Enforcement News

---

24 March 2011

Suspended sentence for Callable Bull Bear Contracts manipulator

The Eastern Magistracy today sentenced Mr Fong Ka Lai after he pleaded guilty to manipulating three different Callable Bull Bear Contracts (CBBCs) during the pre-opening session (POS) in August 2009 (Note 1).

Fong was sentenced to one-month imprisonment, suspended for 12 months and was ordered to pay a total fine of $40,000 for manipulating the price of three CBBCs during the POS between 14 August 2009 and 18 August 2009.

The three CBBCs were SG#HSIRC1003L (stock code: 65855), HS#HSIRC1006B (stock code: 65793), and KC#HSIRP1003K (stock code: 65540) (Note 2).

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

An SFC investigation found that, on four occasions between 14 August 2009 and 18 August 2009, Fong raised the final indicative equilibrium price (IEP) by artificially placing auction orders and limit orders at escalating prices during the POS (Note 3).The SFC alleged that Fong created an artificial price in respect of the three CBBCs.

Fong's orders caused the final IEP of the CBBCs on 14, 17 and 18 August 2009 to swing widely. As a result, Fong was able to make a net profit of $69,862 when he sold his holdings on the same day.

End

Notes:
1. The POS commences at 9:30 am on each trading day and comprises four periods :
(a) Order Input Period (9:30 am to 9:45 am)
(b) Pre-order Matching Period (9:45 am to 9:50 am)
(c) Order Matching Period (9:50 am to 9:58 am)
(d) Blocking Period (9:58 am to 10:00 am)

2. The underlying stocks of the CBBCs were:
(a) SG#HSIRC1003L (stock code: 65855) – Hang Seng Index
(b) HS#HSIRC1006B (stock code: 65793) – Hang Seng Index
(c) KC#HSIRP1003K (stock code: 65540) – Hang Seng Index

3. The IEP was the price during the POS at which the maximum number of shares could be traded if order matching occurred at that time.

Page last updated: 24 March 2011