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
SAM HSIAO-TSE YANG

SETTLEMENT AGREEMENT

PART I – INTRODUCTION

1. The Canadian Investment Regulatory Organization ("CIRO")[1] 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 Sam Hsiao-Tse Yang (the "Respondent").

PART II – JOINT SETTLEMENT RECOMMENDATION

2. Enforcement Staff and the Respondent 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, the Respondent agrees with the facts as set out in Part III of this Settlement Agreement.

Overview

4. The Respondent engaged in undisclosed outside business activities and personal financial dealings related to his cryptocurrency ("crypto") trading. This includes his own personal crypto trading, borrowing money from a client to finance this trading, selling his personal crypto holdings to clients, and engaging in an ongoing business relationship with a crypto trading related business. These activities involve significant amounts of money.

Registration History

5. The Respondent has worked in the industry since 2014 and has no prior history of regulatory violations. The conduct in question took place while he was with RBC Dominion Securities Inc. ("RBC-DS"), where he was a Registered Representative from April 2018 to November 2021. The Respondent is not currently working in a registered capacity with a CIRO Dealer Member.

Background and Facts

6. The Respondent engaged in crypto trading related activities throughout his time at RBC-DS. This includes outside business activities the Respondent failed to disclose and personal financial dealings with clients.

7. It was the Respondent's understanding that he did not need to disclose his personal crypto trading activity when he began working at RBC-DS in April 2018. However, in July 2019 the Respondent was directed to formally disclose this activity. In that disclosure the Respondent described the activity as "crypto arbitrage" and noted he had online crypto accounts.

8. The Respondent's business activity was approved by RBC-DS with the following conditions:

   a) He must forward monthly statements of his trading;
   b) He must not solicit clients; and
   c) He must keep RBC-DS informed of any changes to his activities; and
   d) He meets with management of RBC-DS periodically for review.

9. However, this disclosure did not encompass all the Respondent's crypto related activities. He failed to disclose that was involved in helping develop a crypto trading related business with a friend. This would eventually lead to the establishment of Heartbeat Capital Ltd. ("Heartbeat Capital") in September 2020, which the Respondent had no ownership in. He remained involved with Heartbeat Capital throughout his employment with RBC-DS.

10. In August 2021, RBC's anti-money-laundering unit became concerned over large transactions moving through the Respondent's personal RBC banking account. Between November 2020 and June 2021, a total of $1,045,000 was deposited into his personal account by third parties. During that same time-period he wired approximately $1,060,000 to the crypto trading firm Alameda Research Ltd.

11. RBC-DS commenced an investigation which subsequently revealed the Respondent:

   a) Was selling his personal crypto holdings to friends, three of whom were clients, to assist them in getting started with their own crypto trading;
   b) Borrowed money from a client who is a Related Person to finance his own personal crypto trading; and
   c) Had an ongoing business relationship with Heartbeat Capital.

12. The Respondent was terminated by RBC-DS on November 18, 2021.

Business Relationship with Heartbeat Capital Ltd.

13. During the entirety of his employment with RBC-DS, the Respondent failed to disclose an outside business activity that included the development of Heartbeat Capital, and his continued involvement with the business. Heartbeat Capital provides a market-making role in the crypto markets on multiple exchanges. It was founded and wholly owned by the Respondent's friend.

14. The Respondent's involvement began in November of 2016, before the company was incorporated in September of 2020 and before he was registered at RBC-DS. The Respondent continued his involvement with the business after Heartbeat Capital was established. This business relationship carried on through his employment at RBC-DS and after he was terminated by the firm.

15. The Respondent was a founding investor in the business, and he provided consulting services. He was involved in board meetings and provided advice on certain business strategies. The Respondent had a profit-sharing arrangement whereby he was allocated business points. The Respondent funded approximately $500,000 USD for this business endeavor. During his time employed with RBC-DS he made approximately $90,000 USD in profit from his involvement.

16. At no time did the Respondent disclose to RBC-DS his involvement with Heartbeat Capital and its development. RBC-DS only became aware of the outside business activity in August 2021 as a result of an internal investigation.

Personal Crypto Trading

17. The Respondent began trading in crypto assets before becoming an advisor with RBC-DS in April 2018. The Respondent's understanding was he did not need to

disclose this business activity. However, in July 2019 RBC directed him to formally disclose this During this time the Respondent had approximately eight crypto trading accounts, on various crypto trading platforms. Between December 2019 and March 2022, the Respondent invested approximately $500,000 USD in various cryptocurrency strategies.

18. In July 2019 RBC-DS approved the Respondent's continued personal crypto trading but imposed several conditions. However, the Respondent did not adhere to these conditions. He breached them by:

a) Failing to provide statements of account;
b) Failing to advise his firm when his activities expanded to involve borrowing money and selling his own crypto assets; and
c) Involving clients in his crypto activities.

Loans to Finance Trading

19. The Respondent failed to disclose and receive approval for a series of loans from a client, which were used to finance crypto trading activity. The loans were to be repaid with interest. The client in question was a related person under the Income Tax Act, however RBC-DS policies and procedures required disclosure and approval of the loans.

20. Between November 20, 2020, and June 8, 2021, the Respondent obtained seven loans, totaling approximately $400,000. All the cheques were deposited into the Respondent's RBC bank account. The loans were repaid with interest.

Selling Personal Crypto Holdings

21. The Respondent sold his own personal crypto assets to his clients. The clients in question were all personal friends of the Respondent whom he was assisting in setting up their own personal crypto trading. All the funds were transferred to the Respondent by way of cheque or electronic transfer, all of which were deposited in the Respondent's RBC bank account.

22. Between February and June of 2021, the Respondent sold his own crypto to three different clients. The Respondent received approximately $134,000 for these transactions. Specifically:

    a) The Respondent received two payments totaling $75,000 CAD in exchange for his own crypto holdings. The payments received from AW, by way of two cheques, dated March 17, 2021, and June 1, 2021;

    b) The Respondent received payments totaling $20,000 CAD and $20,000 USD, in exchange for his own crypto holdings. The payments were received from BT between February and May 2021 via 13 electronic transfers; and

    c) The Respondent received a payment totaling $19,000 CAD in exchange for his own crypto holdings. The payments received from PH, by way of a cheque, dated March 12, 2021.

PART IV – CONTRAVENTIONS

23. By engaging in the conduct described above, the Respondent committed the following contraventions of CIRO requirements:

(i) Contravention 1

Between April 2018 and July 2021, the Respondent engaged in outside business activities by engaging in cryptocurrency trading and carrying on an ongoing business relationship with a cryptocurrency related business, contrary to Dealer Member Rule 18.14.

(ii) Contravention 2

Between November 2020 and June 2021, the Respondent engaged in personal financial dealings by selling his personal cryptocurrency assets to three (3) clients, and by borrowing money from a client to finance his cryptocurrency trading, without the knowledge or approval of his Dealer Member, contrary to Dealer Member Rule 43.1.

PART V – TERMS OF SETTLEMENT

24. The Respondent agrees to the following sanctions and costs:

(i) A fine in the amount of $45,000;

(ii) A suspension for a period of nine months;

(iii) A Six-month period of close supervision upon registration with CIRO;

(iv) A requirement to rewrite of the Conduct and Practices Handbook exam prior to registration with CIRO; and

(v) Costs payable to CIRO in the amount of $5,000.

25. If this Settlement Agreement is accepted by the hearing panel, the Respondent agrees to pay the amounts referred to above within 90 days of such acceptance unless otherwise agreed between Enforcement Staff and the Respondent.

PART VI – STAFF COMMITMENT

26. If the hearing panel accepts this Settlement Agreement, Enforcement Staff will not initiate any further action against the Respondent 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.

27. If the hearing panel accepts this Settlement Agreement and the Respondent fails to comply with any of the terms of this Settlement Agreement, Enforcement Staff may bring proceedings under Investment Dealer Rule 8200 against the Respondent. 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

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

29. 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.

30. Enforcement Staff and the Respondent 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 the Respondent does not appear at the settlement hearing, Staff may disclose additional relevant facts, if requested by the hearing panel.

31. If the hearing panel accepts this Settlement Agreement, the Respondent agrees to waive all rights under the Rules of CIRO and any applicable legislation to any further hearing, appeal and review.

32. If the hearing panel rejects this Settlement Agreement, Enforcement Staff and the Respondent may enter into another settlement agreement or Enforcement Staff may proceed to a disciplinary hearing based on the same or related allegations.

33. The terms of this Settlement Agreement are confidential unless and until this Settlement Agreement has been accepted by the hearing panel.

34. This Settlement Agreement will become available to the public upon its acceptance by the hearing panel and CIRO will post a copy of this Settlement Agreement on the CIRO website. CIRO 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.

35. If this Settlement Agreement is accepted, the Respondent agrees that neither they nor anyone on their behalf, will make a public statement inconsistent with this Settlement Agreement.

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

PART VIII – EXECUTION OF SETTLEMENT AGREEMENT

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

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

DATED this "14" day of "February", 2024.

"Witness"
Witness

"Sam Hsiao-Tse Yang"
Sam Hsiao-Tse Yang

"Tayen Godfrey"
Tayen Godfrey
Enforcement Counsel on behalf of
Enforcement Staff of the
Canadian Investment Regulatory
Organization

The Settlement Agreement is hereby accepted this "15" day of "March" 2024 by the following Hearing panel:

Per: "Eric Spink"
Chair

Per: "Jonathan Lund"
Industry Member

Per: "Martin Davies"
Industry Member

[1] 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.