

SFC bans Derek Ong for 10 years

17 Nov 2016

The Securities and Futures Commission (SFC) has prohibited Mr Derek Ong, a former representative of Deutsche Securities Asia Limited, from re-entering the industry for 10 years from 17 November 2016 to 16 November 2026 for conspiring to manipulate the Korean Composite Stock Price Index 200 (KOSPI200) in November 2010 (Note 1).

In February 2011, the Securities and Futures Commission in Korea took enforcement action against Deutsche Securities Korea Co. (DSK) for market manipulation through the exploitation of spot-futures and the setting up of speculative derivative position that benefited from the price fall of KOSPI200 during the closing auction period on 11 November 2010.

Traders of Deutsche Bank AG located in Hong Kong were found to have originated the manipulative order instructions. The manipulation was referred to the prosecution office in Korea to criminally prosecute DSK and the involved traders for violation of the Financial Investment Services and Capital Markets Act.

Following a trial at the Seoul Central District Court, DSK and a Korea-based trader, who executed the manipulative orders, were found guilty of manipulating KOSPI200 for the purpose of making illegal profits for Deutsche Bank AG and DSK. Deutsche Bank AG and DSK were ordered to forfeit about KRW43,695 million profit derived from the manipulative trades. The traders in Hong Kong were not convicted because of their absence from the trial. However, the Court concluded that the traders in Hong Kong conspired to manipulate KOSPI200 (Note 2).

Ong was one of the traders in Hong Kong. He was responsible for the decision to liquidate the holding of Korean stocks, which caused KOSPI200 to fall 2.79%, and to establish an option position to profit from the KOSPI200 fall. His conduct has cast serious doubts on his fitness and properness to be a licensed person.

End

Notes:

1. Ong 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 Deutsche Securities Asia Limited until August 2011. Ong is not currently licensed by the SFC.
2. The Seoul Central District Court sentenced the Korean trader to five years of imprisonment and fined DSK KRW1.5 billion on 25 January 2016.

[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 taken disciplinary action against Mr Derek Ong (**Ong**) pursuant to section 194 of the Securities and Futures Ordinance (**SFO**) on the basis that Ong is not a fit and proper person to be a licensed representative.
2. Ong 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 Deutsche Securities Asia Limited until August 2011. Ong is not currently licensed by the SFC.
3. Ong conspired to manipulate the Korean Composite Stock Price Index 200 (**KOSPI200**) on 11 November 2010. The SFC has decided to prohibit Ong from re-entering the industry for 10 years from 17 November 2016 to 16 November 2026.

Summary of facts

4. Ong was the managing director in charge of the Absolute Strategy Group (**ASG**), a subdivision of Global Market Equity of Deutsche Bank AG, for Asian region except Japan, in Hong Kong.
5. ASG conducted index arbitrage trading for proprietary accounts in Asian markets including Korea. Index arbitrage trading of ASG was a trading strategy sought to earn a return by identifying and exploiting a difference between the value of futures contracts in respect of a relevant equity index and the spot value of index, as determined by the current market price of the constituent stocks. In this connection, ASG adopted a long cash short futures strategy, i.e. took short positions in futures and held long positions in stocks of the Korean markets.
6. Around September 2010, ASG was brought to the attention that it should unwind its position in light of the balance sheet pressure of Deutsche Bank AG. Eventually, Ong decided to unwind the index arbitrage position of about KRW2,442.4 billion worth of constituent stocks of KOSPI200 during the closing auction period on 11 November 2010.
7. Instead of solely unwinding the index arbitrage position of Korean stocks, ASG put on a speculative derivative position of about KRW2,473.4 billion comprising short position in synthetic futures and long position in put options before the unwinding.
8. During the final minutes of trading, ASG successively submitted seven sell orders to dispose its holding of Korean stocks. The order prices for the sell orders were 4.5% or 10% lower than the stock prices before the closing auction period. These orders accounted for 90.5% of the total number of shares traded and 92.0% of the total KRW amount traded during the closing

auction period on 11 November 2010. As a result, KOSPI200 was driven down by 2.79%.

Actions taken by Korean authorities

9. Having investigated into the fall of KOSPI200, the Securities and Futures Commission in Korea found that the spot-futures price link was being exploited and the speculative derivative position was set up to benefit from the price fall. The total amount of profit made in the circumstances was about KRW43,695 million.
10. In February 2011, Deutsche Securities Korea (**DSK**) was banned from trading shares and derivatives for its own account for six months. The manipulation was also referred to the prosecution office in Korea for criminal prosecution of DSK and the traders involved for violation of the Financial Investment Services and Capital Markets Act.
11. The trial commenced in January 2012. The Seoul Central District Court (**Court**) reached a guilty verdict against DSK and its trader in Korea on 25 January 2016. The trader was sentenced to 5 years of imprisonment. DSK was fined KRW1.5 billion. DSK and Deutsche Bank AG were forfeited a total of about KRW43,695 million.
12. The traders in Hong Kong were not convicted because of their absence from the trial. However, the Court has made it plain that the Korean trader and the traders in Hong Kong established a speculative derivative position which could earn profits upon a fall of KOSPI200 immediately before the closing auction period. The sale of constituent stocks caused KOSPI200 to drop and thereby enabled Deutsche Bank AG and DSK to gain illegal profits from the speculative derivative position.
13. The Korean trader in conspiracy with the traders in Hong Kong manipulated the price of the underlying assets of the exchange traded derivatives for the purpose of having Deutsche Bank AG and DSK earn illegal profits for the trading of such exchange traded derivatives. The Court's conclusion concurs the findings of the SFC's investigation that Ong was in charge of the index arbitrage trading in the Korean market, set the unwinding strategy and led the execution.

Conclusion

14. Given that Ong was instrumental to the violation of the manipulation law in Korea, the SFC is of the opinion that he is not a fit and proper person to be licensed.
15. In coming to the decision to prohibit Ong from re-entering the industry for 10 years, the SFC took into account all relevant circumstances, including Ong has left the industry since August 2011.