

Securities and Futures Appeals Tribunal upholds SFC decision to revoke licence of Li Kwok Wah

12 Sep 2008

The Securities and Futures Appeals Tribunal (SFAT) has upheld a decision by the Securities and Futures Commission (SFC) to revoke the licence of Mr Li Kwok Wah and to fine him \$21,400 for front running under the Securities and Futures Ordinance (Note 1).

An SFC investigation found that:

- on two occasions in September 2006, Wong Shu Cheung, a trader with another firm, disclosed to Li confidential instructions from certain clients to buy two listed securities. Li then bought shares in those securities before Wong executed his clients' buy orders (Note 2);
- Li then sold all his shares to Wong's clients at a price higher than what he had paid for them;
- Wong's clients ended up paying more for the shares than they would have otherwise; and
- Li reaped a profit before transaction costs of approximately \$21,400 (equivalent to the fine the SFC imposed).

The SFC found that the conduct of Li and Wong constitutes "front running" (Note 3). Li and Wong had deprived Wong's clients as well as other investors of the opportunity to buy the relevant shares at a lower price and thus harmed the best interests of the investing public and the integrity of the market.

Li appealed the SFC's decision to the SFAT on 8 April 2008. Li submitted that the SFC solely relied on circumstantial evidence that did not meet the standard of proof. The SFAT rejected Li's submissions and dismissed the application on 9 September 2008 (Note 4).

End

Notes:

1. Li was licensed under the SFO to carry on Type 1 (dealing in securities) regulated activity. At the material time, he was accredited to Hing Shing Securities Ltd.
2. JP Morgan Broking (Hong Kong) Ltd referred this case to the SFC after its own internal investigation into Wong, who was a trader with the firm at the material time. JP Morgan did not profit from these activities and co-operated with the SFC's investigation. Wong no longer works for JP Morgan. The SFC revoked Wong's licence on 4 September 2008. Please see SFC [press release](#) dated 4 September 2008.
3. Front running is when a person misuses confidential information about a person's trading intentions to make a profit, often at that person's expense. For example, a broker who knows his or her client intends to buy a lot of shares in a stock may buy up that stock first at a lower price to sell on to his or her client at a higher price.
4. The determination will be available on the SFAT website www.sfat.gov.hk.

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