

## SFC bans Lawrence Lai for 10 years

2 Nov 2016

The Securities and Futures Commission (SFC) has prohibited Mr Lawrence Lai, a former representative of UOB Kay Hian (Hong Kong) Limited and UOB Kay Hian Futures (Hong Kong) Limited (collectively, UOB Hong Kong), from re-entering the industry for 10 years from 2 November 2016 to 1 November 2026 for breach of the Code of Conduct (Notes 1 & 2).

The disciplinary action follows an SFC investigation into the trading of Nikkei Futures contracts in an account of UOB Hong Kong after a tsunami struck Japan on 11 March 2011.

The SFC found that Lai:

- falsely declared that he was not related to a holder of a client account;
- carried out discretionary trading in secret and without proper authorization;
- caused inaccurate and misleading account statements to be issued to a client;
- misled his employer that he was reducing the risk exposure of the client's account when in fact he was substantially increasing the risk position; and
- acted against the best interests of the client by trading without sufficient equity in the account to meet the margin requirement and margin call, which resulted in a trading loss of nearly \$50 million.

Lai's conduct, which fell short of the standard set out in the Code of Conduct, casts doubts on his fitness and propriety to be a licensed person (Note 3).

End

Notes:

1. Lai was licensed under the Securities and Futures Ordinance to carry on Type 1 (dealing in securities) and Type 2 (dealing in futures contracts) regulated activities and was accredited to UOB Kay Hian (Hong Kong) Limited and UOB Kay Hian Futures (Hong Kong) Limited until April 2011. Lai is not currently licensed by the SFC.
2. Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission
3. General Principle 1 (honesty and fairness) of the Code of Conduct provides that a licensed person should act honestly, fairly, and in the best interests of its clients and the integrity of the market.

[A copy of the Statement of Disciplinary Action is available on the SFC website](#)

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## STATEMENT OF DISCIPLINARY ACTION

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### The Disciplinary Action

1. The Securities and Futures Commission (**SFC**) has taken disciplinary action against Mr Lawrence Lai (**Lai**) for breach of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (**Code of Conduct**) pursuant to section 194 of the Securities and Futures Ordinance (**SFO**).
2. Lai was licensed under the SFO as a representative to perform regulated functions in Type 1 (dealing in securities) and Type 2 (dealing in futures contracts) regulated activities and was accredited to UOB Kay Hian (Hong Kong) Limited and UOB Kay Hian Futures (Hong Kong) Limited (collectively, **UOB Hong Kong**) until April 2011. Lai is not currently licensed by the SFC.
3. The SFC found Lai's conduct was in breach of General Principal 1 (honesty and fairness) of the Code of Conduct and cast doubts on his fitness and propriety to be a licensed person. Lai is prohibited from re-entering the industry for 10 years from 2 November 2016 to 1 November 2026.

### Summary of facts

4. In October 2013, the SFC received a complaint that a client account at UOB Hong Kong suffered substantial losses as a result of the trading of Nikkei 225 Index Futures on the Singapore Exchange and the Chicago Mercantile Exchange (**Nikkei Futures**) after a tsunami struck Japan on 11 March 2011.

*Falsely declared that he was not related to a holder of a client account*

5. The relevant client account was opened by Lai's sister (**Client**) with UOB Hong Kong (**Account**) in May 2010. The Client indicated in the account opening agreement (**Agreement**) that she was not closely related to any employee of the UOB Kay Hian Group.
6. Lai did not disclose to UOB Hong Kong about his relationship with the Client and signed to declare that the information provided by the Client in the Agreement was true. As the account executive responsible for the Account, Lai indicated in the Agreement that he had known the Client for ten years.

*Carried out discretionary trading in secret and without proper authorization*

7. Unknown to UOB Hong Kong, Lai claimed that he received verbal authorization from the Client and traded discretionarily for the Account.
8. The failure to put in place written authorization breached the requirement under paragraph 7.1 of the Code of Conduct. In addition, the discretionary trading arrangement with the Client also breached UOB Hong Kong's policies requiring management approval for discretionary accounts and a Discretionary Account Agreement to be entered into with the client.

*Caused inaccurate and misleading account statements to be issued to the client*

9. On 11, 14 and 15 March 2011, Lai traded over 400 Nikkei Futures contracts in the Account. However, the trading activities set out in the statements for the Account did not match the order and execution information provided by the execution broker. UOB Hong Kong acknowledged that the issue of statement of accounts relied on the dealing tickets prepared by Lai.
10. The dealing tickets were expected to be made out immediately after order execution. However, Lai only prepared the sell tickets and not the buy tickets until one day later. This caused the statement of accounts to give a misleading appearance that the position in Nikkei Futures contracts held by the Account was reduced before being increased again.

*Misled his employer about the risk exposure of the client's account*

11. The telephone recordings of 14 March 2011 produced by UOB Hong Kong indicate Lai misrepresented the position of Nikkei Futures contracts held by the Account.
12. During the telephone calls between Lai and the credit officers of UOB Hong Kong about the margin call and the exposure of Nikkei Futures contracts in the Account, Lai said that he was going to close out 240 contracts without disclosing that he added 180 contracts to the original holding of 420 contracts.
13. One of the credit officers confirmed with Lai if the reduction of 240 contracts would result in the balance of 180 contracts, Lai said yes and lied about the true position of the Account after reduction, which remained long 420 contracts.
14. The credit officer enquired again as the market price for the Nikkei Futures contracts continued to fall. Lai agreed to reduce 60 contracts more if necessary. Instead of reducing the position as indicated, Lai bought 120 contracts, which increased the Account's exposure to a total of 540 contracts.
15. When the credit officer asked when Lai would close out the 60 contracts, Lai said he would do so in the night without disclosing that 120 contracts had been added shortly before the telephone call.
16. Although Lai did reduce 120 contracts after the telephone call, he successively bought a total of 300 contracts in the late afternoon and the night, and 120 contracts in the next morning, thereby resulted in a long position of 840 contracts. All of the buy contracts were traded without the knowledge of UOB Hong Kong.

*Acted against the best interests of the client*

17. UOB Hong Kong does not allow new position to be opened if there is unsettled margin call. The Account was under margin call on 14 March 2011 and the margin call was not settled. In fact, the equity of the Account was already in red on the night of 11 March 2011.
18. Notwithstanding that the Account lacked equity to cover the margin requirement, Lai continued to trade in the Account, which eventually accumulated a long position of 840 Nikkei Futures contracts. This position

was unwound on 15 March 2011 and resulted in a trading loss of nearly \$50 million. Trading without margin protection is not in the best interests of the Client.

## **Conclusion**

19. Lai's conduct breached General Principal 1 of the Code of Conduct, which requires a licensed person to act honestly, fairly, and in the best interests of its clients when carrying on regulated activities. The breach also casts doubts on his fitness and propriety to be a licensed person.
20. In coming to the decision to prohibit Lai from re-entering the industry for 10 years, the SFC took into account all relevant circumstances, including the misconduct occurred five years ago in 2011.