

SFC bans Luo Jianglan for six months

11 Mar 2015

The Securities and Futures Commission (SFC) has banned Ms Luo Jianglan from re-entering the industry for six months from 10 March 2015 to 9 September 2015 (Note 1).

The SFC found that on 22 August 2013, Luo, who was an associate of her employer's Client Facilitation Desk, created a short sell order of 300,000 shares in China Resources Land Limited (CRL Order) and released part of the order to the market without ensuring a relevant stock borrow arrangement in place as required by her employer's procedures for ensuring compliance with short selling regulations (Note 2).

Luo did not report her breach in respect of the CRL Order to her employer but took various steps to conceal it, including falsely represented to the compliance department that she had arranged prior internal stock transfer to cover the short position.

The SFC considers Luo's conduct called into question her fitness and properness to be a licensed person. Luo's failure to adhere to her employer's short selling procedures and the steps she took to cover up the error from her employer are not acceptable.

End

Notes:

1. Luo was licensed under the Securities and Futures Ordinance to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities. Between August 2012 and August 2013, she was accredited to J.P. Morgan Securities (Far East) Limited and J.P. Morgan Broking (Hong Kong) Limited, for carrying on Types 1, 2, 4 and 5 regulated activities. She was also registered as a relevant individual of J.P. Morgan Securities (Asia Pacific) Limited for carrying on Types 1 and 4 regulated activities. She is currently not licensed by the SFC.
2. At the time when Luo created the CRL Order, J.P. Morgan as a group held sufficient CRL shares to cover the order.

[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 banned Ms Luo Jianglan (**Luo**)¹ from re-entering the industry for 6 months pursuant to sections 194 and 196 of the Securities and Futures Ordinance (**SFO**).
2. The disciplinary action is taken because Luo had:
 - (a) created a short sell order (**CRL Order**) of 300,000 shares in China Resources Land Limited (**CRL**) (Stock Code: 1109) and released part of the order to the market without ensuring a relevant stock borrow arrangement in place; and
 - (b) concealed from her employer her breach of its short selling procedures and falsely represented to it that she had arranged prior internal stock transfer to cover the short position.

Summary of facts

Creation and release of a short sell order without ensuring a relevant stock borrow arrangement

3. Luo joined J.P. Morgan Broking (Hong Kong) Limited (**JPMBHK**) and J.P. Morgan Securities (Asia Pacific) Limited (**JPMSAP**) (collectively "**JP Morgan**") in August 2012 as an associate of Asia Equities and had since then worked at the Client Facilitation Desk (**CF Desk**) until her departure in August 2013.
4. Pursuant to JP Morgan's written operating procedures (**Short Sell Procedures**) implemented for its front office staff engaging in short selling activities for ensuring compliance with applicable short selling regulations under the SFO, a trader is required to locate and confirm a pre-borrow of the relevant stock with the Stock Borrow Lending Desk (**SBL Desk**) of the firm before making, processing and releasing all principal short sell orders.
5. On 22 August 2013, Luo, acting for JPMSAP and JPMBHK, initiated and handled the CRL Order as a principal short sell order for the risk management purpose of the CF Desk. She created the CRL Order at 8:31:51 a.m., started to release the order in batches at 9:27:48 a.m. and executed 50,000 shares at around 9:45 a.m. However, JP Morgan's daily report on stock borrowing balance as at 8:18 a.m. showed no stock borrow of CRL in the relevant trading book of the CF Desk.

¹ Luo was licensed under the Securities and Futures Ordinance to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities. Between August 2012 and August 2013, she was accredited to J.P. Morgan Securities (Far East) Limited and J.P. Morgan Broking (Hong Kong) Limited for carrying on Types 1, 2, 4 and 5 regulated activities. She was also registered as a relevant individual of J.P. Morgan Securities (Asia Pacific) Limited for carrying on Types 1 and 4 regulated activities. She is currently not licensed by the SFC.

6. According to JP Morgan, Luo borrowed a total of 850,000 CRL shares in May and June 2013 from the SBL Desk. Luo's supervisor returned 850,000 CRL shares on 20 August 2013. The CRL Order Luo created on 22 August 2013 was therefore a short sell order without any pre-borrow arrangement.
7. Luo said that she thought the CRL Order was covered by the CRL shares she borrowed earlier. She found out that the CRL Order had no pre-borrow when her supervisor asked her to check the borrow position of another stock. She admitted her negligence for not checking the last borrow position of CRL when placing the order.
8. General Principle 2 of the Code of Conduct² requires all licensed persons to act with due skill, care and diligence, in the best interests of its clients and the integrity of the market.
9. The circumstances suggest that Luo had failed to exercise due skill, care and diligence when placing the CRL Order and to take proper and adequate steps to ensure her compliance with her employer's procedures implemented to avoid putting it at risk of possible contravention of the short selling provisions under the SFO. Luo had therefore breached General Principle 2 of the Code of Conduct.

Concealment of breach of short selling procedures

10. General Principle 1 of the Code of Conduct requires all licensed persons to act honestly, fairly, and in the best interests of their clients and the integrity of the market when conducting regulated activities.
11. JP Morgan's Short Sell Procedures require a trader to notify its compliance department (**Compliance**) and head of desk immediately if a breach is identified. As a licensed person required to exercise due skill, care and diligence under General Principle 2 of the Code of Conduct, Luo was expected to comply with the notification requirement of any breach under the procedures.
12. Luo became aware that she did not have a stock borrow arrangement for the CRL Order (**Breach**) at around 9:57 a.m. on 22 August 2013. However, she did not report the Breach to the head of trading desk, Compliance, or her supervisor but took steps on the same date to deal with the order's short selling position and to cover up the Breach:
 - (a) bought 50,000 CRL shares from the market to square off the short selling position of the CRL Order ;
 - (b) borrowed 800,000 CRL shares from the SBL Desk again; and
 - (c) arranged with a trader at another desk a transfer of 50,000 CRL shares to the CF Desk ("**Share Transfer**"), exchanged Bloomberg chat messages with him to create an inaccurate record that they had agreed on the transfer before market open of 22 August 2013, and provided incorrect information to Compliance and other staff of JP Morgan by stating that she had such prior arrangement with the trader but forgot to record it in the Bloomberg chat room.

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

13. The Breach only came to light when Compliance looked into the circumstances of the Share Transfer on 23 August 2013. Luo explained that she was afraid that her report of the Breach might ruin her working relationship with her supervisor.
14. In light of the above, we are of the view that:
 - (a) Luo's failure to report the Breach to her supervisor and Compliance immediately under JP Morgan's internal policies suggests that she had failed to act with due skill, care and diligence under General Principle 2 of the Code of Conduct; and
 - (b) her conduct in arranging the Share Transfer and her misrepresentation to her employer that the CRL Order was covered by the transfer before market open on 22 August 2013 seriously called into question her honesty under General Principle 1 of the Code of Conduct.
15. In determining the penalty, the SFC took into account that:
 - (a) Luo's concealment from her employer her breach of its short selling procedures was deliberate and dishonest;
 - (b) the ability to carry on regulated activities honestly is fundamental to the fitness and properness of a licensed representative; and
 - (c) Luo has an otherwise clean disciplinary record.

Conclusion

16. Licensed representatives in placing short sell orders are required to comply with their employers' operating procedures for ensuring compliance with applicable short selling regulations under the SFO. It is imperative that they exercise due skill, care and diligence when conducting regulated activities and report any possible breaches of such procedures to their employers immediately upon identification so that remedial actions can be taken promptly.