

ADMINISTRATIVE PROCEEDING
File No. 3-17386

**SEC Announces Charges Against Former CMBS Trader Who Mismarked Positions;
Broker-Dealer Not Charged Due to Cooperation with SEC**

August 15, 2016 – The Securities and Exchange Commission today announced that Tianyu “Arnie” Zhou has agreed to settle charges relating to his inaccurate valuation of certain commercial loans. Zhou securitized and traded commercial mortgage-backed securities (“CMBS”) at a broker-dealer from 2012 to 2015.

An SEC investigation found that Zhou inaccurately marked certain loans that were held on his employer’s books prior to being securitized and provided inaccurate information to his employer’s internal control function concerning those loans. Zhou’s actions prevented his employer’s internal control function and other employees from learning the accurate value of those loans. He claimed that the largest loan in question featured a “step-up” coupon – i.e., that the loan would ratchet up to a higher interest rate – but it did not. Zhou also fabricated a loan document as supporting documentation that featured such a “step-up coupon.” In late 2015, consistent with an instruction to reduce the risk held in his employer’s books, Zhou decided to securitize the loan in question, leading to the discovery of the fabricated document.

The SEC’s order finds that Zhou willfully aided and abetted and caused violations of Section 17(a) of the Securities Exchange Act of 1934 and Rule 17a-3 thereunder, and willfully violated Exchange Act Section 13(b)(5) and Rule 13b2-1. Without admitting or denying the findings in the SEC’s order, Zhou agreed to entry of a cease and desist order and pay a penalty of \$50,000. Zhou also agreed to industry and penny stock bars with a right to reapply after three years.

The SEC determined not to bring charges against Zhou’s employer, taking into consideration the firm’s efforts at self-policing that eventually led to the discovery of Zhou’s misconduct, prompt self-reporting, thorough remediation, and significant cooperation in the SEC’s investigation.

The SEC’s investigation was conducted by Joshua R. Pater and supervised by Daniel Michael and Michael Osnato, all members of the Complex Financial Instruments Unit.

See also: [Order](#)