
Enforcement News

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Two warrant traders convicted of market manipulation

The District Court today found two warrant traders guilty of manipulating the market in various listed derivative warrants issued by Macquarie Bank Ltd (Macquarie Bank) between January 2004 and January 2005.

Mr Patrick Fu Kor Kuen and Mr Francis Lee Shu Yuen were convicted before His Honour Judge Sham Siu Man following a two week trial in relation to 40 counts of market manipulation under section 295 of the Securities and Futures Ordinance.

Fu and Lee were remanded in jail custody pending sentencing on 13 May 2010.

Following an investigation by the Securities and Futures Commission (SFC), Fu and Lee were charged with creating a false and misleading appearance of active trading on 19 days in 20 derivative warrants issued by Macquarie Bank between January 2004 and January 2005 (Note 1).

The SFC alleged that Fu and Lee, through accounts at two brokerages, traded between themselves in a pre-determined manner in approximately the same quantities and prices in a repetitive fashion.

The trading was in effect not genuine trading, but a "ping pong" game with the result that the turnover for the Macquarie-issued warrants in question was falsely inflated by 80% or over \$450 million in value. As a result, potential investors were misled into thinking these warrants were heavily traded by genuine buyers and sellers when in fact the reverse was the position.

The SFC also alleged Fu and Lee received commission rebates for their trading which was offered by Macquarie Equities (Asia) Ltd (Macquarie Equities). The commission rebate had the effect of reducing transaction costs for investors. The high volume of trading by Fu and Lee meant commission rebates they earned from Macquarie Equities exceeded the transaction costs they incurred in trading, enabling them to earn a net profit of approximately \$1 million (Note 2).

The District Court found that Fu and Lee traded to receive the commission rebates but they also did so to create the appearance of an active market as this would be to their advantage when they came to exit the market.

"The defendants traded the same securities between themselves in a ping pong fashion at much the same price and quantities, grossly distorting any genuine market for these securities. Trading like this is contrary to genuine market forces. The SFC is determined to strike down manipulative schemes that cause such damage to the market and the financial interests of members of the investing public," said Mr Mark Steward, the SFC's Executive Director of Enforcement.

The case was prosecuted by the Department of Justice on behalf of the Hong Kong SAR.

End

Notes:

1. The 40 counts of charges covered 20 derivative warrants issued by Macquarie Bank out of a total of

some 30 warrants that were the subject of the SFC's inquiry in the period between January 2004 and January 2005.

2. The SFC banned commission rebate schemes for trading derivative warrants in March 2006. Fu and Lee operated accounts at Grand Investment (Securities) Ltd and Shun Loong Securities Co Ltd and both firms were the subject of disciplinary action by the SFC in relation to their roles in this trading (see SFC press releases dated [19 August 2009](#) and [2 November 2009](#)). The SFC also took disciplinary action against Macquarie Equities for its role in relation to this trading (see SFC press release dated [19 March 2009](#)).

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