SFC bans Vincent Ng Lok Kan for 30 months

2 Oct 2019

The Securities and Futures Commission (SFC) has banned Mr Vincent Ng Lok Kan, a former licensed representative of Sun Hung Kai Investment Services Limited (SHKIS), from re-entering the industry for 30 months from 27 September 2019 to 26 March 2022 (Note 1).

The disciplinary action follows an SFC investigation which found that Ng, an account executive of SHKIS at the material time, placed a number of buy orders for a warrant through a client's account on 27 February 2015, causing the price of the warrant to increase significantly. Ng then immediately sold his entire personal holdings in the warrant to the client. In doing so, he made a profit of $14,510 while his client suffered a nominal loss of $13,040 (Note 2).

The SFC considers Ng's conduct in ramping up the warrant's price to facilitate the offloading of his personal holdings in the warrant for his own benefit and to the detriment of his client dishonest and unfair to the client. Ng's conduct was also unfair to other market participants because it interfered with the impartiality and objectivity of the normal price formation, and may have affected their trading strategy and investment decision in the warrant (Note 3).

The SFC also found that Ng effected transactions in the client's account on a discretionary basis without obtaining the client's prior written authorization, and without the knowledge and approval of SHKIS. This prevented SHKIS from monitoring and supervising the operation of the account and, in turn, deprived the client of SHKIS's protection in monitoring the discretionary trades conducted by Ng in his account (Notes 4 & 5).

In deciding the sanction against Ng, the SFC took into account all relevant circumstances, including the client's financial loss resulting from Ng's conduct, his relative inexperience in the industry at the time of his misconduct, and his otherwise clean disciplinary record.

End

Notes:

1. Ng 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 accredited to Sun Hung Kai Investment Services Limited and Sun Hung Kai Commodities Limited from 6 March 2014 to 11 October 2015. Ng is currently not licensed by the SFC.
2. The warrant was JP-GEG@EC1504D and the underlying stock was Galaxy Entertainment Group Limited. As a result of the buy orders placed by Ng on 27 February 2015, the price of the warrant increased over 76.5% from $0.017 to $0.03.
3. General Principle 1 of the Code of Conduct for Persons Licensed by or Registered with the SFC (Code of Conduct) provides that a licensed person should act honestly, fairly, and in the best interests of his clients and the integrity of the market in conducting his business activities.
4. General Principle 2 of the Code of Conduct provides that a licensed person should act with due skill, care and diligence, in the best interests of his clients and the integrity of the market in conducting his business activities.
5. Paragraph 7.1(a)(ii) of the Code of Conduct requires a licensed person to obtain a written authorization from a client before effecting transactions for a client without the client's specific authorization. Paragraph 7.1(c) of the Code of Conduct requires a licensed person who has received an authority described under paragraph 7.1(a)(ii) to designate such accounts as "discretionary accounts". Paragraph 7.1(d) of the Code of Conduct requires senior management to approve the opening of discretionary accounts.

A copy of the Statement of Disciplinary Action is available on the SFC website

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STATEMENT OF DISCIPLINARY ACTION

The Disciplinary Action

1. The Securities and Futures Commission (**SFC**) has banned Mr Ng Lok Kan Vincent (**Ng**), a former licensed representative of Sun Hung Kai Investment Services Limited (**SHKIS**) and Sun Hung Kai Commodities Limited, from re-entering the industry for a period of 30 months pursuant to section 194 of the Securities and Futures Ordinance.

2. The SFC found that Ng:

   (a) used the account of a client (**Client**) to place orders for a warrant[1] on Galaxy Entertainment Group Limited (**Warrant**), which inflated the price of the Warrant for the purpose of offloading his holdings in the Warrant at significantly higher prices than the nominal price, in breach of General Principle 1 (Honesty and fairness) of the Code of Conduct for Persons Licensed by or Registered with the SFC (**Code of Conduct**); and

   (b) effected discretionary trades in the account of the Client (**Client Account**) without obtaining the client's prior written authorization, in breach of General Principle 2 (Diligence) and paragraph 7.1 (Authorization and operation of a discretionary account) of the Code of Conduct.

Summary of Facts

3. On 16 March 2015, SHKIS reported to the SFC that it had identified two matched trades in the Warrant on 27 February 2015 between Ng's personal account and the Client Account, of which Ng was the account executive.

Trading in the Warrant

4. The SFC's investigation revealed that the matched trades were attributed to orders placed by Ng on 27 February 2015:

   (a) at 10:05:12, Ng placed a first buy order for 1,190,000 units of the Warrant at $0.017 for the Client Account (**First Buy Order**). The First Buy Order was immediately executed against two sell orders from other brokers in the market;

   (b) at 10:05:35, Ng placed a second buy order for 60,000 units of the Warrant at $0.03 for the Client Account (**Second Buy Order**). The Second Buy Order was immediately executed against the available sell order from another broker in the market and significantly increased the nominal price of the Warrant by 76.5% from $0.017 to $0.03;

   (c) at 10:06:25, Ng placed a sell order for 10,000 units of the Warrant at $0.05, which was 20 "ticks"[2] above the then prevailing nominal price, for his personal account (**First Sell Order**). The First Sell Order matched with a third buy order placed by Ng at 10:07:36, for the same quantity and

[1] The warrant involved was JP-GEG@EC1504D.
[2] One "tick" is equivalent to $0.01.

at the same price for the Client Account and drove up the nominal price of the Warrant to $0.05; and

(d) at 10:10:19, Ng placed a second sell order for 1,290,000 units of the Warrant at $0.029 for his personal account (**Second Sell Order**), and almost immediately thereafter, at 10:10:27 he placed a fourth buy order for the same quantity and at the same price for the Client Account (**Fourth Buy Order**). The Second Sell Order and Fourth Buy Order were duly matched and executed against each other in the market.

5. As a result of these transactions Ng was able to sell his entire holdings in the Warrant (1,300,000 units) at an average price of $0.0292 per unit, significantly higher than the nominal price of $0.015 (the price prior to Ng's First Buy Order) despite the Warrant being thinly traded that day.

6. Ng admitted that he did not inform the Client of his decision to purchase the Warrant for the Client Account. Ng said that the Client, who was also his uncle, had verbally authorized him to operate the Client Account.

7. Ng said he placed the buy orders for the Warrant in the Client Account and the sell orders for the Warrant in his personal account because he wanted to reduce his exposure to the Warrant in his personal account and the risk of losing his purchasing cost when the Warrant is out-of-money at expiration. Notwithstanding this, Ng claimed there was still potential for the underlying shares of the Warrant to rebound and given the Client Account's greater ability to absorb the risk of holding the Warrant due to its larger portfolio value, he therefore increased the Client's holdings in the Warrant.

8. Ng further claimed that he was not aware his First Buy Order and Second Buy Order for the Client Account had the effect of ramping up the price of the Warrant but acknowledged that with hindsight, his buy orders of the Warrant for the Client Account and the sell orders of the Warrant for his personal account on 27 February 2015 were irrational and inappropriate.

9. As a result of Ng's trading activities in the Warrant on 27 February 2015, Ng made a profit of $14,510 while the Client suffered a nominal loss of $13,040.

10. The SFC is of the view that Ng's conduct in ramping up the Warrant price to facilitate the offloading of his holdings in the Warrant for his own benefit and to the detriment of the Client dishonest and unfair to the Client.

11. Such conduct was also unfair to other market participants because it interfered with the impartiality and objectivity of the normal price formation, and may have affected their trading strategy and investment decision in the Warrant.

12. Ng's conduct breached General Principle 1 (Honesty and fairness) of the Code of Conduct which requires a licensed person to act honestly and fairly, and in the best interests of his clients and the integrity of the market in conducting his business activities.

Conducting discretionary trades without written authorization

13. Ng admitted that the Client had verbally authorized him to trade in the Client Account on discretionary basis but he did not obtain any written authorization

from the Client. Ng further admitted that all the trading activities in the Client Account between August 2014 and February 2015 were conducted by him.

14. Paragraph 7.1(a) and (d) of the Code of Conduct require Ng to obtain the Client's written authorization and to obtain the approval of the senior management before operating the Client Account on a discretionary basis.

15. The absence of a written authorization meant SHKIS was not aware of the discretionary nature of the Client Account and therefore was prevented from properly monitoring and supervising the operation of the account. This in turn deprived the Client of SHKIS's protection in the monitoring of the discretionary trades conducted in his account.

16. Ng's failure to obtain a written authorization from the Client and the approval of SHKIS's senior management before operating the Client Account is in breach of paragraph 7.1 (Authorization and operation of a discretionary account) of the Code of Conduct. Ng's conduct is also in breach of General Principle 2 (Diligence) of the Code of Conduct which requires a licensed person to act with due skill and care and diligence, in the best interests of his clients and the integrity of the market in conducting his business activities.

Conclusion

17. Having considered all the circumstances, the SFC is of the view that Ng had been guilty of misconduct and not a fit and proper person to be licensed.

18. In deciding the sanction against Ng in paragraph 1, the SFC has taken into account all relevant circumstances, including:

    (a) Ng's conduct has caused financial loss to the Client;

    (b) Ng's relative inexperience of less than one year in the industry at the time of his misconduct;

    (c) a strong message needs to be sent to the market that Ng's conduct is unfair and could jeopardize market integrity and undermine market confidence; and

    (d) Ng has no previous disciplinary record with the SFC.