



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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**IN THE MATTER OF
HRU MORTGAGE INVESTMENT CORPORATION, HRU FINANCIALS LTD.,
YAU LING (PATRICK) LAM, QINGYANG (MICHAEL) XIA,
and ZICHAO (MARSHALL) LIANG**

STATEMENT OF ALLEGATIONS
(Subsection 127(1) and Section 127.1
of the *Securities Act*, RSO 1990, c S.5)

A. OVERVIEW

1. Mortgage investment entities (**MIEs**) must be registered to engage in the business of trading in securities with the public. For the past decade, the Commission has communicated this message to the MIE industry through news releases, industry outreach and enforcement actions. When MIEs fail to comply with the registration requirement or promote that they are registered when they are not, they undermine the important gate-keeping function served by registration to protect investors. This conduct is even more concerning when it involves former registrants.

2. Between September 2017 and November 2020 (the **Material Time**), HRU Mortgage Investment Corporation (**HRUMIC**), a MIE based in Ontario, and HRU Financials Ltd., a related Ontario company that acts as manager for HRUMIC (**HRUFL**, together with HRUMIC, **HRU**) raised approximately \$13 million from 80 investors in the exempt market without being registered as a dealer. Despite not being registered, HRU promoted itself as being registered and/or recognized by the Commission, made untrue statements about the registration of one of its directors, and made misleading statements as to its regulation by other Canadian regulators and supervisory bodies. In doing so, HRU and its principals breached sections 25, 44 and 46 of the *Securities Act*, RSO 1990, c S.5 (the **Act**).

3. Yau Ling (Patrick) Lam (**Lam**), Qingyang (Michael) Xia (**Xia**) and Zichao (Marshall) Liang (**Liang**) are directors and officers of HRU. Lam, Xia and Liang engaged in the business of trading, were involved in the misleading and prohibited representations in HRU's marketing materials, and authorized and permitted HRU's breaches of Ontario securities law. As former

registrants, Lam, Xia and Liang knew or ought to have known the importance of registration and the requirement to provide accurate and truthful information to investors.

B. FACTS

Staff of the Enforcement Branch (**Staff**) of the Ontario Securities Commission (the **Commission**) make the following allegations of fact:

Directing Minds of HRU are Former Registrants

4. HRUMIC and HRUFL have three principal directing minds – Lam, Xia and Liang – who are all former registrants:

- (a) Lam, an Ontario resident, is the Chief Executive Officer of HRUMIC and Managing Director of HRUFL. Lam has been a director and officer of HRUMIC and HRUFL since October 17, 2018. Lam was previously registered in Ontario as a salesperson with two different registered scholarship plan dealers. He is not presently registered and was not registered during the Material Time.
- (b) Xia, an Ontario resident, is the Chief Information Officer and Managing Director of HRUMIC and the President of HRUFL. Xia has been a director and officer of HRUFL since May 1, 2017 and an officer and director of HRUMIC since October 17, 2018 and June 1, 2017, respectively. Xia was previously registered in Ontario as a dealing representative for a Mutual Fund Dealer. He is not presently registered and was not registered during the Material Time.
- (c) Liang, an Ontario resident, is the Treasurer of both HRUMIC and HRUFL, the Managing Director of HRUFL, as well as the Chief Operating Officer and Chief Compliance Officer of HRUMIC. Liang has been a director and officer of HRUFL and HRUMIC since May 1, 2017 and June 1, 2017, respectively. Liang was previously registered in Ontario as a dealing representative for an Exempt Market Dealer (**EMD**). He is not presently registered and was not registered during the Material Time.

Unregistered Trading

5. During the Material Time, the Respondents engaged in the business of trading in securities without being registered under Ontario securities law.
6. HRU raised approximately \$13 million from the sale of HRUMIC Class B preferred shares to 80 investors primarily located in Ontario and invested those funds in mortgages secured by Ontario real estate.
7. HRU raised capital on a regular and continuous basis. Over 100 distributions took place in approximately 30 of the 40 months of the Material Time. Distributions of HRUMIC preferred shares were conducted, at a minimum, quarterly until November 2020.
8. HRU conducted its own sales and did not use a registered EMD.
9. HRU promoted itself and its investment offerings in multiple ways: through its website, on Facebook, flyers, local Chinese-language radio commercials, at least three Offering Memoranda (OMs) and through a referral network. In addition to Lam, Xia and Liang, HRU also employed a dedicated Director of Sales and an Officer of Sales and Revenue.
10. Lam, Xia and Liang engaged in acts in furtherance of the sale of HRUMIC preferred shares by, among other things, soliciting investments, answering investor questions, providing investors with agreements or forms, distributing promotional materials concerning potential investments, issuing and signing share certificates, receiving, handling or depositing funds from investors and approving content for HRU OMs, brochures, website pages, radio advertisements and flyers.

Prohibited Representations

(i) Prohibited Untrue Statements Regarding Registration

11. On its website, HRU made representations that the HRUMIC securities and Liang were registered with the Commission when this was not true.

(ii) Prohibited Misleading and/or Untrue Statements

12. On its website and in its marketing materials, HRU made a variety of representations that were misleading and/or untrue, including that HRU filed monthly and quarterly compliance

reports with the Commission, that HRU was in full compliance with Canadian securities laws and regulatory standards, and that HRU was regulated by other Canadian regulatory entities such as the “Federal Securities Commission”, “OSFI, CDIC, CMHC, and Insurance Compliances”.

(iii) Prohibited Statements Regarding Commission Approval

13. On its website and in its marketing materials, including radio station advertisements and presentations to investors, HRU made a variety of prohibited representations that the Commission approved of HRU or its product. For example, HRU stated that HRU was recognized by the Commission as a “Qualified Investment”, that HRU offered a “OSC regulated and recognized investment solution,” and used the Commission’s logo in its marketing materials.

C. BREACHES OF ONTARIO SECURITIES LAW AND CONDUCT CONTRARY TO THE PUBLIC INTEREST

Staff allege the following breaches of Ontario securities law and/or conduct contrary to the public interest:

14. HRUMIC, HRUFL, Lam, Xia and Liang engaged in or held themselves out as engaging in the business of trading in securities without being registered in accordance with Ontario securities law as a dealer, contrary to subsection 25(1) of the Act;

15. HRUMIC, HRUFL, Lam, Xia and Liang made untrue representations regarding registration contrary to subsection 44(1) of the Act;

16. HRUMIC, HRUFL, Lam, Xia and Liang made prohibited misleading or untrue statements, contrary to subsection 44(2) of the Act;

17. HRUMIC, HRUFL, Lam, Xia and Liang made prohibited statements regarding Commission approval, contrary to section 46 of the Act;

18. Lam, Xia and Liang authorized, permitted or acquiesced in HRU’s non-compliance set out in sub-paragraphs (a) to (d) above, contrary to section 129.2 of the Act; and

19. HRUMIC, HRUFL, Lam, Xia and Liang engaged in conduct contrary to the public interest.

D. ORDER SOUGHT

20. Staff request that the Commission make an order pursuant to subsection 127(1) and section 127.1 of the Act to approve the settlement agreement dated March 30, 2022 between the Respondents and Staff;

21. Staff reserve the right to amend these allegations and to make such further and other allegations as Staff may advise and the Commission may permit.

DATED this 31st day of March, 2022.

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Staff of the Enforcement Branch