

Enforcement

Market Misconduct Tribunal

During the quarter, we commenced proceedings in the Market Misconduct Tribunal (MMT) against the following companies and persons:

- Fujikon Industrial Holdings Limited for failure to disclose inside information as soon as reasonably practicable on the discontinuation of headphone production for a major customer. We also alleged that two directors of Fujikon, Yeung Chi Hung and Chow Lai Fung, were reckless or negligent in causing the alleged breach of the disclosure requirement.
- Magic Holdings International Limited and its nine directors¹ for failure to disclose inside information as soon as reasonably practicable on the potential acquisition of its issued shares by a French cosmetics group in 2013.

We commenced MMT proceedings against Li Kwok Cheong and Li Han Chun, who were respectively former chairman and chief executive officer of China Forestry Holdings Company Limited, for suspected disclosure of false or misleading information inducing transactions in the company's shares. In addition, MMT proceedings were commenced against Li Han Chun and his investment vehicle, Top Wisdom Overseas Holdings Limited, for suspected insider dealing in the shares of China Forestry in 2011. We will seek restoration orders or damages against these individuals and Top Wisdom if the MMT finds them guilty of market misconduct.

Court proceedings

We commenced legal proceedings in the Court of First Instance to seek disqualification orders against three former directors or senior executives² of Far East Holdings International Limited³.

We successfully prosecuted the following in the Eastern Magistrates' Courts:

- Lui Ho Yeung was convicted and fined for making false or misleading representations about his criminal record in his SFC licence application.
- DBA Telecommunication (Asia) Holdings Limited was convicted and fined for making a false or misleading statement in its 2012 results announcement.

Disciplinary actions

We disciplined five licensed corporations and three representatives during the quarter, resulting in total fines⁴ of \$83.5 million.

Sponsor failures

- Citigroup Global Markets Asia Limited was reprimanded and fined \$57 million for failing to conduct adequate and reasonable due diligence on Real Gold Mining Limited's customers and properly supervise its transaction team in relation to Real Gold's listing application.

Internal control failures

- Hang Seng Investment Management Limited was reprimanded and fined \$3 million for deficiencies in its internal controls and procedures relating to the cash management of SFC-authorized funds.
- Noah Holdings (Hong Kong) Limited was reprimanded and fined \$5 million for internal system and control failures in its sale and distribution of investment products.

¹ Stephen Tang Siu Kun, She Yu Yuan, Luo Yao Wen, Cheng Wing Hong, Sun Yan, Chen Dar Cin, Yan Kam Tong, Yang Rude and Dong Yin Mao.

² Duncan Chiu, Derek Chiu and Michael Lui Hung Kwong.

³ The allegations against them include conducting the company's business or affairs in a manner involving defalcation, fraud, misfeasance or misconduct towards the company or its shareholders, or resulting in the shareholders not being given all the information as they might reasonably expect.

⁴ Fines paid by intermediaries in disciplinary actions go into the general revenue of the Government.

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- CN Capital Management Limited was reprimanded and fined \$1 million for failing to maintain satisfactory internal controls concerning employee account dealing. Its responsible officers, George Chan Yee Lee and Stephen Ng Wing Leung, were also reprimanded and each fined \$100,000 for failing to comply with the employee account dealing requirements.
- Instinet Pacific Limited was reprimanded and fined \$17.3 million for deficiencies in its internal controls relating to its electronic and algorithmic trading systems and alternative liquidity pool.

Breach of Code of Conduct⁵

Lau Ki Fung, a former account executive of KGI Asia Limited, was reprimanded and fined for failing to keep proper records of client order instructions.

Market surveillance

Our surveillance of untoward price and turnover movements resulted in 2,152 requests for trading and account records from intermediaries during the quarter. In addition, we published two announcements to remind investors to exercise caution when trading shares in companies where a small number of shareholders hold a high concentration of shares.

Enforcement activities

	Quarter ended 30.6.2018	Quarter ended 31.3.2018	Change (%)	Quarter ended 30.6.2017
S179 ^a inquiries commenced	5	4	25	9
S181 ^b inquiries commenced (number of letters sent)	75 (2,152)	62 (1,900)	13.3	80 (2,617)
S182 ^c directions issued	60	71	-15.5	90
Investigations started	61	65	-6.2	89
Investigations completed	57	80	-28.8	55
Individuals and corporations charged in criminal proceedings	4	3	33.3	7
Criminal charges laid	37	10	270	14
Notices of Proposed Disciplinary Action ^d issued	2	7	-71.4	7
Notices of Decision ^e issued	12	13	-7.7	9
Individuals and corporations subject to ongoing civil proceedings ^f	110	97	13.4	126
Compliance advice letters issued	49	62	-21	90
Cases with search warrants executed	6	3	100	8

^a Section 179 of the Securities and Futures Ordinance (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 reporting period.

⁵ The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.