



- unusual money movements in three client accounts between January and August 2018; and
- 1,052 instances of self-matched trades in two client accounts between March and May 2018. In self-matched trades, clients' orders are matched with their own orders in the opposite direction, creating the illusion of trading and thus indicating market manipulation.

The SFC considered that ZIFC's conduct breached the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (**AML/CTF Ordinance**), the SFC's Guideline on Anti-Money Laundering and Counter-Terrorist Financing (**AML/CTF Guideline**) and the SFC Code of Conduct.

## **Breach of Cybersecurity Guidelines**

In addition, the SFC found that ZIFC, as a licensed corporation, had failed to implement two-factor authentication (**2FA**) for clients to log into their internet trading accounts using its CSSs for a period of six months in 2018, in breach of the SFC's Cybersecurity Guidelines on 2FA requirements which took effect in April 2018.

## **SFC disciplinary action for misconduct and breach of SFC and AML/CFT rules and Cybersecurity Guidelines<sup>2</sup>**

To send a strong deterrent message, the SFC reprimanded and fined ZIFC HK\$5 million under section 194 of the SFO for its failures to comply with AML/CTF and other regulatory requirements and suspended the company's responsible officer and executive director at the material time for seven months for his failure to discharge his duties as a responsible officer and ensuring that the company maintained appropriate standards of conduct and procedures to properly manage the risks associated with its business operations.

## **Hong Kong Market Misconduct Tribunal sanctions Tianhe Chemicals Group Limited and its executive director for false or misleading IPO prospectus<sup>3</sup>**

### **Issuing false or misleading HKEX IPO prospectus**

On 9 June 2014, Tianhe Chemicals Group Limited (**Tianhe**) issued the prospectus for its initial public offering on the Hong Kong Stock Exchange (**Prospectus**) which raised net proceeds of approximately HK\$3.52 billion. Following proceedings brought by the SFC against Tianhe for market misconduct under section 277 of the SFO, the Market Misconduct Tribunal (**MMT**) found that the company's Prospectus overstated its revenue for its track record period (the financial years from 2011 to 2013) by over RMB6.7 billion.

The MMT also identified that 53% of Tianhe's total track record revenue of RMB12.6 billion disclosed in the Prospectus was overstated, which was likely done to induce subscriptions for shares or to increase the share price of the company in Hong Kong.

The SFC suspended trading in Tianhe's shares on 25 May 2017 under Section 8 of the Securities and Futures (Stock Market Listing) Rules and the shares were delisted by the HKEX on 11 June 2020 following delay in the publication of Tianhe's results and the subsequent resignation of its auditors. The SFC is also seeking orders from the Court of First Instance under section 213 of the SFO to restore all public shareholders of the company to the position before their subscriptions or purchases of Tianhe's shares.

### **Order for issuing materially false or misleading information in the Prospectus**

The MMT made the following order against Tianhe for providing materially false or misleading information in respect of its revenues and profits in the Prospectus:

- Mr. Wei Xuan (**Mr. Wei**), a former substantial indirect shareholder and chief executive officer of Tianhe, was disqualified from being a director and being involved in the management of a listed company for four years;
- Tianhe and Mr. Wei were ordered to pay the Government and SFC costs; and
- Mr. Wei was further ordered not to engage in any conduct which would constitute market misconduct.

# SFC reprimands and fines Citigroup Markets Asia Limited HK\$348.25 million for serious regulatory breaches over client facilitation activities<sup>4</sup>

## Mislabelled Indications of Interest (IOIs)

Citigroup Global Markets Asia Limited (**Citigroup**) which is licensed under the SFO for regulated activities Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services), was found by the SFC to have allowed various trading desks under its Cash Equities business to send mislabelled IOIs (a form of advertisement or representation made by licensed corporations to clients to source potential clients with an interest in trading) tagged as "Natural", "In Touch With" and / or "P:1" to clients when there was no actual genuine client interest or specific client that Citigroup was in touch with.

Citigroup represented to its clients that it adopted the AFME/IA Framework for Indications of Interest (**AFME Framework**) issued by the Association for Financial Markets in Europe and the Investment Association for classifying IOIs. Under the AFME Framework, "P:1" or "In Touch With" IOIs can be issued where there is a reasonable expectation of interest from a specific client and the resulting trades are expected to be of a riskless nature.

The SFC considered that the mislabelling of IOIs breached the AFME Framework and were inconsistent with the fundamental principles of being honest with clients and treating them fairly.

## Misrepresentation and non-disclosure to conceal the principal nature of facilitation trades

During the investigation, the SFC reviewed 174 sample facilitation trades executed by Citigroup's trading desks between January 2014 and December 2018 and found that the desk heads and traders:

- made express misrepresentation to clients by giving factually incorrect information or concealed the principal nature of the trades;
- made misleading statements that led clients to misinterpret trades as being executed on an agency basis, or in some cases, remained silent notwithstanding some indication of the client's incorrect belief that the trades were agency trades; and/or
- remained silent or were not explicit (i.e. non-disclosure) with clients about the involvement of the facilitation desk (being one of the trading desks) and failed to obtain clients' consent before routing the clients' orders to the facilitation desk for execution.

The SFC found that Citigroup's misrepresentation and non-disclosure breached the SFC Code of Conduct.

## Internal control failures

The SFC found that the prevalence of the dishonest behaviour among the trading desks over more than 10 years indicated serious and systemic lapses across Citigroup's governance and controls framework, which until its internal investigation following SFC's on-site inspection, had failed to:

- put in place any policies or controls to guide and monitor the issuance of "In Touch With" and "P:1" IOIs and ensure that these IOIs were backed by specific client interest and that Citigroup's traders properly understood and followed the AFME Framework;
- have and enforce adequate internal guidelines on pre-trade disclosure of, and obtaining client consent for, facilitation trades;
- implement effective compliance monitoring in respect of its facilitation activities to ensure that traders made pre-trade disclosure of Citigroup's principal capacity and obtained clients' prior consent;
- provide training to traders on IOIs, how to communicate with clients on IOIs and pre-trade consent requirements for facilitation activities;

- record and monitor communications and ensure sufficient segregation between agency and facilitation desks; and
- identify and rectify system errors that had led to erroneous post-trade messages being sent to clients, which incorrectly indicated that Citigroup acted in an agency capacity when in fact it acted as principal.

The SFC considered that the internal control failures breached the SFC Code of Conduct as well as the Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the SFC (**MSIC Guidelines**).

## **SFC disciplinary sanction for Citigroup's breaches of the SFC Code of Conduct and the MSIC Guidelines**

The SFC reprimanded Citigroup and fined it HK\$348.25 million under section 194 of the SFO for its serious regulatory breaches and internal control failures and will also commence disciplinary proceedings against its former senior management in due course.

## **SFC reprimands and fines South China Commodities Limited HK\$8 million for regulatory breaches<sup>5</sup>**

### **Failure to comply with anti-money laundering & counter-terrorist financing requirements**

The SFC's investigation found that South China Commodities Limited (**SCCL**), a company licensed under the SFO to carry on Type 2 (dealing in futures contracts) regulated activity, between June 2017 and October 2018, had failed to:

- conduct any due diligence on the CSSs used by 19 clients for placing orders;
- conduct proper enquiries and assessments of deposits made into various client accounts, which were incommensurate with the relevant clients' declared financial profiles; and
- put in place an effective ongoing monitoring system to detect suspicious trading patterns in client accounts, which resulted in the company's failure to detect 3,783 self-matched trades in nine client accounts.

The SFC considered that these failures indicated the inadequacy and ineffectiveness of SCCL's systems and controls for ensuring compliance with the AML/CTF Ordinance, AML/CTF Guideline and the SFC Code of Conduct.

### **SFC disciplinary sanction for breach of AML/CTF requirements and SFC Code of Conduct**

The SFC reprimanded SCCL and fined it HK\$4.8 million under section 194 of the SFO for its failures to comply with AML/CTF and other regulatory requirements.

## **Court orders insider dealers to pay HK\$12.9 million to investors in TeleEye shares<sup>6 7</sup>**

In September 2016 the SFC commenced civil proceedings under section 213 of the SFO against Ms. Yik Fong Fong (**Ms. Yik**) (who acted as executive director and chief executive officer of the Hong Kong listed company, Chinese Energy Holdings Limited until 12 August 2016) and her two associates, Ms. Wei Juan (**Ms. Wei**), being Ms. Yik's niece, and Mr. Huang Yi (**Mr. Huang**), being the husband of Ms. Wei. Mr. Huang falsely claimed to be an investment consultant of a securities investment firm in China and the trio engaged in insider dealing in the shares of TeleEye Holdings Limited (**TeleEye**) (now known as CircuTech International Holdings Limited), earning a profit of HK\$12.9 million from innocent investors.

### **Court orders for engaging in insider dealing**

In January 2017, whilst the SFC's investigations were still on-going, the Court of First Instance (**CFI**) granted an interim injunction order against Ms. Yik to freeze her assets up to the value of HK\$25.9 million and also ordered Ms. Wei and Mr. Huang to pay a total of HK\$12.9 million into court for the purposes of preventing the disposal of assets until judgment could be obtained.

In February 2022, the CFI finally ordered Ms. Yik, Ms. Wei and Mr. Huang to collectively pay HK\$12.9 million, the illicit profits of their insider dealing in the shares of TeleEye, to 63 investors, to restore them, as far as possible, to the position they would have been in had the illicit transactions not taken place

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[1] [SFC reprimands and fines Zhonghui International Futures Company Limited \\$5 million for regulatory breaches | Securities & Futures Commission of Hong Kong](#)

[2] [SFC bans Chu Chun Wai for seven months for supervisory failures | Securities & Futures Commission of Hong Kong](#)

[3] [Market Misconduct Tribunal sanctions Tianhe Chemicals Group Limited and its executive director for issuing false or misleading information in the company's listing prospectus | Securities & Futures Commission of Hong Kong \(sfc.hk\)](#)

[4] [SFC reprimands and fines Citigroup Global Markets Asia Limited \\$348.25 million for serious regulatory failures over client facilitation activities | Securities & Futures Commission of Hong Kong](#)

[5] [SFC reprimands and fines South China Commodities Limited \\$4.8 million for regulatory breaches | Securities & Futures Commission of Hong Kong](#)

[6] [Court orders insider dealers to pay \\$12.9 million to investors | Securities & Futures Commission of Hong Kong \(sfc.hk\)](#)

[7] [Court finds trio engaged in insider dealing in TeleEye shares | Securities & Futures Commission of Hong Kong \(sfc.hk\)](#)

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