

SFC reprimands and fines Ardon Maroon Fund Management (Hong Kong) Limited \$800,000 for cross trade related failures

27 Dec 2018

The Securities and Futures Commission (SFC) has reprimanded and fined Ardon Maroon Fund Management (Hong Kong) Limited (Ardon Maroon) (now known as China Silver Asset Management (Hong Kong) Limited) \$800,000 for cross-trade related failures in managing the Ardon Maroon Asia Master Fund (AM Fund) (Note 1).

The SFC found that Ardon Maroon gave instructions to a brokerage to execute a cross trade for 15 million shares of a listed company on the Stock Exchange of Hong Kong on 8 August 2014, which resulted in the AM Fund conducting a wash trade. Ardon Maroon then instructed another brokerage to deliver the relevant shares to settle the wash trade.

A cross trade that does not involve any change of beneficial ownership is a wash trade which is presumed to be manipulative under the Securities and Futures Ordinance (SFO) and is not in the best interests of market integrity (Note 2). The wash trade conducted by the AM Fund was also not in the best interests of the holders of the fund because by doing so, the fund incurred undue transaction costs of over \$133,000.

By instructing the cross trade, Ardon Maroon failed to exercise due skill, care and diligence in managing the AM Fund (Note 3).

In deciding the disciplinary sanction, the SFC took into account:

- the Disciplinary Fining Guidelines;
- the cross trade was an isolated incident;
- Ardon Maroon has an otherwise clean disciplinary record with the SFC;
- Ardon Maroon did not benefit from the cross trade;
- a clear message needs to be sent to fund managers that the SFC would not tolerate conduct that is not in the best interests of the clients and market integrity; and
- Ardon Maroon's financial situation (Note 4).

End

Notes:

1. Ardon Maroon changed its name to China Silver Asset Management (Hong Kong) Limited in November 2015. It is licensed under the SFO to carry on Type 9 (asset management) regulated activities.
2. Sections 274 and 295 of the SFO provide that a person who enters into any transaction of sale and purchase of securities that does not involve a change of beneficial ownership shall be regarded to have created a false and misleading appearance of active trading in the securities unless the transaction is an off-market transaction.
3. General Principle 2 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission requires licensed corporations to act with due skill, care and diligence, in the best interests of its clients and the integrity of the market.
4. **But for the firm's financial position, the SFC would have imposed a heavier fine against it.**

[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 publicly reprimanded Ardon Maroon Fund Management (Hong Kong) Limited (**Ardon Maroon**), now known as China Silver Asset Management (Hong Kong) Limited¹, and fined it \$800,000 pursuant to section 194 of the Securities and Futures Ordinance (**SFO**).
2. The SFC found that Ardon Maroon failed to exercise due skill, care and diligence in managing the Ardon Maroon Asia Master Fund (**AM Fund**) and failed to act in the best interests of the AM Fund and the integrity of market.
3. The SFC is of the view that Ardon Maroon is guilty of misconduct and its fitness and properness has been called into question.

Summary of Facts

4. At the material time, Ardon Maroon was the fund manager of the AM Fund. The AM Fund held securities trading accounts at various brokerages.
5. On 8 August 2014, Ardon Maroon gave instructions to one of its brokerages to execute a cross trade for 15 million shares of a listed company on the Stock Exchange of Hong Kong, which resulted in the AM Fund conducting a wash trade and incurring transaction costs totalling \$133,056. Ardon Maroon then instructed another brokerage, which received 48 million shares of the same company, to deliver 15 million of such shares to settle the wash trade.
6. Ardon Maroon claimed that the cross trade was conducted for the purposes of moving shares between the two brokerages so as to reduce margin requirement at the brokerage receiving the 48 million shares and achieve better financing at the brokerage conducting the cross trade.

Failure to exercise due skill, care and diligence and to act in the best interests of the clients and the integrity of market

7. The cross trade instructed by Ardon Maroon was not in the interest of market integrity. It was a wash trade presumed to be manipulative under the SFO. Sections 274 and 295 of the SFO provide that a person who enters into any transaction of sale and purchase of securities that does not involve a change of beneficial ownership shall be regarded to have created a false and misleading appearance of active trading in the securities unless the transaction is an off-market transaction. In respect of the cross trade ordered by Ardon Maroon, the AM Fund was both the buyer and seller of the relevant shares.

¹ Ardon Maroon changed its name to China Silver Asset Management (Hong Kong) Limited in November 2015.

8. The cross trade conducted by the AM Fund was also not in the best interests of the holders of the fund because shares can be moved between the accounts of the two brokerages without the cross trade and the associated transaction costs.
9. General Principle 2 of the Code of Conduct² provides that, in carrying on its business activities, a licensed corporation should act with due skill, care and diligence, in the best interests of its clients and the integrity of market.
10. The SFC considers that the wash trade, which was not in the best interests of the AM Fund and market integrity, resulted from Ardon Maroon's failure to exercise due skill, care and diligence in managing the AM Fund.

Conclusion

11. In the circumstances, the SFC is of the view that Ardon Maroon is guilty of misconduct and its fitness and properness to carry on regulated activities have been called into question.
12. In deciding the disciplinary action, the SFC has taken into account all relevant circumstances, including:
 - (a) the Disciplinary Fining Guidelines;
 - (b) the cross trade was an isolated incident;
 - (c) Ardon Maroon has an otherwise clean disciplinary record with the SFC;
 - (d) Ardon Maroon did not benefit from the cross trade;
 - (e) a clear message needs to be sent to fund managers that the SFC would not tolerate conduct that is not in the best interests of the clients and market integrity; and
 - (f) **Ardon Maroon's financial situation – but for the firm's financial position, the SFC would have imposed a heavier fine against it.**

² Code of Conduct for Persons Licensed by and Registered with the Securities and Futures Commission