
STATEMENT OF DISCIPLINARY ACTION

The Disciplinary Action

1. The Securities and Futures Commission (**SFC**) has banned Mr Christopher Tse (**Tse**) from re-entering the industry for 12 months from 31 January 2020 to 30 January 2021 pursuant to section 194 of the Securities and Futures Ordinance (**SFO**).
2. The SFC found that Tse failed to comply with:
 - (a) RHB Securities Hong Kong Limited's (**RHBSHK**) internal policies by:
 - i. not disclosing a related account and the securities trading activities in the related account; and
 - ii. not observing RHBSHK's trading restrictions for research analysts; and
 - (b) the regulatory requirements governing the trading of securities and the disclosure of financial interests for research analysts.
3. Tse's conduct was in breach of General Principle 2 and paragraph 16.4 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (**Code of Conduct**), and calls into question his fitness and propriety to be licensed.

Summary of facts

4. Tse was licensed under the SFO to carry on Type 4 (advising on securities) regulated activity. He was a research analyst and accredited to RHBSHK between August 2013 and October 2015. Tse is not currently licensed by the SFC.

Failure to comply with RHBSHK's internal policies

5. At the material time, RHBSHK's employee handbook provided that employees were permitted to trade securities with prior management approval and required to report all of their own and related accounts to the human resources department. Related accounts include accounts of a person who is accustomed or obliged to act in accordance with the directions and instructions of the employee.
6. The SFC's investigation found that Tse operated his father's securities trading account held at another brokerage (**Account**) and all the trades in the Account conducted between August 2013 and October 2015 were conducted by Tse. Nevertheless, Tse did not disclose the Account to RHBSHK. Tse claimed that he did not make the relevant disclosure because the Account and the funds used for trading in it belonged to his father.

7. RHBSHK's employee trading policy also prohibited the trading of stock on its restricted list. Tse was found to have traded in a stock on two occasions between August and September 2015, when the relevant stock had been added to the restricted list since 16 July 2015. Tse claimed that he did not check the restricted list before initiating the trades in the Account.

Failure to comply with the Code of Conduct

8. Among other things, paragraph 16.4 of the Code of Conduct provides that:
- (a) an analyst or his associate¹ should not deal in or trade any securities in respect of an issuer that the analyst reviews:
 - i. in a manner contrary to his outstanding recommendation; or
 - ii. within 30 days prior to and 3 business days after the issue of investment research on the issuer,except in special circumstances outlined in the firm's policy and pre-approved by the relevant legal or compliance function (paragraph 16.4(b)); and
 - (b) if an analyst or his associate has any financial interests in relation to an issuer or a new listing applicant that the analyst reviews, he should disclose that fact in the research report (paragraph 16.4(d)).
9. The evidence shows that between November 2013 and July 2015, trades were conducted through the Account:
- (a) in a manner contrary to Tse's recommendations on at least 19 occasions, in breach of paragraph 16.4(b)(i) of the Code of Conduct;² and
 - (b) in the shares of companies covered in 9 of Tse's research reports within 30 days prior to or 3 days after the issue of the reports, in breach of paragraph 16.4(b)(ii) of the Code of Conduct.
10. It was also found that, in breach of paragraph 16.4(d) of the Code of Conduct, Tse failed to disclose his financial interests in the Account in relation to 4 companies in 14 research reports when trades were conducted through the Account in the shares of these 4 companies on at least 8 occasions between September 2013 and June 2015.

Conclusion

11. Market integrity is prejudiced if research analysts place their personal interests above the interests of the investing public. It is vital for the maintenance of investor confidence in a securities market that research analysts act with integrity when producing their reports. The trading activities in the Account seriously compromised Tse's role as a research analyst and calls into question the objectivity of the research reports he prepared.

¹ An "Associate" is defined to include a person accustomed or obliged to act in accordance with the directions or instructions of the analyst and "financial interest" means any commonly known financial interest, such as investment in the securities of an issuer.

² This requirement was also set out in RHBSHK's employee trading policy at the material time.

12. Having considered all the circumstances, the SFC considers that Tse has breached General Principle 2 and paragraph 16.4 of the Code of Conduct, and is not a fit and proper person to be licensed.
13. In reaching the decision to take the disciplinary action set out in paragraph 1 above, the SFC has taken into account all the relevant circumstances, including:
 - (a) Tse's trading activities in the Account lasted for over two years;
 - (b) the necessity of a deterrent message to the industry that the SFC would not tolerate non-compliance by research analysts with relevant regulatory requirements; and
 - (c) Tse's otherwise clean disciplinary record.