

STATEMENT OF DISCIPLINARY ACTION

The Disciplinary Action

1. The Securities and Futures Commission (**SFC**) has prohibited Mr Wu Chao (**Wu**)¹, a former responsible officer (**RO**) of DA International Financial Service Limited (**DA**), from re-entering the industry for three years and seven months from 26 June 2024 to 25 January 2028 pursuant to section 194 of the Securities and Futures Ordinance (**SFO**).
2. The SFC found that between 22 February 2022 and 1 April 2022 (**Relevant Period**), Wu had:
 - (a) concealed from DA his beneficial interest in and that he had direct control or influence over a securities margin account held by a third party (**A**) at DA (**Account**), in breach of DA's employee dealing policy (**Dealing Policy**);
 - (b) failed to disclose to DA and obtain its approval for the securities transactions conducted by him in the Account, in breach of the Dealing Policy;
 - (c) abused the right granted to him as a member of DA's senior management, and made 33 unauthorised adjustments to the margin loan limit of the Account and the margin financing ratios of certain callable bull/bear contracts (**CBBCs**) traded in the Account without following the procedures stated in DA's margin financing policy (**Margin Financing Policy**); and
 - (d) taken steps to conceal the adjustments he made to the margin loan limit of the Account and the margin financing ratio of the CBBCs to make it more difficult for DA to discover the adjustments.

Summary of facts

3. Wu joined DA in October 2011 as a trainee dealer and became a licensed representative of DA in January 2012. During the Relevant Period, he was an RO, the Chief Operations Officer, the Dealing Manager and the Manager-In-Charge for Key Business Line, Operational Control and Review and Risk Management of DA.
4. As an employee, Wu was required to comply with the Dealing Policy and the Margin Financing Policy.
 - A. *Breaching the Dealing Policy*
5. Pursuant to the Dealing Policy at the time:

¹ Wu was accredited to DA and licensed to carry on Type 1 (dealing in securities) and Type 2 (dealing in futures contracts) regulated activities (**RAs**) under the SFO from 8 June 2016 to 1 April 2022 and 13 January 2012 to 1 April 2022 respectively. He was approved to act as DA's RO in Type 1 (dealing in securities) and Type 2 (dealing in futures contracts) RAs from 13 August 2019 to 1 April 2022 and 21 July 2016 to 1 April 2022 respectively. Wu is currently not licensed by the SFC.

- (a) employees were prohibited from conducting securities transactions during employment without having obtained an approval from DA's RO; and
 - (b) employees should notify the Human Resources Department and the Compliance Department of DA of an account of an employee or a related account in which an employee had beneficial interest.
6. The SFC's investigation found that Wu had conducted trades through the Account during his employment with DA without disclosing to DA his beneficial interest in and that he had direct control or influence over the Account. Wu had also failed to disclose to DA and obtain DA's approval for the trades conducted by him in the Account, in breach of the Dealing Policy.
7. The evidence shows that during the Relevant Period, the following transactions (collectively, **Unauthorised Transactions**) were conducted in the Account:
- (a) 159 securities transactions with an aggregate amount of over HK\$4.9 million; and
 - (b) 31 securities transactions with an aggregate amount of around US\$308,000 (equivalent to around HK\$2.4million²).
8. Wu admitted that:
- (a) He had used the Account since 22 February 2022, and conducted certain Unauthorised Transactions in the Account without disclosing them to DA nor obtaining DA's consent.
 - (b) His use of the Account to conduct personal trades was in breach of the Dealing Policy because if he was to conduct trades, he would need to report to DA. He used the Account because he did not want to comply with this requirement.
9. A confirmed that Wu operated the Account and all trades conducted in the Account from 21 February 2022 to 1 April 2022 belonged to Wu or were conducted by A on Wu's behalf. The profit/loss resulted from such trades would be borne by Wu.

B. Non-compliance with the Margin Financing Policy

10. Pursuant to the Margin Financing Policy and the available evidence, at the material times, when clients wanted to adjust the margin loan limit, they were required to apply for it and submit supporting documents, and once the application was approved, such amendment would be made by the Settlement staff of DA (**Settlement Staff**).
11. The Margin Financing Policy also specified that a margin financing ratio would generally not be applied to derivatives traded on the stock exchange. In the event of abnormal situations (such as a trading suspension, delisting, significant fluctuations in stock prices, etc), the Risk Control staff of DA (**Risk Control Staff**) would adjust the individual margin financing ratio after it was approved by DA's

² Applying an exchange rate of US\$1 : HK\$7.8.

RO. After the margin financing ratio was adjusted, the Settlement Staff would be responsible for entering the updated data into the system, which would be verified by the Risk Control Staff.

12. The SFC's investigation found that Wu had made four unauthorised adjustments to the margin loan limit of the Account and 29 unauthorised adjustments to the margin financing ratios of certain CBBCs during the Relevant Period.
13. Wu admitted that:
 - (a) He had made adjustments to the margin loan limit of the Account and the margin financing ratios of certain CBBCs.
 - (b) He did not comply with the Margin Financing Policy when he adjusted the margin loan limit of the Account and he did not tell DA about the unauthorised adjustments at the time, as he knew that he was not allowed to do so under DA's policy.
 - (c) On one occasion, he changed the margin loan limit back to the default setting after his unauthorised adjustment of the same, so that it would be difficult for DA to notice the adjustment.
 - (d) He did not comply with the Margin Financing Policy when he changed the margin financing ratio of certain CBBCs from 28 March 2022. He made upward adjustments to the margin financing ratio of certain CBBCs that he held in the Account so that he could buy more CBBCs on margin, and changed the margin financing ratio back to zero on some occasions so that such adjustments would not be discovered by DA.

Conclusion

14. The Dealing Policy reflects the requirements under paragraph 12.2 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission which, amongst others, provides that licensed corporations including DA are required to implement policies specifying the conditions on which employees may deal for their own accounts and actively monitor employee trading activities to ensure that the handling of these transactions is not prejudicial to the interests of other clients.
15. Wu's failure to make the relevant disclosure and obtain the required approval from DA in respect of the Account and the Unauthorised Transactions conducted by him in the Account circumvented the Dealing Policy and prevented DA from monitoring his personal trading activities.
16. Wu should also have complied with the Margin Financing Policy. During the Relevant Period, Wu abused the right granted to him and adjusted the margin loan limit of the Account and the margin financing ratio of certain CBBCs without following the procedures stated in the Margin Financing Policy so that he could trade more CBBCs in the Account.
17. He also deliberately re-adjusted (i) the margin loan limit of Account back to the default setting; and (ii) the margin financing ratio of certain CBBCs back to zero on

some occasions, so that such unauthorised adjustments would not be discovered by DA easily.

18. Wu's conduct in relation to the unauthorised adjustments, as well as the concealment of his interest in the Account and the transactions in it from DA, clearly impugned upon his honesty and cast serious doubts on his competency, character and reliability. It also shows a lack of integrity on his part.
19. In light of the above, the SFC is of the view that Wu is not a fit and proper person to be licensed and his conduct casts doubt on his character and reliability, as well as his ability to carry on regulated activities honestly.
20. In reaching the decision to take the disciplinary action set out in paragraph 1 above, the SFC has taken into account all relevant circumstances, including:
 - (a) Wu's misconduct lasted for over a month, involving 190 transactions;
 - (b) Wu's admission in relation to his concealment of the trading activities and the unauthorised adjustments that he made in the Account;
 - (c) a deterrent message needs to be sent to the market that the SFC does not tolerate deliberate circumvention of internal control policies by licensed individuals; and
 - (d) his otherwise clean disciplinary record.