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## SFC issues restriction notices to three brokers to prohibit order placing in listed derivative warrants in client accounts linked to suspected market misconduct

4 Jan 2019

The Securities and Futures Commission (SFC) has issued restriction notices to Fulbright Securities Limited, Futu Securities International (Hong Kong) Limited and Gong Ping Securities Limited (brokers), prohibiting them from accepting or placing orders on listed derivative warrants in client accounts linked to suspected market misconduct (Notes 1 & 2).

The SFC is not investigating the brokers, which have cooperated with the SFC's ongoing investigation. The restriction notices do not affect their operations or their other clients.

The restriction notices prohibit the brokers, without the SFC's prior written consent, from accepting instructions to place or placing, through the client accounts or on behalf of the client holding the accounts, any buy or sell order on any derivative warrants listed on the stock market operated by the Stock Exchange of Hong Kong Limited.

The SFC considers that the issue of the restriction notices is desirable in the interest of the investing public or in the public interest.

The SFC's investigation is continuing.

End

Notes:

1. The SFC issued the restriction notices under section 204 of the Securities and Futures Ordinance (SFO).
2. Fulbright Securities Limited is a corporation licensed under the SFO to carry Type 1 and 4 regulated activities; Futu Securities International (Hong Kong) Limited is a corporation licensed under the SFO to carry Type 1, 2, 4, 5 and 9 regulated activities; Gong Ping Securities Limited is a corporation licensed under the SFO to carry Type 1 regulated activity.

Page last updated : 4 Jan 2019

NOTICE UNDER SECTION 204 OF THE SECURITIES AND  
FUTURES ORDINANCE (Chapter 571) (SFO)

It appears to the Securities and Futures Commission (**Commission**), for the reasons set out in the Statement of Reasons of this date, that the Commission should exercise the powers conferred by section 204 of the SFO.

**THE COMMISSION HEREBY GIVES NOTICE THAT:**

1. Except with the Commission's prior written consent, such consent to be granted by any two Executive Directors of the Commission, Fulbright Securities Limited (**Specified Corporation**) is prohibited, under section 204(1) of the SFO, from accepting instructions to place or placing, through a securities trading account referenced M3908899 (**Account**) or on behalf of the client holding the Account, any buy or sell order on the stock market operated by the Stock Exchange of Hong Kong Limited in respect of any derivative warrant listed on the stock market.
2. Under section 217 of the SFO, the Specified Corporation may make an application to the Securities and Futures Appeals Tribunal for a review of the Commission's decision to impose the prohibitions and/or requirements specified in 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, under section 208 of the SFO, the Specified Corporation may apply to the Commission for any prohibition and/or requirement imposed by this Notice to be withdrawn, substituted or varied.

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

Date this 21<sup>st</sup> day of December 2018

For and on behalf of  
the Securities and Futures Commission

Ashley Alder  
Chief Executive Officer

NOTICE UNDER SECTION 204 OF THE SECURITIES AND  
FUTURES ORDINANCE (Chapter 571) (SFO)

It appears to the Securities and Futures Commission (**Commission**), for the reasons set out in the Statement of Reasons of this date, that the Commission should exercise the powers conferred by section 204 of the SFO.

**THE COMMISSION HEREBY GIVES NOTICE THAT:**

1. Except with the Commission's prior written consent, such consent to be granted by any two Executive Directors of the Commission, Futu Securities International (Hong Kong) Limited (**Specified Corporation**) is prohibited, under section 204(1) of the SFO, from accepting instructions to place or placing, through a securities trading account referenced 1001100320156989 (**Account**) or on behalf of the client holding the Account, any buy or sell order on the stock market operated by the Stock Exchange of Hong Kong Limited in respect of any derivative warrant listed on the stock market.
2. Under section 217 of the SFO, the Specified Corporation may make an application to the Securities and Futures Appeals Tribunal for a review of the Commission's decision to impose the prohibitions and/or requirements specified in 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, under section 208 of the SFO, the Specified Corporation may apply to the Commission for any prohibition and/or requirement imposed by this Notice to be withdrawn, substituted or varied.

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

Date this 21<sup>st</sup> day of December 2018

For and on behalf of  
the Securities and Futures Commission

Ashley Alder  
Chief Executive Officer

NOTICE UNDER SECTION 204 OF THE SECURITIES AND  
FUTURES ORDINANCE (Chapter 571) (SFO)

It appears to the Securities and Futures Commission (**Commission**), for the reasons set out in the Statement of Reasons of this date, that the Commission should exercise the powers conferred by section 204 of the SFO.

**THE COMMISSION HEREBY GIVES NOTICE THAT:**

1. Except with the Commission's prior written consent, such consent to be granted by any two Executive Directors of the Commission, Gong Ping Securities Limited (**Specified Corporation**) is prohibited, under section 204(1) of the SFO, from accepting instructions to place or placing, through a securities trading account referenced 9901M88072 (**Account**) or on behalf of the client holding the Account, any buy or sell order on the stock market operated by the Stock Exchange of Hong Kong Limited in respect of any derivative warrant listed on the stock market.
2. Under section 217 of the SFO, the Specified Corporation may make an application to the Securities and Futures Appeals Tribunal for a review of the Commission's decision to impose the prohibitions and/or requirements specified in 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, under section 208 of the SFO, the Specified Corporation may apply to the Commission for any prohibition and/or requirement imposed by this Notice to be withdrawn, substituted or varied.

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

Date this 21<sup>st</sup> day of December 2018

For and on behalf of  
the Securities and Futures Commission

Ashley Alder  
Chief Executive Officer

**Statement of Reasons**  
**Under section 209(2) of the Securities and Futures Ordinance, Cap. 571 (SFO)**

1. Fulbright Securities Limited (**Fulbright**), Futu Securities International (Hong Kong) Limited (**Futu**) and Gong Ping Securities Limited (**Gong Ping**) (collectively the "**Specified Corporations**") are corporations licensed under the SFO to carry on a business in various regulated activities as follows:
  - Fulbright – Type 1 and 4 regulated activities
  - Futu – Type 1, 2, 4, 5 and 9 regulated activities
  - Gong Ping – Type 1 regulated activity
2. It appears to the Securities and Futures Commission (**Commission**) that the imposition of the prohibitions and the requirements set out in the Notices of this date issued by the Commission under section 204 of the SFO is desirable in the interest of the investing public and in the public interest.
3. The Commission has reached this view on the basis of a particular trading pattern identified in the trading activities of a client of the Specified Corporations (**Client**) in respect of a number of derivative warrants (**DWs**) and a number of corresponding underlying stocks on six trading days between May and August 2018. On each of these trading days, the client placed orders on the stock market operated by the Stock Exchange of Hong Kong Limited to deal in one of the DWs and one underlying stock using the following pattern (**Trading Pattern**):
  - (a) at the beginning of the trading day, the Client (i) did not hold any shares in the underlying stock or any unit of the DW or (ii) held a small number of shares in the underlying stock and did not hold any unit of the DW;
  - (b) the Client acquired a sizeable number of units in the DW in the market. In many cases, the liquidity provider was the counterparty which sold the units of the DW to the Client;
  - (c) the Client began to place bid orders for shares in the underlying stock;
  - (d) the bid orders were either executed immediately or placed on a primary price queue;
  - (e) the nominal price of the underlying stock increased immediately or as soon as one or more bid orders were executed;
  - (f) the nominal price of the DW also increased;
  - (g) on occasions, the Client placed one or two additional bid orders for the underlying stock;
  - (h) the nominal price of the DW increased further;
  - (i) the Client placed an ask order in the market, offering to sell all the units of the DW acquired by the Client;
  - (j) the ask order was taken up by either the liquidity provider or both the liquidity provider and another trader, resulting in a profit for the Client;

- (k) the Client cancelled all outstanding bid orders for the underlying stock and began to place ask orders to offload the Client's holding in the underlying stock;
- (l) the nominal price of the underlying stock decreased. On many occasions, it decreased to the level before the Client began to place the bid orders referred to in (c) above;
- (m) the Client repeated (a) to (k) many times during the trading days.

4. On the basis of the Trading Pattern, it appears to the Commission that:-

- (a) while the Client placed orders in respect of each of the DWs for the purpose of trading in the DW, the Client did not genuinely intend to deal in any of the underlying stocks;
- (b) instead, the Client placed bid orders for an underlying stock to create an artificial demand for it, and the artificial demand that was created would lead to an increase in the prices for dealings in the DW;
- (c) the Client would take advantage of the increases in the prices of the DW by selling off its holding in the DW at a substantial gain, at the expense of the counterparties to the trading;
- (d) the Client repeated the Trading Pattern, thereby artificially generating volatility in the prices for dealings in the underlying stocks frequently throughout a trading day.

5. There are sufficient reasons for the Commission to believe that the market misconduct/market misconduct offences of false trading, price rigging and/or stock market manipulation within the meaning of sections 274, 275 and/or 278 and/or sections 295, 296 and/or 299 were committed on each of the six trading days.

6. In addition to the six trading days, the Client may have conducted trading activities in the Trading Pattern on other trading days between May and November 2018. There is an urgent need to prohibit the Client, through the imposition of the Notices on the Specified Corporations, from conducting any further trading activities in the Trading Pattern.

7. Instead of imposing a total ban on all trading activities through the accounts, the Commission believes that a prohibition on trading in any derivative warrant, including the DWs, through the Specified Corporations may be sufficient to maintain the status quo, pending the outcome of our further investigation and/or enforcement actions.

8. In view of the foregoing, the Commission considers it desirable in the interest of the investing public and in the public interest to impose on the Specified Corporations the prohibitions and the requirements set out in the Notices issued by the Commission on this date.

Date this 21<sup>st</sup> day of December 2018

For and on behalf of the Commission

Ashley Alder  
Chief Executive Officer