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SFC reprimands and fines Shun Loong Securities Company Ltd, suspends Wilhelm Soeharsono Budihardjo

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The Securities and Futures Commission (SFC) has issued a reprimand to Shun Loong Securities Co Ltd (Shun Loong) and fined it \$2 million, and suspended Mr Wilhelm Soeharsono Budihardjo (Notes 1 and 2) for 12 months from 13 August 2009 to 12 August 2010 for breaching the SFC's Code of Conduct (Note 3).

The disciplinary action follows an investigation into the trading activities of derivative warrants issued by Macquarie Bank Ltd during the period from January 2004 to January 2005.

The SFC found that two of Shun Loong's clients' abusive trading activities falsely inflated the turnover of the relevant derivative warrants. The trading activities of the two clients inevitably created the impression to other investors that the relevant derivative warrants were actively traded.

The two Shun Loong clients were receiving commission rebate from Macquarie Bank which was more than the brokerage commission that they were paying Shun Loong (Note 4). Shun Loong was effectively charging its clients brokerage commission as low as 0.07% when the commission rebate offered by Macquarie Bank for trading the relevant derivative warrants could run as high as 0.25% of the transaction value. As a result, Shun Loong's clients were able to generate profit free from market risk by buying and selling through Shun Loong the same derivative warrants at the same price and at almost the same time.

Shun Loong did not take any action to prevent and stop its clients from trading in an abusive manner. In addition, the company's brokerage commission arrangement with the two clients made it appear that the brokerage commission paid by the two clients was 0.25% instead of the actual 0.07%. As a result, Macquarie Bank paid the two clients more commission rebate than the brokerage commission Shun Loong actually charged them.

The SFC found that Shun Loong's conduct was not in the interests of market integrity and was prejudicial to the investing public.

The SFC's investigation also found that Budihardjo, a responsible officer and part of the senior management of Shun Loong, failed to properly and actively monitor clients' trading activities despite his experience within the industry. He was responsible for Shun Loong's conduct as he failed to make adequate inquiries into the two clients' abusive trading activities with the knowledge that the transaction costs for the two clients were negative.

In deciding on the disciplinary sanctions, the SFC took into account Shun Loong's and Budihardjo's clear disciplinary record and the fact that they co-operated with the SFC in the disciplinary proceedings and resolved matters with the SFC.

"Licensed brokers have an obligation to help protect the market from the risk of abuse, not to increase the risk or to facilitate it," said the SFC's Executive Director of Enforcement, Mr Mark Steward.

End

Notes:

1. Shun Loong is licensed under the Securities and Futures Ordinance (SFO) to carry on business in Type 1 (dealing in securities) regulated activity, and has been dormant since 2007.
2. Budihardjo is licensed under the SFO to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 3 (leveraged foreign exchange trading) regulated activities. Budihardjo is a responsible officer of Shun Loong Securities Co Ltd, Shun Loong Forex Co Ltd and Shun Loong Futures Ltd.

3. Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.
4. The SFC banned commission rebate schemes for trading derivative warrants in March 2006.
5. For further details, please see SFC press release dated 19 March 2009.

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