTAINED IN THE COURSE OF HER EMPLOYMENT AT GMP WAS A SERIOUS ABUSE OF HER POSITION AND UNDERMINES CONFIDENCE IN THE CAPITAL MARKETS. ... [THE SANCTIONS] REFLECT THE SERIOUSNESS OF THE SECURITIES LAW VIOLATIONS THAT OCCURRED IN THIS MATTER...”**

OSC panel, ruling on the Eda Marie Agueci *et al.* case

**“ROBERT COMMUNICATED THE MATERIAL FACT TO AMINA...AS A CONSEQUENCE, AMINA WAS IN A SPECIAL RELATIONSHIP WHEN SHE ACQUIRED GEO SHARES BETWEEN SEPTEMBER 12, 2011 AND OCTOBER 11, 2011.”**

BCSC panel, ruling on the Weicker case

**“... SINCE THE CONCEPT OF FAIRNESS THAT MUST PREVAIL FOR ALL CAPITAL MARKET PARTICIPANTS HAS BEEN VIOLATED, INVESTORS COULD LOSE CONFIDENCE IN THE MARKETS. FAIRNESS FOR ALL SECURITIES INVESTORS IS A PRICELESS ASSET TO WHICH THE BUREAU HAS ALWAYS ATTACHED MUCH IMPORTANCE.”**

Bureau de décision et de révision, ruling on the Roy case





**“GOOD MINING EXPLORATION INC. FAILED TO FILE A TECHNICAL REPORT PREPARED BY AN INDEPENDENT QUALIFIED PERSON, AS SUCH TERM IS DEFINED IN NATIONAL INSTRUMENT 43-101 “STANDARDS OF DISCLOSURE FOR MINERAL PROJECTS”, WITH RESPECT TO CERTAIN MINERAL RESOURCE ESTIMATES THAT [IT] MADE AVAILABLE TO THE PUBLIC BY POSTING THEM ON ITS WEBSITE ... AND OTHER MINERAL ESTIMATES MADE AVAILABLE ... AS REQUIRED BY NATIONAL INSTRUMENT 43-101.”**

OSC panel, ruling on the GOOD Mining Exploration case





## MARKET MANIPULATION

Market manipulation involves efforts to artificially increase or decrease the price of a security, including a company's shares. Examples of market manipulation include **high closing activities**, volume manipulation and "pump and dump" schemes. The latter term describes schemes that involve talking up a company's share price with untrue or exaggerated information in order to sell shares at a profit before the inevitable crash in the share price when the company's true position becomes evident.

The Joseph Bucci *et al.* case exemplifies collaboration by regulatory and enforcement bodies from multiple jurisdictions. Staff of the ASC worked with the RCMP, the BCSC, the AMF, the OSC, the U.S. Financial Industry

Regulatory Authority, the U.S. Securities and Exchange Commission, the U.S. Department of Justice and the Federal Bureau of Investigation to investigate and prosecute the respondents. The case also marked the first-ever court sentence for a pump and dump market manipulation in Alberta. Bucci and Caroline Meyers pleaded guilty in Alberta provincial court to acting as a dealer of securities without registration, not filing a prospectus and creating the appearance of false trading activity and an artificial price for the securities of Coastal Pacific Mining Corp. Both admitted to helping organize a shell company and having it quoted for trading on the U.S. over-the-counter markets. The parties issued nine news releases regarding Coastal Pacific

operations and an online promotional campaign for the company was orchestrated by individuals in Vancouver. These actions took Coastal Pacific from zero trading activity and no value to upwards of 60,000,000 shares traded and prices exceeding \$0.50 per share. Once the news releases and promotional campaign ceased, the trading and value of the securities returned to almost nothing. Bucci was sentenced to an 18-month conditional sentence and was permanently banned from the securities market. Meyers is scheduled to be sentenced in the first quarter of 2016.

Another pump and dump case out of British Columbia targeted and manipulated a vulnerable group of individuals who were seeking help

managing their debt. In the OSE Corp. case, the respondents coordinated their activities to manipulate the share price of OSE Corp., an Ontario company traded on the TSX-V, whose head office was in Delta, B.C. Thalbinder Singh Poonian, described by the panel as the “mastermind” of the scheme, was a registrant for various periods between June 1987 and September 1999, and has extensive knowledge and experience of the capital markets. Poonian and other respondents sold OSE Corp. shares to unsuspecting buyers, including clients of Phoenix Credit Risk Management Consulting Inc. Phoenix and its principals were paid commissions between 10 and 28 per cent for helping clients unlock their RRSPs and pensions in order to acquire OSE Corp. shares. Five respondents were ordered to pay the BCSC approximately \$7.3 million for their misconduct, and a total of \$21.5 million in further penalties were imposed on the group. In December 2011, Phoenix and Jawad Rathore, Vincenzo Petrozza and Omar Maloney entered into a settlement agreement with the OSC in relation to this matter.

The Louis-Robert Lemire case in Québec is a classic example of insider trading and market manipulation. Lemire was initially issued a cease trade order in September 2008 on the securities of Gale Force Petroleum Inc., where he served as a director and insider. Beginning in September 2006, Mr. Lemire bought and sold Gale Force Petroleum shares as part of nearly 90 transactions. Each transaction was carried out on the day preceding the publication of a news release by the company or on the very day itself. Lemire did not report the transactions,

thereby violating regulatory requirements. As a result of the trading, Lemire generated a profit of \$11,000 and sustained a loss of only \$100. In 2015, the BDR deemed these actions constituted insider trading and market manipulation, thereby expanding on the initial cease trade order. As such, the BDR imposed \$195,000 in penalties on Lemire and banned him from acting as a director and officer of any issuer, dealer adviser or investment fund manager for five years.

In Ontario, the Oasis case involved certain traders at Oasis World Trading Inc. engaging in at least 460 instances of manipulative trading, most of which included practices of intraday spoofing from November 2013 to December 2014. Intraday spoofing involves the use of non-bona fide orders, or orders that the trader does not intend to have executed, to induce others to buy or sell the security at a price not representative of actual supply or demand. Oasis is not a registrant and enters orders as a client via a direct execution account with an IIROC dealer member. The principal of Oasis, Steven (Zhen) Pang and Oasis' head office are located in Ontario but the traders are located in China. Through the traders' actions, Oasis directly or indirectly participated in practices that it knew, or ought to have known, resulted in or contributed to a misleading appearance of trading activity in, or an artificial price for, a security. Pang failed to adequately monitor trading activities at Oasis and failed to ensure there were adequate procedures in place to monitor trading activities for possible manipulative trading. A settlement agreement approved by the OSC

prohibits Pang from acting as a director or officer of Oasis, including being involved in any way with proprietary trading at Oasis, or any other entity until December 2016. Oasis must pay an administrative penalty of \$225,000, plus \$75,000 in costs. Also, Oasis has retained an approved monitor to design and implement a trading compliance structure. The company is required to provide an audit report of that structure within six months after the approval of the settlement agreement and a second audit report six months after the first audit report.

---

**High closing activities** - A tactic that features orders and/or trades in a security to boost its trade or bid price at the end of the trading day.



**“THIS IS THE FIRST COURT SENTENCE TO BE HANDED DOWN IN A “PUMP AND DUMP” MARKET MANIPULATION CASE IN ALBERTA. JAIL IS THE APPROPRIATE STARTING POINT FOR THIS TYPE OF MISCONDUCT AS IT INVOLVES THE DECEPTION OF INNOCENT PURCHASERS OF SECURITIES IN THE MARKET. THE CONDITIONAL SENTENCE RECOMMENDATION WAS AGREED UPON BY THE ASC DUE ONLY TO MR. BUCCI’S SERIOUS HEALTH ISSUES.”**

ASC Director of Enforcement Cynthia Campbell on the Bucci *et al.* case

**“WHILE THE RESPONDENTS’ ROLES IN CONDUCTING THE MANIPULATION VARIED, EACH RESPONDENT WAS DIRECTLY INVOLVED IN AND CONTRIBUTED TO THE MANIPULATION. HOWEVER, THE PANEL FOUND THAT THALBINDER POONIAN WAS THE “MASTERMIND OF THE SCHEME” AND THAT HIS CONDUCT WAS “THE MOST EGREGIOUS.””**

BCSC panel, ruling on the OSE Corp. case

**“IN THIS REGARD, THE BUREAU NOTES THAT THE VICTIMS OF OFFENCES RELATED TO STOCK MARKET MANIPULATION OR TO THE ILLEGAL USE OF PRIVILEGED INFORMATION ARE GENERALLY VERY DIFFICULT TO IDENTIFY FOR A VERY GOOD REASON. THEY ARE ALL THE ANONYMOUS PEOPLE WHO WERE FOOLED BY THESE MISLEADING MANEUVERS THROUGH THE INVESTMENT DECISIONS THEY MADE BASED ON THE RESULTING FALSE INFORMATION OR, MORE DIRECTLY, AS COUNTERPARTIES TO SPECIFIC TRANSACTIONS CARRIED OUT BY THE PERPETRATORS. MOREOVER, THE BUREAU UNDERLINES THAT ONE OF THE BIG LOSERS IS THE VERY CREDIBILITY OF THE OVERALL FINANCIAL SYSTEM, WHICH SEES INVESTORS LOSE CONFIDENCE IN ITS INTEGRITY.”**

Bureau de décision et de révision, ruling on the Louis-Robert Lemire case

**“AS FOUNDER, OFFICER AND DIRECTOR OF OASIS, PANG WAS ULTIMATELY RESPONSIBLE FOR OASIS’ COMPLIANCE WITH ONTARIO SECURITIES LEGISLATION. PANG’S CONDUCT FELL SHORT OF THE STANDARD EXPECTED OF AN OFFICER AND DIRECTOR PARTICIPATING IN THE ONTARIO CAPITAL MARKETS.”**

OSC settlement, approved by panel on the Oasis case





## SECURITIES LAW PROSECUTIONS

Certain securities violations proceed to prosecution either through an administrative tribunal or provincial court, depending on the type of violation and the jurisdiction where it occurred.

The Douglas Wayne Schneider case in Alberta resulted in the first ever extradition by a CSA member of an accused from the U.S. to Canada for a breach of securities law. On January 24, 2014, staff of the ASC charged Schneider and Kenneth Charles Fowler in provincial court for breaking Alberta securities laws in relation to the sale of The Investment Exchange Mortgage Corporation securities. Warrants were issued for the two men. With the help of Canadian and U.S. authorities,

Schneider was arrested in California where he spent 97 days in jail prior to his extradition. In July 2015, an Alberta judge sentenced Schneider to the equivalent of one year imprisonment after he pleaded guilty to trading in securities without registration, illegal distribution of securities and making misleading or untrue statements to investors. Schneider admitted that during the material time he was not registered as a salesperson authorized to trade in securities and that no prospectus was ever filed with the ASC for the distribution of any securities of The Investment Exchange Mortgage Corporation. Schneider also admitted that he made representations to investors regarding the use of their

funds and legitimacy of the investments without any due diligence as to the accuracy of his statements.

Another case involving prosecution and imprisonment occurred in Québec, where Alain Côté was sentenced to six months in prison and was imposed fines totaling \$419,220. His company, ACGI Inc., was also fined \$382,500. In 2010, the AMF received a complaint from investors who had difficulty withdrawing money that they had invested in ACGI and had not heard from Côté in several weeks. The AMF investigation revealed that Côté approached investors who entrusted a minimum of \$5,000 to him for clients needing short-term cash, with a promise of an approximately 10 per

cent monthly return. Twenty seven investors lost approximately \$400,000 due to Côté's fraudulent claims and abuse of trust. The AMF accused Côté of pursuing illegal activities as a dealer, aiding ACGI Inc. with conducting distributions without a prospectus and giving an undertaking relating to the future value of ACGI securities. ACGI faced 51 counts of distribution without a prospectus. In February 2015, a Québec judge ruled against the respondents and in June they were declared guilty on 185 counts related to illegal distribution.

Failing to honour a cease trade order is an egregious offence that can result in imprisonment. This was the case in Ontario, where Bernardo Giangrosso was sentenced by a provincial court to 90 days in jail and two years' probation for breaching an OSC cease trade order. His partner, Naida Allarde-Giangrosso, was also fined \$5,000 and sentenced to two years' probation for breaching the OSC cease trade order. In January 2013, an OSC hearing panel had ordered that the pair cease trading in

securities for five years, as a result of their involvement in a Ponzi scheme operating as Gold-Quest International. The panel had found that, as a result of certain promotional activities, Allarde and Giangrosso had traded in securities without registration and had engaged in an illegal distribution of securities, contrary to Ontario securities law.

In Manitoba, James Peter Yaworski pleaded guilty to 12 counts of trading without registration in the securities of Shopplex.com Corporation. Yaworski was sentenced in December 2015 to one year in prison and two years' probation. The trading involved representations to convince investors the investment was too good to miss, a failure to transfer shares promptly if at all and a lack of documentation. There was also uncertainty as to whose shares some investors were buying, and, if the shares were Yaworski's, whether he owned them at the time they were sold. The total amount of consideration was \$656,875, with actual funds of \$544,875 all received by Yaworski. Shopplex.com was an Alberta-based

company and Yaworski was an Alberta resident. Charges were issued by the Manitoba Securities Commission (MSC) because the securities were sold to 10 Manitobans. The defendant had already been sanctioned by the ASC, the MSC and a Manitoba provincial court for previous violations.





**“THE SIGNIFICANT IMPACT ON THE VICTIMS HERE IS AN AGGRAVATING CIRCUMSTANCE, AS THE VICTIM IMPACT STATEMENTS SPEAK OF PERSONAL AND FINANCIAL DEVASTATION AS A RESULT OF THESE OFFENCES...IT WAS MR. SCHNEIDER’S PERSONAL CONNECTIONS THROUGH FAMILY, THROUGH NEIGHBOURS, THROUGH FRIENDS OF NEIGHBOURS, THAT HE INVEIGLED HIS WAY INTO THEIR TRUST AND THEN WAS RESPONSIBLE FOR THIS OVERWHELMINGLY SIGNIFICANT BREACH OF TRUST.”**

Alberta provincial court Judge Mark T.C. Tyndale,  
ruling on the Douglas Wayne Schneider case

**“THE MOST DISTURBING PART OF THIS IS THAT THE ACCUSED HAD BEEN THROUGH THIS BEFORE. THE CEASE TRADE ORDER DID NOT DETER HIM. OTHER PENALTIES INCLUDING A FINE, A SUSPENSION AND THEN A SECOND SUSPENSION DID NOT DETER HIM. HE JUST CARRIED ON. HIS ACTIONS HAD A SIGNIFICANT IMPACT ON THOSE WHO DEALT WITH HIM. THE LOSSES WERE SUBSTANTIAL AND HAD A PROFOUND IMPACT ON SOME.”**

Manitoba provincial court Judge Timothy J. P. Killeen,  
ruling on the Yaworski case





## **CRIMINAL CODE PROSECUTIONS**

In some jurisdictions, securities regulators work in partnership with law enforcement to investigate contraventions of the *Criminal Code* involving complex matters related to financial crime in the capital markets. These prosecutions rely on expanded tools available in the *Criminal Code*, such as search warrants, surveillance and undercover operations, and are conducted by Crown counsel with advice and input provided by securities regulators.

In October 2015, Asim Ahmed pleaded guilty in a Québec court to six charges brought against him under the *Criminal Code* for fraud, laundering proceeds of crime and uttering forged documents. He was sentenced to a four-year prison

term. Investors lost almost \$1.1 million in this matter. Asim Ahmed and his firm promoted dealer and advisory activities through social media (on the firm's website, Facebook, Twitter and LinkedIn). The respondents stated that they managed investors' portfolios and posted information about investment returns that was generally incorrect, either with respect to the volume actually traded or the actual returns generated. This matter was uncovered by Case Assessment and Cybersurveillance at the AMF, which obtained freeze and cease trade orders from the BDR against Asim Ahmed, Mahmood Ahmed and Le groupe Financier Bloomer Inc. in April 2014. In the summer of 2014, the matter was

taken over by the organized financial crime investigations unit of the Sûreté du Québec (SQ), made up of members from the SQ and the AMF. The OSC also provided significant co-operation in this matter since, at the request of the AMF, it promptly froze some bank accounts of the accused in Ontario. Asim Ahmed was arrested in November 2014.

Amir Beiklik was charged with fraud over \$5,000 under the *Criminal Code* following complaints by several people who had invested a combined total of more than \$300,000 with him. The BCSC's Criminal Investigations Team arrested Beiklik with the assistance of the RCMP following an extensive investigation into the matter. The BCSC determined that Beiklik convinced his

victims that he worked as an advisor for a large Canadian bank despite having no connection to the bank. Investors gave him money, which he converted for personal use, and they received phoney statements detailing their nonexistent investment portfolios. Shortly before standing trial, Beiklik agreed to plead guilty to two counts of fraud over \$5,000. In February 2015, Beiklik received a conditional sentence of two years less a day, and was ordered to pay a total of \$301,400 in restitution.

In Ontario, Michael Hughes and his company Rivertree Financial Services Corporation were charged with fraud over \$5,000 and uttering a forged document, contrary to the *Criminal Code*. Mr. Hughes, the Chief Financial Officer of a Toronto-area church, held himself out to a parishioner as a Certified Management Accountant with experience in managing securities. Hughes, although not registered, offered to invest the parishioner's money in return for fees. The parishioner agreed and gave Hughes access to his brokerage accounts containing \$217,621. From early 2008 through late 2013, Hughes traded in the account and lost over \$120,000. He also

charged and was paid commissions of over \$5,000. In the same period, he sent his client 42 statements falsely stating the value of the account, some by over 900 per cent. Hughes pleaded guilty to fraud over \$5,000 and was sentenced to a conditional sentence of two years less a day, three years' probation, and to pay \$104,311 in restitution. His conditional sentence includes house arrest for the first 18 months, as well as prohibitions on trading in or acquiring securities, and acting as a director or officer of an issuer, for the duration of his conditional sentence. During the term of his conditional sentence and probation, Hughes is required to pay an additional \$200 per month restitution.

## OTHER CASES

Some enforcement cases may not fit into the categories described above but still involve conduct or activity that may adversely affect investors or raise market integrity concerns.

In Ontario, the OSC approved a no-contest settlement agreement with Quadrus Investment Services Ltd. in relation to a matter that Quadrus discovered and self-reported to the OSC and that resulted in certain clients

paying excess fees. The settlement followed allegations by OSC staff that there were inadequacies in Quadrus' systems of controls and supervision, which resulted in clients paying excess fees that were not detected or corrected in a timely manner. Staff did not allege, and did not find evidence of, dishonest conduct by Quadrus. While having neither admitted nor denied the accuracy of the facts and conclusions of OSC staff, Quadrus agreed to the settlement and to pay approximately \$8 million in compensation to clients, including opportunity costs on fees. In addition, Quadrus made a voluntary payment of \$20,000 to reimburse the Commission for the costs of the investigation. Another \$250,000 voluntary payment was designated for allocation to or for the benefit of third parties or to the Commission for public and investor education purposes. As part of the settlement agreement, Quadrus was required to implement enhanced supervision and control measures designed to prevent the re-occurrence of the supervision and control inadequacy in the future.



**“THIS IS A MAJOR FRAUD WITH THE AGGRAVATING ELEMENTS THAT MR. HUGHES BREACHED THE TRUST [HIS CLIENT] PLACED IN HIM AND TOOK ADVANTAGE OF [HIS CLIENT’S] LACK OF SOPHISTICATION, ALTHOUGH THOSE MAY AMOUNT TO THE SAME THING. IT WARRANTS A CUSTODIAL SENTENCE.”**

Ontario provincial court Judge B. Knazan,  
ruling on the Michael Hughes case

**“IT IS IMPORTANT THAT CLIENTS ARE TREATED FAIRLY WITH RESPECT TO FEES. WHEN THIS DOES NOT HAPPEN, WE WILL CONTINUE TO TAKE ENFORCEMENT ACTION.”**

Tom Atkinson, OSC Director of Enforcement, in regards  
to the Quadrus Investment Services Ltd. case



The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that every sale, purchase, and payment must be properly documented to ensure the integrity of the financial statements. This includes keeping receipts, invoices, and bank statements in a secure and organized manner.

Next, the document outlines the process of reconciling the books. This involves comparing the company's internal records with the bank statements to identify any discrepancies. If there are differences, the company must investigate the cause and make the necessary adjustments to the accounts.

The document also covers the preparation of the financial statements. This includes the balance sheet, income statement, and cash flow statement. Each statement provides a different perspective on the company's financial performance and position. The balance sheet shows the company's assets, liabilities, and equity at a specific point in time. The income statement shows the company's revenues, expenses, and net income over a period of time. The cash flow statement shows the company's cash inflows and outflows over a period of time.

Finally, the document discusses the importance of reviewing the financial statements. This involves analyzing the statements to identify any trends, strengths, and weaknesses. The company should use this information to make informed decisions about its future operations and investments.