

[Home](#) ▶ [News & announcements](#) ▶ [News](#) ▶ [Enforcement news](#)

SFC Suspends Lo Tai Wah for Breaching the Code of Conduct

7 Dec 2005

The SFC has suspended Mr Lo Tai Wah, a responsible officer of Young Champion Securities Limited, for six months from 7 December 2005 to 6 June 2006 for breaching the Code of Conduct for Persons Registered with the SFC (April 2001) (Note 1).

The suspension of Lo follows an SFC investigation into suspected market manipulation of three warrants during the period from 29 October 2001 to 16 July 2002 (the relevant period). The SFC found that the prices of the warrants had risen rapidly after issue 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 have been 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, a corporate client of Young Champion dealt extensively in the warrants during the relevant period. On 30 trading days within the relevant period, the client bought two of the warrants at prices above those of their underlying stocks. These acquisitions accounted for all the daily market turnover of the two warrants on 14 trading days.

The SFC found that, when handling instructions from the client, Lo had found it strange and unreasonable that the client acquired the warrants at prices higher than those of their underlying stocks. Despite the irregularity of the orders, Lo failed to draw the attention of this client to the irrational pricing of the warrants and continued to take orders from this client. Moreover, the SFC found that, when accepting orders of this corporate client, Lo did not know the identity of the person who placed the orders for the client and failed to take steps to verify the identity of this person.

As a licensee, Lo has a duty to protect the interests of the client and the integrity of the market. Lo should have alerted the client when he detected the unusual circumstances in which the client had traded the warrants. He should have made reasonable enquiries with the client when he suspected possibly illegal or improper trading by the client. If the client failed to satisfy Lo on reasonable grounds that the trades were legal or proper, Lo should have ceased to trade on behalf of the client. Additionally, Lo should have verified the identity of the person who placed orders on behalf of the client and ascertained that such transactions had been authorised by the client before acting on the instructions.

In light of the above findings, the SFC concludes that the fitness and properness of Lo has been called into question and decides to suspend Lo for six months.

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "When licensees receive suspicious orders from their clients, they must not accept them unless they are satisfied with the propriety of the orders. If the clients refuse to explain their reasons for giving such instructions satisfactorily, licensees must refuse to execute the orders. Licensees who fail to have regard to market integrity will face appropriate penalties."

"It is imperative that licensees establish the identity of their clients. If the client is a corporate entity, licensees should establish whether the persons giving instructions on behalf of the client have been authorised to do so by the client before acting on their instructions. Acting on instructions from persons whose identity has not been established is highly prejudicial to the interests of other investors. If the licensees do not know the identity of the persons who give the orders, they must not act on such orders."

Ends

Note:

1. Lo is licensed under the Securities and Futures Ordinance to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities. He is a responsible officer accredited to Young Champion Securities Limited.

Page last updated : 1 Aug 2012