



ENFORCEMENT REPORT

FY 2018-2019

- Inspect
- Detect
- Investigate
- Seek sanctions

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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 independent representatives and firms licensed by the AMF.
- Detect, investigate and seek sanctions for violations of the laws, regulations and guidelines administered or made by the AMF.
- Analyze whistleblower reports and allegations of offences submitted to the AMF, launch investigations and take all necessary actions (proceedings and other remedies) to protect the public and the integrity of the markets.



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 to ensure a healthy and level playing field. Actions are based on best judgment and aimed at ensuring fairness to all stakeholders.

A more effective enforcement program with each passing year

I am proud to present this *Enforcement Report* covering the period from April 1, 2018 to March 31, 2019.

The achievements described in the following pages are the result of the sustained efforts of our teams—Inspections, Investigations and Litigation—and the cooperation we enjoy with various partners, including law enforcement, Crown attorneys, regulators, and self-regulatory organizations such as the Investment Industry Regulatory Organization of Canada, a key ally in market surveillance. I applaud each of them for their commitment to protecting consumers and maintaining confidence in our markets in a financial sector that is changing in fundamental ways.

Fintech innovations continue to spawn new ways to engage in unethical, abusive and fraudulent practices that cross borders. Which is why it is important for regulators to work together and create more opportunities to share their technological advances, approaches and prevention and detection tools, as we have done this past year.

All our teams have been vigilant and proactive in applying their expertise to crypto-asset offerings, on-line trading platforms and other activities made possible by technological innovation. We are very satisfied with the results obtained so far in the PlexCoin and PlexCorps, Blockchain Lab Inc., Crypto Technologies Inc. and FSM Smart cases. The associated media coverage and investor warning campaigns have done three things: protected targeted investors, deterred potential fraudsters and, more generally, strengthened financial consumer vigilance.

While the impact of an enforcement program cannot be measured year to year but must be assessed over a longer period, in 2018-2019, 151 individuals and firms were sanctioned by the courts for offences committed under the laws administered by the AMF and 28 proceedings were brought before the Court of Québec or the Financial Markets Administrative Tribunal.

This report presents an overview of our activities and results for the past year. It also bears witness to the efforts made, particularly in developing our technological tools, to achieve efficiencies and roll out an innovative and credible preventive and deterrent enforcement program.



Jean-François Fortin

Executive Director, Enforcement

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ENFORCEMENT HIGHLIGHTS

Period from April 1, 2018 to March 31, 2019

This year, illegal distributions were once again the most commonly identified and sanctioned type of offence



Sanctions

April 1, 2018 to March 31, 2019



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



\$9,191,521 in fines and administrative penalties were imposed.



7 individuals were given a total of more than 60 months of jail time in penal proceedings.



6 individuals received a total of nearly 27 years of jail time following an investigation in collaboration with law enforcement and prosecutions by Crown attorneys.



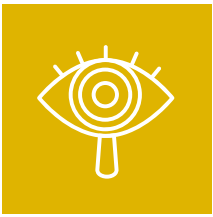
Inspections

April 1, 2018 to March 31, 2019

○ Opened ● Concluded ◐ Ongoing

Matters processed

<i>Act respecting the distribution of financial products and services</i>	○	68
	●	62
	◐	42
<i>Securities Act</i>	○	88
	●	90
	◐	81
<i>Money-Services Businesses Act</i>	○	20
	●	20
	◐	14



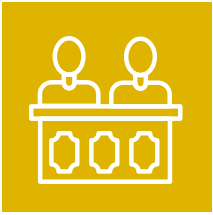
Surveillance and investigations

April 1, 2018 to March 31, 2019

○ Opened ● Concluded ◐ Ongoing

Matters processed

	○	172
Case assessments	●	197
	◐	62
	○	80
Market surveillance	●	91
	◐	35
	○	22
Cybersurveillance	●	17
	◐	31
	○	46
Investigations	●	52
	◐	55
	○	32
Joint investigations	●	33
	◐	33
	○	28
Market manipulation and insider trading	●	27
	◐	30



Proceedings

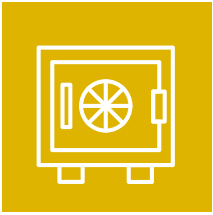
April 1, 2018 to March 31, 2019

Proceedings before the courts	Statements of offence issued	11
Proceedings before the Financial Markets Administrative Tribunal	Requests filed	12
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>	5

These 28 proceedings were instituted against 86 individuals and firms.

Offences	Number of counts filed
<i>Securities Act</i> or <i>Derivatives Act</i>	198
<i>Act respecting the distribution of financial products and services</i>	4

¹ *Insurers Act* since June 13, 2019.



Orders

April 1, 2018 to March 31, 2019

9
freeze orders

9 freeze orders issued by the Financial Markets Administrative Tribunal against 35 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.

19
bans

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



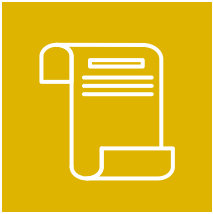
Investor restitution

April 1, 2018 to March 31, 2019

In the past few years, we have focused on ensuring that aggrieved investors are reimbursed when possible. The recent 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* will help us meet this objective, which is a priority for us.

\$2,721,248
returned
to victims

² Sections 22.2 of the *Securities Act* and 127.1 of the *Derivatives Act*.

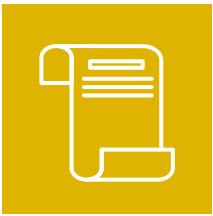


Fines and administrative penalties

\$9,191,521

April 1, 2018 to March 31, 2019

Fines imposed by courts	<i>Securities Act or Derivatives Act</i>	\$6,496,592
	<i>Act respecting the distribution of financial products and services</i>	\$438,784
	<i>Money-Services Businesses Act</i>	\$120,000
Administrative penalties imposed by the Financial Markets Administrative Tribunal	<i>Securities Act or Derivatives Act</i>	\$745,304
	<i>Act respecting the distribution of financial products and services</i>	\$856,797
Administrative penalties imposed by the AMF	<i>Securities Act, Act respecting the distribution of financial products and services or Act respecting Insurance³</i>	\$534,044



Fines and administrative penalties (continued)

April 1, 2018 to March 31, 2019



9,427 hours of compensatory work performed by 9 offenders



\$341,235 was disgorged to the AMF under the powers of the Financial Markets Administrative Tribunal to deprive a person of the amounts obtained as a result of non-compliance.



Whistleblower program

April 1, 2018 to March 31, 2019

The AMF whistleblower program is designed to obtain unpublished information from the public about offences under the laws and regulations administered by the AMF. Whistleblowers, who make an invaluable contribution by sharing information to which investigators would not otherwise have easily had access, are protected through optimal confidentiality conditions and anti-reprisal measures. Launched in 2016, the whistleblower program is generating an ever-increasing number of reports, with a jump of over 40% in the past year. The program is yielding concrete results: the information received was used in 11 ongoing investigations and resulted in the opening of 30 new investigations.



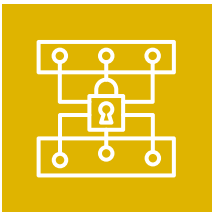
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TARGETED CAMPAIGNS

As a vigilant and proactive regulator, the AMF intervened to protect investors in several matters relating to crypto-asset mining and offerings.

Our intervention strategy for the crypto-asset ecosystem

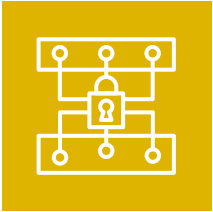
- Cyber detection of initial crypto-asset offerings, offers to invest in mining companies (“farms”) and sales of securities of cryptocurrency investment funds
- Cyber infiltration to detect potential non-compliance with the law
- Intervention measures adapted to the nature of the non-compliance
- Awareness strategies to alert the public to observed illegal activities



Crypto assets under close surveillance

PlexCoin: In 2017, the Financial Markets Administrative Tribunal (the “Tribunal”) issued various freeze orders and bans against Dominic Lacroix and certain individuals and firms associated with him in connection with the PlexCoin project. The Tribunal ruled at the time that the promoter’s initial coin offering for its future cryptocurrency (PlexCoin) met the test for an investment contract and was therefore subject to the *Securities Act*. On July 5, 2018, in order to enforce the freeze orders and preserve the assets for the potential benefit of the investors, the Superior Court of Québec, at the AMF’s request, appointed a receiver to take possession of the Bitcoins held by Dominic Lacroix. The Bitcoins, with an estimated value of \$3.7 million, had previously been recognized by the Tribunal, based on evidence presented by the AMF, as having come from the project’s investors.

Most initial cryptocurrency or token offerings, commonly known as initial coin offerings (“ICOs”), are a form of on-line fundraising and involve offering digital “assets” to finance start-up projects. In many cases, such transactions are conducted in violation of the Securities Act and only serve to enrich individuals or firms that quickly divert the money from their victims.



Crypto assets under close surveillance (continued)

Crypto Technologies Inc.: At the request of the AMF, the Financial Markets Administrative Tribunal (the “Tribunal”) issued conservatory orders, ruling for the first time in Québec that an investment offer related to cryptocurrency mining may constitute an investment contract—that is, a security whose distribution to the public is subject to the *Securities Act*. Various freeze orders and bans were issued by the Tribunal in order to preserve the public interest over the course of the AMF’s investigation.

Blockchain Lab Inc.: Following an *ex parte* hearing, the Tribunal issued freeze orders and cease trade orders, agreeing with the AMF’s position that the solicitation of investments from the public in connection with the promotion of a cryptocurrency mining project and involving the offering of virtual tokens in consideration of a contribution of capital from investors had all the characteristics of an investment contract and was therefore subject to the *Securities Act*. For some project investors, the contribution of capital involved entrusting mining equipment to Blockchain Lab Inc. in exchange for tokens.



Illegal on-line trading platforms

We conducted several targeted campaigns against illegal on-line trading platforms, including **HQ Broker** and **FSM Smart**. In the case of both HQ Broker and FSM Smart, the scheme involved establishing a relationship of trust with a fake broker. Encouraged by virtual gains reported on their initial investment, consumers invested even more money, but contrary to what was asserted, the money was not deposited in investors' accounts.

A number of actions were taken with credit card issuers, major technology firms and advertisers in order to put a stop to the activities of those platforms. At the same time, we rolled out a multi-platform investor warning campaign that included an interview that was broadcast on Facebook Live—a first for the AMF. The campaign was picked up by well-known columnists in Québec, extending its reach significantly.

- A continually updated [warning list of websites and companies that solicit investors illegally](#) is available on the AMF website.



Investor warnings

Our [investor warnings](#) for consumers of financial products and services are accessible at all times on our website. Here are the investor warnings that were published in the past year:

- **June 6, 2018**
Caution urged for Canadians investing with crypto-asset trading platforms
- **June 15, 2018**
Binary options: Some platforms are still active with consumers despite the ban
- **June 19, 2018**
AMF cautions Québec consumers against ongoing fraudulent activities (deceitful representations about the identities of individuals and firms)
- **September 26, 2018**
AMF cautions investors about solicitations by Hollis Kookmin Financial
- **October 29, 2018**
Do not respond to solicitations from FSM Smart
- **October 31, 2018**
Do not respond to solicitations by Claude Hebert,⁴ Hebert Finance and GXC Financial

⁴ Claude Hebert should not be confused with Claude Hébert who holds certificate No. 187939 in insurance of persons, carries on activities with IG Insurance Services Inc. and is registered as a dealing representative (mutual fund dealer) with Investors Group Financial Services Inc.

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TECHNOLOGICAL INNOVATION IN SUPPORT OF ENFORCEMENT

Although technological innovation creates new opportunities for consumers of financial products and services and for the industry, it also gives rise to illegal, abusive and fraudulent practices. On the other hand, it enables regulators to develop more sophisticated, effective and efficient enforcement tools.



Electronic evidence management: A strategic project on track for completion

We have completed some major steps in implementing our electronic evidence management project, which is intended to optimize our investigation and prosecution case management processes and the collection, processing, analysis, disclosure, filing and presentation of evidence before the courts.

- Launch of the computer development phase of a new case management solution
- Acquisition of a new electronic evidence management system
- Planning for the development of other required components

All new business processes and project tools are scheduled to be implemented in 2020.

ODDI: A dynamic insider trading detection tool

We continued development of our AMF-designed and -produced insider trading detection tool (ODDI) that continuously adapts to new market realities, available data and big data analytics technology. Due to the vast amounts of data consolidated over the past few years, ODDI enables us to test the latest advances in process automation and machine learning.

Rollout of a new market analysis platform

Starting in 2020, a market activity data repository and data analytics system, designed and developed in collaboration with other Canadian Securities Administrators (CSA) jurisdictions, will enable us to better identify and analyze incidents of market manipulation and insider trading. This is a major technological step forward in our enforcement efforts.

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ACTIVELY PROMOTING COOPERATION

Fintech innovations continue to spawn new ways to engage in unethical, abusive and fraudulent practices that cross borders. Which is why it is important for regulators to work together and create more opportunities to share their technological advances, methods and prevention and detection tools.



AMF Enforcement plays a significant role within the International Organization of Securities Commissions (IOSCO) by, among other things, chairing major committees and proposing tangible collaborative initiatives.

■ **Committees chaired**

Jean-François Fortin, Executive Director, Enforcement, chairs the following two committees:

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.

Screening Group

Mandate: Validate compliance with the requirements by IOSCO members wishing to become signatories to the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information, and enhance related international standards.

■ **Collaboration**

TASMEC

As of the publication of this report, the AMF has been the driving force behind four international Technology Applied to Securities Markets Conferences (TASMEC), at which some of the world's most innovative regulators share their expertise and the tools they use to prevent and detect illegal, abusive and fraudulent practices.

Collaborative portal

We participated in the development and rollout of an Emerging Digital Threats Portal, accessible to all IOSCO members, for the sharing of legal precedents, investor warnings, notices, commenced proceedings and best enforcement strategies in connection with emerging illegal practices.

AMF Enforcement also plays a leading role at the national level.

■ Committees chaired

Christian Desjardins, Director, Case Assessment and Intelligence, chairs the following committee:

Enforcement Committee

Mandate: Coordinate multijurisdictional investigations and share tools and techniques for conducting cross-border investigations of securities law violations.

Sylvie Lacroix, Inspector-Coordinator, chairs the following committee:

Compliance Committee

Mandate: Harmonize compliance oversight approaches across Canada.

■ Collaboration

Cross-Border Market Fraud Initiative

This initiative, which brings together enforcement specialists from the AMF and their partners at the Alberta Securities Commission, the British Columbia Securities Commission, the Ontario Securities Commission, the RCMP, the U.S. Securities and Exchange Commission (SEC) and the Federal Bureau of Investigation, encourages the adoption of innovative and coordinated methods aimed at eradicating pump-and-dump schemes. This coordinated response is yielding tangible enforcement results, including cease trade orders, trade suspensions and freeze orders. Supported by this ongoing initiative, the SEC temporarily suspended the trading of 49 Canadian-based issuers quoted on over-the-counter markets in the U.S.

International Insider Trading and Market Manipulation (ITMM) Conference

The AMF hosted the 6th edition of the ITMM Conference in Québec City on September 19 and 20, 2018. The conference brought together more than 120 analysts, investigators and litigators from 24 organizations and nine countries (Canada, United States, France, Australia, Germany, Singapore, Portugal, Japan and Hong Kong (China)) to develop their skills and share best practices on investigating insider trading and market manipulation. The ITMM Conference continues to be a high-impact initiative for participants and reflects the AMF's position as a thought and influence leader in this area.



Québec-wide framework agreement to combat maltreatment of seniors

The Québec-wide framework agreement to combat maltreatment of seniors, which was ratified in February 2018 by eight government ministries and agencies, including the AMF, provides for the Québec-wide deployment of collaborative intervention processes by service providers in the health and social services, justice and public safety sectors.

Such collaborative intervention processes apply when a service provider has reasonable cause to believe that a senior is a victim of maltreatment within the meaning of the law, the maltreatment requires joint action between service providers to put an end to it effectively, and the maltreatment could constitute a criminal or penal offence.

In the past year, AMF investigators participated in the rollout of collaborative intervention processes in several regions of Québec.

Collaborative intervention processes promote:

- a rapid and accurate assessment of maltreatment
- an appropriate and timely response
- an intervention that is complementary to the legal system in order to put an end to the maltreatment and adequately protect the senior
- a decrease in the negative impact of service providers' actions and procedures on victims of maltreatment while ensuring they are effective