British Columbia
Securities Commission

REPLY TO:
Deborah W. Flood
T: 604-899-6623 / F: 604-899-6633
Email: dflood@bcsc.bc.ca

By Regular Mail

May 27, 2022

Dear Mr. Sharp:

Frederick Langford Sharp
Reciprocal Order Application

This letter notifies you and the British Columbia Securities Commission (the Commission) that the Executive Director is applying for orders against you under sections 161(6)(b) and 161(1) of the *Securities Act*, RSBC 1996, c. 418 (the Act). The Executive Director is not seeking a financial penalty.

The Executive Director is making this application based on the decision in the *Securities and Exchange Commission (SEC) v. Frederick Sharp et al,* No. 21-cv-112756-WGY, where the court found that you violated sections 5(a), 5(c), 17(a)(1) and 17(a)(3) of the *Securities Act of 1933* [15 U.S.C. § 77a] (Securities Act 1933) and Sections 10(b) of the *Securities Exchange Act of 1934* [15 U.S.C. § 78a] (Exchange Act), and Rules 10b-5(a) and (c) of the Exchange Act, and had aided and abetted your clients' violations of those provisions.

BACKGROUND

1. On August 5, 2021, the SEC filed a complaint in the United States District Court, in the District of Massachusetts naming you as a defendant (Complaint). The Complaint alleged that you, in exchange for lucrative fees, provided services to control persons of public companies to dump their shares on investors. The services you provided including renting out networks of offshore shell companies to conceal stock ownership, arranging stock transfers and money transmittals, and providing encrypted accounting and communications systems.

Complaint, paras. 1-2

2. You did not enter an appearance in the proceeding, and did not participate in the proceeding.

Final Judgment, p. 1-2

3. On November 15, 2021, the court entered a certificate of default against you.

Clerk's notice of default

4. On December 15, 2021, the SEC filed a motion for default judgment against you and a memorandum in support of its motion. You failed to respond to the motion.

SEC Motion for default judgment

5. On May 12, 2022, the court found you had violated:

   (a) section 10(b) of the Exchange Act (fraud in the connection with the purchase or sale of securities);
   (b) Rule 10b-5(a) and (c) of the Exchange Act (employment of manipulative and deceptive devices);
   (c) Section 17(a)(1) and (3) of the Securities Act 1933 (fraud in the offer or sale of securities);
   (d) section 5(a) and (c) of the Securities Act 1933 (unregistered offerings of securities); and
   (e) section 20(e) of the Exchange Act (aiding and abetting) your clients' violations of those provisions.

Final Judgment, p. 2

6. Under the final judgment, the court ordered:
   i. You are permanently restrained from violating section 10(b) of the Exchange Act, Rule 10b-5, and sections 5 and 17(a) of the Securities Act 1933;
   ii. You are permanently barred from participating in the issuance, purchase, offer, or sale of any security, except for your own personal account;
   iii. You are permanently barred from participating in an offering of a penny stock (any security that has a price of less than five dollars);
   iv. Disgorgement in the amount of $21,760,936, representing net profits gained as a result of the misconduct, together with prejudgment interest of $7,173,947; and
   v. A civil penalty in the amount of $23,990,781.

Final Judgment, pp. 2-6

THIS PROCEEDING

Applicable Law

7. With this letter, the Executive Director is applying to the Commission for orders against you under section 161 of the Act. I have enclosed a copy of section 161 of the Act for your reference.

8. The court accepted as true the factual allegations of the Complaint against you, and determined you had violated numerous U.S. securities laws.

Final Judgment, pp. 1-2

9. It is well-established under U.S. and Canadian law that a default judgment conclusively establishes the liability of a defendant and any allegations relating to liability are considered true. [1] As a consequence of default, defendants are deemed to have admitted the allegations of the complaint.[2] It is widely held that a court, when faced with a default judgment, is required to accept all of the factual allegations as true.[3] A commission panel in *Durante (Re)*, 2004 BCSECCOM 634 stated the following at paragraphs 9 and 26:

> Under U.S. law, a default judgment is an admission of the facts alleged in the complaint.
>
> Under U.S. law, the effect of the default judgments is that Durante is taken to have admitted the allegations in the SEC complaints.

10. Recently in *Re Skerry*, 2021 BCSECCOM 30, a panel of the Commission made an order against a respondent after the Executive Director made an application pursuant to section 161(6)(b) of the Act. The Commission relied on the U.S. default judgment in Skerry's SEC proceedings. Similar to Skerry, you also received a default judgment from a U.S. court for contravening U.S. securities law.

Summary of Findings

11. The facts of your misconduct are contained in the Complaint, the SEC's motion for default judgment, the memorandum in support of default judgment, and the final judgment.

(a) You are a resident of West Vancouver in British Columbia.

Complaint, para. 22

(b) You and your employees Gasarch, and Kelln were known as the Sharp Group. Beginning in or before 2010 and continuing to 2020, the Sharp Group's business was facilitating clients' securities fraud.

Complaint, para. 5

---

[1] *Domanus v. Lewicki*, 742 F.3d 290, 303 (7th Cir. 2014) at p.9, para. 3, *E. Sands and Associates Inc. v. Dextras Engineering & Construction Ltd.*, 2009 BCSC 42 at para 23
[2] *SEC v. Berkshire Resources*, LLC, 2009 U.S. Dist. LEXIS 109534, 2009 WL 4260219, para 4
[3] *Finkel v. Romanowicz,* 577 F.3d 79, 84 (2d Cir. 2009), *SEC v. Cole*, 661 Fed. Appx. 52, p. 2, para. 3 (2nd Cir.2016) citing *Finkel*

(c) For almost a decade, the Sharp Group facilitated illegal sales of stock in hundreds of penny stock companies. Your group did this by creating and deploying various front companies, which served as nominee shareholders used to disguise his clients' stock ownership and to sell stock surreptitiously. Your group also provided the infrastructure necessary to obfuscate your clients ownership of a significant percentage of public companies' shares. By concealing your client's ownership of restricted stocks you facilitated your clients dumping of the shares into the U.S. markets.

Complaint, paras. 2, 5-6, 37, 42-43, 46-47, 49-50

(d) To facilitate the scheme, you employed multiple devices, schemes and artifices to defraud.[4] These included:

i. creating and using an encrypted communications network which involved devices referred to as "xPhones," which were designed to be only for communications on your group's encrypted network. The Sharp Group purchased, configured and delivered these devices. This encrypted communication involved code-names for the users, encrypted electronic chat functions, and encrypted email functions;

ii. arranging for clients to deposit stock in offshore trading platforms to obfuscate the control persons' association with their public company;

iii. creating and using the "Q" accounting system. This system allowed you to keep track of your clients' stock positions that had been deposited in various illegal trading platforms and keep track of the proceeds when your clients sold those shares. It also allowed you to distribute those proceeds to, or for the benefit of, those clients in ways that would obscure the origin of the funds and the receipt of those proceeds. It also kept track of the commissions and fees you were owed for enabling your clients to sell stock illegally.

Complaint, paras. 6, 49-51,57, 81-83

iv. arranging for the encrypted communications services and the Q accounting system to be hosted on a server that was physically located on the island of Curacao, in the belief that it would be unreachable by U.S. securities regulators and law enforcement officials.

[4] SEC memorandum in support of motion for default judgment, p. 6

Complaint, para. 51

v. creating and deploying various front companies, which served as nominee shareholders used to disguise your clients' stock ownership and to sell stock surreptitiously. Along with the companies, you created a network of individuals around the world to serve as the purported owners of your nominee companies. You rented these nominees out to your clients to hide your client's controlling ownership of numerous public companies' stock.

Complaint, paras. 46-48, 52-56, 76-77, 84, 107, 114, 158

(e) You concealed you client's ownership and control of the stocks by splitting them up into tranches of less than 5%. This made it seem as if multiple, different and unrelated offshore corporate entities each held less than 5% of the stock, when in actuality, these entities were all under the common control of the Sharp Group.

Complaint, paras. 53-56

(f) The Sharp Group paid two of its employees more than $1 million.

Complaint, para. 62

(g) The scheme enabled persons controlling many U.S. public companies to violate securities law by illegally selling their stock to investors while fraudulently concealing that the stock was being sold by the companies' control people, often during a promotional campaign designed to increase the volume of stock sales.

(h) The Veldhuis Control Group were one group of control persons that teamed with the Sharp Group to run lucrative, fraudulent schemes to sell stock surreptitiously in the public markets. The Veldhuis Control Group illegally sold the stock of Stevia First Corp. (Stevia), Arch Therapeutics, Inc. (Arch), and OncoSec Medical Incorporated (OncoSec).

Complaint, paras. 2, 5-17 and 63-230

(i) You were the mastermind of the scheme and the leader of the Sharp Group. You cultivated relationships with your clients and routinely served as a liaison between your clients and offshore trading platforms.

Complaint, para. 44

(j) You violated section 5(a) of the *Securities Act* by offering and selling securities through nominees when no registration statement was filed.

Complaint, paras. 1-11, 31-33, 44, 50, 63, 86, 91, 110, 114, 118, 135-137, 166-167, 169, 172, 174, 196, 198

(k) Through your schemes, you knowingly aided and abetted your client's violations of U.S. securities laws. Your schemes enabled your clients to defraud investors by secretly controlling the stock of numerous penny stock companies and then sell those securities in conjunction with misleading promotions.

Complaint, paras. 1, 7-8, 43, 46-50, 75-81, 84-86, 118-127, 133, 135, 142, 158-164, 220-222, 227-230

(l) You took extreme measures to help your clients' conceal their identifies. This demonstrates that you knew your clients were engaged in improper conduct and that you were lending your assistance to help them succeed.

(m) Your fraudulent misconduct generated over $1 billion in gross proceeds.

Complaint, para. 43

(n) Your misconduct violated the fraud provisions under U.S. securities laws.

Final Judgment, p. 2

(o) You intentionally engaged in securities fraud. Your "fictional" book that describes your business model for securities fraud is further evidence that you knew your schemes circumvented the rules of the U.S. securities market.

SEC memorandum in support of motion for default judgment, p. 6, para. 2

ANALYSIS

12. Given the U.S. court accepted the allegations in the Complaint as true and the finding of default judgment against you, the Commission can accept and rely upon the allegations in the Complaint as findings of fact. These findings of fact are also recited in the motion for default judgment and final judgment.

13. It is evident from the facts that your conviction under U.S. securities laws falls within the scope of section 161(6)(b) of the Act, in that you have:

> ...been found by a court in Canada or elsewhere to have contravened the laws of the jurisdiction respecting trading in securities or derivatives

14. As your misconduct falls within the scope of section 161(6)(b) of the Act, the Commission may issue orders under section 161(1) of the Act.

15. Orders under section 161(1) of the Act are protective, preventative and intended to be exercised to prevent future harm.

Committee for the Equal Treatment of Asbestos Minority Shareholders v. Ontario (Securities Commission), [2001] 2 SCR 132, 2001 SCC 37 (CanLII), paras. 36, 39, and 56

16. In making orders under section 161 of the Act, the Commission must consider what is in the public interest in the context of its mandate to regulate trading in securities.

17. In *Re Eron Mortgage Corporation*, [2000] 7 BCSC Weekly Summary 22, and in subsequent decisions, the Commission identified factors to consider when determining orders under section 161(1).

18. The following factors from *Re Eron* are relevant in this proceeding:

(a) the seriousness of the respondent's conduct,
(b) the harm suffered by investors as a result of the respondent's conduct,
(c) the extent to which the respondent was enriched;
(d) factors that mitigate the respondent's conduct;
(e) the risk to investors and the capital markets posed by the respondent's continued participation in the capital markets of British Columbia,
(f) the respondent's fitness to be a registrant or to bear the responsibilities associated with being a director, officer or adviser to issuers,
(g) the need to deter those who participate in the capital markets from engaging in inappropriate conduct, and
(h) orders made by the Commission in similar circumstances in the past.

Re Eron Mortgage Corporation, [2000] 7 BCSC Weekly Summary 22

Application of the Factors

Seriousness of the Conduct

19. Market manipulation is one of the most serious misconduct contemplated by the Act.[5] Your misconduct is at the highest end of the scale of severity. It is the most egregious misconduct that has come before the Commission in terms of magnitude, complexity and enrichment.

[5] *Re Lim*, 2017 BCSECCOM 319, para. 12

20. Your business model was to knowingly provide services to control persons of public companies to facilitate market manipulations. You supervised a team of employees who helped you serve your clients. Your services allowed your clients to hide their control and sales from the market and evade regulatory scrutiny.

SEC memorandum in support of motion for default judgment, p. 3, para. 3, p. 4, paras. 1-2
Complaint, para. 2

21. You were the mastermind of a network of entities, accounts and systems specifically designed to facilitate a massive, decade-long securities fraud that victimized investors in U.S. penny stocks.[6] Your misconduct was deliberate and unrepentant. The deplorable nature of your misconduct cannot be overstated.

22. The Court also found you violated the Securities Act 1933 by directly or indirectly selling securities that had no registration statement filed and for which no exemption from registration was available.

Complaint, para. 240-243

23. Unregistered trading is inherently serious. Registration is one of the Act's foundational requirements for protecting investors and preserving the integrity of the capital markets. It requires those who wish to distribute securities to file a prospectus with the Commission or to have an exemption from this requirement. This is intended to ensure that investors receive the information necessary to make an informed investment decision.

Re Flexfi Inc., 2018 BCSECCOM 166, para. 4

Harm suffered by investors

24. In the case of market manipulation, panels have consistently held that harm to investors can be inferred in the absence of evidence.

Nuttall (Re), 2012 BCSECCOM 97, para. 17

25. By the very nature of the misconduct (market manipulation), members of the investing public were deceived as to the value of the shares that were sold by the respondent. While courts and tribunals are unable to attach a specific figure to the harm suffered by investors as a consequence, previous panels have found the harm to investors caused by market manipulation is significant because investors were trading the shares based upon false information.

Re Hable, 2017 BCSECCOM 340, para. 13

[6] SEC memorandum in support of motion for default judgment, para. 2

26. Although there is a not a case where there is evidence of specific harm to individual investors, it is clear your misconduct enabled your clients to defraud investors who thought they were purchasing unrestricted shares, unaware of your clients' control of the shares and the massive dumps by your clients. Your blatant and extensive misconduct damaged investors, as well as the integrity of the capital markets.

Complaint, paras.2, 4, 35, 44, 55-56

27. Your misconduct deprived investors of the full and fair disclosure mandated by U.S. securities laws. Your misconduct undoubtedly caused financial loss to countless investors, including retail investors.

Complaint, p. 2, para. 1-3

Enrichment

28. You were clearly enriched by your misconduct. In exchange for your deceptive and dishonest services, you charged your clients lucrative fees to facilitate their fraudulent dumps of shares of public companies into the U.S. markets.

SEC memorandum in support of motion for default judgment, p. 4, para. 3,
Complaint, paras. 42, 50

29. Over the course of the decade long fraud, your group generated over one billion dollars in gross proceeds. Your net profits amount to $14,587,439.

Complaint, paras. 2, 43
Final Judgment, p. 6, para. 1

Mitigating Factors

30. There are no mitigating factors.

Risk to investors and the capital markets

31. Fraud violates the fundamental investor-protection objectives of the Act. Investors must be confident that the markets are properly regulated and free from manipulation by individuals like you.

Mesidor (Re), 2014 BCSECCOM 6, paras. 13 and 14

32. Market manipulations, like fraud, requires a finding of intent (*mens rea*) on the part of the respondent and some element of deceit. It is this intention to deceive and harm the investing public that makes respondents who engage in market manipulation a significant risk to our capital markets.

Re Hable, 2017 BCSECCOM 340, para. *20,*

33. Your misconduct involved sophisticated schemes, that were intentionally obtuse, and designed to evade regulatory attention. The type, size, scope, duration, and the gravity of your misconduct demonstrates that you pose a significant risk to our capital markets and to investors.

34. Your failure to participate in the U.S. proceeding and take responsibility for the consequences of misconduct demonstrates a threat to our capital markets.

Mesidor (Re), 2014 BCSECCOM 6, para. 31

35. You presently reside in British Columbia. By playing a significant role in your clients' large scale fraud and market manipulation, you have demonstrated that you have no concern for legitimate market participation in the B.C. capital markets.

36. The extent of your misconduct, including the amount you and your clients were enriched, as well as the length of time over which you perpetrated your fraudulent scheme shows that you pose: (1) a significant ongoing risk to investors, and (2) a serious threat to the integrity of the capital markets unless you are permanently banned.

Participation in our capital markets/ Fitness to be a registrant or a director or officer

37. Participants who engage in the securities industry do so voluntarily and for their own profit. In exchange for the privilege of participating, individuals and companies must comply with securities laws. Compliance is paramount, ensuring the protection of the public and the integrity of the capital markets.

38. Honesty is a critical part of being a registrant or a director or an officer of an issuer. In fact, it is part of the basic duties of those positions.

Re SBC Financial Group Inc., 2018 BCSECCOM 267, para. 34

39. After making a career of breaching securities law, there is no basis to believe that you will abide by securities law in the future. You pose a significant ongoing risk to investors and the capital market of British Columbia and your participation in our markets in any capacity would raise grave concerns for the protection of the investing public.

40. Your misconduct was deceitful and unscrupulous. You are ill-suited to act as a registrant, director or officer or as an advisor to any private or public issuers going forward.

Deterrence

41. You refused to appear or take part in the SEC proceedings, and have not accepted any responsibility for this misconduct. The need for specific deterrence cannot be stressed enough.

42. Through the orders we are seeking, we intend to demonstrate the consequences of your conduct, to deter you from future misconduct, and to create an appropriate general deterrent. In your case, permanent bans are proportionate to your misconduct and are necessary to ensure that you and others will be deterred from engaging in similar misconduct in the future. Permanent bans are also proportionate to the gravity of your misconduct.

Previous orders

43. We refer to a number of decisions for guidance on the appropriate sanction. The Commission ordered permanent market bans in the three decisions below. These decisions involved market manipulations.

- *Re Hable*, 2017 BCSECCOM 340
  - The respondent engaged in a market manipulation of one issuer. The respondent also fabricated a document and provided it to the Commission. The respondent was enriched by his misconduct in the amount of $157,596.

- *Poonian (Re)*, 2015 BCSECCOM 96
  - The five respondents participated in a market manipulation of one issuer over approximately 18 months. The respondents engaged in a sophisticated and elaborate scheme involving layers of deception to conceal their participation in the manipulation. The respondents were enriched by approximately $7 million.

- *Re Lim*, 2017 BCSECCOM 196
  - The respondents engaged in a market manipulation of one issuer. They also engaged in illegal distribution of shares when they were control persons. There was no evidence of enrichment.

44. Despite all these decisions involving serious market manipulations, none of them are analogous to the elaborate and sophisticated market manipulations your group facilitated. The level of harm your group inflicted on investors and the U.S. capital markets is at the most serious end of the spectrum. Your group's illicit services were used by at least 14 issuers.[7] Your misconduct is by far the most serious market manipulation that has come before this Commission in terms of the level of deception, enrichment, and duration. On this basis, permanent bans are appropriate.

[7] Complaint, paras. 220-22

The Davis Consideration

45. In the Court of Appeal decision in *Davis v. British Columbia (Securities Commission)*, 2018 BCCA 149, the Court identified that it is incumbent upon a tribunal to consider a respondent's individual circumstances when determining whether measures short of a permanent ban would protect the investing public where a person's livelihood is at stake.

46. The Executive Director is unaware of any individual circumstances that would support orders short of a permanent market ban.

ORDERS SOUGHT

47. Although there is no limitation on the Commission from imposing market sanctions that are different to sanctions in the U.S., the Commission needs to consider:
    (a) what sanctions are available under the Act;
    (b) what is reasonable based on the evidence known to it, and
    (c) what is in the public interest.

48. In seeking orders under 161(1) of the Act, the Executive Director has taken the following factors into consideration when applying for orders in this proceeding:

    (d) the circumstances of your misconduct;
    (e) the factors from *Eron* and *Davis*;
    (f) the sanctions ordered in previous cases cited above; and
    (g) the public interest.

49. The Executive Director is seeking the following orders pursuant to section 161(1) of the Act:

    (a) under section 161(1)(d)(i), you resign any position you hold as a director or officer of an issuer or registrant;

    (b) you are permanently prohibited:

        (i) under section 161(1)(b)(ii), from trading in or purchasing any securities or derivatives, except that you may trade and purchase securities or derivatives for your own RRSP account, TFSA account and RESP account, through a registered dealer, if you first give the registered dealer a copy of this decision;

        (ii) under section 161(1)(c), from relying on any of the exemptions set out in this Act, the regulations or a decision;

(iii) under section 161(1)(d)(ii), from becoming or acting as a director or officer of any issuer or registrant;

(iv) under section 161(1)(d)(iii), from becoming or acting as a registrant or promoter;

(v) under section 161(1)(d)(iv), from advising or otherwise acting in a management or consultative capacity in connection with activities in the securities or derivatives market; and

(vi) under section 161(1)(d)(v), from engaging in promotional activities by or on behalf of

(A) an issuer, security holder or party to a derivative, or
(B) another person that is reasonably expected to benefit from the promotional activity; and

(vii) under section 161(1)(vi) from engaging in promotional activities on your own behalf in respect of circumstances that would reasonably be expected to benefit you.

50. The Executive Director is not seeking any monetary sanctions against you.

SUPPORTING MATERIALS

51. In making this application, the Executive Director relies on the following, copies of which are enclosed:

(a) Complaint
(b) Final Judgment
(c) Clerk's notice of default
(d) SEC Motion for default judgment
(e) *Domanus v. Lewicki*, 742 F.3d 290, 303 (7th Cir. 2014)
(f) *E. Sands and Associates Inc. v. Dextras Engineering & Construction Ltd.*, 2009 BCSC 42
(g) *SEC v. Berkshire Resources*, LLC, 2009 U.S. Dist. LEXIS 109534, 2009 WL 4260219
(h) *Finkel v. Romanowicz,* 577 F.3d 79, 84 (2d Cir. 2009)
(i) *SEC v. Cole*, 661 Fed. Appx. 52
(j) *Durante (Re),* 2004 BCSECCOM 634
(k) *Re Skerry*, 2021 BCSECCOM 30
(l) SEC memorandum in support of motion for default judgment
(m) *Committee for the Equal Treatment of Asbestos Minority Shareholders v. Ontario (Securities Commission)*, [2001] 2 SCR 132, 2001 SCC 37 (CanLII)
(n) *Re Eron Mortgage Corporation*, [2000] 7 BCSC Weekly Summary 22

(o) *Re Lim*, 2017 BCSECCOM 319
(p) *Re Flexfi Inc.*, 2018 BCSECCOM 166
(q) *Nuttall (Re)*, 2012 BCSECCOM 97
(r) *Re Hable*, 2017 BCSECCOM 340
(s) *Mesidor (Re)*, 2014 BCSECCOM 6
(t) *Re SBC Financial Group Inc.*, 2018 BCSECCOM 267
(u) *Poonian (Re)*, 2015 BCSECCOM 96
(v) *Davis v. British Columbia (Securities Commission)*, 2018 BCCA 149

YOUR RESPONSE

52. You are entitled to respond to this application. To do so, you must deliver any response in writing, together with any supporting materials, to the Commission Hearing Office by **Monday, July 4, 2022.**

53. The contact information for the Commission Hearing Office is:

Hearing Office
British Columbia Securities Commission
PO Box 10142, Pacific Centre
12th Floor, 701 West Georgia Street
Vancouver, BC V7Y 1L2
E-mail: hearingoffice@bcsc.bc.ca
Telephone: 604-899-6500

54. If you do not respond within the time set out above, the Commission will decide this application and may make orders against you without further notice.

55. The Commission will send you a copy of its decision.

56. **If you have any questions regarding this application, please contact Ms. Deborah Flood, at 604-899-6623, or dflood@bcsc.bc.ca**

Yours truly,

Douglas B. Muir
May 27 2022 12:48 PM -07:00

cosign

Douglas B. Muir
Director, Enforcement

DWF/crc
Enclosures

cc: Hearing Office (by email to hearingoffice@bcsc.bc.ca)