
REGULATORY NEWSLETTER

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May!

May is the fifth month in a year, it is a representation of love and hope. But what is more important? The second Sunday of May is Mother's Day. It is a significant festival to express our greatest thanks and gratitude to our mother. Gathering our families and treating our mothers with a fantastic meal is one of the best celebrations.

ComplianceDirect wishes every mother a Happy Mother's Day.

ENFORCEMENT NEWS

SFC and Police joint operation against listed company and senior executives

The SFC and Commercial Crime Bureau of the Police today conducted a joint operation against a syndicate suspected of market misconduct and fraud, against an active and sophisticated syndicate suspected of operating ramp-and-dump market manipulation schemes. It involved a search of the office premises of a Hong Kong-listed company and the residences of its senior executives. The SFC conducted the search with the Police under the Securities and Futures Ordinance for offences related to market manipulation and other market misconduct.

Four persons were arrested at various locations in the territory for offences of conspiracy to defraud including

SFC revokes IDS Forex HK Limited's licence and bans its former co-CEOs for life

The SFC has revoked the licence of IDS Forex HK Limited (IDS Forex) and banned its former co-chief executive officers, Mr. Chung Wooman and Mr. Ki Bonggan, from re-entering the industry for life.

The disciplinary action follows an SFC investigation triggered by a self-report by IDS Forex's then responsible officers in June 2017. They informed the SFC that IDS Forex's sole shareholder, Mr. Kim Sunghun, was convicted and sentenced to 12 years of imprisonment in Korea in February 2017 for illegal fundraising and fraud after his arrest there in September 2016. The fraudulent scheme involved Kim soliciting investors between 2011 and 2016 to invest in his purported overseas business,

three senior executives of the listed company who are alleged to have conspired to use bogus transactions to embezzle funds of the company involving over \$19 million.

The joint operation not only demonstrated the seamless collaboration between the SFC and the Police to tackle complex and serious financial crimes, but also underscored their commitment to protect the public and maintain the integrity and the reputation of Hong Kong's financial markets.

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including margin forex business.

The SFC's investigation found that Kim, who was an officer involved in the management of IDS Forex and employed in the capacity as "chairman", had made capital injections totalling \$192 million into IDS Forex between 2015 and 2016. In addition, Chung and Ki reported to Kim directly about IDS Forex's business operations and executed his investment decisions.

The SFC's concerns over IDS Forex's fitness and properness are aggravated by: (i) the correlation between the timing of the fraudulent scheme and Kim's capital injections into IDS Forex; and (ii) IDS Forex's failure to notify the SFC within the prescribed time limit after Kim's arrest and conviction.

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SFC reprimands and fines Optimas Capital Limited \$1.05 million over short position reporting failures

The Securities and Futures Commission (SFC) has reprimanded Optimas Capital Limited (Optimas) and fined it \$1.05 million over failures to ensure short position reports (SPRs) for a collective investment scheme (CIS) under its management were accurate and compliant with the requirements under the Securities and Futures (Short Position Reporting) Rules (SPR Rules).

An SFC investigation following a self-report by Optimas found that a total of 350 reportable short positions held by the CIS had been omitted in 56 SPRs prepared and submitted by Optimas to the SFC between 23 June 2017 and 9 July 2018.

The errors found in the SPRs prepared by Optimas occurred because of a programming mistake in a script developed by its operations manager at the material time. The script in question was created to automate the process of identifying short positions held by the CIS to filter out those that were reportable. However, Optimas failed to detect the programming mistake promptly due to inadequate supervision and review over the work of its then operations manager.

Court acquits solicitor of insider dealing in shares of CASH Financial Services Group Limited

The Eastern Magistrates' Court has acquitted Mr Leung Pak Keung, a practising solicitor, of five charges of insider dealing in the shares of CASH Financial Services Group Limited (CFSG) between 18 December 2014 and 2 January 2015.

The Securities and Futures Commission (SFC) alleged that Leung, who was a legal advisor to the buyer in a proposed acquisition of CFSG shares at the material time, purchased CFSG shares whilst in possession of CFSG-specific, non-public and price sensitive information.

In deciding to acquit Leung, Magistrate Ms. Winnie Lau found that the witnesses gave conflicting evidence and it was not demonstrated beyond reasonable doubt that he knew the subject information was inside information.

The SFC considers that Optimas had failed to act competently to ensure the SPRs it prepared would be accurate and compliant with the applicable requirements under the SPR Rules.

In deciding the sanction, the SFC considered all relevant circumstances, including Optimas' prompt remedial actions and cooperation with the SFC in resolving the SFC's concerns and its otherwise clean disciplinary record.

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Market Misconduct Tribunal sanctions two former executives for insider dealing in Asia Telemedia Limited shares

The Market Misconduct Tribunal (MMT) has sanctioned two former executives of Asia Telemedia Limited (ATML) (now known as Yunfeng Financial Group Limited) – Mr Charles Yiu Hoi Ying and Ms Marian Wong Nam – following legal proceedings brought by the SFC.

The MMT's orders came after the Court of Final Appeal (CFA) allowed an appeal brought by the SFC which argued that the defence under section 271(3) of the Securities and Futures Ordinance (SFO) should not be applicable to Yiu and Wong and found them culpable of insider dealing in the shares of ATML.

The MMT awarded Mr Lu Ruifeng, former chairman and executive director of ATML, and Ms Cecilia Ho King Lin, former assistant company secretary of ATML, with legal costs for reasons that they were not identified as persons who had engaged in market misconduct in the same legal proceedings brought by the SFC against Yiu and Wong.

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Arrest warrant issued for alleged social media ramp-and-dump manipulator

The Eastern Magistrates' Court issued a warrant to arrest Ms Zeng Lingxi after she failed to appear in Court to answer two charges of obstructing the SFC search operation in May 2020.

The SFC's search operation related to an investigation of a suspected social media ramp-and-dump scam involving manipulation of the shares of a Hong Kong-listed company.

Zeng, an alleged member of a syndicate suspected of operating social media ramp-and-dump scams, is summoned for obstructing employees of the SFC in the execution of a search warrant and in exercising the powers under the Securities and Futures Ordinance during the search operation.

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