

## STATEMENT OF DISCIPLINARY ACTION

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### The Disciplinary Action

1. Pursuant to section 194 of the Securities and Futures Ordinance (**SFO**), the Securities and Futures Commission (**SFC**) has:
  - (a) reprimanded and fined Freeman Commodities Limited (**Freeman**)<sup>1</sup>, now known as Arta, \$3.4 million;
  - (b) suspended Mr Pun Hong Hai (**Pun**), a former responsible officer (**RO**), chief executive officer and manager-in-charge of overall management oversight of Freeman, for 10 months from 11 June 2025 to 10 April 2026<sup>2</sup>; and
  - (c) suspended Mr Li Chun Kei (**Li**)<sup>3</sup>, a former RO, managing director and manager-in-charge of key business line of Freeman, for 4 months from 20 June 2025 to 19 October 2025.
2. The disciplinary actions are taken because:
  - (a) Freeman failed to:
    - (i) perform adequate due diligence on the customer supplied systems (**CSSs**)<sup>4</sup> used by clients for placing orders, and assess and manage the associated money laundering and terrorist financing (**ML/TF**) and other risks;
    - (ii) establish an effective monitoring system to detect, assess and conduct relevant enquiries on suspicious money movements in client accounts; and
    - (iii) establish an effective ongoing monitoring system to detect and assess suspicious trading patterns in client accounts; and
  - (b) Freeman's failures are attributable to Pun's and Li's failures to discharge their duties as ROs and members of the senior management of Freeman.

### Summary of Facts

#### A. Background

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<sup>1</sup> Freeman is licensed to carry on Type 2 (dealing in futures contracts) regulated activity under the SFO. It changed its name to Arta Global Futures Limited (**Arta**) in October 2021.

<sup>2</sup> Please see the SFC's press release dated 19 June 2025.

<sup>3</sup> Li was licensed under the SFO to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 9 (asset management) regulated activities. Li was accredited to Freeman and approved to act as its RO from 18 October 2016 to 6 September 2021. Li is currently not accredited to any licensed corporation.

<sup>4</sup> A CSS is a trading software developed and/or designated by the clients that enables them to conduct electronic trading through the Internet, mobile phones and other electronic channels.

3. The SFC received a complaint against various licensed corporations (LCs), including Freeman, for allowing clients to place orders to their broker supplied system (BSS)<sup>5</sup> through a software called Xinguanjia (XGJ).
  4. The complainant alleged that XGJ allowed the LCs' clients to create sub-accounts under their accounts maintained with the LCs, and the clients solicited investors in Mainland China to trade through the sub-accounts via XGJ without having to open separate securities accounts with the LCs in Hong Kong.
  5. Between June 2017 and December 2018 (**Relevant Period**), Freeman permitted 89 clients to use their designated CSSs, including XGJ, to place orders to its BSSs. From November 2017 to July 2018, the number of futures contracts transacted by clients through orders placed via CSSs accounted for 96.89% to 98.64% of Freeman's total monthly trading volume.
- B. Failure to perform adequate due diligence on the CSSs and assess and manage the associated ML/TF and other risks*
6. Before allowing its clients to connect their CSSs to its BSSs, Freeman would require its clients to complete an application form (**API Application Forms**).
  7. However, Freeman did not have any written policies and procedures regarding either (i) the system due diligence and testing of each CSS; or (ii) the approval process for the use of the CSSs.
  8. Freeman did not perform any due diligence or testing on the CSSs used by its clients before allowing them to be connected to its BSSs. The suppliers of its BSSs also did not conduct any due diligence on the reliability and security of the CSSs because this was not within their scope of work.
  9. Without thorough knowledge of the features and functions of the CSSs, Freeman was not in a position to properly assess the ML/TF and other risks associated with the use of the CSSs and implement appropriate measures and controls to mitigate and manage such risks.
  10. In the absence of proper control over the use of CSSs by its clients, Freeman has exposed itself to the risks of improper conduct such as unlicensed activities, money laundering, nominee account arrangement and unauthorized access to client accounts.
  11. Pun was responsible for the overall management oversight of Freeman and setting its policies and procedures. Li was responsible for directing and overseeing the overall business of Freeman's Type 2 (dealing in futures contracts) regulated activity and he approved the API Application Forms. They failed to ensure that Freeman had:
    - (a) conducted adequate due diligence on the CSSs before allowing them to be connected to its BSSs and used by the clients for placing orders; and

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<sup>5</sup> BSSs are trading facilities developed by exchange participants or vendors that enable the exchange participants to provide electronic trading services to investors through the Internet, mobile phones, and other electronic channels.

- (b) properly assessed the ML/TF and other risks associated with the use of the CSSs and implement appropriate measures and controls to mitigate and manage such risks.
- C. *Failure to establish an effective monitoring system to detect, assess and conduct relevant enquiries on suspicious money movements in client accounts*
- 12. The SFC's review of fund movements in sample client accounts showed that the amounts of deposits made into the accounts of 6 clients (**6 Clients**) were incommensurate with their financial profiles as declared in their account opening documents, which were unusual and/or suspicious (**Anomalies**).
- 13. Freeman's policies and procedures required its staff to continuously monitor its business relationship with a customer by, among other things:
  - (a) monitoring cash and non-cash transactions to ensure that they are consistent with the nature of business, the risk profile and source of funds;
  - (b) identifying transactions that are complex, large or unusual or patterns of transactions that have no apparent economic or lawful purpose and which may indicate ML/TF; and
  - (c) making enquiries with the customer on the details of a suspicious transaction where appropriate.
- 14. However, when asked whether Freeman, at the material time, was aware of the Anomalies, Freeman submitted that no suspicious transaction report had been received from its Settlement Department amongst its records.
- 15. Further, apart from an undated annual review report on one of the 6 Clients (**Annual Review**), Freeman has not been able to provide any record of ongoing due diligence or follow-up enquiries conducted during the Relevant Period to ensure that the activities in the 6 Clients' accounts were consistent with their respective financial backgrounds, risk profiles and source of funds.
- 16. The Annual Review did not enable Freeman to resolve the concerns associated with the Anomalies vis-à-vis the deposits into the relevant client's account because Freeman did not document the background and context under which the Annual Review was conducted, and it did not consider the financial profile of the client and source of funds to determine whether the deposits were suspicious.
- 17. The above shows that Freeman has failed to establish an effective monitoring system to detect, assess and conduct relevant enquiries on suspicious money movements in client accounts.
- 18. While Pun claimed that he made sure that measures were put in place so that the Sales team, the Finance team and the Compliance team, which reported to him directly/indirectly, would take steps to detect suspicious money movements in client accounts during the Relevant Period, this is inconsistent with the evidence the SFC obtained during its investigation into the matter.

19. As an RO and a member of senior management of Freeman, Pun failed to ensure that Freeman established effective monitoring system to detect, assess and conduct relevant enquiries on suspicious money movements in client accounts during the Relevant Period.
- D. Failure to establish effective ongoing monitoring system to detect and assess suspicious trading patterns in client accounts*
20. During the Relevant Period, there were 30,544 instances where buy and sell orders for the same futures contracts were placed by the same client within the same second and at the same price (**same second buy/sell orders**) in the 6 Clients' accounts.
21. While Freeman claimed that it had put in place systems and controls to monitor and detect suspicious trading activities, there is no record indicating that Freeman was aware of the same second buy/sell orders during the Relevant Period.
22. This demonstrates that Freeman's systems and controls for monitoring and detecting suspicious transactions were neither adequate nor effective.
23. As an RO and a member of its senior management, Pun failed to ensure that Freeman established effective monitoring system to detect and assess suspicious trading patterns in client accounts during the Relevant Period.

### **The SFC's findings**

24. Freeman's failures set out above constitute a breach of:
- (a) General Principle (**GP**) 2 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (**Code of Conduct**), which requires an LC to act with due skill, care and diligence, in the best interests of its clients and the integrity of the market in conducting its business activities.
  - (b) GP 3 and paragraph 4.3 of the Code of Conduct, which provide that an LC should have and employ effectively the resources and procedures which are needed for the proper performance of its business activities and have internal control procedures and operational capabilities which can be reasonably expected to protect its operations and its clients from financial loss arising from theft, fraud, and other dishonest acts, professional misconduct or omissions.
  - (c) Section 23 of Schedule 2 to the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (**AMLO**) and paragraph 2.1 of the Guideline on Anti-Money Laundering and Counter-Terrorist Financing (April 2015, March 2018 and November 2018 editions) (**AML Guideline**), which require an LC to mitigate the risks of ML/TF and prevent contravention of any customer due diligence and record keeping requirements under the AMLO. To ensure compliance with this requirement, the LC should:
    - (i) establish and implement adequate and proper internal anti-money laundering (**AML**) and counter-financing of terrorism (**CFT**) policies,

procedures and controls pursuant to paragraph 2.2 of the AML Guideline; and

- (ii) assess the risks of any new products and services (especially those that may lead to misuse of technological developments or facilitate anonymity in ML/TF schemes) before they are introduced and ensure appropriate additional measures and controls are implemented to mitigate and manage the associated ML/TF risks pursuant to paragraph 2.3 of the AML Guideline.
- (d) Section 5(1)(b) of Schedule 2 to the AMLO and paragraph 5.1(b) of the AML Guideline, which require an LC to continuously monitor its business relationship with the clients by monitoring their activities to ensure that they are consistent with its knowledge of the clients and the clients' nature of business, risk profile and source of funds.
- (e) Section 5(1)(c) of Schedule 2 to the AMLO and paragraphs 5.1(c), 5.10 and 5.11 of the AML Guideline, which require an LC to identify transactions that are complex, large or unusual or patterns of transactions that have no apparent economic or lawful purpose, make relevant enquiries to examine the background and purpose of the transactions, document the enquiries made (and their results), and report the findings to the Joint Financial Intelligence Unit where there is any suspicion of ML/TF. Pursuant to paragraph 7.11 of the AML Guideline, where a transaction is inconsistent in amount, origin, destination, or type with a client's known, legitimate business or personal activities, the transaction should be considered as unusual and the LC should be put on alert<sup>6</sup>.

25. Pun's and Li's failures constitute a breach of:

- (a) GP 9 of the Code of Conduct, which requires senior management of a licensed corporation to ensure the maintenance of appropriate standards of conduct and adherence to proper procedures by the firm; and
- (b) paragraph 14.1 of the Code of Conduct, which requires senior management of a licensed corporation to properly manage the risks associated with the business of the firm.

## Conclusion

26. Having considered all relevant circumstances, the SFC is of the opinion that (a) Freeman, Pun and Li are guilty of misconduct; and (b) Pun's and Li's fitness and properness to carry on regulated activities have been called into question.

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<sup>6</sup> Examples of situations that might give rise to suspicion are given in paragraphs 7.14 and 7.39 of the AML Guideline, such as: (a) transactions or instructions which have no apparent legitimate purpose and/or appear not to have a commercial rationale; (b) buying and selling of securities/futures with no discernible purpose or where the nature, size or frequency of the transactions appears unusual; and (c) the entry of matching buys and sells in particular securities or futures or leveraged foreign exchange contracts (wash trading), creating the illusion of trading. Such wash trading does not result in a bona fide market position, and might provide "cover" for a money launderer.

27. In deciding the disciplinary sanctions set out in paragraph 1 above, the SFC has taken into account all of the circumstances, including:
- (a) the failures of Freeman, Pun and Li to diligently monitor clients' activities and put in place adequate and effective AML/CFT systems and controls are serious, as they could undermine public confidence in and damage the integrity of the market;
  - (b) a strong deterrent message needs to be sent to the market that such failures are not acceptable;
  - (c) Freeman and Li have otherwise clean disciplinary records; and
  - (d) Arta's financial position and its cessation of business since 9 December 2024 – but for these factors, the SFC would have imposed a \$9 million fine against it.