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## Enforcement News

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14 April 2009

### **SFC reprimands and fines KCG Securities Asia Ltd**

The Securities and Futures Commission (SFC) has issued a reprimand to KCG Securities Asia Ltd (KCG) and fined it \$500,000 (Note 1).

An SFC investigation into trading in the shares of Mandarin Entertainment (Holdings) Ltd from June 2006 to October 2006 showed that KCG did not appropriately handle a broker's report after the broker had reported to a superior about suspicious instructions from a client, who was authorised to operate 11 other clients' accounts at KCG.

The client, located outside Hong Kong, told a KCG broker to farm out orders to other brokerages to match opposing orders placed through KCG at the same price at about the same time.

Trades like these are known as "matched orders". They are usually fake, pre-arranged trades between associates aimed at misleading other investors into believing that independent buyers and sellers are trading with each other to make a genuine price.

As a result, after receiving the staff report, KCG should have asked why the client placed matched orders and determined whether or not the orders were manipulative. The SFC has warned brokers previously to be alert to orders that are obviously suspicious and to question clients to ensure they do not facilitate illegal activity (Note 2).

"The broker who reported this bravely did the right thing but her bosses did not handle the report properly. Brokers must question suspicious orders or refuse them. They are the first line of defence against manipulation and they must play their part," said Mr Mark Steward, the SFC's Executive Director of Enforcement.

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Notes:

1. KCG is licensed under the Securities and Futures Ordinance to carry on business in Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities.
2. Please refer to [April 2007 issue](#) of the SFC Enforcement Reporter.

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