
Enforcement News

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Suspended jail term for derivative warrant manipulation

A retail investor, Mr Credit Szeto Kwok Kwan, was today given a suspended jail sentence after pleading guilty to charges for manipulating a derivative warrant during the closing auction session (CAS) (Note 1) on 30 December 2008.

Szeto was sentenced to four weeks' imprisonment suspended for 12 months and was ordered to pay a fine of \$25,000.

The court also ordered Szeto to pay the Securities and Futures Commission's (SFC) investigation costs.

An SFC investigation found that, on 30 December 2008, Szeto had raised the indicative equilibrium price (IEP) (Note 2) and the closing price of a derivative warrant known as KC-ICBC@EC0905 (stock code 15481) (Note 3) by placing three pairs of buy and sell orders at escalating prices during the CAS. Each buy order was for a single board lot (Note 4) of 1,000 units of the warrant matched with a sell order of 500,000 units at the same price. The SFC alleged that the artificially inflated IEP would have created a false impression to other investors that there was a genuine demand for the warrant at that IEP.

Szeto's orders caused the closing price of the warrant on 30 December 2008 to rise 18.5% over the previous closing price. Szeto was then able to make a net profit of \$24,939 when he sold his holdings on the following day.

End

Notes:

1. The CAS has been suspended since 23 March 2009.
2. The IEP was the price during the CAS at which the maximum number of shares could be traded if order matching occurred at that time.
3. The underlying stock of the warrant was Industrial and Commercial Bank of China Limited (stock code 1398).
4. A board lot is the minimum order quantity of shares of a stock that may be bought on a stock exchange.

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