

Decision on Application to Extend Temporary Cease Trade Order

**In the Matter of
*The Securities Act, 1988***

and

**In the Matter of
Epic Alliance Inc.
Epic Alliance Real Estate Inc.
12099179 Canada Inc.
12195160 Canada Inc.
12195194 Canada Inc.
12693151 Canada Inc.
12767490 Canada Inc.
12884607 Canada Inc.
12262231 Canada Inc.
Rochelle Laflamme
and
Alisa Thompson**

Motion Heard: November 5, 2021

Panel: Peter Carton (Chairperson)
Tracey Bakkeli (Panel Member)
Karen Prisciak (Panel Member)

Appearances: Connor Smith (Counsel for Staff of the Financial Consumer Affairs Authority of Saskatchewan)

Alex Koch (Counsel for the Respondents)

Date of the Decision: December 1, 2021

I. INTRODUCTION

1. This was a hearing before a panel appointed pursuant to section 17 of the *Financial and Consumer Authority of Saskatchewan Act*, SS 2012 c F-13.5 (the “Panel”) to hear an application brought by Staff under subsection 134(3) of *The Securities Act 1988*, SS 1988-89, c S-42.2 [Act] to extend a temporary cease trade order placed against Epic Alliance Inc., Epic Alliance Real Estate Inc., 12099179 Canada Inc., 12195160 Canada Inc., 12195194 Canada Inc., 12693151 Canada Inc., 12767490 Canada Inc., 12884607 Canada Inc., 12262231 Canada Inc., Rochelle Laflamme, and Alisa Thompson (collectively, the “Respondents”).

2. On November 16, 2021, the Panel denied Staff's application and ordered that the temporary cease trade order be terminated immediately with written reasons to follow. These are those reasons.

A. Background

3. The Executive Director of the Securities Division, Financial and Consumer Affairs Authority of Saskatchewan issued a temporary cease trade order on October 21st, 2021 (the "Temporary Order") pursuant to various provisions of the *Act*. The Temporary Order was set to expire on November 5, 2021, being 15 days after it was issued, unless extended.

4. After identifying the Respondents, the Temporary Order stated:

21. Through the Website and other social media Epic Alliance Inc. has provided residents of Saskatchewan information and advice on how to invest in various securities, including real estate investments and promissory notes;

22. None of the Respondents are or have ever been registered as "dealers" in Saskatchewan pursuant to section 27 of the *Act*;

23. None of the Respondents are or have ever been registered as "advisors" in Saskatchewan pursuant to section 27 of the *Act*;

24. The Respondents, other than 12262231 Canada Inc., signed an Undertaking to the Executive Director on September 22nd, 2021, agreeing to not conduct any further trading in securities or to conduct any acts in furtherance of trading in securities in Saskatchewan or any other jurisdiction, as well as to provide a list of all financial institution branches where investor funds are held within ten days of the date of the Undertaking and to submit within five days of the date of the Undertaking a plan detailing the steps that would be taken to become fully compliant with the *Act*;

25. The Respondents appear to continue to be engaged in the business of trading and advising with respect to securities and or derivatives in Saskatchewan without registration contrary to section 27 of the *Act*, and continue to trade without the filing of a preliminary prospectus or prospectus, contrary to section 58 of the *Act*; and or have failed to file a report of exempt distribution as required by National Instrument 45-106; and

26. The Respondents, other than 12262231 Canada Inc., appear to have failed to comply with an Undertaking given to the Executive Director, contrary to section 55.15 of the *Act*.

AND WHEREAS the Executive Director is of the opinion that the length of time required for a hearing would be prejudicial to the public interest, given the urgent nature of this matter;

AND WHEREAS the Executive Director is of the opinion that it is in the public interest to make this order

THE EXECUTIVE DIRECTOR HEREBY ORDERS THAT:

1. Pursuant to subsection 134(3) and clause 134(1)(a) of the Act, the exemptions in Saskatchewan securities laws do not apply to the Respondents up to and including November 5th, 2021;
2. Pursuant to subsection 134(3) and clause 134(1)(d) of the Act, the Respondents shall cease trading in securities and derivatives in Saskatchewan up to and including November 5th, 2021.
3. Pursuant to subsection 134(3) and clause 134(1)(d.1) of the Act, the Respondents shall cease acquiring securities and derivatives for and on behalf of residents of Saskatchewan up to and including November 5th, 2021; and
4. Pursuant to subsection 134(3) and clause 134(1)(e) of the Act, the Respondents shall cease giving advice respecting securities or derivatives up to and including November 5th, 2021.
5. Staff applied for an extension of the Temporary Order to the end of the day on April 5, 2022. Staff's grounds in support of the application stated that the extension was "necessary... to permit [Staff] to complete their investigation into the activities of the Respondents, prepare and serve the Statement of Allegations..., set a hearing date and prepare documents and witnesses for the hearing." The grounds did not list any allegations of wrongdoing or breaches of any securities laws by the Respondents. There were also no grounds indicating the Respondents' conduct was contrary to the public interest.
6. Staff's application was supported by the Affidavit of Earl McNutt. Investigator McNutt outlined his investigative activities to date and what steps he anticipated taking in the future. He also indicated he needed five more months to complete his investigation. There was not, however, any evidence in Investigator McNutt's affidavit of wrongdoing or breaches of securities laws by the Respondents. There was also no evidence of any conduct by the Respondents that might be contrary to the public interest.
7. The application was heard by the Panel on November 5, 2021. However, materials relied on by the Respondents during the hearing were not filed with the Registrar of the Authority ("Registrar") as required by *Saskatchewan Policy Statement 12-602 – Procedure for Hearings and Reviews [Local Policy]*. As a result, the Panel did not have access to the Respondents' materials during the hearing and was not able to review them prior to the hearing.
8. The Panel granted leave to the Respondents to file their materials with the Registrar so that those materials could be reviewed and considered prior to making a final determination regarding extending the Temporary Order. To accommodate this, the Panel extended the Temporary Order to November 19, 2021 or until further order of the Panel.
9. The Respondents' materials consisted of two statutory declarations by directors of the corporate respondents (collectively "Epic Alliance"), investor support letters, and employee support letters. The statutory declarations stated that Epic Alliance has been in business for 8 years, employs 118 people, and

has contractors that employ over 100 people. In addition, the statutory declarations stated that the Respondents had to the best of their ability fully complied with the investigation and signed undertakings, and that the Respondents had agreed to comply with any reasonable and undisputed orders or requests of the Financial and Consumer Affairs Authority (the “FCAA”). The declarations and support letters also indicated that the temporary cease trade order was negatively impacting Epic Alliance’s business.

10. In oral arguments, counsel for the Respondents also submitted that the Respondents believed they were operating in accordance with securities laws and had been relying on the friends and family exemption. In written submissions, it was further submitted that the Respondents believed they could also rely on the accredited investor exemption. In addition, it was submitted that while the Respondents did not believe they needed to, they were in the process of registering as an exempt market dealer.

11. Considering neither party directed the Panel in their materials or oral submissions as to the legal test to be applied in the present circumstances, after the hearing the Panel requested that the parties file written submissions in respect to the legal test to be applied and burden of proof. The parties filed their respective submissions by noon on November 15, 2021.

12. After considering all the materials, the Panel ordered on November 16, 2021 that the Temporary Order be terminated effective immediately with written reasons to follow.

II. ISSUE

13. Staff’s application raises the issue of whether the Temporary Order should be extended.

III. ANALYSIS

14. Staff’s application to extend the Temporary Order is brought pursuant to section 3.2.1 of the *Local Policy* and subsection 134(3) of *The Securities Act*, 1988-89, c S-42.2 [Act].

15. In respect to the *Local Policy*, section 3.2.1 is the only rule that expressly sets out a procedure for extending a temporary cease trade order. Falling under PART 3 – MOTIONS, section 3.2.1 reads:

3.2.1 Application to Extend a Temporary Order

An Application to extend a temporary cease trade order shall be sent to each party and filed at least two business days before the date on which the application is to be heard.

16. Temporary cease trade orders are also mentioned in Appendix C of the *Local Policy*, which is focused on providing guidance to self-represented litigants. Under the heading “The Start of Proceedings”, it explains how from a procedural perspective, the issuing of a temporary cease trade order, like the issuing of a Statement of Allegations, signifies the start of a proceeding brought by Staff against a person:

A proceeding against you is started at the earlier of when a temporary cease trade order is issued or when staff of [the Financial and Consumer Affairs Authority (“FCAA”)] files a Statement of Allegations that sets out the claims against you and sends that Statement of Allegations to you. If a temporary cease trade order (the “TCTO”) is issued against you, the TCTO will be sent to you and filed with the Registrar.

17. Subsection 134(3) of the *Act* allows for a temporary cease trade order to be placed against a person without a hearing if it is in the public interest and the time it would take to hold a hearing could be prejudicial to the public interest. However, if a hearing is not held prior to imposing a temporary cease trade order, it can only remain in effect for a period of 15 days unless it is extended by the Commission (which is defined in the *Act* as the FCAA, and in practice ends up being a panel of members of the FCAA, or otherwise known as a panel). The temporary cease trade order can only be extended by a panel if the panel considers the extension to be in the public interest and “necessary where satisfactory information is not provided to the Commission within the 15-day period”. Subsection 134(3) reads in its entirety:

Order to cease trading

134...

...

(3) The Commission shall not make an order pursuant to subsection (1) without a hearing unless, in the opinion of the Commission, the length of time required for a hearing could be prejudicial to the public interest, in which even the Commission may make a temporary order, which shall be for not longer than 15 days from the date of making the order, but the order may be extended for any period that the Commission considers necessary where satisfactory information is not provided to the Commission within the 15-day period.

18. This is the first time a panel of the FCAA has written a decision in respect to subsection 134(3). Helpfully though, securities regulators from other jurisdictions have considered similar provisions.

19. In Ontario, for example, its *Securities Act*, RSO 1990, c S.5 [*Ontario’s Act*] contains provisions that are very similar to subsection 134(3), only they have been broken down into more subsections. The relevant provisions fall under section 127 of *Ontario’s Act* and read as follows:

Orders in the public interest

127

...

(4) No order shall be made under this section without a hearing, subject to section 4 of the *Statutory Powers Procedure Act*.

...

(5) Despite subsection (4), if in the opinion of the Commission the length of time required to conclude a hearing could be prejudicial to the public interest, the Commission may make a temporary order under paragraph 1 [registration or recognition suspended or terminated], 2 [cease trading in securities], 2.1 [securities acquisition prohibition] or 3 [exemptions do not apply] of subsection (1) or subparagraph ii of paragraph 5 of subsection 1.

(6) The temporary order shall take effect immediately and shall expire on the fifteenth day after its making unless extended by the Commission.

(7) The Commission may extend a temporary order until the hearing is concluded if a hearing is commenced within the fifteen-day period.

(8) Despite subsection (7), the Commission may extend a temporary order under paragraph 1, 2, 2.1 or 3 or subparagraph 5 ii of subsection (1) for such period as it considers necessary if satisfactory information is not provided to the Commission within the fifteen-day period.

20. The Ontario Securities Commission ("Ontario Commission") has considered their powers regarding section 127, including in respect to extending temporary cease trade orders, in numerous cases. It has also considered key issues such as the legal standard to be applied and the burden of proof in situations such as the present where Staff applies to extend a temporary cease trade order.

21. For example, *Watson (Re)*, 2008 LNONOSC 21 (QL) (Ont. Sec. Comm.) [*Watson*] was a case where staff of the Ontario Commission applied to extend a temporary cease trade order that had originally been issued *ex parte* and then extended six times. After the sixth extension, a hearing was held. At the time of the hearing, a statement of allegations had not yet been issued and Staff was still investigating. In discussing the overarching purposes of securities legislation, the Ontario Commission wrote:

24 The Commission's mandate is found in section 1.1 of the Act, which provides as follows:

The purposes of this Act are,

(a) to provide protection to investors from unfair, improper or fraudulent practices; and

(b) to foster fair and efficient capital markets and confidence in capital markets.

25 The Supreme Court of Canada has recognized that the "primary goal of securities legislation is the protection of the investing public" and, to achieve this goal, the Commission is accorded "a very broad discretion to determine what is in the public interest" (*Pezim v. British Columbia (Superintendent of Brokers)* (1994), 114 D.L.R. (4th) 385 (S.C.C.) at pp. 406, 408).

26 This broad discretion allows the Commission to intervene even where there is no specific breach of the Act: *Re Canadian Tire Corp.* (1987), 10 OSCB 857, 1987 LNONOSC

47, at p. 29 (QL), affirmed (1987), 10 OSCB 1771, 59 O.R. (2d) 79 (Div. Ct.), leave to appeal refused (1987), 35 B.L.R. xx (Ont.C.A.).

22. The Ontario Commission went on to discuss the evidentiary burden and legal standard to be applied in applications to extend a temporary cease trade order. It held that one way it can exercise its public interest jurisdiction to extend a temporary order is when there exists "sufficient evidence of conduct that may be harmful to the public interest" (at para 35). The Ontario Commission set out the principles as follows:

31 The authority to issue and extend temporary cease trade orders is important in enabling the Commission to achieve its mandate of protecting investors and the capital markets. In *Re Mithras Management Inc* (1990), 13 OSCB 1600, at 1610, the Commission emphasized the nature of the Commission's public interest mandate:

... the role of this Commission is to protect the public interest by removing from the capital markets - wholly or partially, permanently or temporarily, as the circumstances may warrant - those whose conduct in the past leads us to conclude that their conduct in the future may well be detrimental to the integrity of those capital markets. We are not here to punish past conduct; that is the role of the courts, particularly under section 118 [now 122] of the Act. We are here to restrain, as best we can, future conduct that is likely to be prejudicial to the public interest in having capital markets that are both fair and efficient. In so doing we must, of necessity, look to past conduct as a guide to what we believe a person's future conduct might reasonably be expected to be; we are not prescient after all. And in so doing, we may well conclude that a person's past conduct has been so abusive of the capital markets as to warrant our apprehension and intervention, even if no particular breach of the *Act* has been made out.

32 Further, as stated by the Commission in *Re Valentine*:

... the Commission may be required to extend a Temporary Order before an investigation is completed. This authority enhances the Commission's capacity to protect the capital markets by allowing it to take preventative action; *Re C.T.C. Ltd.* (1987), 10 OSCB 857.

Re Valentine, (2002), 25 OSCB 5329 at 5331. See also: *Rodney Gold Mines* (1972), 7 OSCB 159 (S.C.) at 160, *Intercontinental Technologies Corp.* (1983), 6 OSCB 634, and *Oakwood Petroleums Ltd.* (1984), 7 OSCB 1919.

...

35 We agree that **a temporary order may be extended based on sufficient evidence of conduct that may be harmful to the public interest. We note that subsection 127(8) of the Act permits extension of a temporary order "if satisfactory information is not provided to the Commission." We find that in making that determination, we must consider the apparent strength of the evidence put forward by Staff as well as any**

evidence put forward by the Respondent. We adopt the following statement from *Re Valentine*:

In exercising its regulatory authority, the Commission should consider all of the facts including, as part of its sufficiency consideration, the seriousness of the allegations and the evidence supporting them. The Commission should also consider any explanations or evidence that may contradict such evidence. This will allow it to weigh the threat to the public interest against the potential consequences of the order.

Re Valentine, (2002), 25 OSCB 5329 at 5331.

[emphasis added]

23. In *Watson*, the Ontario Commission found that while Staff may not have brought forward the level of evidence that would be required at a hearing to find a breach of the *Act*, the evidence filed was more than mere suspicion or speculation and was sufficient to extend the temporary cease trade order. Staff's evidence in the case demonstrated "a consistent pattern of improper trading that present[ed] a serious risk to investors and to the integrity of the capital markets" (at para 41). Much of staff's evidence was uncontradicted and the respondents failed to bring forward satisfactory information to show an extension was not necessary. The extension was therefore granted with a narrow carve out to allow one respondent to continue trading from a personal account.

24. In *Re Shallow Oil & Gas Inc.*, 2008 LNONOSC 100 (QL) (Ont. Sec. Comm.), the Ontario Commission was similarly tasked with considering whether it was in the public interest to extend a temporary cease trade order that had been issued against numerous respondents *ex parte*. A statement of allegations had yet to be issued at the time. A hearing was set to consider the issue and at the hearing one of the respondents appeared to contest the temporary order being extended. In discussing the law to be applied, the Ontario Commission relied on *Watson* and the cases cited therein and provided additional insight on the burden of proof issue. In addition, the Ontario Commission noted that securities regulators must be able to act quickly to prevent future harm, but also cautioned that a temporary cease trade order is "an extraordinary remedy and one that should not be exercised lightly" (at para 33). The Ontario Commission wrote:

31 ...[I]n *Committee for the Equal Treatment of Asbestos Minority Shareholders v. The Queen in right of Quebec et al.*, [2001] 2 S.C.R. 132, the Supreme Court of Canada noted that the legislature clearly intended the Commission to have a very wide discretion in exercising its powers pursuant to subsection 127(1), stating that the "permissive language of s. 127(1) expresses an intent to leave it for the OSC to determine whether and how to intervene in a particular case" (at para. 39).

...

33 The authority of the Commission to issue and extend temporary cease trade orders is directly related to its goal of protecting investors. It is essential that the Commission be able to act quickly, at an early stage of an investigation, to protect investors from ongoing harm. In doing so, the Commission must consider the public interest in the particular circumstances. We recognize that issuing a cease trade order is an extraordinary remedy and one which should not be exercised lightly. Where, however, there is credible evidence of harm to investors, the Commission must be able to act to prevent further harm. In our view, it is clear as a legal matter that a temporary cease trade order may be extended based on sufficient evidence of conduct that may be harmful to the public interest (see *Re Watson et al.* (2008), 31 O.S.C.B. 705).

...

34 Subsection 127(8) of the Act authorizes an extension of a temporary cease trade order where "satisfactory information is not provided to the Commission". We agree that in determining whether satisfactory information has been submitted, we must consider the apparent strength of the evidence put forward by Staff as well as any evidence put forward by the Respondent. ...

...

35 In *Re Rodney Gold Mines Ltd.* (1972), 7 O.S.C.B. 159 (S.C.), the Court considered the predecessor to subsection 127(8) of the Act and held that there is a reverse onus on the party against whom a temporary cease trade order is made to provide the Commission with information to show cause as to why a temporary order should not be made permanent. As stated at page 160 of *Re Rodney Gold Mines Ltd.*:

We are of the opinion that the words "where satisfactory information is not provided to the Commission within the fifteen day period" places a burden on the party against whom the order is made to provide the Commission with information.

36 Accordingly, where Staff has provided credible evidence of conduct that may be harmful to the public interest, the onus is then on the respondent to provide the Commission with satisfactory information that the temporary cease trade order should not be extended. Absent satisfactory information from the respondent, the Commission is justified in extending a temporary cease trade order.

[emphasis added]

25. These principles have been applied consistently by the Ontario Commission, including recently. For example, Staff filed the case of *Daley (Re)*, 2021 LNONOSC 378 (QL) (Ont. Sec. Comm.) where the Ontario Commission was faced with an application to extend a temporary cease trade order that had been extended nine times. A statement of allegations had been issued at the time and a hearing on the merits had been held, but the parties were awaiting a decision. The Ontario Commission cited to *Watson, Valentine (Re)* (2002), 25 OSCB 5329 (Ont. Sec. Comm.), and *Western Wind Energy Corp (Re)*, 2013 ONSC 25, (2013) 36 OSCB 6749 in succinctly setting out the principles to be applied:

12 As noted in an earlier decision extending the Temporary Order in this proceeding, the Commission's authority to issue and extend temporary cease trade orders is an important tool for the Commission in achieving its mandate to protect investors and the capital markets.

13 Staff must satisfy the Commission that there is "sufficient evidence of conduct that may be harmful to the public interest." In considering the sufficiency of the evidence, the Commission should consider "the seriousness of the allegations and the evidence supporting them" as well as "any explanations or evidence that may contradict such evidence." This "will allow [the Commission] to weigh the threat to the public interest against the potential consequences of the order." The evidence presented "may fall short of what would be required in a hearing on the merits", but must be "more than mere suspicion or speculation."

[Footnotes omitted]

26. Counsel for the Respondents cited numerous cases from Ontario in support of a contention that the "clearly abusive to investors" test should be adopted in the present circumstances. The line of cases show that a clearly abusive test has been applied in certain situations where securities regulators are being asked to exercise their public interest jurisdiction and when there has not been a proven breach of the *Act*. From the cases, an example of when applying the clearly abusive test may be appropriate is when there is a takeover bid and a private party seeks to have a securities regulator stop the transaction because it would be abusive to investors. Another example, not necessarily from the cases cited by the Respondents, is in situations where, after a hearing, the elements of fraud have not been made out and so there is no proven breach of the *Act*, but the evidence discloses conduct of such concern that the regulator feels a need to act to protect the capital markets and prevent future harm. (See generally *PointNorth Capital Inc. (Re)*, 2017 ABASC 121 (QL) at paras 20-40 and the cases cited therein).

27. Staff countered this line of cases and the submission that the clearly abusive test should be adopted by filing *Bridgemark Financial (Re)*, 2019 BCSECCOM 14 (QL), a recent decision of the British Columbia Securities Commission ("BC Commission"). In this case, which involved legislation that reads somewhat different than that of Ontario and Saskatchewan, staff of the BC Commission brought an application to extend a temporary cease trade order on the basis that the actions of the respondents were contrary to the public interest. Staff did not allege a specific breach of the legislation at issue, being the *Securities Act*, RSBC 1996, c 418 [BC's *Act*], but instead sought to rely on the regulator's ability to act under its general public interest jurisdiction. Staff of the BC Commission filed evidence in support of its application and fleshed out the conduct it alleged to be contrary to the public interest. In analyzing the law, the BC Commission cited its previous jurisprudence, *Fairtide Capital Corp. (Re)*, 2002 BCSECCOM 993 (QL) [*Fairtide*], which held that for a temporary cease trade order could be extended, staff needed to bring forward *prima facie* evidence of misconduct as well as that extending the order was "necessary and in the

public interest” (the quote being the statutory language: *BC’s Act*, s 161(3)). However, the BC Commission also stated that satisfying the *Fairtide* test was not the only way that an extending order could be granted. Noting that “some flexibility to extend temporary orders in the public interest” is necessary, including in respect to situations where staff is not alleging a specific breach of the legislation and is instead grounding their application in the regulator’s broader public interest jurisdiction, the BC Commission held that a preferable overarching standard would be to require staff to provide *prima facie* evidence of “conduct that raises significant public interest concerns” (at paras 19-26).

28. While we think it is arguable that the standard applied in *Bridgewater* and the standard applied in cases such as *Watson*, *Shallow Oil*, and *Daley* are not all that different, we do not close the door on argument in future cases on the adoption of other tests that may better address the specific circumstances of those cases (as has occurred in some of the cases cited above). That said, in the present situation where Staff wishes to extend a temporary cease trade order that was granted *ex parte* and there are undertones of unregistered trading and other misconduct, we prefer the approach taken in the *Watson* line of cases.

29. In summary, when Staff seeks and is granted a temporary cease trade order *ex parte*, if Staff wishes for that order to be extended beyond the 15 days set out in the *Act*, Staff must bring an application to do so in accordance with the *Local Policy*. On that application, in order to justify the request to extend the order, Staff bears the burden of bringing forward sufficient evidence of conduct that may be harmful to the public interest. Staff is not required to present the level of evidence that is required at a hearing on the merits, but the evidence must be more than mere suspicion or speculation. If Staff meets its burden, then the onus is on the respondents to provide satisfactory information to show that extending the cease trade order is not necessary in the circumstances.

30. In the present case, the Panel is unanimous in its view that Staff has failed to meet its evidentiary burden on their application to extend the Temporary Order. When reviewing the affidavit of Investigator McNutt, which is the only affidavit and only evidence filed in support of Staff’s application, the Panel does not see any evidence of conduct that may be harmful to the public interest. Staff’s application also does not allege any conduct that may be harmful or contrary to the public interest.

31. Simply stated, Staff’s application requests an extension of a cease trade order because they see it as necessary while they complete their investigation. However, this Panel cannot extend the Temporary Order without proper evidence. Staff needed to provide sufficient evidence of conduct harmful to the public interest to justify extending the order and failed to do so.

IV. CONCLUSION

32. Staff's application to extend the Temporary Order is dismissed on the terms set out in the Order of the Panel dated November 16, 2021.

33. This is the unanimous decision of the Panel.

Dated at Regina, Saskatchewan this 1st day of December, 2021.

"Peter Carton"

Peter Carton, Chairperson

"Tracey Bakkeli"

Tracey Bakkeli, Panel Member

"Karen Prisciak"

Karen Prisciak, Panel Member