

SFC suspends Lillian Liu Yaying

17 Aug 2009

The Securities and Futures Commission (SFC) has suspended the licence of Ms Lillian Liu Yaying for six months from 15 August 2009 to 15 February 2010 (Note 1).

An SFC investigation found that Liu failed to notice or otherwise turned a blind eye to the possibility that wash sales might, and falsely inflated turnover would, result from the matched trades that she carried out for one of her clients at Morgan Stanley Asia Ltd.

Liu's client had invested in a number of securities through another investment bank. In February 2008, the client faced margin calls from that other investment bank. The client decided to transfer part of his portfolio at the other investment bank to Morgan Stanley in order to ease his margin position with the other investment bank.

This could have been achieved through a simple delivery versus payment arrangement, such as by using the Central Clearing and Settlement System.

Between 28 February and 26 March 2008, instead of transferring the relevant shares off-market, a series of on-exchange matched sales and purchases was coordinated between Liu and her assistants and a team of traders at the other investment bank (Note 2). Among these were 82 wash sales (Note 3).

The matched trades were conducted for the purpose of transferring part of the client's portfolio at the other investment bank to Morgan Stanley. These matched trades distorted the real demand for and supply of four securities (Note 4), and on six trading days took up more than 50% of the daily turnover of one of the securities involved.

Liu used her mobile telephone to receive orders from the client without keeping sufficient records of those orders.

In deciding the penalty, the SFC took into account that Liu co-operated by resolving the disciplinary action at an early stage, and her clean disciplinary record.

End

Notes:

1. Liu is licensed under the Securities and Futures Ordinance to carry out Type 1 (dealing in securities) and Type 2 (dealing in futures contracts) regulated activities. She was accredited to Morgan Stanley Asia Ltd from March 2007 until her resignation in February 2009.
2. Upon receiving the client's instructions, the team at the other investment bank would input sell orders on The Stock Exchange of Hong Kong. They would then inform Liu or her assistants by telephone immediately of the volume and price of the orders. Liu and her assistants then arranged for Morgan Stanley, on behalf of the client, to purchase from the market similar quantity of the same stock at the same prices or at prices lower than that of the other investment bank's sell orders.
3. Wash sales are transactions that do not involve any change in beneficial ownership. In this case, the buy orders of Morgan Stanley and the sell orders of the other investment bank were matched on 82 occasions where there was no change in beneficial ownership of the shares involved.
4. The four securities were Fosun International Ltd (stock code 656), Tiangong International Company Ltd (stock code 826), Centron Telecom International Holding Ltd (stock code 1155), and Kingsoft Corporation Ltd (stock code 3888).

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