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SFC issues restriction notice on IDS Forex HK Limited

12 Jun 2017

The Securities and Futures Commission (SFC) today issued a Restriction Notice on IDS Forex HK Limited prohibiting the firm from carrying on all activities for which it is licensed, disposing of or dealing with any assets held by it or held on behalf of its clients, and assisting, counselling or procuring another person to dispose of or deal with any such property without the SFC's prior written consent (Note 1).

The SFC's action follows a self-report notification by IDS on 5 June 2017 informing the SFC that its sole shareholder, Mr Kim Sunghun, a Korean passport holder, was convicted of illegal fund-raising and fraud in Korea and was sentenced to 12 years imprisonment on 3 February 2017. The extensive fraudulent scheme involved Mr Kim soliciting investors since 2011 to invest in business carried on by him outside Korea, which included margin forex business.

The SFC has reason to believe that the capital injections made by Mr Kim into IDS may be wholly, or in part, proceeds of crime, and may be an attempt to launder the proceeds of crime, and that IDS conducted no business operations in the past three years as reasonably expected of a fit and proper licensed corporation.

The SFC has serious doubts about IDS's reputation and character as well as its fitness and properness to remain licensed (Note 2), and has commenced an investigation in light of the above information. As such, the SFC considers it necessary to prevent any further regulated activity by IDS, and any disposals or dealings in the relevant property of IDS, while its investigation continues. Furthermore, it is desirable in the interest of the investing public and in the public interest to impose on IDS the prohibitions set out in the Restriction Notice.

End

Notes:

1. The Restriction Notice is issued pursuant to sections 204 and 205 of the Securities and Futures Ordinance.
2. IDS is a corporation licensed under the SFO to carry on Type 3 (leveraged foreign exchange trading), Type 4 (advising on securities) and Type 9 (asset management) regulated activities.

[A copy of the Restriction Notice is available on the SFC's website](#)

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**NOTICE UNDER SECTIONS 204 AND 205 OF THE
SECURITIES AND FUTURES ORDINANCE
(Chapter 571) (“the Ordinance”)**

It appears to the Securities and Futures Commission (“**the Commission**”), for the reasons set out in the Statement of Reasons of even date, that the Commission should exercise the powers conferred by sections 204 and 205 of the Ordinance.

THE COMMISSION HEREBY GIVES NOTICE THAT:-

Except with the prior written consent of the Commission, such consent to be granted by any two Executive Directors of the Commission:

1. Pursuant to section 204(1) of the Ordinance, IDS Forex HK Limited (“**the Specified Corporation**”) is prohibited from carrying on, whether directly or through agents, all of the regulated activities for which it is licensed by the Commission.
2. Pursuant to section 205(1) of the Ordinance, the Specified Corporation is prohibited from –
 - (1) disposing of any relevant property (as defined in section 205(2) of the Ordinance) or dealing with any relevant property in any manner; and
 - (2) assisting, counselling or procuring another person to dispose of any relevant property or deal with any relevant property in any manner.
3. Pursuant to the provisions of section 217 of the Ordinance, an application may be made to the Securities and Futures Appeals Tribunal for a review of the decision to impose the prohibitions imposed by this Notice. Such application must be made within twenty-one days after the day on which this Notice is served on the Specified Corporation. Further, pursuant to section 208 of the Ordinance, the Specified Corporation may apply to the Commission for the prohibitions imposed by this Notice to be withdrawn, substituted or varied.

This Notice takes effect at the time of service upon the Specified Corporation.

Dated this 12th day of June 2017

For and on behalf of
Securities and Futures Commission

Ashley Alder
Chief Executive Officer

**STATEMENT OF REASONS
PURSUANT TO SECTION 209(2) OF
THE SECURITIES AND FUTURES ORDINANCE (Chapter 571) (“the
Ordinance”)**

1. IDS Forex HK Limited (“**the Specified Corporation**”) is a corporation licensed under the Ordinance to carry on Type 3¹ (Leveraged Foreign Exchange Trading), Type 4² (Advising on Securities) and Type 9² (Asset Management) regulated activities subject to the following licensing condition:

“For Type 3 regulated activity, the licensee shall not provide discretionary account services to clients.”

2. It appears to the Securities and Futures Commission (“**the Commission**”) that:
- (a) the Specified Corporation is not a fit and proper person to remain licensed or is not a fit and proper person to carry on any regulated activity for which it is licensed; and
 - (b) the imposition of the prohibitions set out in the Notice issued by the Commission of even date under sections 204 and 205 of the Ordinance is desirable in the interest of the investing public or in the public interest.
3. The Commission has reached this view on the basis of the following matters:-
- (a) The Commission received a self-report notification letter dated 5 June 2017 from the Specified Corporation informing the Commission that the sole shareholder of the Specified Corporation, Mr. Kim Sunghun (“**Mr. Kim**”), was convicted of illegal fund-raising and fraud in Korea and was sentenced to 12 years imprisonment on 3 February 2017. According to the Chinese translation of the Korean Court Charges Sheets provided by the Specified Corporation, Mr. Kim engaged in a fraudulent investment scheme under which 12,076 investors had been deceived between 21 November 2011 and 26 August 2016 in a total amount of approximately KRW 1.1 trillion (equivalent to approximately HKD7.6 billion).
 - (b) The Specified Corporation submitted the self-report on 5 June 2017, but Mr. Kim was arrested on 2 September 2016 (nearly 9 months ago) and was convicted by the Korean Court on 3 February 2017 (nearly 4 months ago).
 - (c) Mr. Kim had been a shareholder of the Specified Corporation since 23 June 2015 and had become the sole shareholder of the Specified Corporation since 15 September 2015. Between September 2015 and April 2017, Mr. Kim injected a total of HKD165 million into the Specified Corporation, separately in partial sums of HKD30 million, HKD35 million, HKD 30 million, HKD 40 million, and HKD30 million remitted to the Specified Corporation by the order of Mr. Kim from a bank in Korea respectively, on 17 December 2015, 9 March 2016, 16

¹ Licensed since 17 September 2014

² Licensed since 9 May 2016

June 2016, 6 July 2016 and 18 August 2016. In light of the coincidence between the timing of the fund transfers to the Specified Corporation and the timing of Mr. Kim's criminal activities in Korea, the Commission is concerned that Mr Kim's capital injections, or part thereof, into the Specified Corporation may be proceeds of crime. As such, there may be an attempt at laundering the proceeds of crime by Mr. Kim through the Specified Corporation.

- (d) Following the self-report of the Specified Corporation, the Commission commenced an inspection of the business operations of the Specified Corporation on 7 June 2017, which is still ongoing. The inspection reveals that despite substantial capital reserves, very little actual business transactions have taken place since September 2016:
- a. As at 31 May 2017, the Specified Corporation reported a bank balance of approximately HKD61.7 million. In July 2016, the Specified Corporation invested HKD78 million for investment in an Indonesian subsidiary, PT Royal Investium Sekuritas (formerly known as PT Nusantara Capital Securities), carrying on securities brokerage business. In February 2017, the Specified Corporation paid HKD20 million for investment in IDS Global Fund Serial SPC – IDS Pacific Value Asset Opportunities Fund SP (“**the Fund**”), a fund set up in the Cayman Islands.
 - b. The Commission was further informed that the related entities of the Specified Corporation have an office established in the People's Republic of China for the purpose of carrying out “research work” for the Fund, an office in Indonesia and an office in Vietnam. However, representative of the Specified Corporation is unable to state what precise activities are carried out by the Indonesian office and the Vietnam office or how these offices relate to or benefit the Specified Corporation.
 - c. Further, it appears that the Specified Corporation has little to no active client base. Its current client portfolio comprises of two individual clients with no cash balances and open positions, two corporate clients wholly owned by Mr. Kim with no cash balances and open positions, and one corporate client of which Mr. Kim is one of the shareholders, with an account balance of approximately USD151,000 (approximately HKD1.2 million) and no open positions. The Specified Corporation reported in its financial return that it has had no trading activity since September 2016.
 - d. Since December 2016, the Specified Corporation has held around 35 investment seminars. Some potential investors who have attended such seminars have left contact details with the Specified Corporation. However, according to the Specified Corporation, so far, no client accounts have been opened.

4. In light of all the above matters, the Commission has reason to believe that:
 - a. Mr Kim, the sole shareholder of the Specified Corporation, was convicted of illegal fund-raising and fraud in Korea by engaging in an extensive fraudulent investment scheme since 2011;
 - b. the capital injections made by Mr Kim into the Specified Corporation may be wholly or in part, proceeds of crime and may be an attempt to launder the proceeds of crime; and
 - c. the Specified Corporation has no actual or real business operation in the past 3 years as reasonably expected from a fit and proper licensed corporation.
5. For the reasons stated above, the Commission has serious doubt over the Specified Corporation's reputation, character, financial integrity as well as its fitness and properness to remain licensed. It also concerns the Commission that investors may be solicited by the Specified Corporation to invest in the Specified Corporation, the Fund or other related entities or investment schemes/products.
6. The Commission considers it necessary to prevent any further regulated activity by or disposals or dealings in the relevant property of the Specified Corporation to take place while it continues its investigation and that it is desirable in the interest of the investing public and in the public interest to impose on the Specified Corporation the prohibitions set out in the Notice issued by the Commission on even date.

Dated this 12th day of June 2017

For and on behalf of
Securities and Futures Commission

Ashley Alder
Chief Executive Officer