

SFC Suspends Tang Chi Wai Edwin for Breaches of the Code of Conduct and the Compliance Manual of His Ex-employer

16 Aug 2005

The SFC has suspended the licence of Mr Tang Chi Wai Edwin from 16 August 2005 to 30 November 2005 (inclusive) for breaches of General Principle 2 of the Code of Conduct for Persons Registered with the SFC (April 2001) and the Compliance Manual and the account monitoring procedures of his ex-employer BNP Paribas Peregrine Securities Limited (BNP) (Note 1).

An SFC investigation into suspected market manipulation of three warrants from 19 November 2001 to 22 March 2002 (the relevant period) found that the prices of those warrants had risen rapidly after their 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, two corporate clients of BNP of which Tang was the account executive dealt extensively in two of those warrants during the relevant period. The clients bought the two warrants at prices above those of their underlying stocks on 35 and 4 trading days respectively within the relevant period. The acquisition accounted for all the daily market turnover of the two warrants on 18 trading days and 1 trading day respectively.

The SFC found that Tang had accepted the suspicious orders from the two clients and failed to report to the management of BNP the irrational trading by the clients. Although Tang detected the irregularity of the transactions and made enquiries with the clients, he did not draw any of these matters to the attention of BNP. Even though the acquisition of the warrants by the clients did not make any economic sense, Tang did not pursue the matter further and continued to take the clients' orders to trade in the warrants.

As a licensee, Tang should have alerted his supervisor and reported the matter to the management of BNP on detecting the unusual circumstances in which the clients had traded. He should also have made reasonable enquiries with his clients if he suspected possibly illegal or improper trading by his clients. Had the clients failed to satisfy Tang on reasonable grounds that the trades were legal or proper, Tang should have ceased to trade on behalf of them.

The SFC concludes that Tang's fitness and properness has been called into question. In the interest of the investing public and in the public interest, the SFC has reached a settlement with Tang by suspending his licence for three and a half months. In reaching the settlement, the SFC has taken into account the following factors:

- Tang co-operated with the inquiries and accepts full responsibility for his actions;
- Tang admitted breaching General Principle 2 of the Commission's Code of Conduct and BNP's Compliance Manual and the account monitoring procedures. However, the SFC accepted that there was no dishonesty on the part of Tang in committing these breaches;
- Tang has a clean disciplinary record; and
- Tang was not knowingly involved in market manipulation or any other misconduct.

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 instructions to the satisfaction of the licensees, they must refuse to execute the orders and notify their supervisors or the management accordingly. Licensees who fail to have regard for market integrity will face appropriate penalties."

Ends

Note:

1. Tang was a representative licensed to carry on type 1 (dealing in securities) and type 2 (dealing in futures contracts) regulated activities under the Securities and Futures Ordinance. Tang ceased to be a licensed representative of BNP Paribas Peregrine Securities Limited and BNP Paribas Peregrine Futures Limited on 19 March 2004. He subsequently joined another corporation as a licensed representative but resigned from it on 25 July 2005. Tang's licence remains valid and he has 180 days to apply for transfer of accreditation to another corporation before revocation of his licence. As a result of the penalty imposed on him, his accreditation cannot be transferred during the suspension period.

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