

SFC bans Jagjit Singh Dhillon for life

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The Securities and Futures Commission (SFC) has banned Mr Jagjit Singh Dhillon, a former trader at Credit Suisse Securities (Hong Kong) Limited and Credit Suisse (Hong Kong) Limited (collectively Credit Suisse), from re-entering the industry for life over improper activities in two principal trading books for which he had responsibility (Note 1).

The disciplinary action follows an SFC investigation which found that Dhillon, who was responsible for trading equity derivatives, took various steps to cover up the losses and the real level of risk exposure in his trading books between 8 and 17 May 2012, including booking fictitious trades and entering incorrect market data in the trading books (Note 2).

Dhillon's conduct led to an overstatement in the level of profits and an understatement in the level of risk exposure in his trading books, resulting in Credit Suisse having to make negative adjustments of USD5.4 million to the cumulative monthly profit and loss figures for its trading books on 18 May 2012, and recalculate the level of risk exposure recorded in its risk management systems.

Dhillon also provided his supervisors with false information when they first became suspicious of the activities in his trading books.

In deciding the disciplinary action, the SFC has taken into account all relevant circumstances including that Dhillon's conduct was intentional, dishonest and serious. The dishonest nature of his conduct demonstrates that he presents a serious risk to confidence in the financial market.

Notes:

1. Dhillon was licensed under the Securities and Futures Ordinance to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 7 (providing automated trading services) regulated activities. His licence was revoked when he left Credit Suisse on 9 June 2012. He is currently not licensed by the SFC.
2. The SFC referred the matter to the police in June 2012. Dhillon was arrested by the police and holding charges were laid against him. The holding charges were withdrawn in May 2013 due to lack of co-operation from key witnesses and Dhillon left Hong Kong immediately.

[A copy of the Statement of Disciplinary Action is available on the SFC website](#)

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STATEMENT OF DISCIPLINARY ACTION

The Disciplinary Action

1. The Securities and Futures Commission (**SFC**) has decided to ban Jagjit Singh Dhillon (**Dhillon**)¹ from re-entering the industry for life pursuant to section 194 of the Securities and Futures Ordinance (**SFO**).
2. The disciplinary action is taken because Dhillon engaged in improper activities in two principal trading books for which he had responsibility between 8 and 17 May 2012 to avoid showing the losses accruing to such trading books and the real level of equity market risk exposure in such trading books.
3. Dhillon's conduct is dishonest and casts serious doubts on his reputation, character and reliability.

Summary of facts

4. Dhillon was an equity index trader accredited to Credit Suisse (Hong Kong) Limited and Credit Suisse Securities (Hong Kong) Limited (collectively **Credit Suisse**) between 30 May 2007 and 9 June 2012.
5. Dhillon was responsible for trading equity derivatives, including listed futures and both listed and OTC options, relating to three indices namely, the Hang Seng Index (**HSI**), the Heng Seng China Enterprises Index (**HSCEI**), and the Korea Composite Stock Price Index (**KOSPI**), in two principal trading books held in Credit Suisse International.
6. In a series of communications between May and June 2012, Credit Suisse reported to the SFC that, apparently in response to losses resulting from downward movements in the HSI, HSCEI and KOSPI, Dhillon took steps to avoid showing losses attributed to his trading books and the real level of equity market risk exposure in those trading books. He engaged in several types of improper activities with a view to achieving that purpose.

Failure to update market prices or entering incorrect market prices

7. As part of its end-of-day processes, Credit Suisse expects traders to bring transactions from their trading books into its front office risk and profit and loss (**P&L**) system (the **System**) and update market prices in the System. The System runs valuations and risk assessment on trading books on an intraday basis, and generates reports to facilitate P&L verification, end-of-day valuations and risk reporting. The System allows traders to override market data for positions held in their trading books in certain circumstances.

¹ Dhillon was licensed under the Securities and Futures Ordinance to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 7 (providing automated trading services) regulated activities when his misconduct was discovered in May 2012. He was accredited to Credit Suisse (Hong Kong) Limited and Credit Suisse Securities (Hong Kong) Limited (collectively known as Credit Suisse) at the material time. Dhillon's licence was revoked when he left Credit Suisse on 9 June 2012. He is currently not licenced by the SFC.

8. After updating prices in the System, traders are expected to run a process that downloads data from the System into Credit Suisse's back-office risk and P&L management systems.
9. In several instances between 8 May and 17 May 2012 (**Relevant Period**), Dhillon did not enter or update market prices, or entered incorrect market prices, in the System for his trading books. As a result, outdated or incorrect market prices (as the case may be), were used to calculate the P&L position of his trading books, causing a misstatement in the P&L position of such trading books to the extent of the discrepancies between the (incorrect) prices that were used to calculate the P&L position and the actual end-of-day prices for the relevant days.

Booking of fictitious trades and subsequent cancellations

10. During the Relevant Period, Dhillon entered a number of fictitious trades for listed futures and options in his trading books which he subsequently cancelled before the settlement day in order to disguise the level of equity market risk exposure and mask daily losses for his trading books.
11. For example, on one occasion, he booked a sell trade for a listed index future in one of his trading books against an internal counterparty code. That was a fictitious transaction that was never settled. Dhillon cancelled the trade on the next day. However, in the meantime, the fictitious trade created a positive P&L impact on Dhillon's trading book overnight, as the listed index future in question closed at a price lower than the price at which Dhillon booked his fictitious sell trade. In addition, the fictitious trade dampened the equity market risk exposure of Dhillon's trading book overnight, as such trading book was long equity exposure at the time the fictitious trade was booked.

Transferring profits from other traders' books into Dhillon's trading books

12. During the Relevant Period, Dhillon booked a number of transactions in his trading books and in trading books managed by other traders in an attempt to transfer profits from those trading books to his own.
13. For example, on one occasion, Dhillon booked a sell trade for a listed index future in one of his trading books and a corresponding buy trade for the same listed index future in a trading book managed by another trader. The buy and sell trades were booked at the same price. The listed index future in question closed at a price lower than the price at which the buy and sell trades in question were booked. The effect of those trades was, therefore, that a profit was created in Dhillon's trading book and a loss was created in the other trader's trading book, because the price at which Dhillon's trading book sold, and the other trader's trading book bought, the listed index future in question was higher than the closing price for that listed index future on that day.

Impact of Dhillon's conduct

14. Dhillon's conduct resulted in profits being overstated and the level of equity market risk exposure being understated in his trading books. To correct such misstatements, Credit Suisse had to make adjustments to reverse out the P&L that was incorrectly reported in his trading books - negative adjustments of USD5.4 million to the cumulative monthly P&L figures for Dhillon's trading books was made on 18 May 2012.

15. As well, Credit Suisse had to re-calculate the equity market risk exposure recorded in its risk management systems to correct an understatement of around USD40 million of equity market risk in Dhillon's trading books from 11 to 17 May 2012, with the exception of 15 May 2012 when the understatement rose to around USD77 million.

Breaches and reasons for action

16. Section 129 of the SFO provides that, in considering whether a person is fit and proper, the SFC may consider, in addition to any other matter that the SFC may consider relevant, the person's ability to carry on the regulated activity competently, honestly and fairly, and the reputation, character, reliability and financial integrity of the person.
17. Dhillon's conduct was intentional and dishonest. His action prevented Credit Suisse from having a full knowledge of the losses in his trading books and from effectively monitoring his trading books.
18. Dhillon's dishonesty is further exemplified by the fact that when his supervisors first became suspicious of the level of equity market risk exposure in his trading books, he attempted to sidestep their enquiry by giving them false indications of the level of equity market risk exposure in his trading books, and giving them a false explanation about the equity market risk exposure in his trading books.

Conclusion

19. Confidence in the financial market relies, in part, on the trustworthiness of licensed persons. Dhillon's conduct clearly shows a lack of integrity on his part. The dishonest nature of his conduct also demonstrates that he presents a serious risk to confidence in the financial market.
20. In deciding the disciplinary sanction, the SFC has taken into account all relevant circumstances, including that Dhillon's conduct was deliberate, serious, and showed a lack of honesty we expect from licensed persons, and that he had no personal monetary gain from his conduct.