
Enforcement News

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2 November 2009

SFC reprimands and fines Grand Investment (Securities) Ltd, suspends Lee Tak Lun and Wendy Chung Wing Han

The Securities and Futures Commission (SFC) has issued a reprimand to Grand Investment (Securities) Ltd (Grand Investment) (Note 1) and fined it \$3 million following an investigation into the trading activities of derivative warrants issued by Macquarie Bank from January 2004 to January 2005.

Two Grand Investment officers, Mr Lee Tak Lun (Note 2) and Ms Wendy Chung Wing Han (Note 3), were suspended as representative and responsible officer for 12 months and 18 months respectively, effective from 31 October 2009.

An SFC investigation found that Grand Investment turned a blind eye to two of its clients' abusive trading activities which falsely inflated the turnover of the relevant derivative warrants. This would have given the impression to other investors that the warrants were actively traded.

Grand Investment was effectively charging its clients brokerage commission as low as 0.04% when the commission rebate offered by Macquarie Bank for trading the relevant derivative warrants could run as high as 0.25% of the transaction value. As a result, two of Grand Investment's clients were able to generate risk-free profit by buying and selling the same derivative warrant at the same price and at almost the same time (Note 4).

Grand Investment did not take any action to prevent and stop its clients from trading in the abusive manner. In addition, the company's brokerage commission arrangement with the two clients made it appear that the brokerage commission paid by the two clients was 0.25% instead of the actual 0.04%. As a result, Macquarie Bank paid the two clients more commission rebate than the brokerage commission Grand Investment actually charged them.

The SFC found that Grand Investment's conduct was not in the interests of market integrity and was prejudicial to the investing public because the clients' abusive trading would inevitably create a false appearance that the relevant derivative warrants were actively traded.

The SFC also found that Lee and Chung had failed to properly and actively participate in Grand Investment's business, and their failures contributed to the breaches and failures of Grand Investment.

"The SFC will continue to crack down on brokers whose conduct facilitates abusive trading by clients," the SFC's Executive Director of Enforcement, Mr Mark Steward, said.

End

Notes:

1. Grand Investment is licensed under the Securities and Futures Ordinance (SFO) to carry on business in Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 9 (asset management) regulated activities.
2. Lee is 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), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities. Lee is a responsible officer of

Grand Investment (Securities) Ltd, Grand Investment (Futures) Ltd and Hooray Broking Services Ltd.

3. Chung is 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. Chung is a responsible officer of Grand Investment (Securities) Ltd, Grand Investment (Futures) Ltd and Hooray Broking Services Ltd.

4. The SFC banned commission rebate schemes for trading derivative warrants in March 2006. Please also see SFC press release dated [19 March 2009](#) and [19 August 2009](#) for further details.

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