



Recent HKEx and SFC Disciplinary Actions

Three disciplinary actions were announced by The Stock Exchange of Hong Kong Limited (**HKEx**) between late January and February 2022. The disciplinary actions included the HKEx censuring Yihua Overseas Investment Ltd and an authorised representative in January 2022 for failing to announce relevant information to avoid a false market and failing to apply for a trading suspension. In February, the HKEx censured Beijing Media Corporation Ltd and its four former executive directors, imposed a prejudice to investors' interests statement against three former non-executive directors, and criticised 15 directors and supervisors. In late February, the HKEx criticised Fantasia Holdings Group Co., Colour Life Services Group Co., and four former directors related to Fantasia and Colour Life.

The Securities and Futures Commission of Hong Kong (**SFC**) saw seven disciplinary actions against Chu Hing Tsung, Tianhe Chemicals Group and its executive director, Citigroup Global Markets Asia Limited, South China Commodities Ltd, TeleEye Holdings, Leung Siu Lun and HSBC Securities Brokers (Asia) between 25 January 2022 and 7 March 2022.

HKEx Disciplines Yihua Overseas Investment Ltd

On 19 January 2022, the HKEx censured **Yihua Overseas Investment Ltd (Yihua)** and its authorised representative, Ms Liu Shaoxiang (**Ms Liu**) for its delay in announcing information including inside information to avoid a false market, failing to apply for a trading suspension, and its delay in providing information requested by the HKEx about Yihua's payment of interest on its outstanding debt instruments. Ms Liu, who was Yihua's sole director, was censured for her failure to fulfil her responsibilities as Yihua's authorised representative in failing to act as the principal channel of communication between the HKEx and Yihua. The Statement of Disciplinary Action is available [here](#).

Yihua's default

On 24 October 2017, Yihua issued debt instruments that were listed under Chapter 37 of the HKEx Listing Rules. Interest was payable on the notes at the rate of 8.5% per year at semi-annual intervals on 23 April and 23 October each year until their maturity on 23 October 2020. The payment of the principal and interest on the notes was guaranteed by Yihua's parent company.

Non-payment of interest on the notes which continued for 30 consecutive days constituted an event of default under the terms and conditions of the notes. Yihua and its parent company failed to pay the interest due on 23 April 2020, and for the 30-day grace period, leading to a default on the notes.

The HKEx directed a trading suspension effective from 4 August 2020 until the delisting of the debt upon its maturity on 23 October 2020.

Yihua's failure to respond to HKEx enquiries

From 29 July 2020, the HKEx made repeated attempts to contact Yihua through Ms Liu, its authorised representative, seeking information on the status of Yihua's payment of interest on the notes, but received no response until November 2020.

Breach of HKEx Listing Rule Requirements

Rule 2.12A of the HKEx Listing Rules requires listed companies to provide any information required by the HKEx for investigating a suspected breach of, or verifying compliance with, the HKEx Listing Rules within the time limits specified by the HKEx.

HKEx Listing Rule 37.47B(a) states that a listed company must announce any inside information simultaneously with its disclosure under Part XIVA of the Securities and Futures Ordinance.

Listing Rule 37.47(b) further requires listed companies to consult with the HKEx immediately if they believe that there is likely to be a false market in their listed debt securities, and to announce any information necessary to avoid a false market after that consultation.

Under Listing Rule 37.47C, listed companies must promptly apply for a halt or suspension of trading if there is information that is required to be disclosed under Listing Rule 37.47B(a) or 37.47(b) which cannot be announced promptly.

An authorised representative is required to act as the principal channel of communication at all times between the HKEx and the listed company under Listing Rule 3.06(1).

The Listing Committee found that:

- i) Yihua had breached:
 - Listing Rule 2.12A in its delay in providing the information requested by the HKEx;
 - Listing Rule 37.47B(a) in delaying its announcement of its inability to pay interest on the notes on the due date and default on the notes. That information constituted inside information and its non-disclosure resulted in a false market in relation to the notes; and
 - Listing Rule 37.47C in failing to apply for a trading suspension; and
- ii) Ms Liu had breached Listing Rule 3.06(1) in failing to act as the principal channel of communication between the HKEx and Yihua.

The Listing Committee therefore censured Yihua Overseas Investment Ltd and its authorised representative Ms Liu Shaoxiang.

HKEx Disciplines Beijing Media Corporation Ltd and 22 Directors and Supervisors

On 10 February 2022, the HKEx censured **Beijing Media Corporation Ltd (Beijing Media Corp)** and four of its former executive directors, imposed a prejudice to investors' interests statement against three former non-executive directors, and criticised 15 directors and supervisors for providing loans of over RMB 550 million to its controlling shareholder and associate without complying with the announcement, circular, shareholders' approval, written agreement and reporting requirements under the HKEX Listing Rules. The HKEx further directed all the former and current directors, save the former directors that had a prejudice to investors' interests statement imposed against them, to attend 24 hours of training on regulatory and legal topics including Listing Rule compliance.

Beijing Media Corp's non-compliance with HKEx Listing Rules

Between 23 January 2018 and 29 March 2019, Beijing Media Corp through its subsidiaries provided 13 loans totalling RMB 333.2 million to its controlling shareholder and seven loans totalling RMB 220 million to its associate (together **Loans**). The loans to its controlling shareholder constituted advances to an entity under Chapter 13 of the Listing Rules and major and connected transactions under Chapters 14 and 14A of the HKEx Listing Rules. The

loans to its associate constituted advances to an entity and major transactions. Some of the Loans had no written agreements.

Mr Li, one of the former directors against whom the HKEx issued a prejudice to investors' interests statement, was aware of all the loans to the controlling shareholder and three of the loans to its associate. His signature appeared on three of the loans to the controlling shareholder. Mr Ji, Ms Li, Mr Zhang YP and Mr Peng, who were censured by the HKEx, had knowledge of and/or were involved in some of the Loans. Mr Li, Mr Ji, Mr Zhang YP and Mr Peng failed to notify the board of the Loans and took no steps to ensure Beijing Media Corp's compliance with the Listing Rules despite their knowledge of or involvement in making the Loans. The other 18 directors and supervisors (except for Ms He who left the board in March 2018) became aware of the Loans during March and April 2019.

Beijing Media Corp did not comply with the announcement, circular, shareholders' approval, written agreement and reporting requirements of Chapters 13, 14 and 14A of the Listing Rules. It conceded that the Loans, which were carried out at the subsidiary level, were not reported to the board due to deficiencies in the company's internal control systems and the carelessness of the staff involved. Beijing Media Corp also accepted that:

- i) there had been problems with implementing the relevant internal controls at the subsidiary level and the relevant subsidiaries had not created a complete and clear reporting procedure for implementing those controls;
- ii) relevant personnel lacked the requisite knowledge of regulatory compliance matters including in relation to reporting transactions. They failed to fully understand the relevant controls and the HKEx Listing Rules, which resulted in their failure to report the Loans to Beijing Media Corp in a timely manner; and
- iii) Beijing Media Corp lacked appropriate internal control measures and did not have a system to monitor its subsidiaries' reporting obligations.

The internal controls review conducted by an internal controls adviser after the Loans were entered into revealed the following problems:

- i) a lack of written procedures for identifying, reporting and executing notifiable transactions and ensuring compliance with the requirements of Chapter 14;
- ii) staff at the subsidiary level responsible for reporting potential notifiable and/or connected transactions to the board were unfamiliar with the Chapter 14 and 14A provisions;
- iii) responsible staff at the subsidiary level did not comply with the internal reporting procedures to report potential connected transactions to the board; and
- iv) board members and senior executives of subsidiaries, and shareholders of connected parties, were not required to declare their business relationships and potential conflicts to the company.

These internal control deficiencies contributed in part to Beijing Media Corp's failure to comply with applicable Listing Rules. The company's own internal audit was supposed to review its internal controls twice a year, but its internal controls department had only one member of staff and failed to identify the above internal controls deficiencies. Further, Mr Li, Mr Liu and Mr Chow failed to cooperate with the Listing Division's investigation.

Breaches of HKEx Listing Rule Requirements

Under HKEx Listing Rules 13.13, 13.14 and 13.20, where a relevant advance to an entity exceeds 8%, a listed company must announce details of the relevant advance as soon as reasonably practicable. The information is also required to be included in the listed company's interim or annual report if the advance remains outstanding at the end of the company's interim period or financial year.

Listing Rules 14.22 and 14.23 allow the HKEx to require a listed company to aggregate a series of transactions and treat them as one transaction if they are all completed within 12 months or are otherwise related.

Under Listing Rules 14.34, 14.38A, 14.40, 14A.35, 14A.36, 14A.39, 14A.44, 14A.46 and 14A.49, listed companies are required to comply with the announcement, circular, (independent) shareholders' approval and reporting requirements for major and/or connected transactions as soon as possible after their terms have been finalised or agreed. For connected transactions, the company must also set up an independent board committee and appoint an independent financial adviser to make recommendations to the independent board committee and shareholders.

Under HKEx Listing Rule 14A.34, listed companies must enter into a written agreement with respect to a connected transaction.

Code Provision C.2.1 of the Corporate Governance Code at the relevant time also required the board to ensure that a review of the internal control systems of the listed company and its subsidiaries was conducted at least annually and to report to shareholders that it had done so in its Corporate Governance Report. The review is expected to cover all material controls, including financial, operational and compliance controls. While Code Provisions are not mandatory, listed companies must give reasons for any deviations from the Code Provisions in their Corporate Governance Report.

HKEx Listing Rule 3.08 expects directors to fulfil duties of skill, care and diligence to a standard at least equivalent to that established by Hong Kong law as may reasonably be expected of a person with their knowledge and experience and holding their office within the company.

The Declaration and Undertaking given by listed company directors (as set out in Appendix 5H to the Listing Rules (**Director's Undertaking**)) also requires directors to: (i) comply with the Listing Rules to the best of their ability; (ii) use their best endeavours to procure the company's compliance with the Listing Rules; and (iii) cooperate in any investigation conducted by the Listing Division.

Supervisors of China-incorporated companies also undertake to use their best endeavours to procure the company's and its directors' compliance with the Listing Rules in the supervisor's undertaking set out in Appendix 5I to the Listing Rules (**Supervisor's Undertaking**).

The Listing Committee found that:

- i) Beijing Media Corp had breached:
 - Listing Rules 13.13, 13.14, and 13.20 by failing to announce and disclose in its financial results the details of the Loans as advances to an entity;
 - Listing Rules 14.34, 14.38A, 14.40, 14A.35, 14A.36, 14A.39, 14A.44, 14A.46 and 14A.49 in failing to comply with the announcement, circular, (independent) shareholders' approval, and reporting requirements for the Loans; and
 - Listing Rule 14A.34 in failing to enter into written agreements for two of the controlling shareholder loans, which were connected transactions;
- ii) That 17 former directors, including Mr Ji, Mr Li, Ms Li, Mr Peng and Mr Zhang YP, breached Listing Rule 3.08(f) and their Director's Undertakings by failing to ensure that Beijing Media Corp maintained adequate and effective internal controls and, in the case of Mr Ji, Mr Li, Ms Li, Mr Peng and Mr Zhang YP, by failing to procure the company's compliance with the Listing Rules despite their knowledge of and/or involvement in the Loans;
- iii) Mr Li, Mr Chow and Mr Liu breached their Director's Undertakings to cooperate with the Listing Division's investigation; and
- iv) The five former supervisors breached their Supervisor's Undertakings by failing to ensure that Beijing Media Corp maintained adequate and effective internal controls to ensure the company's compliance with the Listing Rules.

Censure, Prejudice to Investors' Interests Statement and Criticism

The Listing Committee therefore decided to censure Beijing Media Corp, impose a prejudice to investors' interests statement against three former non-executive directors and criticise 15 directors and supervisors for the reasons given above. The HKEx further directed all the former and current directors, save the former directors who were the subject of a prejudice to investors' interests statement, to attend 24 hours of training on regulatory and legal topics including Listing Rule compliance.

HKEx Criticises Fantasia Holdings Group, Colour Life Services Group and Four Former Directors

On 28 February 2022, the HKEx criticised **Fantasia Holdings Group Co. Limited (Fantasia)**, **Colour Life Services Group Co. Limited (Colour Life)**, Mr Pan Jun (an executive director of Fantasia and executive director and former

non-executive director of Colour Life); Mr Tang Xue Bin (a former executive director and former non-executive director of Colour Life); Mr Lam Kam Tong (a former executive director and former non-executive director of Fantasia and a former non-executive director of Colour Life); and Mr Zhou Qin Wei (a former executive director of Colour Life).

Colour Life was spun off from Fantasia in 2014. At the time, the two companies entered into a deed and scheme to ensure clear delineation between their respective businesses. The HKEx found that Fantasia and Colour Life were in breach of the deed and the scheme respectively, due to their failure to put in place adequate and effective internal controls to achieve compliance with the deed and the scheme. This led to inaccurate disclosures in Colour Life's annual reports.

Mr Pan, Mr Tang, Mr Lam and Mr Zhou were members of a management team responsible for ensuring the companies' compliance with the deed and the scheme. The HKEx found that they had breached their directors' duties in respect of the internal controls deficiencies, which caused the companies' respective breaches.

SFC Sanctions Chu Hing Tsung for Breaching the SFC Takeovers Code

On 25 January 2022, the Securities and Futures Commission of Hong Kong (the **SFC**) publicly censured and imposed a 12-month cold-shoulder order against **Chu Hing Tsung** (also known as Zhu Qing Yi) (**HT Chu**) for breaching the mandatory general offer obligation under **Rule 26.1** of the Code on Takeovers and Mergers. The denial of direct and indirect access to the Hong Kong securities market will end on 24 January 2023.

The SFC found that after HT Chu and his brother acquired shares in Rong De Investments Ltd in 2012 and effectively took control of the company following a disclosable and connected transaction. This triggered a mandatory general offer obligation under Note 8 to Rule 26.1 of the Takeovers Code but no general offer was made at that time.

While the parties sought legal advice for the 2012 transaction, it was found that they were not advised of the implications under the Takeovers Code. HT Chu accepted that he had breached Rule 26.1 of the Takeovers Code and agreed to the disciplinary action against him.

SFC disciplinary sanctions against Mr HT Chu

After taking into consideration all the factors, the SFC noted that although the transaction occurred nine years previously, the company's shareholders were nonetheless deprived of the right to receive a general offer and Mr HT Chu's conduct merited disciplinary action. It therefore publicly censured Mr HT Chu and denied him access to the Hong Kong securities market until 24 January 2023.

Market Misconduct Tribunal Sanctions Tianhe Chemicals Group Limited and its Executive Director

On 25 January 2022, the Market Misconduct Tribunal (The **MMT**) found **Tianhe Chemicals Group Ltd (Tianhe)** and its executive director, Mr Wei Xuan (**Wei**), culpable of market misconduct for issuing a false or misleading IPO prospectus which overstated the company's revenue by over RMB 6.7 billion. The SFC **commenced proceedings** against them on 7 September 2020.

The SFC alleged that Tianhe's prospectus contained materially false or misleading information regarding its sales revenue and profits for its track record period for the financial years 2011 to 2013. Moreover, the SFC's investigation revealed that about 53% of Tianhe's total track record revenue of RMB 12.6 billion disclosed in the prospectus was overstated. The orders sought by the SFC under section 213 of the Securities and Futures Ordinance included, but were not limited to, an order directing Tianhe and Wei to restore all public shareholders who held Tianhe shares as at 2 June 2020 when the proceedings commenced to their position before their subscription or purchase of those shares by making restitutionary payments to the company's public shareholders or repurchasing the shares from the public shareholders, and/or an order to pay damages to the public shareholders.

The MMT was satisfied that the IPO prospectus contained materially false or misleading information regarding Tianhe's revenues and profits for its track record period for the financial years from 2011 to 2013 and made the following orders:

- Wei, who was a substantial indirect shareholder and chief executive officer of Tianhe at the material time, was disqualified from being a director and being involved in the management of a listed company for four years;

- that each of Tianhe and Wei shall not perpetrate any conduct which constitutes market misconduct; and
- that Tianhe and Wei pay costs incurred by the Government and the SFC.

The MMT reasoned that the overstated revenue and profits were likely to induce subscriptions for or purchases of Tianhe shares and/or to increase the share price of Tianhe in Hong Kong.

The MMT concluded that Tianhe and Wei were reckless in authorising the issuance of the prospectus containing false or misleading information regarding the company's revenue and profits.

Tianhe had issued its Hong Kong IPO prospectus on 9 June 2014 and raised net proceeds of approximately \$3.52 billion.

SFC Reprimands and Fines Citigroup Global Markets Asia Limited HK\$348.25 Million for Serious Regulatory Failures over Client Facilitation Activities

On 28 January 2022, the SFC reprimanded and fined **Citigroup Global Markets Asia Limited (CGMAL)** HK\$348.25 million for allowing various trading desks of its Cash Equities business to disseminate mislabelled indications of interests (IOIs) and make misrepresentations to institutional clients when executing facilitation trades from 2008 to 2018. An IOI is a commonly used form of advertisement made by licensed corporations to source potential clients with an interest in trading.

Mislabelled IOIs

Since at least 2008, CGMAL's Equity Sales trading desk had sent IOIs tagged as "natural", "in touch with" and/or "P:1" to clients when there was no genuine client interest of any specific client with whom CGMAL was in touch. These mislabelled IOIs, which referenced the certain percentage of the average daily volumes of selected blue-chip stocks in the market, were designed to entice client enquiries with the belief that traders would be able to find natural opposite flows to cross with the client order given the active trading of the stocks and the size of CGMAL's trading platform. The Facilitation Desk of CGMAL would step in to provide liquidity when traders failed to source natural liquidity on an agency basis upon client enquiry. This mislabelling was contrary to industry guidelines and inconsistent with the fundamental principle of being honest with clients.

The SFC reviewed 174 sample facilitation trades by CGMAL's trading desks from January 2014 to December 2018 and found that in 127 of them, the traders:

- gave factually incorrect information to the client or took positive steps to conceal the principal nature of the trade;
- made misleading statements that could be interpreted by the client as indicating that the trade would be executed on an agency basis, or sometimes remained silent notwithstanding some indication of the client's belief that the trade was an agency trade; and/or
- remained silent or did not explain to the client the involvement of the Facilitation Desk and failed to obtain clients' consent before routing the clients' orders to the Facilitation Desk for execution.¹

Clients typically prefer transactions on an agency basis (i.e. natural liquidity) over facilitation. Misrepresenting a facilitation trade as an agency trade, or not disclosing this information to the client for ten years, would be considered dishonest behaviour.

Internal Controls Failures

The pervasive misconduct over a period of more than ten years indicated serious and systemic lapses across CGMAL's controls framework and first and second lines of defence. Prior to November 2018, CGMAL had failed to:

- put in place any policies or controls to monitor the issuance of "In Touch With" and "P:1" IOIs and ensure that such IOIs were backed by specific client interest;
- have adequate internal guidelines and enforce them in relation to pre-trade disclosure of, and obtaining client consent for, facilitation trades. Instead, CGMAL deliberately excluded the requirement for obtaining client consent for facilitation trades when revising its compliance guidelines in 2018;
- implement effective compliance monitoring in respect of its facilitation activities to ensure that traders had

¹ The SFC did not review any facilitation trades prior to 2014 as CGMAL had no longer retained audio records.

- made pre-trade disclosure of CGMAL's principal capacity and obtained clients' prior consent;
- provide training to traders on IOIs and pre-trade consent for facilitation activities;
- record and monitor communications and ensure sufficient segregation between agency and facilitation desks; and
- identify and rectify system errors that had led to the sending of erroneous post-trade messages to clients, which incorrectly indicated that CGMAL acted in an agency capacity when in fact it acted as principal.²

CGMAL had multiple opportunities to rectify these failures but failed to act until the misconduct was discovered by the SFC in late 2018 during an on-site inspection. Previously, CGMAL's senior management attended a roundtable meeting with the SFC in July 2014 where deficiencies were made known to CGMAL in relation to client facilitation activities in the market, including missing explicit client consents and lack of independent checking of client consent. CGMAL conducted a gap analysis following the meeting but failed to identify the misconduct or rectify any failures. In February 2019, the SFC published a circular to provide further guidance on the standards of conduct and internal controls. CGMAL conducted another gap analysis following this circular but still failed to identify the misconduct or rectify the failures.

Disciplinary Sanctions against CGMAL

The SFC considered that CGMAL had failed to comply with various provisions of the Code of Conduct for Persons Licensed by or Registered with the SFC and the Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the SFC.

The SFC also considered that CGMAL's failures and misconduct were attributable to the failures by certain former members of its senior management to discharge their supervisory duties. The SFC will commence disciplinary proceedings against these individuals in due course.

SFC Reprimands and Fines South China Commodities Ltd HK\$4.8 Million for Serious Regulatory Failures over Client Facilitation Activities

On 14 February 2022, the SFC reprimanded and fined **South China Commodities Ltd (SCCL)** HK\$4.8 million for failures in complying with anti-money laundering and counter-terrorist financing and other regulatory requirements between June 2017 and October 2018.

The SFC's investigation found that SCCL did not perform adequate due diligence on the customer supplied system used by 19 clients for placing orders, and did not assess and manage the money laundering and terrorist financing risks or other risks associated with the use of these systems by its clients.³ It also failed to conduct proper enquiries on four client deposits which were disproportionate to the clients' financial profiles declared in their account opening documents, of which SCCL claimed it had no knowledge. SCCL also failed to establish an effective ongoing monitoring system to detect and assess suspicious trading patterns in client accounts which resulted in its failure to detect 3,783 self-matched trades in nine client accounts. Self-matched trades are trades where a client's order is matched with his or her own order in the opposite direction. The AML guideline states that matching buy and sell orders for securities and futures are examples of situations that might give rise to the suspicion of money laundering, since it might create the illusion of trading, and be indicative of market manipulation.

The SFC found that SCCL's systems and controls were inadequate and ineffective and failed to ensure compliance with the Anti-Money Laundering and Counter-Terrorist Financing Ordinance and the SFC Code of Conduct.

These failures on the part of SCCL breached **General Principle 2 and 3 and Paragraph 4.3 and 5.1 of the Code of Conduct** and **Section 23, 5(1)(a), 5(1)(b), and 5(1)(c) of Schedule 2 to the Anti-Money Laundering and Counter-terrorist Financing Ordinance**.

Taking into account all relevant circumstances, the SFC was of the opinion that SCCL was guilty of misconduct and its fitness and propriety to carry on regulated activities were called into question.

2 The messages were sent via Financial Information eXchange, an electronic communications protocol for the international real-time exchange of securities transaction information.

3 The customer supplied system was a trading software developed by the clients that enabled them to conduct electronic trading through the internet, mobile phones, and other electronic channels. The system was connected to SCCL's broker supplied system through an application programming interface (a set of functions that allows applications to access data and interact with external software components or operating systems). Broker supplied systems are trading facilities developed by exchange participants or vendors that enable the exchange participants to provide electronic trading services to investors through the internet, mobile phones and other electronic channels.

Court Orders Insider Dealers to Pay HK\$12.9 Million to Investors

On 16 February 2022, the Court of First Instance ordered the illicit profits of insider dealing in shares of **TeleEye Holdings Limited (TeleEye⁴)** of HK\$12,949,875 made by Ms Wei Juan and Mr Huang Yi, associates of Ms Yik Fong Fong, be paid to 63 investors. The SFC had previously brought proceedings against TeleEye to obtain interim orders freezing the profits of insider dealing on 30 September 2016. The funds will be paid to court appointed administrators and distributed to the affected investors in proportion to the number of shares they sold to Wei or Huang between 29 February and 12 April 2016.

SFC Bans Leung Siu Lun for Life

On 1 March 2022, the SFC banned Mr **Leung Siu Lun (Leung)**, a former vice president of Hong Kong and Shanghai Banking Corporation Limited (**HSBC**), from re-entering the industry for life following his conviction for bribery. Leung was engaged by HSBC to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the Securities and Futures Ordinance from 17 February 2011 to 16 May 2016.

The court found that between 2014 and 2016, Leung who was responsible for handling commercial banking matters for HSBC's corporate customers, had accepted a number of gifts and advantages from a business client.

On 14 September 2018, he was convicted by the court on two counts of an agent accepting an advantage and two counts of conspiracy for an agent to accept an advantage, and was sentenced to nine months' imprisonment on 5 October 2018. His appeals to the Court of First Instance and then to the Court of Final Appeal were both refused. The gifts were rewards for Leung's handling of the credit facilities applications and/or the maintenance of the credit facilities of the two companies controlled by the business client. Since August 2013, these two companies had received credit facilities totalling around HK\$48 million from HSBC.

As a result of his criminal convictions, the SFC considers Leung no longer a fit and proper person to be licensed or registered to carry on regulated activities.

SFC Reprimands and Fines HSBC Securities Brokers (Asia) Limited HK\$6.3 Million for Regulatory Breaches

On 3 March 2022, the SFC reprimanded and fined **HSBC Securities Brokers (Asia) Limited (HSBL)** HK\$6.3 million for internal control failures and breaches of the Code of Conduct. The SFC found that between September 2018 and September 2021, HSBL experienced multiple errors in the assignment of the Broker-to-Client Assigned Number (**BCAN**) to HSBC Group's clients who traded A-shares eligible for trading under the northbound trading link of Stock Connect, in the mapping of Client Identification Data (**CID**) to BCAN and in the tagging of BCAN to its clients' orders. As a result, 92 clients' incorrect BCAN and CID information was submitted to the HKEx involving 3,379,065 orders and 4,202,534 trades.⁵ These errors were caused by the use of multiple systems to maintain BCAN information, the manual nature of the account creation procedures, and that multiple parties within HSBC could act as instructing parties to execute trades on behalf of sub-accounts set up with HSBC.

The SFC also found that HSBL oversold securities in nine incidents between February and June 2019. The total value of the stocks oversold amounted to around HK\$20 million. The SFC's investigation found that with the exception of two incidents which were caused by human error, the rest were caused by various system deficiencies in HSBL's cash equities order management system and HSBL's in-house algorithmic trading platform.

Further, the SFC found that on 22 May 2020, HSBL erroneously self-matched 370 warrant orders after HSBL restarted its market making engine during HKEx's lunch break. HSBL assumed erroneously that the restart would trigger HKEx's cancel-on-disconnect function when HSBL's market making engine disconnected from the HKEx's system and all live market orders would be cancelled. However, the cancel-on-disconnect function on the HKEx's side did not in fact work between 12:00 and 12:30. When trading resumed at 13:00, 370 new orders had self-matched before the mistake was realised.

The SFC was of the view that HSBL failed to act with due skill, care and diligence in conducting its business, and to implement adequate and effective systems and controls to ensure compliance with the Code of Conduct and the requirements of the Rules of the Hong Kong Stock Exchange.

⁴ TeleEye is currently known as CircuTech International Holdings Ltd.

⁵ The investor identification regime for northbound trading under stock connect was initiated in September 2018 by the HKEx that allows a better monitoring system for trading activities.

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