

Enforcement

Our enforcement actions focus on high-impact cases to address key risks in our financial markets. We take a proactive, front-loaded approach to enforcement which aims to punish wrongdoers, protect investors and safeguard market integrity.

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, fines¹ and suspensions or revocations of licences, and apply to the court for injunctive and remedial orders against wrongdoers in favour of victims.

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

During the year, we commenced 197 investigations and laid 10 criminal charges against six persons and one corporation and secured convictions against three persons.

We obtained disqualification and restorative orders against nine persons. Civil actions seeking financial redress and other remedial orders against 158 persons and corporations in 31 cases are pending before the court.

Disciplinary action was taken against 24 persons and 20 corporations. In addition, we commenced two cases before the MMT against one corporation and eight persons for suspected insider dealing or late disclosure of inside information. We also issued 218 compliance advice letters to address areas of regulatory concern, raise standards of conduct and promote compliance.

Our work in figures



* 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.

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Market surveillance

On a daily basis, we monitor trading on The Stock Exchange of Hong Kong Limited and the Hong Kong Futures Exchange Limited 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.

Through an 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 among individuals, companies and transactions which may indicate conduct risks.

Our surveillance of untoward price and turnover movements resulted in 8,767 requests for trading and account records from intermediaries. We also received and assessed 225 notifications from intermediaries² regarding suspicious equity and derivative trading.

We posted 18 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.

IPO sponsor failure

During the year, we took enforcement action against an initial public offering (IPO) sponsor for deficiencies in its work. We reprimanded and fined China Merchants Securities (HK) Co., Limited \$27 million in May 2019 for failing to conduct adequate due diligence on a listing applicant's largest customer, enquire into the genuineness of transactions and verify the identities of the applicant's supplier and customer representatives when conducting interviews.

Scrutinising sponsors

Misconduct involving IPO sponsors remained one of our top enforcement priorities. Sponsors play a crucial role in ensuring the quality of Hong Kong's securities market. They coordinate the IPO process, give advice to directors and are centrally involved in the due diligence on a listing applicant.

Time and again, we have found deficiencies in sponsors' work and serious instances of non-compliance with regulatory requirements. Our enforcement actions aim to improve sponsors' due diligence standards and ensure they perform their gatekeeping role diligently, free from interference and in a professional manner. Since the launch of the new sponsor regime in October 2013, we have taken disciplinary actions against 11 sponsor firms resulting in fines totalling \$922.5 million.

This includes the record \$375 million we fined UBS AG and UBS Securities Hong Kong Limited in March 2019 for failing to verify a listing applicant's major assets and other failures. UBS Securities was also suspended from acting as an IPO sponsor. In the same month, Morgan Stanley Asia Limited and Merrill Lynch Far East Limited were reprimanded and fined for failing to address red flags in due diligence interviews and verify the identities of listing applicants' customers.

We have reminded sponsors to apply professional scepticism and address obvious red flags when discharging their gatekeeping functions. Future listing applications submitted by sponsors with a history of returned or rejected listing applications, serious deficiencies or instances of non-compliance may be subject to closer regulatory scrutiny.

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



Mr Thomas Atkinson, Executive Director of Enforcement, at the Joint Case Study Workshop on Corporate Fraud and Misfeasance

Corporate fraud and misbehaviour

Director misconduct

We obtained disqualification and compensation orders under section 214³ of the SFO in the Court of First Instance against the following company directors:

- Chin Jong Hwa, former chairman and executive director of Minth Group Limited, was ordered to pay RMB20.3 million as compensation for a subsidiary's loss due to his misconduct. Chin and three other former executive directors⁴ were disqualified for three to six years.
- Michelle Kwok Choi Ha, former executive director of Tack Fat Group International Limited⁵, was disqualified for six years for failing to exercise reasonable care and diligence in managing the company and to act in good faith and in the best interests of the company.
- Wong Yuen Yee, former chairman and executive director of Inno-Tech Holdings Limited, and three other former executive directors⁶ were disqualified for three years for failing to exercise reasonable care and diligence in the company's acquisitions of three hotels.

³ Under section 214, 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.

⁴ Shi Jian Hui, Mu Wei Zhong and Zhao Feng.

⁵ Tack Fat Group International Limited changed its name to Tack Fiori International Group Limited on 23 November 2011 and then to Life Healthcare Group Limited on 2 May 2017.

⁶ Robert Wong Yao Wing, Wong Kwok Sing and Lam Shiu San.

⁷ Tse Ka Wing, Liu Ka Wing, Li Shui Yan, Wong Chi Chiu and John Wong Yik Chung.

⁸ Stephen Tang Siu Kun, She Yu Yuan, Luo Yao Wen, Cheng Wing Hong and Sun Yan.

⁹ Formerly known as COL Capital Limited.

¹⁰ Chong Sok Un, Wong Peng Chong, Kong Muk Yin, Lau Siu Ki, Ma Wah Yan and Zhang Jian.

We commenced civil proceedings under section 214 to:

- seek disqualification and compensation orders against Cheng Wai Tak, chairman and executive director of Perfect Optronics Limited, and five other directors⁷ for alleged breach of fiduciary duties.
- seek a disqualification order against Au Yeung Ho Yin, former executive director, chief financial officer and company secretary of Fujian Nuoqi Co., Ltd., for allegedly failing to properly enquire into and alert the board about improper withdrawals of the proceeds from the company's IPO and ensure the accurate disclosure of information about their use.

The Eastern Magistrates' Courts convicted and fined Chan Wai Chuen, former chief financial officer, company secretary and an executive director of DBA Telecommunication (Asia) Holdings Limited, for his role in a false or misleading statement in the company's results announcement.

Failure to disclose inside information

The MMT found that the following listed companies and senior executives failed to make timely disclosures of inside information:

- Health and Happiness (H&H) International Holdings Ltd and its chairman and executive director Luo Fei were fined \$1.6 million each.
- Fujikon Industrial Holdings Limited, its chairman and chief executive officer Yeung Chi Hung, and its chief financial officer and company secretary Chow Lai Fung were fined a total of \$1.5 million.
- Magic Holdings International Limited and five of its directors⁸ were culpable of the company's failure to disclose information about L'Oréal S.A.'s proposed acquisition of Magic on a timely basis.

We commenced MMT proceedings against China Medical & HealthCare Group Limited⁹ for allegedly failing to disclose information about significant gains in securities trading and profit figures as soon as reasonably practicable, and six former directors¹⁰ for reckless or negligent conduct.

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Insider dealing and market manipulation

- We commenced legal proceedings under section 213¹¹ of the SFO against a group of local and overseas individuals and corporate entities for suspected manipulation of the shares of Ching Lee Holdings Limited and obtained interim injunctions in the Court of First Instance to freeze assets of up to \$124.9 million held by 15 local and overseas entities.
- We commenced MMT proceedings against Tom Tang Chung Yen, former chairman and an executive director of Meadville Holdings Limited, and Li Yik Shuen, for alleged insider dealing in the company's shares in 2009.
- We commenced criminal proceedings against Leung Pak Keung, a practising solicitor, for alleged insider dealing in the shares of CASH Financial Services Group Limited.
- We suspended the licence of Oei Hong Eng, chairperson and a responsible officer of Gransing Securities Co., Limited, for eight months for attempting to create a false or misleading appearance of active trading in securities.
- We decided to commence proceedings for suspected market manipulation in the shares of China Ding Yi Feng Holdings Limited against a number of individuals including officers of the company. We also lifted the trading suspension of the company's shares directed by us on 8 March 2019. Trading resumed on 23 January 2020.
- The Court of Final Appeal dismissed the application of Cheng Chak Ngok, former executive director, chief financial officer and company secretary of ENN Energy Holdings Limited, for leave to appeal against the judgment of the Court of Appeal which ordered a retrial of Cheng's alleged insider dealing in the shares of China Gas Holdings Limited by the MMT.



The Eastern Magistrates' Courts convicted and fined:

- Ken Yiu Ka Lun, former senior regulatory affairs manager of Hong Kong Television Network Limited, who was sentenced to two and a half months of imprisonment and ordered to pay a fine of \$165,000 for insider dealing in the company's shares.
- Tsoi Wan, for manipulating the calculated opening price of Hang Seng Index futures contracts.

Intermediary misconduct

During the year, we disciplined 20 corporations, nine responsible officers and 15 licensed representatives, resulting in total fines of \$479 million. Key disciplinary actions included:

Conflicts of interest

- We reprimanded and fined UBS AG \$400 million for overcharging its clients over a 10-year period through post-trade spread increases and excess charges and for related internal control failures.
- We reprimanded and fined RHB Securities Hong Kong Limited \$6.4 million for failing to comply with regulatory requirements for managing conflicts of interest and supervising account executives.

¹¹ Section 213 of the SFO gives the SFC the power to apply to the Court of First Instance for injunctions and other orders under specified conditions.

Anti-money laundering related breaches

- We reprimanded and fined BMI Securities Limited \$3.7 million for failing to comply with anti-money laundering and counter-terrorist financing (AML/CFT) regulatory requirements. We also suspended the licence of its responsible officer, Maggie Tang Wing Chi, for five and a half months for failing to discharge her duties.
- We banned Tim Leissner, a former responsible officer of Goldman Sachs (Asia) L.L.C., from re-entering the industry for life following his conviction for conspiring to commit money laundering and violate the US Foreign Corrupt Practices Act.

- We banned Su Xiqiang, former head of retail brokerage and responsible officer of Guosen Securities (HK) Brokerage Company, Limited, from re-entering the industry for 10 months for failing to ensure the company's compliance with AML/CFT regulatory requirements when handling third-party fund deposits.

Window-dressing liquid capital

- We banned Ang Wing Fung, former chairman of W. Falcon Asset Management (Asia) Limited, and Chan Kam Wah, former chief financial officer and company secretary, from re-entering the industry for life and three years respectively, in connection with their roles in window-dressing Falcon's liquid capital. Falcon's licence was revoked in February 2019.

Other disciplinary actions

Reprimanded and fined for internal control failures

Company	Breaches	Fine	Date
China Rise Securities Asset Management Company Limited [^]	Internal control failures and regulatory breaches in short selling orders, cross trades and record keeping	\$6.3 million	31.10.2019
The Hongkong and Shanghai Banking Corporation Limited	Ineffective internal control procedures to ensure compliance with the telephone recording requirements	\$2.1 million	10.9.2019
Sincere Securities Limited	Deficiencies in business operations, internal controls and procedures	\$5 million	15.8.2019
Glory Sun Securities Limited	Failure to diligently supervise account executives and implement effective controls to comply with short selling requirements	\$1.2 million	15.7.2019
Lee's Securities Company Limited	Internal control failures in the segregation of duties and handling of client securities	\$520,000	15.7.2019
Celestial Commodities Limited	Regulatory breaches and internal control failings relating to mishandling client money	\$4.9 million	10.7.2019
Celestial Securities Limited		\$1.4 million	
China Merchants Securities (HK) Co., Limited	Regulatory breaches and internal control failings relating to mishandling client money	\$5 million	30.5.2019

[^] Formerly known as China Rise Securities Company Limited.

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Disciplined for conviction of bribery or theft

Name	Breaches	Action	Date
Mo Chau Wah	Stealing and selling clients' shares worth over \$110 million	Banned from re-entering the industry for life	23.3.2020
Ma Sin Chi	Accepting bribes of around \$6.4 million from a client	Banned from re-entering the industry for life	14.11.2019
Ye Feng	Soliciting illegal commission payments of more than \$900,000 from a client	Banned from re-entering the industry for life	23.9.2019
Tu Bing	Soliciting and accepting illegal commission payments of approximately \$1.4 million from a client	Banned from re-entering the industry for life	5.8.2019

Reprimanded and fined for other regulatory breaches

Company	Breaches	Fine	Date
Capital Global Management Limited	Failing to comply with laws and regulations in distributing investment funds and offering investment advice in Taiwan, and to adequately supervise its representatives' business activities	\$1.5 million	14.2.2020
FIL Investment Management (Hong Kong) Limited	Unlicensed dealing in futures contracts, delay in reporting the breach to the SFC and submitting incorrect information in a new fund authorisation application	\$3.5 million	30.12.2019
Adamas Asset Management (HK) Limited	Failing to implement adequate measures to ensure proper disclosure of notifiable interests in the shares of Hong Kong-listed companies held in client portfolios	\$2.5 million	23.12.2019
SEAVI Advent Ocean Private Equity Limited	Allowing unlicensed employees to perform regulated activities	\$1 million	3.10.2019
FT Securities Limited	Regulatory breaches and internal control failures in the preparation and publication of research reports	\$3.5 million	24.6.2019
Credit Suisse (Hong Kong) Limited and Credit Suisse AG	Failing to comply with disclosure requirements for publishing research reports	\$2.8 million	19.6.2019
Nine Masts Capital Limited	Naked short selling of the shares of Yuzhou Properties Company Limited	\$1.2 million	18.4.2019

Note: See Table 6 in Breakdown of SFC activity data on page 163 for details of other disciplinary actions.

Other notable cases

- The Court of First Instance dismissed judicial review applications against the SFC¹² in connection with a search operation it conducted for ongoing investigations.
- The Court of Appeal dismissed the application of Andrew Left of Citron Research for leave to appeal to the Court of Final Appeal against the determinations of the MMT¹³.
- The Eastern Magistrates' Courts convicted Yau Ka Fai for holding himself out as carrying on a business in asset management without an SFC licence.
- We commenced criminal proceedings against Brilliance Capital Management Limited and its sole director Law Sai Hung for holding out as carrying on a business in advising on corporate finance without an SFC licence.

Cooperation with ICAC

During the year, we strengthened our strategic cooperation with the Independent Commission Against Corruption (ICAC) to leverage our collective expertise and powers. This helps achieve our shared goal of maintaining the reputation and integrity of Hong Kong as a clean and trusted international financial centre free from corrupt practices. We held numerous meetings with ICAC to discuss both strategic and case-specific matters.

Between May and July 2019, the ICAC charged four former executive directors of Convoy Global Holdings Limited and two others with conspiracy to defraud.



Joint investigation training workshop



Signing of MoU with ICAC

The charges followed our joint operation with the ICAC involving the company and demonstrate the benefit of harnessing our combined expertise to fight financial crime.

In August 2019, we entered into a memorandum of understanding (MoU) with the ICAC to formalise our cooperation arrangements. The MoU lays out a framework for the mutual provision of investigative assistance, capacity building and case referrals as well as the exchange of information between the two organisations.

Subsequently, we hosted a joint training workshop for investigators to share their expertise and experience in tackling serious financial crime.

¹² In the applications, Cyril Cheung Ka Ho, To Hang Ming, To Lung Sang, Jacky To Man Choy and Wan Wai Lun sought to challenge search warrants issued by two Magistrates in July 2018 on the basis that they were unlawful or invalid for want of specificity.

¹³ On 26 August 2016, the MMT found Andrew Left culpable of disclosing false or misleading information inducing transactions in a report on Evergrande Real Estate Group Limited published in June 2012.

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Restriction notices

During the year, we issued restriction notices to 21 brokers prohibiting them from dealing with or processing assets held in client accounts. The assets are related to suspected market manipulation in the shares of three listed companies, suspected breach of duties by an individual towards a listed company and other misconduct. One of the brokers, Hong Kong Wan Kiu Investment Company Limited, was also prohibited from carrying on regulated activities for which it is licensed.



Enforcement activities

	2019/20	2018/19	2017/18
S179 ^a inquiries commenced	31	26	24
S181 ^b inquiries commenced (number of letters sent)	231 (8,767)	294 (9,074)	261 (8,461)
S182 ^c directions issued	187	231	274
Investigations started	197	238	280
Investigations completed	182	243	254
Individuals / corporations charged in criminal proceedings	7	5	14
Criminal charges laid ^d	10	42	54
Notices of Proposed Disciplinary Action ^e issued	35	22	29
Notices of Decisions ^f issued	46	34	32
Individuals / corporations subject to ongoing civil proceedings	158	101	97
Compliance advice letters issued	218	234	277
Cases with search warrants executed	17	30	22

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 10 criminal charges against six 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 164 for more details.