

Enforcement

Combatting market misconduct

Surveillance

Our surveillance of untoward price and turnover movements resulted in 1,036 requests for trading and account records from intermediaries during the quarter. We also received and assessed 71 notifications from intermediaries¹ regarding suspicious equity and derivative trading.

Market manipulation

Two suspected core members of a large-scale and sophisticated ramp and dump syndicate suspected of market manipulation were charged at the Eastern Magistracy with the offence of conspiracy to defraud or deceive in transactions involving securities. This is contrary to section 300 of the Securities and Futures Ordinance (SFO) and sections 159A and 159C of the Crimes Ordinance.

A case was transferred from the Eastern Magistracy to the District Court for trial after four suspects were charged with fraud under section 16A of the Theft Ordinance and alternative offences of illegal short selling under section 170 of the SFO in June. The case stemmed from an earlier joint operation with the Hong Kong Police Force to combat ramp and dump scams on social media.

Corporate fraud and related misbehaviour

We obtained an interim-interim notification injunction at the Court of First Instance (CFI) against Leung Anita Fung Yee Maria, former chief executive officer and executive director of SMI Culture & Travel Group Holdings Limited, requiring her to inform us of any sale of her specified properties in Hong Kong and Canada, in order to preserve assets for a compensation order which may be imposed under section 214 of the SFO. Subsequently, she notified us of the sale of her two properties and, upon our further application for injunction, provided a voluntary undertaking to the court not to complete the sale pending the substantive determination of the injunction application.

Acting against intermediary misconduct

During the quarter, we disciplined five corporations and five individuals and these actions resulted in total fines² of \$28.9 million. Key disciplinary actions are shown in the following tables.

Sponsor failures

Company/Name	Breaches	Action/Fine
Changjiang Corporate Finance (HK) Limited	Failed in discharging its duties as the sponsor in six applications to list on the Stock Exchange of Hong Kong Limited (SEHK)	Reprimanded and fined \$20 million Licence partially suspended to act as a sponsor for listing applications on SEHK for one year, or until we are satisfied with controls and procedures of its sponsor-related business, whichever is later
Tsang Kwong Fai	Failed to discharge his duties as a sponsor principal, responsible officer (RO) and senior management member of RaffAello Capital Limited	Banned from re-entering the industry for two years

¹ Intermediaries are required to report clients' suspected market misconduct to the SFC.

² Fines paid by intermediaries in disciplinary actions go into the general revenue of the Government.



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Internal control deficiencies

Company/Name	Breaches	Action/Fine
Chee Tak Securities Limited (Chee Tak)	Internal control deficiencies and regulatory breaches	Reprimanded and fined \$2 million
Kevin Chiu Koon Yu	Failed to discharge his duties as an RO and a member of the senior management of Chee Tak	Suspended for 10 months
China Industrial Securities International Brokerage Limited	Internal control failures relating to the monitoring of suspicious trading activities and recording of client order instructions	Reprimanded and fined \$3.5 million
Changjiang Asset Management (HK) Limited	Regulatory breaches and internal control failures in relation to segregation of client money and provision of account statements to clients	Reprimanded and fined \$3.4 million

Other regulatory breaches

Company/Name	Breaches	Action
Lo Wai Ming	Failed to comply with the firm's internal procedures when placing clients' orders and to maintain proper records of clients' order instructions	Banned from re-entering the industry for seven months
Axial Capital Management Limited (Axial)	Repeated failures to comply with the SFO, the Securities and Futures (Financial Resources) Rules and the Code of Conduct for Persons Licensed by or Registered with the SFC (Code of Conduct)	Revoked licence
Eugene Chung	Failed to discharge his duties as an RO and a member of the senior management of Axial	Suspended for five years

Other notable cases

The Securities and Futures Appeals Tribunal affirmed our decision to ban Calvin Choi Chi Kin, a former managing director of UBS AG, from re-entering the industry for two years for breaching the Code of Conduct and the Corporate Finance Adviser Code of Conduct.

We obtained an order from the CFI to appoint two administrators to administer the property of Vantage New Generation Securities Limited³ and that held by the firm on behalf of its clients or third parties, as well as to manage the affairs of the firm.

Mayer Holdings Limited and nine of its former senior executives were found by the Market Misconduct Tribunal (MMT) to be late in disclosing inside information as required under the SFO. The case had been remitted to the MMT for re-hearing following an appeal allowed by the Court of Appeal against the MMT's earlier determination.

Unlicensed activities

The Eastern Magistrates' Court convicted:

- Ben Ngai Ping Kuen for holding himself out as performing a regulated function in relation to dealing in securities without a licence from the SFC under section 114(3)(b) of the SFO. He was fined \$6,000 and ordered to pay our investigation costs.
- Cheung Wing Hung for holding himself out as performing a regulated function in relation to dealing in securities as an agent of entities not licensed by the SFC under section 114(3)(b) of the SFO. He was fined \$6,000 and ordered to pay our investigation costs.

³ Formerly known as Global Group Securities Limited, a corporation licensed under the SFO to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities. For Type 4 regulated activity, licensees should only provide services to professional investors.

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Cooperation with ICAC and AFRC

ICAC

We conducted a joint operation with the Independent Commission Against Corruption (ICAC) in a case of suspected market manipulation involving the shares of two Hong Kong-listed companies. During the joint operation, 14 premises were searched and the ICAC arrested one core member of the suspected syndicate. We also issued restriction notices to six brokers to freeze assets held in eight trading accounts related to suspected market manipulation of the shares of one of the two listed companies.

AFRC

In July, we issued the first joint statement with the Accounting and Financial Reporting Council (AFRC) as part of our enhanced collaboration in the regulation of the securities and futures markets in Hong Kong.

The joint statement addresses an observable increase in cases of listed issuers channelling a company's funds to third parties as "loans" in dubious circumstances. These loans were often approved without sufficient commercial rationale or appropriate documentation. Listed issuers suffered significant losses when these loans became unrecoverable. The joint statement also provides our observations on listed issuers granting dubious loans and sets out the conduct standards and practices that listed issuers, their directors, audit committees and auditors should follow in relation to loans and similar arrangements.

We will continue to work with the AFRC to maintain the integrity of Hong Kong's capital market and protect the interests of the investing public.

Enhancing our powers to curb misconduct

In August, we published the consultation conclusions on proposed amendments to enforcement-related provisions of the SFO. If approved by the Legislative Council, the changes will broaden the SFO's scope to cover insider dealing perpetrated in Hong Kong related to overseas-listed securities or their derivatives, as well as insider dealing perpetrated outside of Hong Kong which involves Hong Kong-listed securities or their derivatives. Considering the complex implementation issues raised by the respondents to the consultation, we concluded that, pending further review, we will put on hold the other two proposed amendments, which concern the professional investor exemption and injunctions and other orders. We will continue to monitor market developments and consider a full range of options to enhance investor protection as necessary.



Enforcement

Enforcement activities

	Quarter ended 30.9.2023	Six months ended 30.9.2023	Six months ended 30.9.2022	YoY change (%)
S179 ^a inquiries commenced	13	22	17	29.4
S181 ^b inquiries commenced (number of letters sent)	54 (1,036)	97 (2,263)	86 (3,321)	-31.9
S182 ^c directions issued	53	93	63	47.6
Investigations started	54	94	67	40.3
Investigations completed	49	82	83	-1.2
Individuals and corporations charged in criminal proceedings	4	19	7	171.4
Criminal charges laid	6	45	80	-43.8
Notices of Proposed Disciplinary Action ^d issued	7	14	12	16.7
Notices of Decision ^e issued	8	15	12	25.0
Individuals and corporations subject to ongoing civil proceedings ^f	193	193	173	11.6
Compliance advice letters issued	37	76	43	76.7
Cases with search warrants executed	8	12	20	-40.0

^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 information identifying 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 which sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

^f As of the last day of the period.