

31 March 2010

## **SFC reprimands and fines Tsun Chi Yuen Securities, suspends Alfred Tsun Chi Shing**

The Securities and Futures Commission (SFC) has reprimanded Tsun Chi Yuen Securities Company Ltd (TCY) and fined it \$2 million and suspended Mr Alfred Tsun Chi Shing (Notes 1 and 2) for 12 months from 31 March 2010 to 30 March 2011 for breaching General Principle 2 of the SFC's Code of Conduct (Note 3).

The disciplinary action follows an SFC investigation into the trading of derivative warrants issued by Macquarie Bank Ltd (MB warrants) from January 2004 to July 2005.

The SFC found that TCY did not take action to prevent and stop one of its representatives from trading certain MB warrants in an abusive manner which falsely inflated their turnover. These abusive trading activities created a misleading impression to the market that the relevant MB warrant was actively traded.

The TCY representative traded heavily in the MB warrants by repeatedly buying and selling the same derivative warrant at or near the same price within short time intervals (Note 4). By trading in the relevant MB warrants, the TCY representative received commission rebates indirectly from Macquarie Bank through TCY which were more than the brokerage commissions he paid to TCY (Note 5).

TCY effectively charged only 0.05% in brokerage commission when the commission rebate from Macquarie Bank could be as high as 0.25% of the transaction value. As a result, the TCY representative was able to generate essentially risk free profit from the difference between TCY's brokerage commission and Macquarie Bank's commission rebate (Note 6).

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

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

In deciding on the disciplinary sanctions, the SFC took into account TCY and Tsun's co-operation with the SFC in the disciplinary proceedings.

End

Notes:

1. TCY is a licensed corporation under the Securities and Futures Ordinance (SFO) to carry on Type 1 (dealing in securities) regulated activity.
2. Tsun is licensed under the SFO to carry on Type 1 (dealing in securities) regulated activity. Tsun is a responsible officer of TCY.
3. Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.
4. The representative of TCY is the subject of a separate ongoing SFC enforcement action.
5. The SFC has banned commission rebate schemes for trading in derivative warrants since March 2006.
6. For further details, please see SFC [press release](#) dated 19 March 2009.

Page last updated: 31 March 2010