

## STATEMENT OF DISCIPLINARY ACTION

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### The disciplinary action

1. The Securities and Futures Commission (**SFC**) has suspended the licence of Hau Bing Leung (**Hau**)<sup>1</sup>, former account executive (**AE**) of Chee Tak Securities Limited (**CTSL**), for 15 months pursuant to section 194 of the Securities and Futures Ordinance (**SFO**).
2. The disciplinary action follows the SFC's earlier sanctions against CTSL and its responsible officer for internal control deficiencies and regulatory breaches between 1 July 2018 and 5 March 2020 (**Relevant Period**)<sup>2</sup>.
3. The SFC's investigation found that Hau had during the Relevant Period:
  - (a) allowed a third party (**TP**) to (i) operate the securities account of a client (**Client A**) at CTSL (**Client A's Account**) without obtaining Client A's written authorisation, and (ii) carry out TP's personal trades in Client A's Account; and
  - (b) carried out his personal trades in Client A's Account.

### Summary of facts

- A. *Failure to require / obtain written authorization for the operation of Client A's Account by TP*
4. TP was a former client of Hau's. Client A opened Client A's Account in July 2009 following TP's introduction of Client A to Hau. Hau became the AE for Client A's Account.
5. At the time of account opening, Client A verbally authorised TP to place orders and make investment decisions on Client A's behalf. Client A also instructed Hau to speak with TP directly for matters in relation to Client A's Account. However, Client A did not sign and neither did Hau or CTSL request any written authorisation to that effect. As a result, CTSL did not have any written record of third-party authorisation(s) granted by Client A in relation to the operation of Client A's Account.
6. During the Relevant Period, Hau accepted orders placed by TP on Client A's behalf over the telephone. CTSL's management was not aware that Client A's Account had been operated by TP.
7. By accepting instructions from TP to trade in Client A's account without obtaining written authorisation from Client A, Hau has breached paragraph 7.1(a) of the Code of Conduct for Persons Licensed by or Registered with the SFC (**Code of Conduct**) which requires, prior to the transaction being effected, (i) the client, or a person designated in writing by the client, to specifically authorize the transaction, or (ii) the client to authorize in writing the licensed or registered person or any person employed by the licensed or registered

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<sup>1</sup> Hau is licensed under the SFO to carry on Type 1 (dealing in securities) regulated activity.

<sup>2</sup> The SFC reprimanded and fined CTSL \$2 million and suspended the licence of its responsible officer for 10 months. Please refer to the SFC's press release and statement of disciplinary action (**CTSL SDA**) dated [18 September 2023](#). Hau is AE X referred to in the CTSL SDA.

person (who must in turn be a licensed or registered person) to effect transactions for the client without the client's specific authorization.

8. Hau's conduct also exposed Client A to potential loss from unauthorised trading, and CTSL to potential liability in the event Client A were to dispute any of the trades in Client A's Account.

*B. Hau and TP's personal trading in Client A's Account*

*B1. TP's personal trading in Client A's Account*

9. TP admitted to having placed personal trades in Client A's Account for convenience because TP no longer held a securities account with CTSL. Hau allowed this arrangement in the belief that TP and Client A would sort out the apportionment between themselves.
10. As CTSL had no knowledge of TP's involvement with Client A's Account, Hau's actions prevented CTSL from being able to comply with paragraph 5.4 of the Code of Conduct, which requires a licensed or registered person to be satisfied on reasonable grounds about the identity, address and contact details of the person or entity ultimately responsible for originating the instruction in relation to a transaction and the person or entity that stands to gain the commercial or economic benefit of the transaction and/or bear its commercial or economic risk.
11. Hau's conduct also exposed Client A to the risk of losses arising from TP's personal trades, and CTSL to potential liability in the event of trade disputes between TP and Client A.

*B2. Hau's personal trading in Client A's Account*

12. The SFC's investigation revealed that 267 pairs of cross trades totalling around \$2.9 million were transacted between Hau's account at CTSL and Client A's Account during the Relevant Period (**Cross Trades**).
13. The SFC's investigation revealed that the Cross Trades were conducted to enable Hau to delay the settlement of his personal trades:
  - (a) Hau bought certain shares on T and sold them to Client A on the following day (T+1) and immediately bought back the shares on the same day via a Cross Trade;
  - (b) instead of settling the full amount of the original transaction on T+2, Hau was only required to settle the difference between the purchase price (of the original transaction) and the sale price (of the Cross Trade);
  - (c) Hau was only required to settle the purchase price (of the Cross Trade) on T+3;
  - (d) Hau could repeat steps (a) and (b) above to further roll over payment of the purchase price of subsequent Cross Trades, thus effectively delaying settlement of his trades; and
  - (e) after one or multiple rounds of selling to and buying from Client A in this manner, Hau would sell the shares in the market.
14. The Cross Trades materialised in loss-making transactions in the sum of \$73,188. Such loss was borne by Hau and Client A was not affected.

15. Hau admitted that the Cross Trades were conducted to delay the settlement of his personal trades and to generate some client transactions when business was slow. Hau never disclosed to CTSL, and CTSL was all along not aware, that he had used Client A's Account for his own trades.
16. Hau's personal trading in Client A's Account:
  - (a) prevented CTSL from identifying and monitoring his trading activities;
  - (b) exposed Client A to the risk of losses arising from his personal trades, and CTSL to potential liability in trade disputes between him and Client A; and
  - (c) prevented CTSL from complying with paragraph 5.4 of the Code of Conduct (see paragraph 10 above).
17. Hau contended that both TP and Client A were aware of, and had authorised his use of Client A's Account to conduct personal trading. However, such authority would not cure the problems described in paragraph 16 above.
18. By allowing TP and himself to conduct personal trading in Client A's Account, Hau has breached General Principle 2 of the Code of Conduct which required him to act with due skill, care and diligence, in the best interests of his clients and the integrity of the market.

## **Conclusion**

19. Having considered all the circumstances, the SFC is of the opinion that Hau is guilty of misconduct, and not fit and proper to remain licensed.
20. In deciding the disciplinary sanction set out in paragraph 1 above, the SFC has taken into account all relevant circumstances, including:
  - (a) CTSL did not have any relevant policy or procedure to require written third party authorizations for the operation of client accounts; and
  - (b) Hau has no previous disciplinary record with the SFC.