

Enforcement

Through firm and prompt enforcement action, we protect investors, punish wrongdoers and safeguard the integrity and reputation of our markets. Our strategic focus on high-impact cases helps us address key risks in financial markets and send strong deterrent messages to the market.

Leveraging our regulatory tools

We use the full spectrum of sanctions and remedies available to us under the Securities and Futures Ordinance (SFO), including through criminal, administrative, compensatory and disciplinary actions.

We have broad powers to hold directors and individuals responsible for misconduct committed by the companies they manage.

We can discipline licensed intermediaries through reprimands, fines¹ and suspensions or revocations of licences, and apply to the court for injunctive and remedial orders against wrongdoers in favour of victims.

To tackle market misconduct, such as insider dealing and market manipulation, we institute criminal prosecutions or bring cases directly to the Market Misconduct Tribunal (MMT).

During the year, we commenced 135 investigations and laid 115 criminal charges against 25 persons. We secured convictions against five of them and the proceedings against the others are ongoing.

We obtained disqualification and compensation orders against six corporations and three persons. Civil actions seeking financial redress and other remedial orders against 180 persons and corporations in 32 cases are pending before the court.

Disciplinary action was taken against 18 persons and 13 corporations. We also issued 113 compliance advice letters to address areas of regulatory concern, raise standards of conduct and promote compliance in the industry.



[^] The requests were made to intermediaries as a result of our surveillance of untoward price movements and turnover.

¹ Fines paid by intermediaries in disciplinary actions go into the general revenue of the Government.

Enforcement

Combating market misconduct

Surveillance

We monitor trading on the Stock Exchange of Hong Kong Limited (SEHK) and the Hong Kong Futures Exchange Limited on a daily basis and conduct preliminary inquiries to detect possible market manipulation or insider dealing. We also engage with firms to review how they perform their monitoring and surveillance.

Our surveillance of untoward price and turnover movements resulted in 5,851 requests for trading and account records from intermediaries. We also received and assessed 256 notifications from intermediaries² regarding suspicious equity and derivative trading.

We posted four announcements on our website reminding the investing public to exercise caution when trading in shares of listed companies where a small number of shareholders hold a high concentration of shares.

Insider dealing and market manipulation

The Eastern Magistrates' Court sentenced Fung Kwong Shing Danny, a former account executive of Fulbright Securities Limited, to two-and-a-half months' imprisonment following his conviction of the offences of engaging in fraud or deception in transactions involving securities under section 300³ of the SFO.

We commenced proceedings in the MMT against a responsible officer of an asset management company for allegedly engaging in false trading in the shares of two Hong Kong-listed companies.

Following an earlier joint operation by the SFC and the Hong Kong Police Force against a sophisticated ramp and dump syndicate in March 2021, two suspected masterminds of the syndicate and 12 of their associates were brought before the Eastern Magistrates' Court charged with various criminal offences including those under section 300 of the SFO.

Joint operations with ICAC

We conducted two joint operations with the Independent Commission Against Corruption (ICAC) concerning suspected ramp and dump schemes involving the stocks of six Hong Kong-listed companies, other market misconduct and suspected corruption offences. A total of 13 people, including a suspected ringleader and other key members of a sophisticated ramp and dump syndicate, were arrested by the ICAC during the operations. Our investigations are ongoing.

Warning against ramp and dump scams

To raise public awareness of the common tactics seen in ramp and dump scams on social media, we held a two-day community outreach campaign jointly with the Hong Kong Police Force's Anti-Deception Coordination Centre in major shopping areas.

Tackling corporate fraud and related misbehaviour

The Court of First Instance (CFI) granted an order under section 214⁴ of the SFO against Wen Yibo, chairman and executive director of Sound Global Ltd., to purchase shares held by the other shareholders of the company after he was found to have orchestrated a scheme to falsify the company's bank balances and fabricated relevant bank statements and balance confirmations. Wen was also disqualified from serving as a director or taking part in the management of any corporation in Hong Kong for 12 years.

Joint operation with Hong Kong Police Force

During the year, we conducted a joint operation with the Hong Kong Police Force concerning suspected bogus transactions involving a company formerly listed on SEHK. Eight people, including the company's current and former executive directors and senior executives, were arrested by the Hong Kong Police Force for suspected fraud during the joint operation. Our investigation is ongoing.

2 Intermediaries are required to report clients' suspected market misconduct to the SFC.

3 Under section 300 of the SFO, it is an offence to engage in any act, practice or course of business which is fraudulent or deceptive in a transaction involving securities.

4 Under section 214 of the SFO, the court may make orders to disqualify a person from being a director or being involved, directly or indirectly, in the management of any corporation for up to 15 years or any other orders it considers appropriate.



Redress for victims of fraudulent investment schemes

Protecting investors from falling victim to scams is one of our top priorities. During the year, we safeguarded investors' interest by obtaining orders from the CFI under section 213 of the SFO to compensate victims of two major fraudulent investment schemes.

The DFRF global pyramid and Ponzi scheme

Between 2014 and 2015, Daniel Fernandes Rojo Filho operated a pyramid and Ponzi scheme^a through two companies he founded with the name DFRF Enterprises and raised over US\$15 million from more than 1,400 investors worldwide.

As part of the Ponzi scheme, the fraudsters claimed that DFRF, whose main business was gold mining operations, would soon be listed in the US and persuaded a number of Hong Kong investors to acquire "membership units" for a monthly return of up to 15%. Around May 2015, the fraudsters claimed that DFRF had listed and offered investors the option to convert their "membership units" into preferred shares at a certain price. This was a scam and DFRF had never listed in the US.

In December 2016 and March 2017, we obtained interim injunctions to freeze assets in the fraudsters' bank accounts. In May 2022, the CFI appointed administrators to receive and distribute the remaining proceeds of the scheme, totalling \$2.8 million, to the investors on a pro rata basis.

The Maxim Fund

Maxim Capital Limited (Maxim Capital) and Maxim Trader solicited over 260 investors to invest more than \$170 million in the Maxim Fund since 2013.

^a A pyramid and Ponzi scheme is an investment fraud in which a fraudster purports to operate a business or an investment which offers promised returns to victims at a later date and victims are persuaded to recruit other people to participate in the business or the investment.



Over
1,600
victims



Over
\$26 million
of funds frozen for
compensation

Investors were initially able to receive monthly returns on their investments, but the payments discontinued in July 2015 and Maxim Capital or Maxim Trader informed them that their investments had been converted into shares of a company which appeared to be worthless.

In November 2015, we obtained interim injunctions to freeze approximately \$23.5 million held by Maxim Capital with a licensed money service operator in Hong Kong. In June 2022, the CFI appointed administrators to receive, administer and distribute the frozen funds to the affected investors on a pro rata basis.

Investors reminded to stay vigilant

The SFC is committed to protecting the interests of the investing public and seeking redress for investors who fall victim to these scams by deploying the whole suite of our regulatory tools. Nevertheless, investors should remain vigilant and exercise caution if they come across investment opportunities which promise lucrative returns that may sound too good to be true.

Enforcement

Taking firm action against intermediary misconduct

During the year, we disciplined 13 corporations and 18 individuals⁵, resulting in total fines of \$41.7 million. Key disciplinary actions included the following.

AML/CFT-related breaches

- We reprimanded and fined Rifa Futures Limited⁶ \$9 million for failures in complying with know-your-client, anti-money laundering and counter-financing of terrorism (AML/CFT) and other regulatory requirements. Rifa failed to perform adequate due diligence on client-supplied systems used by clients for placing orders, conduct adequate ongoing monitoring of clients' fund movements and implement two-factor authentication for clients' internet trading accounts. We also suspended the licence of Tang Kai Shing for eight months for failure to discharge his duties as a responsible officer and a member of the senior management of Rifa.
- We reprimanded and fined Jinrui Futures (Hong Kong) Limited \$4.8 million for failures in complying with AML/CFT and other regulatory requirements. Jinrui failed to perform adequate due diligence on client-supplied systems used by clients for placing orders, conduct proper due diligence on clients before account opening and make adequate enquiries and sufficiently scrutinise clients' deposits which appeared unusual or suspicious and inconsistent with the clients' declared net worth. We also banned Shen Chun, Jinrui's former executive director and responsible officer, from re-entering the industry for six months, and suspended Jiang Xiaoqing, Jinrui's responsible officer, for five months, both for failure to discharge their duties as responsible officers and members of the senior management of Jinrui.
- We reprimanded and fined China Everbright Securities (HK) Limited \$3.8 million for failing to implement adequate and effective systems and controls to guard against and mitigate the risk of money laundering and terrorist financing associated with third party deposits.
- We reprimanded and fined City International Futures (Hong Kong) Limited⁷ \$100,000 for failing to perform adequate due diligence on customer supplied systems for placing orders, to conduct proper enquiries into client deposits which were incommensurate with the clients' financial profiles and to put in place an ongoing monitoring system to detect suspicious trading patterns in client accounts in accordance with AML/CFT and other regulatory requirements.

Other disciplinary actions

Mishandling client assets

Company/Name	Breaches	Action/Fine	Date
Guosen Securities (HK) Brokerage Company, Limited	Regulatory breaches relating to handling client assets and providing client account statements	Reprimanded and fined \$2.8 million	21.12.2022
RBC Investment Services (Asia) Limited	Failed to segregate client money and transferred client securities without standing authority from the clients	Reprimanded and fined \$7.7 million	20.7.2022
Ho Pak Hay	Misappropriated and misused clients' funds	Banned from re-entering the industry for life	19.5.2022

⁵ Comprising six responsible officers/manager-in-charge, nine licensed representatives and three relevant individuals of a licensed bank in Hong Kong.

⁶ Formerly known as iSTAR International Futures Co. Limited.

⁷ Now known as VERCAP Financial Services Limited.

Sponsor failures

Company/Name	Breaches	Action/Fine	Date
TC Capital International Limited	Failed to discharge its duties as the sponsor in the listing application of China Candy Holdings Limited	Reprimanded and fined \$3 million	1.8.2022
Wu Wen Guang Edward	Failed to discharge his duties as a responsible officer and sponsor principal of TC Capital International Limited in charge of China Candy's listing application	Suspended for seven months	1.8.2022

Other regulatory breaches and criminal convictions

Company/Name	Breaches/Convictions	Action/Fine	Date
Philip John Shaw	Failed to discharge his duties as a responsible officer and a member of the senior management of Citigroup Global Markets Asia Limited, following the SFC's disciplinary action against the firm in January 2022	Banned from re-entering the industry for 10 years	6.3.2023
Wong Kwun Shing	Participated in a stock manipulation scheme and provided false or misleading information to the SFC	Banned from re-entering the industry for life	1.3.2023
Chan Wai Chun	Conviction for fraud	Banned from re-entering the industry for life	27.2.2023
Swiss-Asia Asset Management (HK) Limited	Internal control deficiencies and regulatory breaches relating to monitoring trading activities in discretionary accounts and record keeping	Reprimanded and fined \$3 million	8.11.2022
Asia Research & Capital Management Limited	Failed to comply with the European Union's short selling reporting requirements and promptly notify its material regulatory breaches to the SFC	Reprimanded and fined \$1.75 million	12.10.2022
KTF Capital Management Limited [^]	Failed to comply with the Securities and Futures (Financial Resources) Rules	Reprimanded and fined \$400,000	28.7.2022
Lam Ki Fung	Convictions of conspiracy to defraud	Banned from re-entering the industry for three years	18.7.2022
CES Capital International (Hong Kong) Co., Limited	Failed to discharge its duties as an investment manager of two funds	Reprimanded and fined \$3.2 million	27.6.2022
Poon Choi Yung	Effected transactions in clients' accounts without their authorisations and failed to take reasonable steps to establish clients' financial situations and investment experience during account opening	Banned from re-entering the industry for 20 months	12.4.2022

[^] Formerly known as Forchn International Asset Management Co. Limited and Rega Technologies Limited.

Note: See Table 6 in Operational Data on page 180 for details of the less significant disciplinary actions.

Enforcement

Other notable cases

The CFI:

- granted an order under section 213 of the SFO against Hong Kong Wan Kiu Investment Company Limited (Wan Kiu), its sole director and shareholder, Sham Khi Rose Connie, and Sham & Partners Limited, a company owned by Connie's son, to compensate Wan Kiu's clients for misappropriating their assets; and
- dismissed a judicial review application brought against the SFC by Tam Sze Leung, Kong Chan and Lee Ka Lo and a second brought by Chen Wencan and Su Jiaqi, both of which sought to challenge restriction notices we issued to freeze their assets in various trading accounts held with certain licensed corporations. The restriction notices were issued in ongoing investigations into suspected ramp and dump schemes to preserve the assets in those accounts in the interest of the investing public.

The Eastern Magistrates' Court:

- sentenced Wong King Hoi to a two-week imprisonment following his conviction of obstructing the SFC in the execution of a search warrant;
- convicted Chan Siu Tai and her sister Janice Chan of illegal short selling in the securities of seven Hong Kong-listed companies, fined them \$114,000 and ordered them to pay the SFC's investigation costs; and
- convicted Lau Chi Ho of illegal short selling in the securities of two Hong Kong-listed companies, fined him \$20,000 and ordered him to pay the SFC's investigation costs.

The Securities and Futures Appeals Tribunal:

- affirmed our disciplinary decision to reprimand and fine Cardinalasia Consulting Limited \$1.5 million for failures in acting as a principal investment adviser to five private funds. The licence of the firm's responsible officer, Edward Lee Shiu Lun, was also suspended for nine months—two months more than we had proposed—for failures in managing the funds;



- affirmed our disciplinary decision and suspended Christopher James Aarons, responsible officer and chief executive officer of Trafalgar Capital Management (HK) Ltd., for two years for breaches of the Code of Conduct for Persons Licensed by or Registered with the SFC. Our disciplinary action followed administrative proceedings against Aarons in South Korea which found that he had breached Korean legislation by dealing in the shares of a company listed on the Korea Exchange based on material non-public information; and
- affirmed our disciplinary decision to reprimand and fine I-Access Investors Limited \$600,000 for breach of the Code of Conduct for Persons Licensed by or Registered with the SFC.

Restriction notice

During the year, we issued a restriction notice to a securities brokerage company prohibiting it from disposing of or dealing with certain assets held in a client account that holds proceeds of suspected insider dealing. Our investigation is ongoing.

Public consultation on law amendments

In June 2022, we began a two-month public consultation on proposals to amend the SFO to facilitate more effective enforcement action. We are reviewing the consultation responses and will further consider these proposals.

Enforcement cooperation with the CSRC

During the year, we worked closely with the China Securities Regulatory Commission (CSRC) through multiple communication and cooperation channels to overcome disruptions and challenges posed by the ongoing pandemic and provided thorough investigatory assistance to one another including the highest level of support in major and urgent cases⁸.

Enforcement activities

	2022/23	2021/22	2020/21
S179 ^a inquiries commenced	31	57	42
S181 ^b inquiries commenced (number of letters sent)	191 (5,851)	203 (7,308)	246 (8,748)
S182 ^c directions issued	130	214	189
Investigations started	135	220	204
Investigations completed	164	131	196
Individuals/corporations charged in criminal proceedings	25	4	10
Criminal charges laid ^d	115	28	29
Notices of Proposed Disciplinary Action ^e issued	26	37	27
Notices of Decisions ^f issued	29	43	35
Individuals/corporations subject to ongoing civil proceedings	180	168	179
Compliance advice letters issued	113	162	231
Cases with search warrants executed	35	37	28

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 The SFC brought a total of 98 criminal charges against 11 individuals. The Police brought a total of 17 criminal charges against 14 individuals for the investigations of the SFC.

e 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.

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

Note: Also see Table 7 in Operational Data on page 181 for more details.

⁸ See Regulatory Engagement on pages 64-69.