

Enforcement

Market Misconduct Tribunal

- In an inquiry where the Market Misconduct Tribunal (MMT) imposed its heaviest financial sanction to date, the former chairman and chief executive officer of Greencool Technology Holdings Limited, Gu Chujun¹, was ordered to disgorge approximately \$481 million of profit from grossly overstating financial statements in a five-year period. In addition, the MMT made a cold shoulder order² against Gu effective for five years and disqualified Gu and four other former senior executives for three to five years.
- The MMT made a determination that in the publication of a circular on 12 September 2008, CITIC Limited and five of its former executive directors had not disclosed false or misleading information that was likely to maintain, increase, reduce or stabilise the price of CITIC shares and so had not engaged in market misconduct.
- The MMT ruled that Mayer Holdings Limited and nine of its former directors and senior executives failed to disclose inside information as soon as reasonably practicable and fined them a total of \$10.2 million. The MMT also imposed disqualification orders for periods ranging from 12 to 20 months against the senior executives and ordered Mayer to appoint an independent professional adviser to review its procedures for compliance with the corporate disclosure regime. Mayer and eight of the senior executives have filed appeals against the MMT's decision and orders.

Court proceedings

- An appeal by Moody's Investors Service Hong Kong Limited against the Securities and Futures Appeals Tribunal's decision to uphold our disciplinary action in relation to a special comment report³ was dismissed by the Court of Appeal on the basis that the preparation and publication of the report was part of the carrying on of Moody's credit ratings business.

- The Court of Appeal dismissed our appeal, and our application for leave to appeal to the Court of Final Appeal, against the MMT's findings that Yiu Hoi Ying and Marian Wong Nam, two former executives of Asia Telemedia Limited⁴, had not engaged in insider dealing. We instituted parallel proceedings in the Court of First Instance under section 213 of the Securities and Futures Ordinance against the company's former chairman, Lu Ruifeng, for alleged insider dealing in its shares.
- We commenced criminal proceedings in the Eastern Magistrates' Court against Lam Yik Tung, Chan Lit Chun and Anson Mui Ka Leung for alleged insider dealing.
- The Court of First Instance dismissed the appeal of Hong Kong Game Theory Association Limited and Sze Ching Lok, its sole director, against their convictions for carrying on a business in advising on futures contracts without a licence.
- In two separate cases of illegal short selling, former responsible officer of China Rise Securities Asset Management Company Limited Shiu Kin Keung Sammy and retail investors Cheng Chi Fei and Wong Kin were convicted and fined by the Eastern Magistrates' Court.
- The Eastern Magistrates' Court convicted and fined QMIS Securities Limited and Huang Kuang Cheng, its former responsible officer, for making false or misleading representations when submitting licensing information to the SFC.

Disciplinary actions

We disciplined three licensed corporations and seven representatives, resulting in total fines⁵ of \$11 million.

Anti-money laundering

- Guoyuan Securities Brokerage (Hong Kong) Limited was reprimanded and fined \$4.5 million for failing to conduct proper enquiries to mitigate the risks of money laundering and terrorist financing when processing third-party fund transfers for clients.

¹ In June 2014, we commenced proceedings in the Court of First Instance under section 213 of the Securities and Futures Ordinance (SFO) to seek compensation from Gu for losses caused to over 1,300 Greencool minority shareholders.

² A sanction that prevents a person from accessing, directly or indirectly, the Hong Kong securities market for a stated period.

³ In the report, entitled "Red Flags for Emerging-Market Companies: A Focus on China" published on 11 July 2011, Moody's assessed 49 Mainland companies against 20 warning signs it called "red flags".

⁴ Now known as Yunfeng Financial Group Limited.

⁵ Fines paid by intermediaries in disciplinary actions go into the general revenue of the Government.

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Its former responsible officer, Hui Lam Chiu, was suspended for six months for failing to ensure the firm took all reasonable anti-money laundering measures.

- iSTAR International Futures Co. Limited⁶ was also reprimanded and fined \$3 million for third-party fund transfer deficiencies, while Wu Biwei, its former responsible officer and managing director, was suspended for six months.

Unauthorised share sale

- Tsap Wai Ping was prohibited from re-entering the industry for two years for soliciting the sale of shares in Yinfu Gold Corporation to the public without the SFC's authorisation.

Misappropriation

- Promising Securities Company Limited was reprimanded and fined \$3.5 million for misappropriation of client assets by unlicensed staff.

Theft and Code of Conduct breaches

- In separate cases involving former bank employees, Daniel Chen Chi Lik was banned from re-entering the industry for life following his conviction for theft and Li Bo was banned for eight months for breaching his employer's staff trading policy and the SFC Code of Conduct⁷.
- Fok Chi Kin was prohibited from re-entering the industry for eight months for breaching his former employer's internal policies, the Personal Data (Privacy) Ordinance and the SFC Code of Conduct⁷ by sending proprietary information and client data to his personal email account.

Market surveillance

We made 2,617 requests for trading and account records from intermediaries in the quarter. In addition, we posted seven high shareholding concentration announcements on our website to remind investors to exercise caution when trading shares in companies where a small number of shareholders hold a high concentration of shares.

⁶ Now known as Rifa Futures Limited.

⁷ Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

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Enforcement activities

	Quarter ended 30.6.2017	Quarter ended 31.3.2017	Change (%)	Quarter ended 30.6.2016	YoY change (%)
S179 ^a inquiries commenced	9	9	0	4	125
S181 ^b inquiries commenced (number of letters sent)	80 (2,617)	94 (2,472)	5.9	81 (2,236)	17
S182 ^c directions issued	90	95	-5.3	158	-43
Investigations started	89	97	-8.2	160	-44.4
Investigations completed	55	134	-59	165	-66.7
Investigations completed within seven months (%)	18 (33%)	49 (37%)	-63.3	75 (45%)	-76
Individuals/corporations charged in criminal proceedings	7	6	16.7	0	N/A
Criminal charges laid	14	31	-54.8	0	N/A
Notices of Proposed Disciplinary Action ^d issued	7	7	0	16	-56.3
Notices of Decision ^e issued	9	17	-47.1	10	-10
Individuals/corporations subject to ongoing civil proceedings	126	126	0	100	26
Compliance advice letters issued	90	139	-35.3	87	3.4
Cases with search warrants executed	8	10	-20	8	0

^a Section 179 of the SFO gives the SFC the power to compel the production of records and documents from persons related to a listed company in relation to fraud or other misconduct.

^b Section 181 of the SFO gives the SFC the power to require information from intermediaries about trading transactions, including the identity information of the ultimate clients, the particulars and instructions relating to the transactions.

^c Section 182 of the SFO gives the SFC the power to investigate SFO offences, market misconduct, fraud, misfeasance and disciplinary misconduct.

^d A notice issued by the SFC to regulated persons that it proposes to exercise its disciplinary powers, on grounds that they appear to be guilty of misconduct or not fit and proper.

^e A notice that sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.