

Enforcement

Court proceedings

We obtained disqualification orders in the Court of First Instance (CFI) under section 214¹ of the Securities and Futures Ordinance (SFO) against:

- three former directors² of EganaGoldpfeil (Holdings) Limited who, for their misconduct in approving payments for transactions with no genuine commercial basis, may not be a director or take part in the management of any corporation in Hong Kong for six to nine years. We commenced proceedings in the Court of Appeal to appeal against the CFI's decision not to make compensation orders against the three former directors.
- five former directors³ of Long Success International (Holdings) Limited were disqualified for two to five years for breaching their duties as directors to act in the company's interest. Proceedings against other former directors of the company are ongoing.

We obtained a court order under section 214 of the SFO requiring Shandong Molong Petroleum Machinery Company Limited to reconstitute its audit committee and appoint an independent external auditor to review its internal control and financial reporting procedures. We are also seeking disqualification orders against seven current and former senior officers of the company who we allege were responsible for a scheme to inflate its financial position.

We applied to the CFI to wind up Combest Holdings Limited under section 212⁴ of the SFO, appoint provisional liquidators and disqualify two of its executive directors⁵ and a suspected shadow director⁶ under section 214.

The Eastern Magistrates' Court separately convicted Yau Ka Fai and Chong Kin Ting for holding themselves out as carrying on a business in regulated activities without an SFC licence.

Reprimanded and fined for internal control deficiencies

Company	Breaches	Fine
Guotai Junan Securities (Hong Kong) Limited	Internal control failures and regulatory breaches in connection with anti-money laundering (AML), handling of third-party fund transfers and placing activities, as well as the detection of wash trades and late reporting	\$25.2 million
BOCOM International Securities Limited	Failure to handle third-party fund deposits and to maintain and implement margin lending and margin call policies	\$19.6 million
Mega International Commercial Bank Co., Ltd.	Failures relating to the sale of collective investment schemes	\$7 million
Convoy Asset Management Limited	Failures relating to the solicitation or recommendation of bonds listed under Chapter 37 of the Listing Rules	\$6.4 million
Southwest Securities (HK) Brokerage Limited	Internal control deficiencies and regulatory breaches in relation to AML and counter-terrorist financing (CFT)	\$5 million

¹ Under section 214, the SFC may seek disqualification, compensation and other orders for breaches of duty by current and former directors of listed corporations.

² David Wong Wai Kwong, Peter Lee Ka Yue and Chik Ho Yin.

³ Victor Ng, Winfield Ng Kwok Chu, Robert Ng Chau Tung, Tse Ching Leung and Zhang Chi.

⁴ Section 212 of the SFO permits the SFC to apply for an order to wind-up a company if it appears to the SFC that it is desirable in the public interest to do so.

⁵ Liu Tin Lap and Lee Man To.

⁶ Ng Kwok Fai.

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Other regulatory breaches

Company/Name	Breaches	Action
HSBC Investment Funds (Hong Kong) Limited and HSBC Global Asset Management (Hong Kong) Limited	Failing to comply with regulatory requirements for cash management for SFC-authorized funds	Reprimanded and fined a total of \$3.5 million
Kwok Chau Mo	Breaching the trading policies of his former firm, Guosen Securities (HK) Asset Management Company Limited	Banned from re-entering the industry for nine months
Potomac Capital Limited	Failing to comply with the Securities and Futures (Financial Resources) Rules	Reprimanded and fined \$800,000
Joanna Chu Lai Wa	Failing to discharge her duties as a responsible officer and director which resulted in Guosen Securities (HK) Brokerage Company, Limited's AML and CFT regulatory breaches [^]	Banned from re-entering the industry for 12 months

[^] We reprimanded and fined Guosen \$15.2 million in February 2019 for breaches of AML and CFT regulatory requirements with respect to third-party fund deposits.

Disciplinary actions

We disciplined eight licensed corporations and two individuals during the quarter, resulting in total fines⁷ of \$67.5 million.

Restriction notice

We issued a restriction notice to Agg. Asset Management Limited, prohibiting it from carrying on its licensed regulated activities because of doubts over the firm's fitness and properness. Our investigation is ongoing.

Market surveillance

Our surveillance of untoward price and turnover movements resulted in 2,366 requests for trading and account records from intermediaries in the quarter.

We published one high shareholding concentration announcement to remind investors to exercise caution when trading shares in the company where a small number of shareholders hold a high concentration of shares.

Cooperation with CSRC

Following the COVID-19 outbreak, we worked actively with the China Securities Regulatory Commission (CSRC) to fine-tune our mechanisms for enforcement cooperation to ensure that major cases received prompt attention and assistance from both organisations. During the quarter, the CSRC also used innovative technologies to gather evidence for our investigations, which enabled ongoing cooperation to proceed in an orderly manner, and we exchanged views with the CSRC on the prevention of money laundering and the use of technology in enforcement work.

⁷ Fines paid by intermediaries in disciplinary actions go into the general revenue of the Government.

Enforcement

Enforcement activities

	Quarter ended 30.6.2020	Quarter ended 31.3.2020	Change (%)	Quarter ended 30.6.2019	YoY change (%)
S179 ^a inquiries commenced	10	5	100	9	11.1
S181 ^b inquiries commenced (number of letters sent)	55 (2,366)	45 (1,352)	75	62 (2,579)	-8.3
S182 ^c directions issued	30	36	-17	52	-42.3
Investigations started	33	39	-15	55	-40.0
Investigations completed	61	37	65	37	64.9
Individuals and corporations charged in criminal proceedings	2	2	0	3	-33.3
Criminal charges laid	3	2	50	5	-40.0
Notices of Proposed Disciplinary Action ^d issued	4	9	-56	8	-50.0
Notices of Decision ^e issued	12	9	33	15	-20.0
Individuals and corporations subject to ongoing civil proceedings ^f	155	158	-2	100	55.0
Compliance advice letters issued	55	40	38	64	-14.1
Cases with search warrants executed	2	3	-33	6	-66.7

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 that 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.