

IN THE MATTER OF THE *SECURITIES ACT*,
S.N.B. 2004, c. S-5.5

AND IN THE MATTER OF

**PIERRE EMOND, ARMEL DRAPEAU,
and JULES BOSSÉ,**

(Respondents)

FILED WITH/DÉPOSÉ AVEC
the Secretary to the Commission
le secrétaire de la Commission

JUN 24 2010

File # 2300-E1

NBSC/CVMNB

STATEMENT OF ALLEGATIONS

(of Staff of the New Brunswick Securities Commission)

1. Pierre Emond ("Emond") is an individual resident at 110 Av. Bossé, Edmundston, New Brunswick. Emond has never been registered with the New Brunswick Securities Commission.
2. Arnel Drapeau ("Drapeau") is an individual resident at 92 rue Leblond, Edmundston, New Brunswick. Drapeau was a registered mutual fund salesperson at Investia Financial Services Inc. ("Investia") from 30 September 2005 until his registration was terminated by Investia on 25 March 2009. He had been a registrant since 1989.
3. Jules Bossé ("Bossé") is an individual resident at 709, chemin Baisley, St-Jacques, New Brunswick. Bossé has never been registered with the New Brunswick Securities Commission.

The Respondents' participation in an illegal distribution of securities

4. Emond, Drapeau, and Bossé (the "Respondents") each promoted and participated in an illegal distribution of securities issued by Centre de traitement d'information de crédit (C.T.I.C.) Inc. ("CTIC" and the "CTIC Distribution"). The Respondents solicited investments in CTIC from the public, and invested their own money into CTIC.
5. The securities distributed by CTIC consisted of written loan agreements evidencing the indebtedness of CTIC to investors who had loaned money to CTIC. The loans bore significant rates of interest, typically between 12% and 14% per year.

6. CTIC paid commissions in respect of the Respondents' participation in the CTIC Distribution. The commissions were paid to the respective respondent directly, or to a corporation designated by the respondent.
7. The CTIC Distribution was illegal in that it was not effected by prospectus or in reliance on, and in compliance with, any exemption from the prospectus requirement, thereby contravening section 71(1) of the *Securities Act*, S.N.B. 2004, c. S-5.5 (the "*Securities Act*").
8. Emond and Bossé were not registered to trade in securities at the time of their participation in the CTIC Distribution. Drapeau was registered as mutual fund salespersons at the time of the CTIC Distribution, but the trades were not conducted through Investia, his registered dealer. As such, each Respondent has breached section 45(a) of the *Securities Act*, the trades not otherwise being exempt from the registration requirement.

Trades conducted by the Respondents

9. Between March 2006 and January 2008, Emond acted in furtherance of trades of CTIC securities to 34 New Brunswick investors, who invested in excess of \$3,000,000 with CTIC. The 34 investors invested between \$12,000 and \$500,000 each.
10. On 15 February 2008, Emond signed a written undertaking to the NBSC not to trade in securities without the prior authorization of the NBSC.
11. On 26 February 2008, Emond transferred his interest in his residence to his spouse.
12. Between October of 2006 and March of 2008, Drapeau acted in furtherance of trades of CTIC securities to 21 New Brunswick investors, who invested in excess of \$1,800,000 with CTIC. The 21 investors invested between \$5,000 and \$450,000 each.
13. On 20 May 2008, Drapeau signed a written undertaking to the NBSC not to trade in securities of CTIC.
14. Bossé acted in furtherance of a single trade of CTIC securities involving \$100,000 to a New Brunswick investor in or about February 2007. Bossé helped draft the loan agreement used in this trade.

Off-book selling by Drapeau

15. Drapeau, as a registrant at Investia, was subject to the rules and by-laws of the Mutual Fund Dealers Association of Canada (the "MFDA").
16. MFDA Rule 1.1.1 prohibited Drapeau from engaging in all securities related business except that which is carried on for the account of

Investia and through the facilities of Investia.

Failure to disclose commissions and to conduct proper due diligence

17. Given that the CTIC Distribution was not exempt from the registration requirement, and given the definition of "registrant" in the *Securities Act*, each of the Respondents was required to comply with section 54 of the *Securities Act*, and ought to have conducted due diligence on the CTIC securities and determined its suitability for each of the investors. The Respondents' failure in this regard denied the investors the protection intended by section 54 of the *Securities Act*.
18. The Respondents each knew that the securities promoted by them had a cost-of-borrowing of 24% per year. This included interest of 12% to 14% to the investors, as noted on the written loan agreements, and interest of 10% to 12% to the salesperson (which was not indicated on the written loan agreements).
19. Knowledge of the total cost-of-borrowing of 24% per year ought to have caused each Respondent to exercise significant due diligence to confirm sufficient commercial profits by CTIC to repay its debts, prior to promoting the securities.
20. Instead of conducting proper due diligence on CTIC, Emond and Drapeau instead made unverified claims about the investment, including that the investment was "guaranteed", and that the funds were being used for factoring accounts that were insured.

Illegal distribution of CITCAP securities by Drapeau

21. In December 2008 and January 2009, Drapeau acted in furtherance of an illegal distribution of securities issued by CITCAP Groupe Financier Inc. ("CITCAP"), an entity related to CTIC. Drapeau acted in furtherance of trades of CITCAP securities to 5 investors in New Brunswick, with the investments totaling \$570,000.
22. The sales of CITCAP securities by Drapeau occurred after he had given the written undertaking to the NBSC on 20 May 2008 not to trade in the securities of CTIC. The sole purpose of CITCAP was to remit the investments raised to CTIC.
23. The CITCAP distribution was purportedly made pursuant to the Offering Memorandum exemption under section 2.9 of National Instrument 45-106 (NI 45-106), but a Report of Exempt Distribution was only filed with the NBSC in respect of one of the five trades.
24. Drapeau was paid, or was to be paid, a commission of 5% in connection with the CITCAP distribution, in contravention of section 2.9(6) of NI 45-106.

25. Drapeau subsequently misled Staff of the NBSC with respect to his involvement in the CITCAP sales, stating that he was only involved in the distribution to one CITCAP investor. Staff were already aware of this trade through CITCAP's filing of a Report of Exempt Distribution.

Emond misled an Investigator

26. In August 2008, a New Brunswick investor in CTIC who had placed his investments through Emond wrote to CTIC requesting that his investments be redeemed as they came due.
27. The investor had a \$25,000 loan agreement that came due in November of 2008, and the investor received the redemption of this investment.
28. The client's next loan agreement to mature was a \$75,000 investment that came due in January 2009. Emond informed the investor that CTIC was having difficulty meeting redemption requests, which were at an increased level. After the discussion, the investor agreed to keep the \$75,000 invested in CTIC, but wanted the remainder of his investments redeemed as they came due.
29. As such, in January 2009 Emond knew that CTIC had failed to meet a redemption request that had been made five months in advance, when the loan agreement itself only called for 60 days notice.
30. To Emond's knowledge, CTIC also failed to meet the redemption request in respect of a \$25,000 investment that came due in February of 2009.
31. Emond was interviewed, under oath, by an NBSC Investigator on 4 March 2009. During that interview, Emond spoke very positively about CTIC and expressed a desire to continue selling. He stated that all investors had continued to receive their monthly interest payments from CTIC. He spoke about the redemption of his client's loan that came due in November 2008, but failed to mention that CTIC had been unwilling or unable to redeem the investments that came due in January and February 2009.
32. Staff allege that Emond misled the Investigator in failing to describe the unsuccessful redemption requests in January and February 2009. It is misleading to rely on the payment of interest by CTIC as an indication of legitimacy while failing to mention failures to redeem principal.

Emond's further conduct contrary to the public interest

33. Emond was interviewed by Staff on 21 April 2009. During the interview Emond related a conversation he had with Patrick Gauthier, the principal of CTIC ("Gauthier"), approximately one and a half years earlier (i.e. the autumn of 2007).

34. Emond described that Gauthier stated that an employee of CTIC had left the company and wished to redeem his investment in CTIC for the purposes of creating a competing business in the same market. Gauthier stated that he initially refused to provide the former employee with the return of his investment.
35. Gauthier further related that upon being refused the return of his investment, the former employee hired "enforcers" and threatened violence against Gauthier. Gauthier stated that in response to this, he hired his own enforcers and made his own threats of violence against the former employee.
36. Despite having been a party to these representations made by Gauthier, Emond continued to sell and promote CTIC securities.
37. Staff alleges that Emond's actions in this regard contravened sections 54(a), 54(b) and 54(c) of the *Securities Act*.

The results of the illegal distribution in New Brunswick

38. On 14 April 2009, CTIC and CITCAP consented to an order of the New Brunswick Securities Commission denying them all exemptions under New Brunswick securities law.
39. In May 2009, the Autorité des marchés financiers obtained an order freezing the accounts of CTIC and CITCAP.
40. CTIC and CITCAP have since commenced bankruptcy proceedings, and it appears that there will be a substantial deficiency in the bankruptcy and that investors will lose approximately 80% of their principal investment. Some of the New Brunswick investors solicited by the respondents redeemed their investments prior to the bankruptcy, but the majority did not.
41. On 21 September 2009, the NBSC issued a consent order denying Drapeau all exemptions under New Brunswick securities law. On 17 September 2009, Drapeau transferred his interest in his residence to his spouse, who then re-mortgaged the property on 22 September 2009.

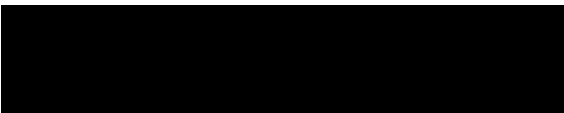
Relief Requested

42. Staff seeks an order pursuant to section 184(1)(c)(ii) of the *Securities Act*, that the Respondents cease trading securities in New Brunswick permanently, or for such period as the Commission may determine.
43. Staff seeks an order pursuant to section 184(1)(d) of the *Securities Act*, that any exemptions under New Brunswick securities law do not apply to

the Respondents permanently, or for such period as the Commission may determine.

44. Staff seeks an order pursuant to section 184(1)(p) of the *Securities Act*, that the Respondents disgorge to the Commission amounts obtained as a result of non-compliance with New Brunswick securities law.
45. Staff seeks an administrative penalty pursuant to section 186(1) of the *Securities Act* against each of the Respondents.
46. Staff seeks investigative and hearing costs pursuant to sections 185(1) and 185(2) of the *Securities Act* against each of the Respondents.

DATED at the City of Saint John this 24th day of June, 2010.



Mark McElman and Marc Wagg
Counsel to Staff of the Commission

New Brunswick Securities Commission
Suite 300, 85 Charlotte Street
Saint John, New Brunswick
E2L 2J2

Tel: (506) 658-3117
Fax: (506) 643-7793

mark.mcelman@nbsc-cvmnb.ca
marc.wagg@nbsc-cvmnb.ca