



Now New Self-Regulatory Organization of Canada, a consolidation of IIROC and the MFDA

**IN THE MATTER OF A DISCIPLINARY HEARING
PURSUANT TO SECTIONS 20 AND 24 OF BY-LAW NO. 1
OF THE MUTUAL FUND DEALERS ASSOCIATION OF CANADA**

Re: Zinan Liu

AGREED STATEMENT OF FACTS

I. INTRODUCTION

1. By Notice of Hearing dated December 22, 2021, the Mutual Fund Dealers Association of Canada (the “MFDA”) commenced a disciplinary proceeding against Zinan Liu (the “Respondent”) pursuant to ss. 20 and 24 of MFDA By-law No. 1.

2. The Notice of Hearing set out the following allegations:

Allegation #1: Between May 2018 and February 2020, the Respondent engaged in personal financial dealings with clients by:

- a) borrowing \$105,000 from a client; and
- b) entering into a business arrangement with clients;

which gave rise to a conflict or potential conflict of interest that she failed to disclose to the Member or otherwise address by the exercise of responsible business judgment

influenced only by the best interests of the client, contrary to MFDA Rules 2.1.4,¹ and 2.1.1.

Allegation #2: Between January 2018 and February 2020, the Respondent engaged in unapproved outside activities, contrary to the Member's policies and procedures and MFDA Rules 1.3, 2.1.1, 2.5.1, and 1.1.2.

Allegation #3: In or about January 2019, the Respondent made false representations to the Member on an annual compliance questionnaire, contrary to MFDA Rule 2.1.1.

II. IN PUBLIC / IN CAMERA

3. The Respondent and Staff of the MFDA ("Staff") agree that this matter should be heard in public pursuant to Rule 1.8 of the MFDA Rules of Procedure.

III. ADMISSIONS AND ISSUES TO BE DETERMINED

4. The Respondent has reviewed this Agreed Statement of Facts and admits the facts set out in Part IV herein. The Respondent admits that the facts in Part IV constitute misconduct for which the Respondent may be penalized on the exercise of the discretion of a Hearing Panel pursuant to s. 24.1 of MFDA By-law No. 1.

5. Staff and the Respondent jointly request that the Hearing Panel determine, on the basis of this Agreed Statement of Facts, the amount of the appropriate fine (if any) to impose on the Respondent, pursuant to s. 24. 1.1(b) of MFDA By-law No. 1, the length of the appropriate suspension, revocation or prohibition (if any) to impose on the Respondent, pursuant to s. 24.1.1 (c) – (e) of MFDA By-law No. 1 and an appropriate order (if any) to pay costs of this proceeding and the investigation of the conduct addressed in this proceeding, pursuant to s. 24.2 of MFDA By-law No. 1.

IV. AGREED FACTS

6. Staff and the Respondent agree that submissions made with respect to the appropriate penalty are based only on the agreed facts in Part IV, and no other information, facts or documents, subject to the content of this paragraph and paragraph 7 below.

¹ On June 30, 2021, MFDA Rule 2.1.4 was amended to conform with client focused reform amendments to National Instrument 31-103 that came into effect on the same day. As the conduct addressed in this Agreed Statement of Facts pre-dated the amendment to this Rule, all allegations set out in this Agreed Statement of Facts that make reference to that Rule concern the version of the Rule that was in effect between February 27, 2006 and June 30, 2021.

7. In the event that the Hearing Panel advises one or both of Staff and the Respondent of any additional facts that it considers necessary in order to determine the issues before it, Staff and the Respondent agree that such additional facts may be provided to the Hearing Panel, either: (a) with the consent of both Staff and the Respondent if the additional facts are agreed upon; (b) if the Respondent is not present at the hearing, Staff may disclose additional relevant facts, at the request of the Hearing Panel; or (c) if the parties are both present at the hearing and are not in agreement about the additional facts requested by the Hearing Panel, the parties will be given a reasonable opportunity to lead evidence concerning the additional facts. In circumstances where a party leads evidence concerning additional facts requested by the Hearing Panel, the opposing party may cross-examine any witness tendered to lead such evidence and shall be given a reasonable opportunity to lead responding evidence if they wish to do so.

8. Nothing in this Part IV is intended to restrict the Respondent from making full answer and defence to any civil or other proceedings against her.

Registration History

9. From January 2015 until February 2020, the Respondent was registered in British Columbia as a dealing representative with CIBC Securities Inc. (the “Member”), a Member of the MFDA.

10. On February 2020, the Member terminated the Respondent’s registration. The Respondent has not been registered in the securities industry in any capacity.

11. At all material times, the Respondent conducted business in the Burnaby, British Columbia area.

Borrowing From a Client

12. At all material times, the Member required its Approved Persons to adhere to a code of conduct and “Managing Conflicts of Interest Policy” which, among other things, prohibited Approved Persons from borrowing from clients.

13. At all material times, client A was a client of the Member whose accounts were serviced by the Respondent. The Respondent states that client A was a close friend whom she had known from the 1990s, prior to the Respondent’s registration with the MFDA, and prior to the Respondent servicing her accounts at the Member.

14. In or around October 2018, the Respondent borrowed \$105,000 from client A to use towards the purchase by the Respondent of her family home. The Respondent did not enter into a written agreement with client A evidencing the loan, nor did she provide client A with any collateral as security for the loan. The Respondent states that there was no interest payable on the loan.

15. The Respondent did not disclose to the Member that she had borrowed \$105,000 from client A.

16. In or around February 2019, the Respondent repaid client A in full. No interest was paid on the loan.

17. The loan between the Respondent and client A gave rise to a conflict or potential conflict of interest that the Respondent failed to disclose to the Member or address by the exercise of responsible business judgment influenced only by the best interests of the client.

18. There is no evidence that client A has suffered any financial or other harm as a result of the Respondent's conduct. Client A has not complained to the Member or to the MFDA about the Respondent's conduct.

Outside Activities and Personal Financial Dealings with Clients

19. At all material times, the Member's policies and procedures required its Approved Persons to seek approval from the Member prior to engaging in outside business activities.

Daycare Business

20. At all material times, client JH, client B, and client C (the "Clients") were clients of the Member whose accounts were serviced by the Respondent.

21. Client JH was also an Approved Person of the Member who carried on business from the same branch location as the Respondent. The Respondent states that clients B, C, and JH were close friends and had been friends prior to the Respondent servicing their respective accounts at the Member, and prior to client JH becoming an Approved Person of the Member.

22. Commencing in or around mid-2018, the Respondent, along with clients JH, B, and C, contributed monies towards the establishment of a daycare business to be operated in Burnaby,

British Columbia (the “Daycare Business”). The Respondent states that client JH had approached the Respondent and asked her to invest in the Daycare Business.

23. In or around September 2018, the Respondent incorporated a holding company (the “Holding Company”) through which she held an ownership interest in the Daycare Business and was its sole director. The Respondent was also the sole shareholder of the Holding Company which held a 10% interest in the Daycare Business.

24. The Clients also held separate shareholder interests in the Daycare Business through their own respective holding companies. Client JH held a 51% shareholder interest in the Daycare Business, while the clients B and C held a 29% and 10% shareholder interest, respectively.

25. The Respondent and the Clients jointly contributed monies towards the payment of expenses in relation to the establishment of the Daycare Business. In particular, client JH contributed at least \$87,175, client B contributed at least \$50,561, client C contributed at least \$17,435, and the Respondent contributed at least \$17,435 toward the expenses to establish the Daycare Business, such as the security deposit that was paid to lease the premises where the Daycare Business was to operate from.

26. The Respondent states that her contribution towards the Daycare Business was deposited into client JH’s personal bank account to be used to fund expenses of the Daycare Business as described above.

27. The Respondent did not disclose to, or obtain approval from, the Member to:

- a) incorporate the Holding Company or hold the position of Director; or
- b) establish or operate the Daycare Business.

28. The Respondent states that she agreed to invest in the Daycare Business in order to support client JH, who she considered a close friend. As of February 2020, when the Member terminated the Respondent’s registration, the Daycare Business was not operational and the Respondent had not obtained any revenue or profit from the business.

29. The respondent’s engagement in the Daycare Business with clients gave rise to a conflict or potential conflict of interest that was not disclosed to the Member or otherwise addressed by the exercise of reasonable business judgment influenced only by the best interests of clients.

30. To date, clients B and C have not complained about the Respondent's conduct and there is no evidence that they have suffered a financial loss by investing in the Daycare Business, however, they also not been repaid the principal amounts that they invested in the business.

Rental Properties

31. From in or around October 2018 to May 2020, and from December 2018 onwards, the Respondent received rental income from two properties, respectively.

32. The Respondent states that the rental income from the first property was generated from her family home at the relevant time. The Respondent states that title for the family home was registered in her and her spouse's name.

33. The Respondent states that the title for the second property was registered in her spouse's name only.

34. The Respondent failed to disclose to, or seek approval from the Member, to engage in the outside activity with respect to the rental properties described above.

35. By failing to seek approval from the Member regarding the conduct described above, the Respondent entered into unapproved outside activities in contravention of MFDA Rules and the policies and procedures of the Member.

Untrue Annual Attestation

36. In January 2019, the Respondent completed an annual attestation that she provided to the Member wherein she stated that she had sought and obtained approval from the Member to engage in all outside activities, or investments, where required.

37. The Respondent's statement to the Member was untrue, because commencing in 2018, the Respondent had engaged in outside activities in respect of the Daycare Business and the rental properties that she had not disclosed to or obtained approval from the Member to engage in, as described above.

38. The Respondent states that at the time when she made the annual attestation, she did not understand that she was required to obtain approval from the Member before becoming engaged with the financing and operation of the Daycare Business and before renting out and receiving

rental income from the two rental properties. The Respondent acknowledges and now understands that she was required to obtain approval from the Member before becoming involved in the operation of the Daycare Business and the rental properties.

Additional Factors

39. No clients have complained to the Member or the MFDA with respect to the Respondent's conduct described above, and there is presently no evidence that any clients have incurred a financial loss as a consequence of the Respondent's conduct.

40. The Respondent has not previously been the subject of MFDA disciplinary proceedings.

41. The Respondent cooperated with the MFDA's investigation into her conduct.

42. By entering into this Agreed Statement of Facts, the Respondent has accepted responsibility for her misconduct, demonstrated remorse and saved the MFDA the time, resources, and expenses associated with conducting a fully contested hearing of the allegations.

Misconduct Admitted

43. The Respondent admits that between May 2018 and February 2020, she engaged in personal financial dealings with clients by:

- a) borrowing \$105,000 from a client; and
- b) entering into a business arrangement with clients;

which gave rise to conflicts or potential conflicts of interest that she failed to disclose to the Member or otherwise address by the exercise of responsible business judgment influenced only by the best interests of the client, contrary to MFDA Rules 2.1.4 and 2.1.1.

44. The Respondent admits that between May 2018 and February 2020, she engaged in unapproved outside activities, contrary to the Member's policies and procedures and MFDA Rules 1.3, 2.1.1, and 1.1.2 (as it relates to Rule 2.5.1).

45. The Respondent admits that between May 2018 and February 2020, she completed an annual compliance questionnaire which stated that she had disclosed her outside business activities to the Member when she had not disclosed her outside activities to the Member, contrary to MFDA Rule 2.1.1.

V. EXECUTION OF AGREED STATEMENT OF FACTS

46. This Agreed Statement of Facts may be signed in one or more counterparts which together shall constitute a binding agreement.

47. A facsimile copy of any signature shall be effective as an original signature.

DATED this 8th day of December, 2022.

“Zinan Liu”

Zinan Liu

“Charles Toth”

Staff of the MFDA

Per: Charles Toth

Vice-President, Enforcement

DM 901238