
Enforcement Actions

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7 October 2005

SFC Reprimands TISCO Securities Hong Kong Limited and Suspends Lam Ho Chu Wilson and Yam Shun Hung for Breaching the Code of Conduct

The SFC has reprimanded TISCO Securities Hong Kong Limited (TISCOHK) and suspended its responsible officer, Mr Lam Ho Chu Wilson, and licensed representative, Mr Yam Shun Hung, for nine months and six months respectively for breaching General Principle 2 of the Code of Conduct for Persons Registered with the Securities and Futures Commission (April 2001) (Notes 1 and 2). Lam is suspended from 3 October 2005 to 2 July 2006. Yam is suspended from 3 October 2005 to 2 April 2006.

An SFC investigation into suspected market manipulation of three warrants during the period 28 November 2001 to 20 August 2002 (the relevant period) found that the prices of the warrants had risen rapidly since their flotation to levels higher than those of their underlying stocks. Considering that the conversion ratio of the warrants was one to one (i.e. one warrant to be converted into one ordinary share), no sensible investor would be interested in buying the warrants at these price levels since, apart from the cost of the warrants, he would have to pay the exercise price for converting the warrants into shares.

Nonetheless, four corporate clients of TISCOHK actively dealt in the warrants during the relevant period. These clients bought the warrants at prices above those of their underlying stocks on 48 trading days within the relevant period. These acquisitions accounted for more than 90% of the daily market turnover in the warrants on 44 days.

Upon receipt of clients' dealing instructions, TISCOHK's staff did not ascertain basic information relating to the warrants, such as the gearing ratio and premium. Although Lam and another responsible officer of TISCOHK reviewed the clients' transactions, Lam failed to detect the irregular features of the transactions, whereas

the other responsible officer, despite having identified the unusual transactions, failed to make reasonable enquiries with the clients. This second responsible officer is no longer employed by TISCOHK. The SFC attributed the acts of the two responsible officers to the company, as they were the only responsible officers and the company's directing mind and will. Yam, being the main dealer responsible for executing the clients' orders, failed to inform the clients of the irregularities of their transactions or report his observation to his supervisor, even though he knew that the clients had been buying the warrants at prices higher than those of their underlying stocks.

Where an irregularity in trading is noted, staff of TISCOHK should make reasonable enquiries with the clients whether there is an error in the dealing instructions and advise the clients of the irregularity accordingly. If there is no error, staff should ask the reason for the transactions to determine if they are legal and proper. If the clients fail to satisfy the staff on reasonable grounds that the trades are legal or proper, the staff should cease to trade on their behalf.

In light of the above findings, the SFC concludes that the fitness and properness of TISCOHK, Lam and Yam has been called into question and decides to reprimand TISCOHK and suspend Lam and Yam. In reaching this decision, the SFC has taken into account that:

- TISCOHK has adopted new procedures to monitor its clients' trading activities;
- TISCOHK, Lam and Yam co-operated fully with the SFC in the conduct of its investigation; and
- neither TISCOHK nor any of its employees was knowingly involved in market manipulation or any other misleading or deceptive conduct.

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "In conducting its business activities, a licensee should act with due skill, care and diligence, in the best interests of its clients and the integrity of the market. In certain circumstances, the acts of the responsible officers will be imputed to the licensed corporation. Responsible officers should not turn a blind eye to the activities of their staff or clients. Failure by the responsible officers to ensure compliance with the Code of Conduct by their staff is likely to subject the licensed corporation to disciplinary action."

Ends

Notes to Editor:

1. TISCOHK is a deemed licensed corporation approved to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance.

2. Lam currently holds a deemed licence to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities, whereas Yam holds a deemed licence to carry on Type 1 (dealing in securities) regulated activity under the Securities and Futures Ordinance.

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