

# Enforcement

We focus on high-impact cases to address key risks in our markets and help maintain market fairness. Through our proactive and dissuasive enforcement actions, we aim to protect investors, prevent misconduct and uphold the integrity and reputation of our markets.

## Our 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, fines<sup>1</sup> 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 220 investigations and laid 28 criminal charges against three persons and one corporation and secured convictions against them.

We obtained disqualification and compensation orders against three corporations and nine persons. Civil actions seeking financial redress and other remedial orders against 168 persons and corporations in 32 cases are pending before the court.

Disciplinary action was taken against 19 persons and 17 corporations. In addition, the MMT found one corporation and nine persons culpable for insider dealing or late disclosure of inside information. We also issued 162 compliance advice letters to address areas of regulatory concern, raise standards of conduct and promote compliance in the industry.

## Our work in figures



<sup>^</sup> 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.

## Market misconduct

### Surveillance

We monitor trading on the Stock Exchange of Hong Kong Limited 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 7,308 requests for trading and account records from intermediaries. We also received and assessed 241 notifications from intermediaries<sup>2</sup> regarding suspicious equity and derivative trading.

We posted 10 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.

### Warning against ramp and dump scams

We concluded an online campaign in May 2021 which simulated the experience of being drawn into ramp and dump scams<sup>3</sup> on social media platforms. During the campaign, we posted web banners featuring language commonly used to lure potential victims to join scam-related online chat groups and directed viewers to warnings about these scams on our website.



Online campaign alerting against ramp and dump scams

We urged investors to carefully consider and verify the information they read online before they invest. Over 24,000 viewers clicked on the web banners.

We also organised three community outreach events with the Anti-Deception Coordination Centre (ADCC) of the Hong Kong Police Force (Hong Kong Police) to raise public awareness of ramp and dump scams and our executives explained how these scams work and warned of red flags at interviews and industry conferences.

In June 2021, we issued a circular to our licensed intermediaries to remind them of their obligation under the Code of Conduct<sup>4</sup> to notify us of suspected ramp and dump scams.



Community outreach and interviews

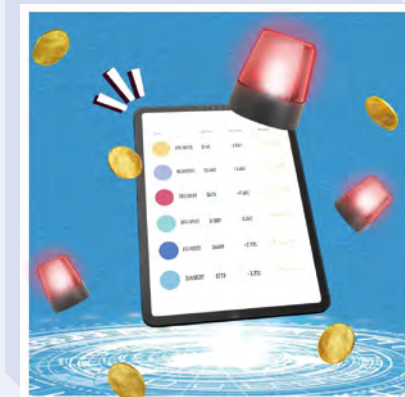
- 2 Intermediaries are required to report clients' suspected market misconduct to the SFC.
- 3 A form of market manipulation where fraudsters use different means to "ramp" up the share price of a listed company and then "dump" the shares to other investors at an artificially high price. Fraudsters often use social media platforms to lure unsuspecting investors to buy the shares while they offload for profit, leaving victims with substantial financial losses.
- 4 The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

## Beware of unregulated virtual asset trading platforms

Some unlicensed virtual asset trading platforms have offered stock tokens to Hong Kong investors. Stock tokens are virtual assets represented to be backed by depository portfolios of overseas listed stocks. Their prices closely track the stocks' performance.

In Hong Kong, stock tokens are likely to be "securities" under the SFO. If so, they are subject to our regulatory remit. Marketing or distributing them in Hong Kong or to Hong Kong investors constitutes a "regulated activity" and requires a licence from us, unless an exemption applies, and it may be an offence for any person to offer them to the Hong Kong public without our authorisation or registration.

Investors are urged to be extremely careful if they plan to invest in stock tokens offered on unregulated trading platforms. Without oversight by an independent third party, there may be no way to confirm that stock tokens are actually



backed by an equivalent depository portfolio of the underlying shares. In addition, the rights attached to the stock tokens might not be fully disclosed to investors.

We have received complaints from investors who had difficulty withdrawing fiat currencies or virtual assets from accounts opened with unregulated platforms. Where appropriate, we will not hesitate to take enforcement action against unlicensed platform operators.

## Insider dealing and market manipulation

The MMT found the following individuals engaged in insider dealing:

- Cheng Chak Ngok, former executive director, chief financial officer and company secretary of ENN Energy Holdings Limited, was found to have engaged in insider dealing in the shares of China Gas Holdings Limited following a retrial. He was disqualified from being a director or taking part in the management of a listed corporation and banned from dealing in securities in Hong Kong for 54 months. The MMT also ordered Cheng to disgorge his profit of \$2.95 million gained from the insider dealing and that the MMT reports be referred to the Hong Kong Institute of Certified Public Accountants with a recommendation to take disciplinary action against Cheng.

- Charles Yiu Hoi Ying and Marian Wong Nam, two former executives of Asia Telemedia Limited<sup>5</sup>, were banned from dealing in securities in Hong Kong for three years for insider dealing in the company's shares and were ordered to disgorge the losses avoided totalling \$4.2 million. The MMT also disqualified Yiu from acting as a director for three years and recommended the Hong Kong Institute of Chartered Secretaries<sup>6</sup> take disciplinary action against Wong.

The Court of First Instance (CFI) found Yik Fong Fong, Wei Juan and Huang Yi engaged in insider dealing in the shares of TeleEye Holdings Limited. The CFI ordered that the illicit profits of \$12.9 million made by Wei and Huang be paid to 63 affected investors.

The Eastern Magistrates' Court acquitted Leung Pak Keung, a practising solicitor, of five charges of insider dealing in the shares of CASH Financial Services Group Limited.

<sup>5</sup> Now known as Yunfeng Financial Group Limited.

<sup>6</sup> Now known as the Hong Kong Chartered Governance Institute.

### Corporate fraud and related misbehaviour

We obtained disqualification and compensation orders under section 214<sup>7</sup> of the SFO against the following listed companies and senior executives:

- The Court of Appeal granted compensation orders against three former directors<sup>8</sup> of EganaGoldpfeil (Holdings) Limited following an appeal against the lower court's decision. They were ordered to pay \$622 million to the company for its loss of funds as a result of their misconduct and failure to act in the best interests of the company.
- The CFI granted a disqualification order against Lin Supeng, former executive director of Anxin-China Holdings Limited, from serving as a director or taking part in the management of any corporation in Hong Kong for eight years for failing to discharge his duties in ascertaining the company's financial position.
- The CFI granted disqualification orders against Chan Wai Chuen and Yun Lok Ming, former directors of DBA Telecommunication (Asia) Holdings Limited, for their involvement in the company's misstatements in its 2010 to 2012 financial statements and results announcement. They were disqualified from serving as a director or taking part in the management of any corporation in Hong Kong for six years and 18 months respectively.

The MMT found Tianhe Chemicals Group Limited and its executive director, Wei Xuan, culpable of market misconduct by issuing false or misleading initial public offering (IPO) prospectuses to overstate the company's revenue by over RMB6.7 billion. The company and Wei were ordered not to perpetrate any market misconduct and Wei was disqualified from being a director for four years.

### Intermediary misconduct

During the year, we disciplined 17 corporations and 19 individuals<sup>9</sup>, resulting in total fines of \$410.1 million. Key disciplinary actions included the following.

### Internal control deficiencies

- We reprimanded and fined Citigroup Global Markets Asia Limited \$348.25 million for serious regulatory breaches in relation to the issuance of indications of interest and client facilitation activities by its cash equities business.
- We reprimanded and fined UBS AG and UBS Securities Asia Limited \$11.55 million in total for failures concerning disclosures of interests in listed securities covered in UBS' research reports, telephone recording of client instructions, know-your-client (KYC) requirements in assessing clients' derivatives knowledge and product risk disclosure in the sale of a structured note.
- We reprimanded and fined HSBC Securities Brokers (Asia) Limited \$6.3 million for regulatory breaches concerning errors in the assignment of Broker-to-Client Assigned Numbers to its clients, overselling 100 China Connect Securities and erroneously self-matching 370 warrant orders.
- We reprimanded and fined Fulbright Securities Limited \$3.3 million for deficiencies in its placing activities and recording of client order instructions. We also suspended the licence of Eric Liu Chi Ming for six months for failing to discharge his duties as the firm's responsible officer, director, deputy general manager and Manager-In-Charge (Overall Management Oversight and Key Business Line).

### IPO sponsor failures

- We reprimanded and fined Ample Capital Limited \$5.5 million for failing to discharge its duties as the sponsor in the listing application of COCCI International Limited. We also suspended the licence of Howard Tang Ho Wai for 17 months for failing to discharge his duties as a responsible officer and a sponsor principal of the firm in COCCI's listing application.
- We reprimanded and fined Yi Shun Da Capital Limited \$3 million for failing to discharge sponsor duties in the listing application of Imperial Sierra Group Holdings Limited as affirmed by the Securities and Futures Appeals Tribunal (SFAT).

<sup>7</sup> Under section 214 of the SFO, the SFC may seek disqualification, compensation and other orders for breaches of duty by current and former directors of listed corporations.

<sup>8</sup> David Wong Wai Kwong, Peter Lee Ka Yue and Chik Ho Yin.

<sup>9</sup> Comprising eight responsible officers, nine licensed representatives and two persons involved in the management of the business of a licensed corporation.

## AML-related breaches

- We reprimanded and fined Grand International Futures Co., Limited \$8 million for failures in complying with anti-money laundering and counter-terrorist financing (AML/CFT) and other regulatory requirements. We also suspended the licence of Liang Benyou for eight months for failing to discharge his duties as a responsible officer and a member of the firm's senior management.
- We reprimanded and fined Emperor Securities Limited and Emperor Futures Limited \$5.4 million for failures in complying with AML/CFT regulatory requirements in connection with third party deposits and payments.
- We reprimanded and fined Zhonghui International Futures Company Limited \$5 million for failures in complying with KYC, AML/CFT and other regulatory requirements. We also banned Chu Chun Wai from re-entering the industry for seven months for failing to discharge his duties as a responsible officer and a member of the firm's senior management.
- We reprimanded and fined South China Commodities Limited \$4.8 million for failures in complying with AML/CFT and other regulatory requirements.
- We reprimanded and fined Mason Securities Limited<sup>10</sup> \$3.6 million for failing to ensure proper certification of client identities for account opening and put in place controls to identify third-party deposits, contrary to AML/CFT regulatory requirements.

## Other disciplinary actions

### Other regulatory breaches and criminal convictions

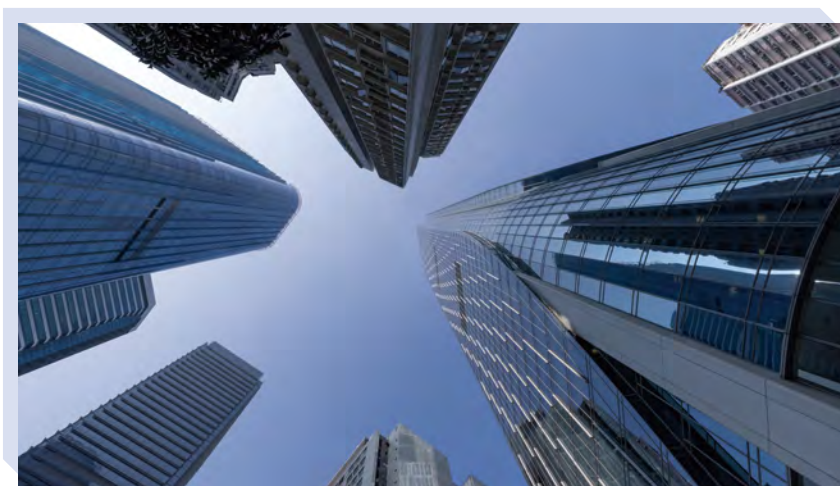
Company/Name	Breaches/Convictions	Action	Date
Leung Siu Lun	Convictions under the Prevention of Bribery Ordinance in September 2018	Banned from re-entering the industry for life	1.3.2022
Poon Chun Hing	Misappropriated client funds for his personal use	Banned from re-entering the industry for life	2.12.2021
Wang Yu Ching	Misrepresented academic qualifications to her former employers	Banned from re-entering the industry for 10 years	1.12.2021
Lau Tin Yau	Convictions under the Prevention of Bribery Ordinance in May 2018 and the SFO in September 2020	Banned from re-entering the industry for life	26.10.2021
Deutsche Securities Asia Limited	Issued incorrect statements to its prime brokerage clients and delayed reporting its failures to us	Reprimanded and fined \$2.45 million	24.6.2021
Ewarton Securities Limited	Failed to diligently supervise its licensed representative, detect and prevent unauthorised activities and ensure that client orders were given priority over its employees' orders	Reprimanded and fined \$1.5 million	27.5.2021
IDS Forex HK Limited	Conviction of its sole shareholder, Kim Sunghun, in Korea for illegal fundraising and fraud	Revoked licence	22.4.2021
Chung Wooman and Ki Bonggan	Responsible for IDS Forex HK Limited's misconduct and lack of reliability and integrity	Banned from re-entering the industry for life	22.4.2021
Optimas Capital Limited	Failed to ensure that short position reports were accurate and compliant with the requirements under the Securities and Futures (Short Position Reporting) Rules	Reprimanded and fined \$1.05 million	15.4.2021

Note: See Table 6 in Breakdown of SFC activity data on page 170 for details of the less significant disciplinary actions.

<sup>10</sup> Formerly known as GuocoCapital Limited.

### Other notable cases

- The MMT fined China Medical & HealthCare Group Limited<sup>11</sup> and six of its former and current directors<sup>12</sup> a total of \$4.2 million for failing to disclose inside information as soon as reasonably practicable. Two of the directors were disqualified from being a listed company director for six or eight months. The company and the six directors were ordered to pay our investigation and legal costs as well as the costs of the MMT proceedings, and the directors were ordered to attend an SFC-approved training programme on the corporate disclosure regime, directors' duties and corporate governance.
- We obtained compensation orders from the CFI under section 213<sup>13</sup> of the SFO against three boiler room fraudsters<sup>14</sup> purportedly based in and operating from Hong Kong. The Court appointed administrators to distribute approximately \$4.3 million remaining in six bank accounts frozen by us to 75 investors.
- The Eastern Magistrates' Court convicted Wai Chun Holdings Group Limited and its director, Lam Ching Kui, of failing to make timely disclosures of the acquisition of their interests in Chinese Strategic Holdings Limited, contravening Part XV of the SFO. They were fined and ordered to pay the SFC's investigation costs.
- The Eastern Magistrates' Court issued a warrant to arrest Zeng Lingxi for her failure to appear in court to answer two charges of obstructing our search operation. Zeng is allegedly a member of a syndicate suspected of operating ramp and dump scams involving the manipulation of the shares of a Hong Kong-listed company.
- The SFAT allowed the application for review by Cai Hongping, former Executive Officer and Managing Director of UBS AG, against our decision to ban him from re-entering the industry for five years for failing to discharge his supervisory duties as the principal in the listing application of China Metal Recycling Holdings Limited.



11 Formerly known as COL Capital Limited.

12 Wong Peng Chong, Kong Muk Yin, Chong Sok Un, Zhang Jian, Ma Wah Yan and Lau Siu Ki.

13 Section 213 of the SFO empowers the court to make a broad range of orders including injunctive relief and other civil remedies on the application of the SFC.

14 Broadspan Securities, Shepherds Hill Partners, Hong Kong and Rich Futures (HK) Limited.



Press conference on joint operation with the Police against suspected cross-border ramp and dump schemes

## Restriction notices

During the year, we issued a restriction notice to HF Asset Management Limited prohibiting it from carrying on any business which constitutes SFC-licensed regulated activities because of doubts about the firm's fitness and properness. We also issued restriction notices to two brokers, prohibiting them from dealing with or processing certain assets held in 17 trading accounts related to a suspected ramp and dump scam. Our investigations are ongoing.

## Joint operations

### Hong Kong Police

During the year, we conducted three joint operations with the Hong Kong Police, searching the premises of listed companies and their executives as part of investigations related to market manipulation, corporate fraud and other misconduct (see sidebar on page 86). One case involved simultaneous searches conducted overseas by authorities in Singapore. In total, 16 persons were arrested during these three operations, including senior executives of Hong Kong-listed companies. Our investigations are ongoing.

## ICAC

We conducted joint operations with the Independent Commission Against Corruption (ICAC) in two separate investigations where we searched the offices of listed companies and the premises of their related parties. One case involved a suspected ramp and dump market manipulation scheme and the other was related to suspicious money lending activities and possible misconduct by the company's management. The ICAC arrested six persons for suspected corruption offences during these operations.

Following our joint operation with the ICAC in 2017, four people, including two former executive directors of Convoy Global Holdings Limited, were charged by the ICAC and convicted of conspiracy to defraud at the District Court. The defendants were jailed for between four and seven months. The two former executive directors were also disqualified from being company directors for two to three years.

## Enforcement technology

Through our organisation-wide Market Intelligence Programme, we use the latest technologies to identify risks in our markets, including potential misconduct by interconnected parties. Data collected from our operations and public sources is analysed to isolate patterns and connections amongst individuals, companies and transactions which may indicate conduct risks.

## Enforcement

### Cooperation with the Police

Our active collaboration with the Hong Kong Police includes case referrals, information exchanges, joint investigations and enforcement assistance under the framework of a memorandum of understanding we entered into in 2017. During the year, we leveraged our collective powers and expertise to conduct major joint operations which demonstrated our determination to tackle complex financial crime through close collaboration with local and overseas law enforcement agencies and regulators.

- In April 2021, a joint operation targeted a syndicate suspected of operating ramp and dump market manipulation schemes and committing fraud.
- A joint search operation was conducted in August 2021 against a listed company and its former senior executives for suspected corporate fraud involving a total of \$450 million.



Meeting with the Police's Commercial Crime Bureau



Training workshop for investigators

- In December 2021, we took part in a joint operation with the Hong Kong Police, the Monetary Authority of Singapore and the Singapore Police Force against a syndicate suspected of operating cross-border ramp and dump market manipulation schemes in Hong Kong and Singapore.

We also hold regular meetings with the Hong Kong Police to discuss both case-specific and strategic matters and work with its ADCC to raise public awareness about the risks of falling victims to social media ramp and dump scams.

In December 2021, we hosted a training workshop for investigators from the Hong Kong Police and other local regulators to share our experience investigating serious financial crime. We also gave presentations for other Hong Kong Police training sessions.



## Enforcement cooperation with CSRC

Throughout the extraordinary period of the global COVID-19 pandemic, we worked closely with the China Securities and Regulatory Commission (CSRC) through multiple communication channels to overcome disruptions and challenges and ensure smooth and efficient cross-boundary enforcement cooperation, enabling us to tackle emerging issues together in a timely and effective manner.

We provided thorough investigatory assistance to one another including the highest level of support in major, sensitive and urgent cases. Our ongoing cooperation and joint efforts in combating cross-boundary market misconduct helped safeguard the sound development of capital markets and protect the interests of investors in both jurisdictions.

At two high-level video conferences on enforcement cooperation and other working-level meetings held with the CSRC, we reached consensus in areas

including enhancing and optimising our enforcement cooperation mechanism, improving the cooperation arrangements for major and urgent cross-boundary cases, promoting interaction and exchanges amongst enforcement officers and organising joint training workshops.

In November 2021, we held a joint enforcement training course with the CSRC. Conducted virtually for the first time, around 550 officers from both regulators attended the three-day course, where they learned about the differences in the two markets' enforcement practices and shared enforcement approaches and experience.

The close and diverse collaboration we have established with the CSRC over the years has provided for effective cross-boundary enforcement outcomes. Both regulators look forward to expanding our partnership.



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## Enforcement

### Enforcement activities

	2021/22	2020/21	2019/20
S179 <sup>a</sup> inquiries commenced	57	42	31
S181 <sup>b</sup> inquiries commenced (number of letters sent)	203 (7,308)	246 (8,748)	231 (8,767)
S182 <sup>c</sup> directions issued	214	189	187
Investigations started	220	204	197
Investigations completed	131	196	182
Individuals/corporations charged in criminal proceedings	4	10	7
Criminal charges laid <sup>d</sup>	28	29	10
Notices of Proposed Disciplinary Action <sup>e</sup> issued	37	27	35
Notices of Decisions <sup>f</sup> issued	43	35	46
Individuals/corporations subject to ongoing civil proceedings	168	179	158
Compliance advice letters issued	162	231	218
Cases with search warrants executed	37	28	17

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 28 criminal charges against three individuals and one corporation.

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 Breakdown of SFC activity data on page 171 for more details.