STATEMENT OF DISCIPLINARY ACTION

The Disciplinary Action

1. The Securities and Futures Commission (**SFC**) has prohibited Mr Dennis Cheng Chung Sing (**Cheng**)[1] from re-entering the industry for six months from 20 September 2024 to 19 March 2025 pursuant to section 194 of the Securities and Futures Ordinance (**SFO**).

2. The disciplinary action is taken because Cheng had acted dishonestly to conceal a trade execution error when he attempted to fix the error.

Summary of Facts

The Error Trade

3. Between 23 July 2018 and 2 September 2020, Cheng was a sales trader on Goldman Sachs' Hong Kong Program Trading Sales Trading Desk (**PT Desk**). Cheng's duties included executing client orders.

4. On 21 August 2020, a client (**Client**) placed an order with Goldman Sachs to buy 6,700,000 shares in Company X at volume weighted average price (**VWAP**), to be executed over three days from 24 to 26 August 2020 (ie, 2,232,000 shares on 24 August 2020 and 2,234,000 shares each on 25 and 26 August 2020) on the market (**Client Order**). The Client Order was routed to the PT Desk for execution.

5. Cheng picked up the Client Order for execution on 24 August 2020. However, Cheng wrongly inputted 232,000 shares instead of 2,232,000 shares into the system (**Error Trade**), resulting in an under-execution of two million shares (**Shortfall**).

6. Cheng was alerted to the Error Trade by a Goldman Sachs' colleague after market close on the same day. However, Cheng did not immediately report the Error Trade to Goldman Sachs' management and compliance department in accordance with Goldman Sachs' internal policy on error escalation (**Error Escalation Policy**) and only reported it four days later.

Attempts to conceal the Error Trade

7. Cheng acted dishonestly to conceal the Error Trade when he attempted to fix it.

   I Arranging a facilitation trade without obtaining the Client's prior consent

8. Upon discovery of the Error Trade, Cheng immediately approached Goldman Sachs' facilitation desks to arrange a facilitation trade for the Shortfall (**Facilitation Trade**). Cheng did not obtain the Client's prior consent for the Facilitation Trade.

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[1] Cheng was a licensed representative accredited to Goldman Sachs (Asia) L.L.C. and Goldman Sachs (Asia) Securities Ltd (collectively, **Goldman Sachs**) to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 7 (providing automated trading services) regulated activities under the SFO from 23 July 2018 to 2 September 2020. He is currently not licensed by the SFC.

II Booking wrong price for the Facilitation Trade

9. When booking the two executed trades consisting of: (i) the 232,000 on-exchange executions; and (ii) the Facilitation Trade (together the **Executed Trades**) to the Client's account on 24 August 2020, Cheng did not select the average price for the Executed Trades in accordance with Goldman Sachs' booking practice. Instead, Cheng booked the Executed Trades at the more favourable VWAP which reflected the Client's requested price, and not the average price (which would have taken into account the higher agreed price for the Facilitation Trade) (**Price Error**).

10. As a result of the Price Error, the Client was not disadvantaged by the Facilitation Trade and did not suffer any financial loss as it paid the VWAP in accordance with its original instructions.

11. However, the Price Error caused the Error Trade to be hidden from Goldman Sachs until 28 August 2020, when its share trading desk discovered a trading loss from the Facilitation Trade.

III Misrepresentations to Cheng's colleagues and supervisors

12. Cheng also made multiple misrepresentations to his Goldman Sachs' colleagues to conceal the Error Trade including:

    (a) on 24 August 2020, Cheng told a colleague on the facilitation desk that he needed to buy the Shortfall by client facilitation because of a lack of current liquidity when the real reason for the Facilitation Trade was to cover the Shortfall which had resulted from the Error Trade;

    (b) on 24 August 2020, immediately before the execution of the Facilitation Trade, he told another colleague that he had obtained the Client's consent for the Facilitation Trade by telephone, notwithstanding he had not done so; and

    (c) on 28 August 2020, in response to his supervisor's query as to why he needed to arrange a client facilitation trade, Cheng told his supervisor that he had spoken to the Client after he became aware of the Shortfall and the Client had asked him to arrange a facilitation trade for the Shortfall.

Conclusion

13. Having considered all the circumstances, the SFC is of the view that Cheng had:

    (a) acted dishonestly to conceal the Error Trade when he attempted to fix it in breach of General Principle 1 (Honesty and fairness) of the Code of Conduct for Persons Licensed by or Registered with the SFC (**Code of Conduct**)[2];

[2] General Principle 1 (Honesty and fairness) of the Code of Conduct requires licensed or registered persons to act honestly, fairly, and in the best interests of their clients and the integrity of the market, in conducting their business activities.

(b) failed to act diligently and carefully in complying with Goldman Sachs' Error Escalation Policy in breach of General Principle 2 (Diligence) of the Code of Conduct[3]; and

(c) failed to obtain the Client's consent for the Facilitation Trade[4].

14. The SFC is of the view that Cheng is guilty of misconduct and is not fit and proper to be a licensed person. His conduct casts doubt on his character and reliability as well as his ability to carry on regulated activities competently and honestly.

15. 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) Cheng's misconduct was dishonest;

(b) Cheng did not obtain any personal monetary gain from his misconduct and did not cause any client loss;

(c) Cheng admitted his misconduct and self-reported the incident to the SFC;

(d) Cheng was remorseful for his conduct; and

(e) Cheng has an otherwise clean disciplinary record with the SFC.

[3] General Principle 2 (Diligence) of the Code of Conduct requires licensed or registered persons to act with due skill, care and diligence, in the best interests of their clients and the integrity of the market, in conducting their business activities.

[4] Paragraph 3 of the SFC's circular to licensed corporations on client facilitation dated 14 February 2018 provides that in conducting client facilitation activities, a licensed person should disclose the nature of the trades to clients and obtain their prior consent so that they are fully aware of the inherent conflicts of interest.