

SFC Suspends Chan Chuen Leung for Improper Trading Activities

28 Sep 2005

The SFC has suspended the licence of Mr Chan Chuen Leung, a licensed representative of Asia-Pac Securities Limited, for four months from 28 September 2005 to 27 January 2006, for improper trading activities (Note 1).

The suspension stems from an investigation into Chan's trading in nine covered warrants between 1 November 2002 and 31 January 2003. The SFC found that Chan had employed an improper trading strategy to trade the covered warrants. He first placed a sell order for the warrants which he just acquired, at one spread higher than his purchase price, followed immediately by successive buy orders of one million shares each at one or two spreads lower than the price of the sell order he just placed. The total quantity of the buy orders was many times greater than his sell order. He cancelled these buy orders shortly after placing them and repeated placing and cancelling these successive buy orders until his sell order was successfully executed.

The SFC considered that his trading strategy amounted to "scaffolding" (Note 2). His successive buy orders of one million shares each were only placed to influence investors' order placing preferences, as those investors who were unwilling to queue their buy orders might take Chan's prior unexecuted sell order at a higher price.

The SFC concludes that Chan has been guilty of misconduct and his fitness and properness has been called into question.

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "Chan's strategy in repeatedly placing numerous buy orders at prices one or two spreads below his sell order and cancelling them immediately afterwards was unacceptable as it created the false appearance that there was more demand to buy the warrants than there really was. The SFC has zero tolerance for any kind of improper trading activities, including the "scaffolding" strategy adopted by Chan. In addition to possible criminal prosecution, the SFC may revoke or suspend those licensees who engage in market manipulation."

Ends

Notes to Editor:

1. Chan is licensed to carry on Type 1 (dealing in securities) regulated activity under the Securities and Futures Ordinance.
2. "Scaffolding", the English translation of the Chinese term "搭棚", is a form of market manipulation. The perpetrators attempt to distort the picture of the demand and supply of a stock by inputting a large number of orders without the intention of executing them. These false orders are usually cancelled before they are matched. Scaffolding misleads investors and damages market integrity.

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