



**CIRO · OCRI**

Canadian Investment  
Regulatory  
Organization

Organisme canadien  
de réglementation  
des investissements

**IN THE MATTER OF  
THE INVESTMENT DEALER AND PARTIALLY CONSOLIDATED RULES AND THE DEALER  
MEMBER RULES**

**AND**

**YUJIE (JARED) LIU and BMO NESBITT BURNS INC.**

**SETTLEMENT AGREEMENT**

**PART I – INTRODUCTION**

1. The Canadian Investment Regulatory Organization<sup>1</sup> (“CIRO”) will issue a Notice of Application to announce a settlement hearing pursuant to sections 8215 and 8428 of the Investment Dealer and Partially Consolidated Rules (the “Investment Dealer Rules”) to consider whether a hearing panel should accept this Settlement Agreement between Enforcement Staff and Yujie (Jared) Liu (“Liu”) and BMO Nesbitt Burns Inc. (“BMO NBI”) (collectively, the “Respondents”).

**PART II – JOINT SETTLEMENT RECOMMENDATION**

2. Enforcement Staff and the Respondents jointly recommend that the hearing panel accept this Settlement Agreement in accordance with the terms and conditions set out below.

**PART III – AGREED FACTS**

3. For the purposes of this Settlement Agreement only, the Respondents agree with the facts as set out in Part III of this Settlement Agreement.

## Overview

4. In or about 2015, when interest rates were low, Liu, an investment advisor at BMO NBI, engaged in a trading strategy that involved clients investing in preferred shares. By May 2016, a significant portion of Liu's book was comprised of preferred shares, involving numerous client accounts.
5. The trading strategy evolved to a strategy of clients borrowing to invest in preferred shares. Instead of using conventional margin, this strategy involved short selling Government of Canada (“GOC”) bonds – in many cases, 30-year bonds – and using the proceeds of shorting the GOC bonds to invest in preferred shares (generally, rate reset or floating rate) (the “Strategy”). By Liu's account, shorting bonds as part of the Strategy was aimed, in part, at reducing the cost of borrowing since the cost of shorting the GOC Bonds was lower than margin rates.
6. In employing the Strategy, Liu failed to adequately explain to clients the incremental risk created by shorting long-term GOC bonds and investing in preferred shares, each of which was interest rate sensitive. Further, when prevailing interest rates declined in October/November 2018, Liu failed to advise clients in a manner that was adequately responsive to the change in market conditions.
7. For its part, BMO NBI failed to maintain a system of supervision and control in respect of its supervision of certain client accounts (the “Client Accounts” as further defined below) reasonably designed to achieve compliance with the rules of the Corporation.
8. BMO NBI permitted the Client Accounts to be over-weighted in fixed income securities as compared to the asset allocation reflected on Know-Your-Client (“KYC”) documents for those accounts. Further, BMO NBI failed to consider the risk of the portfolio as a whole, and failed to give due consideration to the increased risk associated with the combination of the two constituent elements of the Strategy.

9. In addition, BMO NBI's system allowed a significant buffer before requiring supervisory action.

## **Background**

10. At all material times, BMO NBI was an IROC Dealer Member.
11. Liu was a Registered Representative with BMO NBI from about September 2006 until about July 9, 2021.
12. During the Relevant Period (as defined below), Liu's activities were supervised by two co-Branch Managers at BMO NBI (the "Supervisors").
13. Liu is currently employed by BMO NBI but not in a registered capacity.

## **Evolution and Expanded Use of the Strategy**

14. In 2015, Liu began recommending buying preferred shares in the secondary market to a small group of clients.
15. Liu subsequently introduced short selling GOC bonds as part of the Strategy.
16. More specifically, Liu recommended short selling GOC bonds and purchasing preferred shares with the proceeds, and several of Liu's clients did. By Liu's account, the Strategy was intended to be a long-term strategy.
17. In the beginning, the clients bought rate reset preferred shares. Later, they started selling some rate resets and buying floating rate preferred shares.
18. In short, the Strategy included two elements: (i) short selling GOC bonds, principally long-term bonds at the height of the Strategy, and (ii) purchasing preferred shares, principally floating rate and rate resets.<sup>1</sup>

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<sup>1</sup> In certain cases, clients would also use the proceeds from short selling the GOC bonds for other purposes, e.g., investing in real estate.

19. Over time, Liu recommended the Strategy to a number of clients. The exposure to short GOC bonds in Liu's book increased significantly between 2016 and 2018, and ultimately peaked in October 2018. In particular, there was a significant increase in the shorting of long-term GOC bonds in 2017 and the first half of 2018.

### **Risks of the Strategy**

20. The preferred shares recommended by Liu as part of the Strategy were generally of well-established issuers, which limited credit risk, but other risks that are associated with holding preferred shares remained.
21. As with short selling more generally, the short selling element of the Strategy was premised on a decline in the price of the GOC bonds.
22. Prevailing interest rates in the economy can greatly influence a bond's price. When prevailing interest rates rise, the price of bonds in the market fall. When prevailing interest rates fall, the price of bonds in the market rise.
23. Both elements of the Strategy involved interest rate sensitivity and in the same direction, thereby increasing the overall risk of the Strategy.
24. Further, as longer-term bonds are more price-volatile in response to changes in interest rates than bonds with a shorter time to maturity, the risk was increased for those accounts shorting long-term bonds.
25. The shorting of long-term bonds to purchase floating rate or rate reset preferred shares was high risk.

### **The Client Accounts**

26. Between December 2017 and May 2019 (the "Relevant Period"), the following sixteen client accounts (the "Client Accounts") were among the accounts that engaged in the Strategy. The individual clients holding the Client Accounts ranged

in age from 38 to 53 during the Relevant Period, with a net worth ranging from \$2,000,000 to \$42,000,000.

1.	W.D.
2.	P.L. & Y.J.
3.	H.G.
4.	M.L. & Y.S.
5.	Y.L. & H.C.
6.	Y.L. & M.X.
7.	F.L. & M.Z.
8.	M.I. Inc.
9.	M.T. Ltd.
10.	J.S. & W.L.
11.	C.S. & Z.S.
12.	S.H.C. Ltd.
13.	J.W. & L.
14.	Y.W. & Q.L.
15.	H.Z.
16.	J.Q.

#### **KYCs of the Client Accounts**

27. With the exception of two accounts, the KYC documents for the Client Accounts had a tolerance for high risk of either 20%, 30% or 40% between December 2017 and March 2019, with the remaining risk tolerance allocated to medium risk. One of the remaining two accounts had a high risk tolerance of 10% until April 2018 when it was updated to 30%, and the other account had a high risk tolerance of 40% until March 2019 when it was updated to 45%.
28. At the start of the Strategy, all Clients Accounts were documented as having a time horizon of “10 years and more.”

### **Holdings in Client Accounts**

29. The Client Accounts all held short GOC bond positions and preferred shares, generally rate reset or floating rate.
30. The aggregate exposure to rate reset or floating rate preferred shares in the Client Accounts increased from approximately \$35.3MM in December 2017 to approximately \$114.7MM in October 2018.
31. Fifteen of the Client Accounts were short at least \$2MM of GOC bonds as of October 31, 2018, in all cases, representing at least 40% of the market value of the account.
32. Fourteen of the Client Accounts exceeded their high-risk target by at least 20% in October 2018.

### **Decline in Prevailing Interest Rates and Client Accounts' Values**

33. Starting in or about October/November 2018, there was a decline in prevailing interest rates.
34. With the decline in prevailing interest rates came a decline in the prices of the preferred shares held in the Client Accounts and an increase in the price of the GOC bonds that had been shorted in the Client Accounts. As a result, the cost of covering the short bond positions increased while the value of the long positions in preferred shares decreased.
35. The Client Accounts experienced an aggregate decline in value of approximately \$39.7MM from October 2018 month end to May 2019.

### **Supervision Tools, Policies, and Procedures**

36. BMO NBI's account supervision system (the "BMO NBI Supervision System") rated securities, triggered exception codes, and produced exception reports to identify accounts that were not aligned with their risk tolerance and asset allocation targets.

### **BMO NBI Supervision System Security Classification and Risk Rating**

37. The BMO NBI Supervision System relied on a securities rating system that assigned a risk rating to each individual security or position and characterized securities by asset class - as either cash and equivalents, fixed income, or equities.
38. The preferred shares held in the Client Accounts were all rated as medium risk on the BMO NBI Supervision System and classified as fixed income, although preferred shares have characteristics of both fixed income and equities.
39. During the Relevant Period, the BMO NBI Supervision System assigned a high risk rating to all short positions. As a result, the short GOC bond positions held in the Client Accounts were classified as high risk on the BMO NBI Supervision System.
40. Liu and his Supervisors adopted the BMO NBI Supervision System risk ratings assigned to the preferred shares and the short GOC bond positions held in the Client Accounts.

### **BMO NBI Supervision System Exception Codes**

41. Exceptions were assigned one of three categories of reason codes related to risk tolerance (R), fixed income holdings (F), or equity holdings (E), and identified the degree to which any these was not aligned with account targets.
42. The exception codes varied somewhat depending on whether the account was opened before November 2015, in which case exceptions were based on investment objective ranges, or whether the account was opened (or updated) after November 2015, in which case exceptions were based on specific risk tolerance or asset allocation targets. Two of the Client Accounts were opened before November 2015 and were updated to the specific targets during the Relevant Period, and one Client Account was opened before November 2015 and remained under the objective ranges throughout the Relevant Period.

43. Notably, for the three Client Accounts opened with investment objective ranges, exceptions were not triggered when account holdings exceeded fixed income targets during the period the KYCs continued to have investment objective ranges rather than specific risk tolerance or asset allocation targets.
44. Accounts with specific risk tolerance and asset allocation targets could trigger two additional exception codes as follows:
  - a. E-25% would be triggered where equity holdings were under target by 25% or more for six consecutive months; and
  - b. F-25% would be triggered where fixed income holdings were under target by 25% or more for six consecutive months.

#### **BMO NBI Supervision System Exception Reports**

45. The BMO NBI Supervision System produced daily and monthly reports that were issued to investment advisors and supervisors respectively, listing exceptions that were triggered.
46. The Daily BMO NBI Supervision System Exception reports listed all accounts that were offside a client's target risk tolerance or asset allocation to any degree. All exception codes were included on daily reports, where applicable.
47. According to the BMO NBI Sales Administration Manual ("SAM") in effect from May 2016, there was no requirement for Branch Managers to review the Daily BMO NBI Supervision System Exception report, which was then considered an optional tool. The Branch Managers were the Supervisors during the Relevant Period.
48. The Monthly BMO NBI Supervision System Exception reports listed accounts that required review by a Supervisor.



49. The Monthly Activity Review section of the SAM in effect during the Relevant Period, provided as follows: “the [BMO NBI Supervision System] Monthly Exception report will identify and flag accounts requiring review.”
50. Only accounts significantly offside their targets were displayed on the Monthly BMO NBI Supervision System Exception reports. The following exception codes appeared on Monthly BMO NBI Supervision System Exception reports, where applicable: E+3, R+3, F+3, E-25%, and F-25%.
51. This meant, for example, that the Monthly BMO NBI Supervision System Exception report only triggered a requirement for further review where an account using specific risk tolerance and asset allocation targets exceeded their high-risk tolerance by at least 20%.
52. Liu’s Supervisors or their delegates received and reviewed the Monthly NBI Supervision System Reports for the Client Accounts during the Relevant Period.

#### **BMO NBI Supervision System Asset Allocation Assessment**

53. Using the asset classification assigned by the BMO NBI Supervision System, asset allocations were assessed by the BMO NBI Supervision System to determine whether account holdings were offside target asset allocations.
54. However, throughout the Relevant Period, the BMO NBI Supervision System exceptions for excessive fixed income were only triggered if fixed income holdings were above target fixed income allocations and the client’s target equity allocation was zero and only for accounts using specific risk tolerance and asset allocation targets as opposed to ranges.

#### **BMO NBI Supervision System Account Risk Assessment**

55. The risk ratings assigned to individual securities or positions were used to determine whether account holdings were in line with the target risk tolerance.

56. In assessing the risk of an account, the BMO NBI Supervision System took the sum of each security of a particular risk rating expressed as a proportion of the account's "market exposure" and then compared the result with the target risk tolerance.
57. Using the BMO NBI Supervision System methodology (preferred shares as medium risk and expressed as a fraction of market exposure) and assuming the short GOC bonds as the only high-risk positions in the accounts, twelve of the sixteen Client Accounts exceeded their high-risk exposure target by 10% or more at some point during the Relevant Period.
58. BMO NBI's policies and procedures allowed a buffer of up to 19.99% (9.9% when investment objective ranges used) above an account's high-risk tolerance before requiring action.
59. Further, the BMO NBI Supervision System only considered each individually rated security in the account, rather than the risk of the account as a whole.

#### **Other Supervision Tools - SAM Concentration and Margin Guidelines**

60. Liu and his Supervisors ought to have considered risk in the Client Accounts beyond those matters flagged on the BMO NBI Supervision System Exception reports, including the excessive use of leverage, but failed to do so.

#### **SAM Margin Guidelines**

61. The "Suitability for Margin Accounts" section of the SAM in effect during the Relevant Period contained guidelines relating to borrowing, including for assessing the suitability of leverage and margin, and was prefaced by the following:

The appropriateness of margin should be assessed on a client-by-client basis. The following guidelines are to aid you in your assessment and should any of these factors raise a red flag, there is an increased chance that a leveraging strategy may be unsuitable for your client. [Emphasis added]

62. The SAM margin suitability guidelines included the following cautions in connection with leverage loans as it relates to a client's net worth and income:
- Net worth** – caution should be taken in the cases where a loan exceeds 30% of client's net worth and 50% of client's liquid assets
  - Client's income** – caution should be taken in the cases where debt payments exceed 35% of the client's gross income, not including the income generated from the leveraged investments
  - Risk Tolerance** – medium or higher (should be high for short-selling)
63. Notwithstanding the cautions in the SAM, the Client Accounts were permitted to use leverage (in the form of short GOC bond positions) in amounts well in excess of the limits cautioned against.
64. Each of the Client Accounts exceeded at least one of the net worth or income guidelines for multiple months during the Relevant Period, and, in some cases, throughout the Relevant Period.
65. Liu did not consider the cautions regarding leverage in the SAM in his assessment of the suitability of the Strategy. In fact, Liu did not perform any calculations to determine how the holdings in the Client Accounts compared with the leverage guidelines cautioned against in the SAM.
66. Neither the Supervisors nor their delegates performed calculations to determine the suitability of leverage in the Client Accounts or other accounts using the Strategy.
67. In at least ten instances, the Supervisors approved KYC updates for Client Accounts while the account's holdings exceeded at least one of the leverage ratios that the SAM cautioned against exceeding.

### **Supervision Failures**

68. Liu's Supervisors were aware of Liu's use of the Strategy from as early as May 2016.

69. The increased shorting, particularly of long-term GOC bonds that occurred from January 2018 to early June 2018, was or ought to have been apparent to the Supervisors from the daily reviews.
70. Starting on or about May 31, 2018, the Supervisors expressed concern regarding Liu's use of the Strategy. Their queries reflected concern over the rationale for short selling long-term GOC bonds; a client's possible need to liquidate prior to the bonds' maturity and attendant market and interest rate risks; and the dramatically increased risk to Liu's portfolio as a result of shorting long-term GOC bonds. The Supervisors did not implement any plan for dealing with the risks that were identified at that time.
71. Following the Supervisors' queries, Liu reduced his shorting of long-term GOC bonds to near zero after May 31, 2018. However, he did little about existing short GOC bond positions in the Client Accounts.
72. On or about June 7, 2018, one of Liu's Supervisors questioned Liu about his plan to "shorten the duration" of the short GOC bond holdings in client accounts, but failed to follow up appropriately at that time.

#### **Monthly Supervision – Asset Allocation**

73. Prior to March 2019, fifteen of the sixteen Client Accounts were consistently overweighted in fixed income securities by more than 20% compared to the account's targets.
74. Prior to March 2019, although E-25% exceptions appeared on monthly reports, they were not adequately queried by the Supervisors.
75. In those instances that resulted in queries, after Liu responded to the risk tolerance issue, the Supervisor noted that the equity allocation was off target but made no further queries.

76. By ignoring the E-25% exceptions in the Client Accounts, the Supervisors effectively did not query the over-weighting in fixed income that was generally the trigger for the E-25% exceptions on the Monthly BMO NBI Supervision System Exceptions reports in the Client Accounts.

#### **Monthly Supervision - Risk Tolerance**

77. Even while using the Monthly BMO NBI Supervision System Exception reports as the basis of their monthly reviews, the Supervisors did not adequately query R+3 exceptions (greater than 19.99% offside risk tolerance for accounts using specific risk tolerance target or 9.9% for the Client Accounts that used objective ranges) that appeared on the Monthly BMO NBI Supervision System Exceptions reports.
78. As of September 2018, there were increased risk-related queries sent to Liu, and by the end of September 2018, the Supervisors discussed among themselves advising Liu that his use of the Strategy should be limited to shorter term bonds and discussed alternative financing options to shorting.
79. However, it was March 7, 2019 before a Supervisor advised Liu that absent management approval, his short bond sales would be limited to those with a “duration of less than 5 years.”
80. Also in March 2019, the Supervisors began sending queries as part of what they indicated was a broader review of Liu’s clients’ short positions. The queries included concerns regarding under-investment in equities and suitability of shorting long-term bonds.
81. The queries culminated in an email dated March 25, 2019, requiring that Liu produce an action plan to reduce the exposure to short long-term GOC bonds and “aggressively” reduce his book’s concentration in floating rate preferred shares.
82. By mid-May 2019, progress on the proposed action plan had slowed, but apart from continuing to monitor the progress of the action plan, sending a May 17, 2019

email requesting that Liu “continue to de-lever” his book, and reviewing and approving the KYC updates, the Supervisors did not take additional steps to follow up.

83. At about the time of increased supervision queries in March 2019, thirteen of the sixteen Client Accounts had KYC updates that resulted in high risk tolerance and fixed income allocation being increased.
84. Generally, the KYC updates matched the account risk tolerance or objectives to the actual portfolio compositions.
85. In short, BMO NBI failed to implement a system of supervision and controls in respect of the trading activity in the Client Accounts that was adequate:
  - a. to detect, in a timely manner, suitability issues associated with the Strategy in the Client Accounts, including those related to asset allocation and risk tolerance;
  - b. to reasonably ensure that Liu and the Supervisors were adequately discharging their responsibilities under its policies and procedures with respect to suitability of the Client Accounts and otherwise as required;
  - c. to ensure that its Supervisors adequately queried the Client Accounts and followed up on queries as appropriate; and
  - d. to ensure that its Supervisors were adequately following up on red flags in the Client Accounts, including relating to leverage and asset allocation.

## Volatility and Client Harm

86. The following summarizes key account details in respect of the Client Accounts during the Relevant Period, including high-risk tolerance and losses between October 2018 and May 2019.

Name	Market Value (\$) at October 2018	Loss (\$) October 2018 to May 2019	Loss (October 2018 to May 2019) as % of Market Value (October 2018)	KYC Allocation to High Risk (October 2018)
W.D.	2,005,829.47	(1,161,951.11)	-57.9%	Growth*
P.L. & Y.J.	3,045,478.86	(958,847.82)	-31.5%	30%
H.G.	2,117,118.06	(1,172,494.48)	-55.40%	30%
M.L. & Y.S.	4,612,546.68	(2,904,294.19)	-63.0%	20%
Y.L. & H.C.	5,135,333.65	(3,576,738.74)	-69.6%	40%
Y.L. & M.X.	3,009,456.26	(2,001,291.06)	-66.5%	30%
F.L. & M.Z.	1,593,104.84	(820,256.70)	-51.5%	30%
M.I. Inc.	3,193,508.40	(1,860,689.53)	-58.3%	20%
M.T. Ltd.	1,287,793.97	(591,944.68)	-46.0%	30%
J.S. & W.L.	4,337,608.87	(2,781,253.02)	-64.1%	30%
C.S. & Z.S.	3,098,906.50	(1,183,309.12)	-38.2%	20%
S.H.C. Ltd.	7,402,979.98	(5,908,865.70)	-79.8%	20%
J.W. & L.	4,037,222.80	(1,925,918.78)	-47.7%	40%
Y.W. & Q.L.	26,943,798.86	(9,343,148.03)	-34.7%	20%
H.Z.	4,937,353.66	(2,404,156.13)	-48.7%	30%
J.Q.	3,139,647.10	(1,178,022.87)	-37.5%	20%
<b>TOTAL</b>	<b>79,897,687.96</b>	<b>(39,773,181.96)</b>		

87. The extent of the decline over a period of roughly six months illustrates the volatility of the Strategy.

## **Financial Benefit to Liu, BMO NBI**

88. Fourteen of the Client Accounts were fee-based accounts. These Client Accounts paid a total of \$660,918.35 in fees from the time they implemented the Strategy to May 31, 2019.
89. The remaining two Client Accounts were in transactional commission arrangements and paid a total of \$91,425.84 (\$65,700.84 from fixed income securities) in commissions.
90. During the Relevant Period, the Client Accounts paid BMO NBI borrow fees on the short GOC bond positions totaling \$461,358.
91. Holders of twelve of the Client Accounts have received compensation from BMO NBI for their losses as part of the settlement of civil litigation or other resolution process, in amounts sufficient to cover a significant portion of their capital losses along with the fees (including borrow fees) and commissions paid by those Client Accounts.
92. The disgorgement amount set out below includes the fees (including borrow fees) and commissions paid by the clients holding the four Client Accounts that did not file complaints or commence litigation and therefore did not receive compensation.

## **Additional Factors**

93. BMO NBI has made revisions to its supervision systems since the Relevant Period, which have addressed the issues identified in this Settlement Agreement regarding exception reports and queries. In particular, BMO NBI:
  - a. implemented a new regional supervision model resulting in supervisory functions previously performed by local branch management being migrated to a centralized team of supervisors and support staff solely focused on supervision related activities;



- b. improved its account supervision system from a paper-based reporting system to an electronic alert system that prioritizes alerts for review (including accounts with multiple alerts) and facilitates the issuance of electronic queries, with evidence of each review and query being retained electronically in a centralized system. The electronic alert system is meant to facilitate a risk-based approach and to target a supervisor's review to accounts that present greater risks for the client. The electronic alert system differs from the reporting system in place during the Relevant Period as follows:
- i. over 25 electronic filters are available for categories such as age, short positions, pro-trading, etc.;
  - ii. the range of alerts have been expanded and include asset allocation (i.e., where equity holdings are zero but there is an equity component to the account's asset allocation, or where there is excess cash held in the account), risk tolerance (i.e., where high risk holdings are zero or low risk is 100% but there is a high risk component to the account's risk tolerance), turn-over ratio, security concentration (single security, sector concentration, issue concentration); and
  - iii. reduced the buffer to 10% for the generation of an alert for accounts that exceed their targeted high risk tolerance;
- c. developed and launched a dashboard for supervisors that is updated weekly in order to identify and review investment strategies with characteristics that may increase the risk of the strategy, including margin borrowing and short selling. The dashboard lists the accounts with the highest prevalence of these activities in each region (and can further be filtered by branch, IA, and/or client objective) and for each activity also shows the percentage the activity represents in relation to the client's total net equity and the client's

key KYC attributes, including age, investment experience, investment objectives, risk tolerance, liquid assets, and net worth;

- d. updated its policies and procedures to:
    - i. incorporate an escalation process for unresolved queries, which enables supervisors to take actions regarding an account of concern, such as coding the account “no more business” or withholding fees/commissions until the query has been remediated, and requires that the issue be escalated to the National Director of Supervision; and
    - ii. incorporate a quarterly attestation process for regional branch supervisors, which documents completion of daily and monthly supervision activities within the required timelines, the issuance and remediation of queries regarding any concerns with a transaction or an account, and retention of evidence of these activities, followed by a review of the attestations by the National Director of Supervision; and
  - e. revised its Margin Lending Operating Procedures to include shorting activities as a credit risk component.
94. Liu has never been the subject of any disciplinary proceedings commenced by the Corporation.
95. Liu was re-assigned to a non-registered and non-client facing role with a significant reduction in compensation.
96. The holders of the Client Accounts were corporations and individuals that were not considered vulnerable clients as that term is defined in section 3201 of the Investment Dealer Rules, namely they were not clients who had any illness, impairment, disability, or aging-process limitation.

97. While the Strategy resulted in increased volatility, given that it involved the shorting of GOC bonds, the risk of losses over the long term was accompanied by: (a) the certainty of the cost of borrowing, and (b) an understanding that the price of the shorted bonds would return to par at maturity.
98. Certain clients sought to engage in the Strategy for the tax efficient dividend income and/or to hedge against real estate investments.

#### **PART IV – CONTRAVENTIONS**

99. By engaging in the conduct described above, the Respondents committed the following contraventions of Corporation requirements:

##### **Liu**

- i. Between December 2017 to May 2019, Liu failed to use due diligence to determine the suitability of the Strategy as used in the Client Accounts, contrary to Dealer Member Rule 1300.1 (p) and (q).

##### **BMO NBI**

- i. Between December 2017 and May 2019, BMO NBI failed to implement a system of supervision and control in respect of the trading activity in the Client Accounts, particularly with respect to the suitability obligations owing by it and its Registered Representative and in respect of the supervision of the Client Accounts, contrary to Dealer Member Rules 38.1 and 2500A.

#### **PART V – TERMS OF SETTLEMENT**

100. The Respondents agree to the following sanctions and costs:

(i) Liu:

- i. a fine of \$80,000;
- ii. disgorgement of fees and commissions in the amount of \$63,258;

- iii. successful completion of the Conduct and Practices Handbook Course before applying for registration and approval with CIRO; and
- iv. costs of \$5,000.

(ii) BMO NBI:

- i. a fine of \$1,500,000;
- ii. disgorgement of fees and commissions in the amount of \$146,876; and
- iii. costs of \$50,000.

101. If this Settlement Agreement is accepted by the hearing panel, the Respondents agree to pay the amounts referred to above within 30 days of such acceptance unless otherwise agreed between Enforcement Staff and the Respondents.

**PART VI – STAFF COMMITMENT**

102. If the hearing panel accepts this Settlement Agreement, Enforcement Staff will not initiate any further action against the Respondents in relation to the facts set out in Part III and the contraventions in Part IV of this Settlement Agreement, subject to the provisions of the paragraph below.

103. If the hearing panel accepts this Settlement Agreement and the Respondents fail to comply with any of the terms of this Settlement Agreement, Enforcement Staff may bring proceedings under Investment Dealer Rule 8200 against the Respondents. These proceedings may be based on, but are not limited to, the facts set out in Part III of this Settlement Agreement.

**PART VII – PROCEDURE FOR ACCEPTANCE OF SETTLEMENT**

104. This Settlement Agreement is conditional on acceptance by the hearing panel.

105. This Settlement Agreement shall be presented to a hearing panel at a settlement hearing in accordance with sections 8215 and 8428 of the Investment Dealer Rules, in addition to any other procedures that may be agreed upon between the parties.
106. Enforcement Staff and the Respondents agree that this Settlement Agreement will form all the agreed facts that will be submitted at the settlement hearing, unless the parties agree that additional facts should be submitted at the settlement hearing. If any of the Respondents do not appear at the settlement hearing, Staff may disclose additional relevant facts, if requested by the hearing panel.
107. If the hearing panel accepts this Settlement Agreement, the Respondents agree to waive all rights under the Rules of the Corporation and any applicable legislation to any further hearing, appeal and review.
108. If the hearing panel rejects this Settlement Agreement, Enforcement Staff and the Respondents may enter into another settlement agreement or Enforcement Staff may proceed to a disciplinary hearing based on the same or related allegations.
109. The terms of this Settlement Agreement are confidential unless and until this Settlement Agreement has been accepted by the hearing panel.
110. This Settlement Agreement will become available to the public upon its acceptance by the hearing panel and the Corporation will post a copy of this Settlement Agreement on the Corporation website. The Corporation will publish a notice and news release of the facts, contraventions, and the sanctions agreed upon in this Settlement Agreement and the hearing panel's written reasons for its decision to accept this Settlement Agreement.
111. If this Settlement Agreement is accepted, the Respondents agree that neither they nor anyone on their behalf, will make a public statement inconsistent with this Settlement Agreement.

112. This Settlement Agreement is effective and binding upon the Respondents and Enforcement Staff as of the date of its acceptance by the hearing panel.

**PART VIII – EXECUTION OF SETTLEMENT AGREEMENT**

113. This Settlement Agreement may be signed in one or more counterparts which together will constitute a binding agreement.

114. An electronic copy of any signature will be treated as an original signature.

**DATED** this “25<sup>th</sup>” day of March 2024

“Witness”  
Witness

BMO Nesbitt Burns Inc.  
Per  
“Kevin Barnes”  
Name  
I have authority to bind the corporation

“Witness”  
Witness

BMO Nesbitt Burns Inc.  
Per  
“Bruce Ferman”  
Name  
I have authority to bind the corporation

**DATED** this “25<sup>th</sup>” day of March 2024

“Witness”  
Witness

“Yujie (Jared) Liu”  
Yujie (Jared) Liu

**DATED** this “25<sup>th</sup>” day of March 2024

“Ricki Ann Newmarch”  
Witness

“Sylvia Samuel”  
Sylvia Samuel  
Enforcement Counsel on behalf of  
Staff of the Enforcement  
Department of CIRO

The Settlement Agreement is hereby accepted this “28<sup>th</sup>” day of “March” 2024 by the following Hearing Panel:

Per: “Martin Friedland”  
Panel Chair

Per: “Christopher Hill”  
Panel Member

Per: “Richard Austin”  
Panel Member

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<sup>i</sup> On January 1, 2023, IIROC and the MFDA were consolidated into a single self-regulatory organization recognized under applicable securities legislation.

The Canadian Investment Regulatory Organization (“CIRO”) has adopted interim rules that incorporate the pre-amalgamation regulatory requirements contained in the rules and policies of IIROC and the by-law, rules and policies of the MFDA (the “Interim Rules”). The Interim Rules include (i) the Investment Dealer and Partially Consolidated Rules, (ii) the UMIR and (iii) the Mutual Fund Dealer Rules. These rules are largely based on the rules of IIROC and the rules and certain by-laws and policies of the MFDA that were in force immediately prior to amalgamation. Where the rules of IIROC and the rules and by-laws and policies of the MFDA that were in force immediately prior to amalgamation have been incorporated into the Interim Rules, Enforcement Staff have referenced the relevant section of the Interim Rules.

Section 1105 (Transitional provision) of the Investment Dealer and Partially Consolidated Rules sets out CIRO’s continuing jurisdiction, including that CIRO shall continue the regulation of any person subject to the jurisdiction of the Investment Industry Regulatory Organization of Canada that was formerly conducted by the Investment Industry Regulatory Organization of Canada.