

ENFORCEMENT REPORT

FY 2019–2020



A significant year which, given the current situation, serves as a reminder of how important it is for us to be vigilant against fraud and market abuse.



Table of contents

MESSAGE FROM THE EXECUTIVE DIRECTOR, ENFORCEMENT	5
1 ENFORCEMENT HIGHLIGHTS	6
Sanctions	7
Inspections	8
Surveillance and investigations	9
Proceedings	10
Freeze orders and bans	11
Investor restitution	11
Fines and administrative penalties	12
Whistleblower program	13
2 A PROACTIVE APPROACH	14
Strengthening surveillance in the crypto-asset sector	15
An effective tool: receivership	16
3 DATA: KEY TO FULFILLING OUR MISSION	17
4 IMPORTANT DECISIONS	20
5 TARGETED UPSTREAM OVERSIGHT	22
6 CONTINUED LEADERSHIP	24
Internationally	25
In North America	26
Nationally	26

The mission of the Autorité des marchés financiers (AMF) is to regulate Québec's financial sector in order to promote its efficiency and protect consumers of financial products and services.

Activities of AMF Enforcement

- Inspect how activities are conducted by independent representatives and firms licensed by the AMF in the securities, money-services business and financial products and services distribution industries, including the insurance and mortgage brokerage sectors.
- Detect, investigate and seek sanctions, through proceedings and other remedies, for violations of the laws, regulations and guidelines administered or made by the AMF.
- Take conservatory measures to protect the public and maintain market integrity.
- Analyze whistleblower reports and allegations of offences submitted to the AMF.



The AMF relies on a knowledgeable and skilled team committed to implementing a credible and innovative preventive and deterrent enforcement program.



Tangible, positive and transparent actions by the AMF are a cornerstone of investor confidence and help ensure that markets work fairly and efficiently. Actions are based on best judgment and aimed at ensuring fairness to all stakeholders.

MESSAGE FROM THE EXECUTIVE DIRECTOR, ENFORCEMENT

I am very proud to present our Enforcement Report for the period from April 1, 2019 to March 31, 2020.

During these times when markets are especially volatile, we are more aware than ever of how important our inspection, surveillance, detection, investigation and prosecution work is in promoting public protection and market efficiency.

As you will see from our report, we display great agility, particularly in detecting emerging risks and using the various tools we have at our disposal.

Our proactivity is also reflected in our strategy of developing effective and efficient technology-based tools. For instance, with data science, we are now able to process a wealth of data more efficiently and enhance our actions. Also, some projects progressed significantly this past year, including electronic evidence management and the Market Analysis Platform (MAP), and are now at the point where we will be able to implement them across our teams in the year ahead.

Our inspectors, meanwhile, maintained ongoing relationships with the industry and monitored market trends and developments so as to remain relevant and ensure a culture of compliance among our registrants. They also closely tracked changes in new online financial distribution methods.

The 2019–2020 fiscal year was also marked by important court decisions that, among other things, enabled money to be returned to investors and confirmed interpretations favouring investor protection.

Lastly, we once again demonstrated leadership nationally and internationally by continuing to chair both the Committee on Enforcement and the Exchange of Information (Committee 4) and the Screening Group of the International Organization of Securities Commissions as well as the Enforcement Committee of the Canadian Securities Administrators.

Under the AMF's leadership, Committee 4 brought together stakeholders from a dozen countries for two Technology Applied to Securities Markets Enforcement Conferences (TASMECs) to explore and discuss technological solutions with the most promising uses for our collective enforcement and fraud-fighting missions.

In 2020–2021, we will step up our enforcement efforts with respect to emerging risks, especially the potential increased risk of fraud resulting from the COVID-19 pandemic.



Jean-François Fortin
Executive Director, Enforcement



ENFORCEMENT HIGHLIGHTS

Period from April 1, 2019 to March 31, 2020

**\$17,648,318 in fines and
administrative penalties
were imposed in proceedings
brought by the AMF.**



Sanctions

April 1, 2019 to March 31, 2020

83
individuals
and firms were
sanctioned

83 individuals and firms were sanctioned by the courts for various offences under the laws administered by the AMF.

\$17,648,318

\$17,648,318 in fines and administrative penalties were imposed.

6



6 individuals were given a total of more than 6 years of jail time in penal proceedings.



Inspections

April 1, 2019 to March 31, 2020

○ Opened ● Concluded ◐ Ongoing

	Matters processed	
<i>Act respecting the distribution of financial products and services</i>	○	65
	●	60
	◐	47
<i>Securities Act</i>	○	108
	●	103
	◐	86
<i>Money-Services Businesses Act</i>	○	6
	●	17
	◐	3

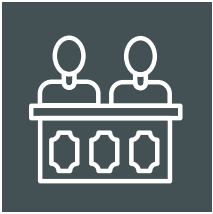


Surveillance and investigations

April 1, 2019 to March 31, 2020

○ Opened ● Concluded ◐ Ongoing

	Matters processed	
Case assessment	○	165
	●	181
	◐	50
Market surveillance	○	56
	●	79
	◐	16
Cybercrime investigations	○	16
	●	30
	◐	17
General investigations	○	35
	●	49
	◐	41
Joint investigations – financial crimes	○	28
	●	37
	◐	25
Market abuse	○	59
	●	32
	◐	57



Proceedings

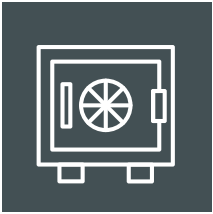
April 1, 2019 to March 31, 2020

Proceedings before the courts	Findings issued and receiverships	5
Proceedings before the Financial Markets Administrative Tribunal	Requests filed	13
Administrative proceedings	Requests for orders under the <i>Act respecting Insurance</i> ¹ or the <i>Act respecting the distribution of financial products and services</i>	7

The 25 proceedings above were instituted against 45 individuals and firms.

Offences	Number of counts filed
<i>Securities Act or Derivatives Act</i>	32
<i>Act respecting the distribution of financial products and services</i>	10
<i>Money-Services Businesses Act</i>	1

¹ *Insurers Act* since June 13, 2019.



Freeze orders and bans

April 1, 2019 to March 31, 2020

1
freeze order

1 freeze order of the Financial Markets Administrative Tribunal affecting 4 individuals and firms.

Freeze orders are issued during an investigation to protect assets and prevent them from being transferred or wasted, so that amounts may be returned to the victims.

7
bans on carrying

7 bans on carrying on certain regulated activities, acting as a representative, officer or director or trading in securities.



Investor restitution

April 1, 2019 to March 31, 2020

The AMF is focused on ensuring that aggrieved investors are reimbursed when possible. The legislative changes² introduced by *An Act mainly to improve the regulation of the financial sector, the protection of deposits of money and the operation of financial institutions* helped us meet this priority objective.

\$1,348,226
returned
to victims

² Sections 262.2 of the *Securities Act* and 127.1 of the *Derivatives Act*.



Fines and administrative penalties

April 1, 2019 to March 31, 2020

\$17,648,318

Fines imposed by courts	<i>Securities Act or Derivatives Act</i>	\$2,197,500
	<i>Act respecting the distribution of financial products and services</i>	\$13,222,580
	<i>Money-Services Businesses Act</i>	\$73,000
Administrative penalties imposed by the Financial Markets Administrative Tribunal	<i>Securities Act or Derivatives Act</i>	\$1,339,088
	<i>Act respecting the distribution of financial products and services</i>	\$353,650
Administrative penalties imposed by the AMF	<i>Securities Act,³ Act respecting the distribution of financial products⁴ and services or Act respecting Insurance⁵</i>	\$462,500

³ Section 274.1.

⁴ Sections 115.2 and 419.

⁵ Section 405.1 of the *Act respecting insurance* and sections 491 to 494 of the *Insurers Act* since June 13, 2019.



Fines and administrative penalties (continued)

April 1, 2019 to March 31, 2020

5,606
hours of
compensatory
work

5,606 hours of compensatory work were completed by 8 offenders.



Whistleblower program

April 1, 2019 to March 31, 2020

The AMF whistleblower program is designed to obtain new and relevant information from the public that would not otherwise be readily available to investigators about offences under the laws and regulations administered by the AMF.

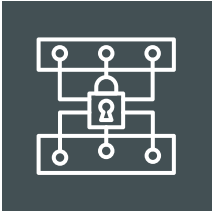
Since its launch in 2016, the whistleblower program has generated an ever-growing number of reports. It leads to concrete results: in the 2019-2020 fiscal year, we received 104 reports containing information that was used in 10 ongoing investigations and resulted in the opening of 22 new investigations.

104
reports
received

2

A PROACTIVE APPROACH

With the sustained development of new technologies, it is imperative that the AMF develop and implement tools and work methods enabling it to not only detect but try to anticipate new schemes.



Strengthening surveillance in the crypto-asset sector

Over the past year, the combined efforts of the various units of AMF Enforcement ensured the continued deployment of an intervention- and awareness-based approach to curbing illegal activities in the crypto-asset ecosystem.

Specifically, a sustained effort was made to detect and deter illegal investment offers in the area of cryptocurrency mining and educate and warn the public about non-compliant practices in the sector.

The team also looked at several emerging trends in this new field of activity to ascertain the presence of unfair, abusive or fraudulent practices.

Our teams' agility in detecting fraud risks is especially important and relevant in this time of crisis, when scammers may be more active and cleverer. We will continue to make every effort to detect any new schemes that may arise.



An effective tool: receivership

This past fiscal year was marked by the customized use of various tools to strengthen enforcement against offences in the distribution of financial products and services. A tool that we employed more than once was receivership, which serves multiple objectives and can be tailored to the situation.

Under the *Act respecting the regulation of the financial sector*,⁶ the Superior Court can order the appointment of a receiver if the AMF shows that it has reasonable grounds to believe that the assets of the person, partnership or entity were used for a purpose other than the purpose for which they were intended, that embezzlement, a breach of trust or another offence has been committed, that the management exercised by the officers or directors is unacceptable, or that the appointment of a receiver is necessary to protect the public in the context of an ongoing investigation.

Historically, such orders have typically been issued to take control of a firm that has committed fraud so as to wind it up. However, in recent years, and especially in the last fiscal year, the AMF has adapted its approach and obtained orders allowing more targeted receiverships in order to protect the public while maintaining the operations of the firms involved.

In one case, the appointment of a receiver at the request of the AMF resulted in the recovery of more than \$4 million in illegally obtained assets. During 2019-2020, this receiver's mandate was expanded so that he could redistribute all frozen assets in favour of the defrauded investors.

During the last fiscal year, receivers were appointed at the AMF's request in three other cases:

- The AMF was able to act diligently in closing an investigative matter after a receiver was appointed who helped it to develop an overall picture of multiple complex financial transactions, ascertain how the funds involved were used and where they came from, and implement a governance and control structure within the firms concerned.
- The AMF obtained another receivership so that it could act swiftly to complete the investigative steps initiated with an insurance firm after preliminary findings showed a risk to public protection and major deficiencies in compliance.
- The AMF was obtained a receivership to address a significant governance issue affecting a firm's day-to-day operations, thereby protecting the entity's financial sustainability.

3

DATA: KEY TO FULFILLING OUR MISSION

AMF Enforcement has assembled a team of data science specialists who are working to develop tools to ensure better use and treatment of data in our enforcement efforts.

Because market manipulation cases generate a large volume of complex data, they require a special approach. To be able to detect manipulation schemes, the AMF has developed an algorithmic approach that allows it to analyze data using settings and filters that are adjusted according to the type of case involved. This adaptive approach allows it to detect a larger number of complex schemes, while shortening processing times.

ODDI

The AMF continued to develop its insider trading detection tool, known by its French acronym ODDI. The tool, designed and produced by internal experts, continually adjusts to new market realities and data analytics technologies. With ODDI, the AMF can test the latest advances in process automation and machine learning.

Data repository and analytics system

In the coming year, a data repository and analytics system, designed and developed in collaboration with other Canadian Securities Administrators (CSA) jurisdictions, will enhance the AMF's ability to detect and analyze market manipulation and insider trading. The MAP (Market Analysis Platform) system, an automated, centralized solution with the capacity to handle the complexity and scale of current market practices, will contribute to maintaining market integrity by providing advanced analytics functions for measuring, examining and explaining potential market abuses. It will also provide the AMF with improved market behaviour research capabilities supporting data-based regulatory decisions.

Registrant audits

To support its inspection activities, the AMF developed technology-based tools enabling it to, for example, better target its actions with entities by detecting potential transactional risks. These tools also encourage more efficient inspection planning by automating the preparation of documents requested from entities.



Electronic evidence management

The electronic evidence management project generated intense activity during the 2019–2020 fiscal year. Throughout the year, many of the people responsible for enforcement worked jointly with the AMF’s information technology teams to bring development of the systems involved near to completion.

As a result, the final phase—the implementation of the project across the teams—will be completed during the 2020–2021 fiscal year. Once it is implemented, all AMF Enforcement staff will have a new and efficient file management tool equipped with a business intelligence module. In addition, for evidence management, new work tools and processes, accessible through an integrated evidence management solution, will enable the investigation and prosecution teams to effectively manage collected evidence electronically, from the analysis stage to discovery to the time it is presented at trial.

4

IMPORTANT DECISIONS

The various proceedings instituted by the AMF, and the outcomes of those proceedings over the past year, demonstrate the impact of its actions, which, in addition to protecting the public, serve as a deterrent to anyone who might be tempted to violate the laws that it administers.

Robert Morin

In January 2020, the Court of Québec imposed fines totalling \$316,000 on Robert Morin and sentenced him to 24 months in prison. An AMF investigation had revealed that he had solicited individuals to invest money with two companies when he was not authorized to make such investments and the companies involved did not hold the required prospectuses with the AMF. He had also violated a decision of the Financial Markets Administrative Tribunal (the “Tribunal”) and provided false or misleading information. Robert Morin was permanently struck off the roll of the *Chambre de la sécurité financière*. He accepted the sentence imposed by the Court, thereby acknowledging the gravity of what he had done.

PlexCoin

On April 3, 2020, the Court of Québec confirmed, as had the Tribunal, that the initial coin offering (ICO) related to the PlexCoin project was akin to an investment contract covered by the *Securities Act* and not simply a cryptocurrency. This case had given rise to multiple legal proceedings since 2017 owing, among other things, to the repeated failure of its principal executive, Dominic Lacroix, to comply with the decisions rendered by the courts. The implementation in the fall of 2019 of a process to redistribute recovered assets in favour of the aggrieved investors marked a turning point in the case.

Groupe CGE

The decision handed down by the Tribunal in *Groupe CGE* in January 2020 dealt with the role of an investment fund manager (IFM) and its obligations to unitholders. A manager, who was a member of the Québec Bar at the time, was acting as an officer of the IFM, in addition to having various positions and duties within the various entities of Groupe CGE. The manager, through her own firm and other entities of Groupe CGE, invoiced the funds without impunity for professional fees without ever disclosing any conflicts of interest. In its decision, the Tribunal also found that there was a fraudulent scheme to manipulate the expense items in the prospectuses to make them chargeable to the unitholders instead of the IFM. Among the sanctions imposed by the Tribunal, remedial measures were ordered so that amounts totalling over \$1,300,000 could be disgorged to the AMF for redistribution to investors who had incurred losses. This case is currently under appeal to the Court of Québec.

Nstein Technologies inc.

In March 2020, the Québec Court of Appeal⁷ upheld the decision of the Tribunal in this matter. The trial decision had imposed administrative penalties on officers and directors of this public company for having committed an offence under the *Securities Act* by authorizing the granting of (or by receiving and accepting) stock options while in possession of privileged information—a practice known as spring loading. These decisions confirm that the receiving of options by officers or directors of a firm may in itself be a transaction within the meaning of securities legislation and constitute insider trading.

7 Application for leave to appeal to the Supreme Court pending.

5

TARGETED UPSTREAM OVERSIGHT

A number of inspection initiatives were undertaken to ensure that the AMF continues to foster the development of a culture of compliance among registrants.

Simultaneous inspections in the Eastern Townships

Concurrent inspections of several insurance firms in the Sherbrooke area were conducted at the end of May 2019. The objective was to create an impact on the culture of compliance among registrants. The initiative was combined with a presentation entitled “L’Autorité, partenaire de votre conformité” (the AMF, your partner in compliance), which attracted the interest of dozens of responsible officers of local insurance firms, several of which were being inspected. The purpose of the meeting was to raise awareness of the AMF’s inspection activities and the new regulatory requirements resulting from the passage of *An Act mainly to improve the regulation of the financial sector, the protection of deposits of money and the operation of financial institutions*.

Financial products offered via the Internet

Since June 13, 2019, the *Act respecting the distribution of financial products and services* has allowed insurance firms to offer financial products via the Internet. This is a major turning point for the financial services industry. The change has affected the practices of many firms that have set up on-line distribution platforms. The AMF monitored developments in this new distribution method, while conducting industry monitoring in relation to the regulation and oversight of alternative insurance distribution practices. The verification procedures for sales via the Internet will be clarified in the coming months, after traditional business models have been adapted for this new distribution method.

6

CONTINUED LEADERSHIP

By focusing on collaboration with its national and international counterparts, the AMF continues to stand out as a thought and influence leader.



Internationally

Committee chaired (for the fourth consecutive year)

Committee on Enforcement and the Exchange of Information (Committee 4)



Mandate: Recommend policies to enhance the quality and effectiveness of enforcement activities carried out by market regulators.

During the past fiscal year, Committee 4 introduced two new mandates to address market globalization. In addition to developing a reference tool to help regulators trace assets and enforce sanctions abroad, it is currently preparing a paper on issues arising from the use of social media. Committee 4 also worked to develop potential new mandates to adapt and optimize enforcement efforts, particularly with respect to emerging risks.

Under the AMF's leadership, Committee 4 also continued to organize Technology Applied to Securities Markets Enforcement Conferences (TASMEC), which bring together computer specialists and data analysts engaged in the enforcement efforts of the world's main regulators. The conferences are designed to explore technology-based solutions and identify the most promising ways in which technology may be used in our collective enforcement and fraud-fighting missions.

- TASMEC 3, New York City, April 3 and 4, 2019. The theme was "eDiscovery, Natural Language Processing (NLP) & Technology Assisted Reviewing (TAR)."
- TASMEC 4, London, October 7 and 8, 2019. The theme was "Data Analytics to assist enforcement efforts."

These conferences were also a success, attracting approximately 30 specialists from Australia, the United States, the United Kingdom, Germany, France, the Netherlands, South Africa, Dubai, Hong Kong, Singapore, Québec, Ontario, Alberta and British Columbia.

Committee chaired (for the fourth consecutive year)

Screening Group

Mandate: Verify compliance with the criteria for participation in the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMOU) and the strengthening of related international standards. In the context of market globalization, this MMOU plays a key role in the enforcement efforts of market regulators around the world.



In North America

Collaboration

Enforcement Technology Project Group



Mandate: Assist NASAA members in using technology to conduct detection, investigation and prosecution activities. In 2019, this committee of North American market regulators produced a guide identifying an array of Internet-focused research and investigative techniques (Open Source Intelligence Tools – OSINT).



Nationally

Committees chaired

Enforcement Committee



Mandate: Coordinate multi-jurisdictional investigations and share tools and techniques to assist in investigating and prosecuting violations that cross borders. This committee provides an ideal forum for discussing market-related trends and threats, as well as initiatives that could improve enforcement across Canada.

Compliance Committee

Mandate: Provide an examination program-frame of reference covering all of Canada to ensure consistency in compliance principles under the responsibility of securities regulators as well as a common understanding of those principles. Lastly, the committee is working on various projects, including the publication of notices and guides for the compliance staff of registrants in the Canadian securities industry.

Collaboration

Canada-wide Enforcement Technology Working Group

Mandate: Facilitate the regular sharing of information relating to the use of technology, including in electronic evidence management, data science and the implementation of market surveillance tools.

Investment Fraud Task Force

Mandate: Detect and respond to emerging investment fraud attempts that pose a threat to Canadian investors.

In these times when markets are highly volatile, the AMF is working more closely than ever with its national and international counterparts to share information and draw on enforcement best practices. Our common objective is to effectively combat new illegal or fraudulent practices that may emerge as a result of the current crisis.