



British Columbia Securities Commission

Citation: 2013 BCSECCOM 559

## Notice of Hearing

**Jon Richard Carnes**  
(the Respondent)

### Section 161 of the *Securities Act*, RSBC 1996, c. 418

¶ 1 The British Columbia Securities Commission (Commission) will hold a hearing (Hearing) at which the Executive Director will tender evidence, make submissions and apply for orders against the Respondent under sections 161, 162 and 174 of the *Securities Act*, RSBC 1996, c. 418 (the Act), based on the following facts:

#### Background

1. Jon Richard Carnes (Carnes) resided in Vancouver, British Columbia at all material times.
2. Carnes has never been registered under the Act in any capacity. He has no formal training or specialized designations relating to analyzing or issuing reports about the merits of an issuer or its securities.
3. Carnes has no formal education or accreditation in the area of geoscience or engineering relating to mineral exploration or mining. He has never been a qualified person under National Instrument 43-101 *Standards of Disclosure For Mineral Projects* (NI 43-101).
4. Carnes controlled a hedge fund called EOS Holdings LLC (EOS Holdings). EOS Holdings was operated through a number of corporations and entities in various jurisdictions and had a staff that reported to Carnes.
5. Beginning in 2010, Carnes began writing negative reports about issuers traded on a North American exchange with business operations in China. Carnes published his negative reports on the *Seeking Alpha* website and in his financial blog, *Little Al's Big Emerging Picks*.
6. Carnes authored the negative reports under the fake name of "Alfred Little" and the fake biography of:
  - Having 35 years of investing experience.
  - Being a former accountant at Deloitte.



- Having represented Coca-Cola, Proctor & Gamble, and Budweiser on their investments in China.
7. To make his negative reports appear more credible, Carnes created a fake research organization called International Financial Research & Analysis Group (IFRA) and claimed IFRA researchers contributed to several of his negative reports. In fact, all IFRA researchers were simply EOS Holdings' staff using fake names and titles working under Carnes' instructions to help him profit from his negative reports.
  8. Carnes then began to operate his financial blog as "Alfredlittle.com" (Alfredlittle.com) and published his negative reports anonymously. To make his negative reports appear more credible, Alfredlittle.com was made to look like an independent clearinghouse that welcomed anyone to contribute articles and reports for publication provided they met the site's standards. In fact, Carnes wrote all of the reports published on Alfredlittle.com.
  9. Carnes attempted to profit from his negative reports by shorting the issuer's securities before publishing the negative report and then covering his short position after the issuer's share price dropped in response to his negative report.

#### **Carnes targets Silvercorp Metals Inc. for negative report**

10. In about June 2011, Carnes targeted Silvercorp Metals Inc. (Silvercorp) as the next issuer he would try to profit from by issuing a negative report. Silvercorp is a reporting issuer with its head office in Vancouver, British Columbia. It has business operations in China and its securities trade on the Toronto Stock Exchange and the New York Stock Exchange.
11. In June 2011, one of Carnes' staff assembling information for the negative report on Silvercorp said "Let's whack [Silvercorp] before others beat us to [it]".
12. Carnes obtained geological reports filed in China for Silvercorp's largest mine in China, the SGX mine (Chinese filings). Carnes formed the thesis that the Chinese filings contradicted Silvercorp's North American regulatory filings for the SGX mine (North American filings) because the Chinese filings had lower production, quality and resource estimates.
13. Carnes knew that his thesis would carry more weight in a negative report if it could be attributed to a mining expert.



### **First mining expert does not support Carnes' thesis**

14. In July 2011, Carnes instructed his staff to retain a mining expert to provide an opinion about the differences between the Chinese filings and the North American filings.
15. Carnes instructed his staff to retain a mining expert (first mining expert) under false pretenses, which they did:
  - His staff used fake names when dealing with the first mining expert and claimed to be employed by another fake company, GEMS Capital, Inc. (GEMS).
  - His staff sent the first mining expert a link to the website for a real company with a similar name to GEMS to trick him into believing GEMS was a real company.
  - The first mining expert was required to sign consulting and confidentiality agreements with GEMS, even though Carnes knew the agreements wouldn't bind Carnes or his staff. A staff member signed the agreements on behalf of GEMS using a fake name.
16. The first mining expert gave the opinion that he did not see any fatal flaws or apparent discrepancies between the Chinese filings and the North American filings. In relaying the first mining expert's opinion to Carnes, Carnes' staff noted "his comments do not help with our thesis. What should I do with him?"
17. The first mining expert also:
  - Advised that NI 43-101 was the best independent source of reserves and resources in compliance with Canadian regulations.
  - Questioned the accuracy of the lower reserve and resource numbers in the Chinese filings.
18. Carnes then instructed his staff to end the first mining expert's retainer by GEMS.

### **Carnes begins to build a short position**

19. By August 2011, Carnes knew he had to act quickly with a negative report after he learned there were other short sellers targeting Silvercorp. Carnes advised his staff: "We gotta nail [Silvercorp] quick. I think everyone is about to be onto it."
20. Carnes instructed his staff to cooperate and share research about Silvercorp with one of the short sellers, a Hong Kong-based hedge fund (hedge fund), that was retaining its own mining expert (second mining expert). The hedge



fund entered into a nondisclosure agreement with IFRA, the fake research organization, that Carnes signed using a fake name.

21. Carnes also started sharing research about Silvercorp with a United States-based short seller (U.S. short seller) who was rumoured to be writing a negative report about Silvercorp.
22. On August 15, 2011, Carnes began building a short position in Silvercorp's shares by purchasing put options that expired on September 17, 2011 (put options).

**Second mining expert does not support Carnes' thesis**

23. Carnes' staff shared the Chinese filings with the hedge fund so that the second mining expert could provide an opinion about the differences between the Chinese filings and the North American filings.
24. In his report dated September 1, 2011 (first report), the second mining expert did not note any "blatant obvious errors" or misleading information and explained that the differences between the Chinese filings and the North American filings were due to different reporting standards and different legislated cut-off grades. Upon reading the first report, Carnes' lead researcher on Silvercorp claimed the tone of the report was "too soft" and the conclusion was "too vague and not damaging enough".
25. The second mining expert prepared an updated report dated September 8, 2011 (updated report) and addendum dated September 9, 2011 (addendum) that reiterated the Chinese filings and the North American filings were different due to variations in cut off grades and different reporting standards. The updated report and addendum were shared with Carnes and his staff.

**Carnes publishes negative report about Silvercorp with false statements**

26. With the put options about to expire and unable to find an expert to support his thesis, Carnes wrote a false negative report about Silvercorp (Alfred Little report) and published it anonymously on Alfredlittle.com on September 13, 2011.
27. Carnes falsely claimed that the Chinese filings contradicted the North American filings because the Chinese filings had lower production, quality and resource estimates, and that the second mining expert supported this claim.
28. Carnes also falsely claimed that the second mining expert:



- Was an “international geological consulting firm”.
- Carried out a “thorough review” of the Chinese filings and the North American filings.
- Had “serious concerns” about the reliability of Silvercorp’s NI 43-101 reports.
- Found Silvercorp’s investor presentation to be misleading.
- Was of the opinion that the geology of the SGX mine required “expensive tunneling” and large amounts of labour.

29. The U.S. short seller tweeted a link to the Alfred Little report a few minutes after Carnes published it, and advised that his company was also shorting Silvercorp’s shares.

30. After Carnes published the Alfred Little report, Silvercorp’s share price closed down 20% for the day wiping out over \$275 million in shareholder value.

31. Carnes closed his short position in Silvercorp’s shares by the next day and earned a gross profit of almost US \$2.8 million.

### **Misconduct**

32. By engaging in the conduct described in this Notice of Hearing, Carnes perpetrated a fraud contrary to s. 57(b) of the Act.

33. Carnes’ conduct described in this Notice of Hearing is contrary to the public interest.

### **Orders sought**

34. It is in the public interest that the Commission issue orders under sections 161 and 162 of the Act.

### **Hearing Process**

¶ 2 The Respondent or his counsel is required to attend at the 12th Floor Hearing Room, 701 West Georgia Street, Vancouver, British Columbia, on **Tuesday, February 4, 2014, at 9:00 am** if they wish to be heard before the Commission sets a date for the Hearing. Relevant information gathered by Commission Staff in the investigation of this matter will be disclosed to the Respondent upon request to the Executive Director.

¶ 3 At the Hearing, the Respondent may be represented by counsel, make submissions and tender evidence. The Respondent is requested to advise the Commission of his intention to attend the Hearing by informing the Secretary to the Commission at PO Box 10142, Pacific Centre, 701 West Georgia Street, Vancouver, BC V7Y 1L2 phone: (604) 899-6500; email: [commsec@bcsc.bc.ca](mailto:commsec@bcsc.bc.ca).



¶ 4 If the Respondent or his counsel do not appear at the Hearing, the Executive Director will apply to have questions of liability and sanction heard at the same time. Determinations adverse to the Respondent may be made in their absence.

¶ 5 December 19, 2013.

Paul Bourque

¶ 6 Paul C. Bourque, Q.C.  
Executive Director