



SECURITIES AND
FUTURES COMMISSION
證券及期貨事務監察委員會

Market and Risks

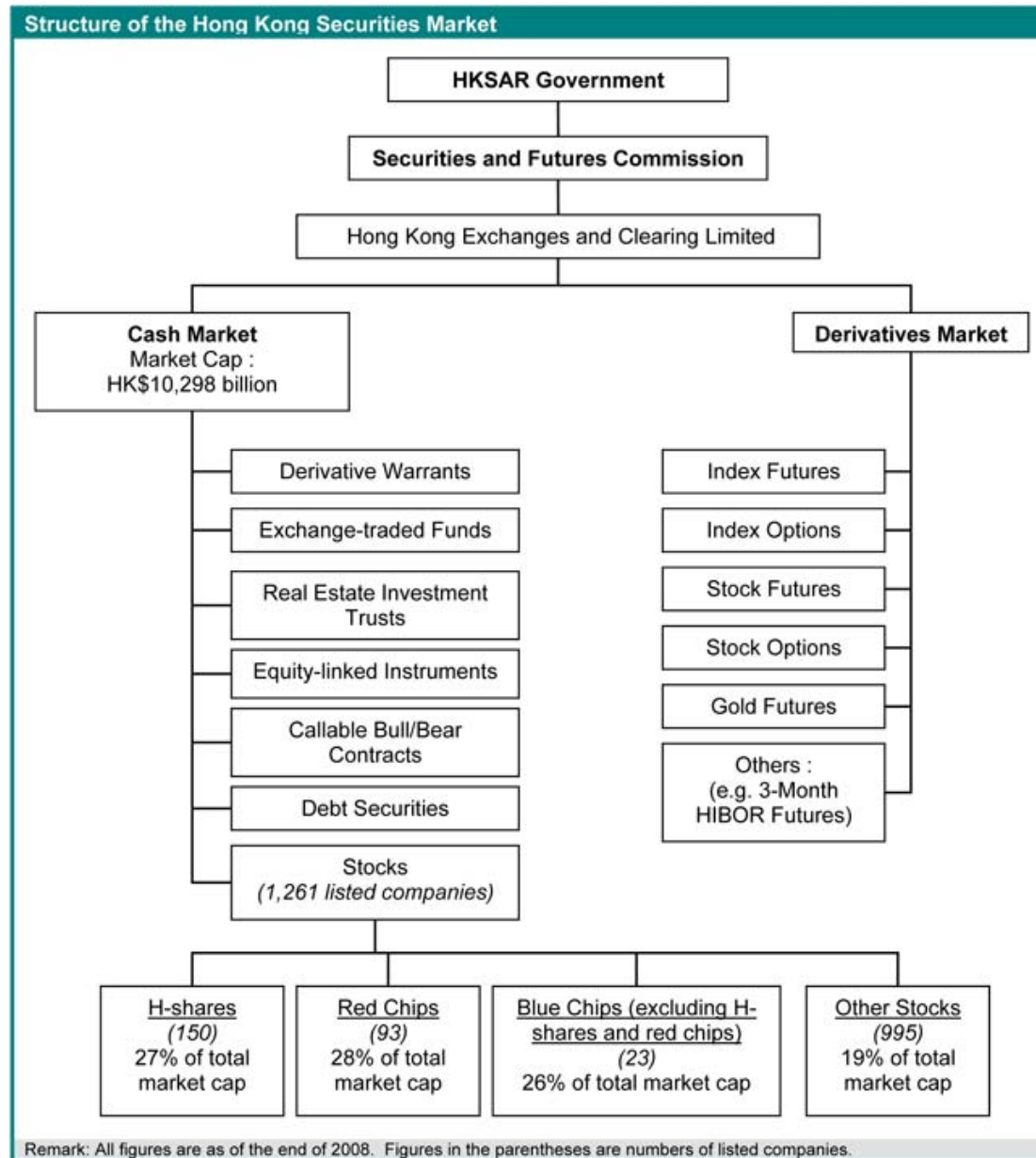
13 – 17 July 2009

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Hong Kong Stock Market



Stock Investment Risks

- **When you invest in the Hong Kong stock market, it is important to understand the risks and know your limits. You should also be aware that while you might make gains, you could also lose. Among the major risks you should watch out for include:**
 - Market risk
 - Business risk
 - Corporate mis-governance
 - Trading suspension
 - Liquidity risk
 - Interest rate risk
 - Currency risk
 - Global risk
 - Policy risk

Market Misconduct – Market Manipulation

(操控市場)

What is market manipulation?

- **Conduction of market activities to interfere with the actual supply and demand of securities or derivatives so as to create a false or misleading appearance of the price or turnover of the securities or derivatives.**

How to manipulate market?

Common techniques include:

- **The release of false or misleading information.**
- **The taking up of wash sales from one another within a certain trading period to increase the turnover of the stock or distort the actual share price.**
- **The placing of purchase orders at slightly higher prices or sale orders at lower prices to drive up or suppress the price of the securities when the market just opened, ie. "marking the open".**
- **The drying up of stocks supply to exert undue upward price pressure on the stocks. This is known as "cornering shares".**

Market Misconduct – Market Manipulation (操控市場)

Punishment for misconduct?

- **Civil lawsuit**
- **Criminal lawsuit**
- **Revoke or suspend license by the SFC**

How can investor avoid losing out in market manipulation?

- **Don't trade on rumour**
- **Do your homework before investing in a stock**

Market Misconduct – Insider Dealing (内幕交易)

What is insider dealing?

Basically, insider dealing normally takes place when:

- a person connected with a listed company, i.e. an insider (e.g. director, staff member or auditor, etc.), possesses privileged information which could affect the share price when disclosed, and trades, or procures other persons to trade in the securities or derivatives of the company so as to make profits or avoid losses before the public are aware of the information; or
- a person obtains information through another person whom he knows is connected with a listed company, i.e. an insider, trades or procures other persons to trade in the securities or derivatives of the company so as to make profits or avoid losses before the public are aware of the information.

Market Misconduct – Insider Dealing (内幕交易)

Punishment for misconduct:

- **Civil lawsuit**
- **Criminal lawsuit**
- **Revoke or suspend license by the SFC**

Market Misconduct – Misappropriation (挪用資產)

- **Misappropriation occurs when an account executive trades stocks or uses funds in an account without the clients' consent or knowledge.**
- **Misappropriation usually happens when:**
 - There is inadequate internal control of the broker firm's administrative and settlement procedures
 - Lack of supervision over employees and compliance culture
 - Investors are lack of awareness and over reliance on their account executives

Market Misconduct – Misappropriation (挪用資產)

What are the common tactics used by dishonest account executives?

- **Trading on clients' account without the clients' consent or knowledge.**
- **Withholding clients' settlement slips, contract notes or statements.**
- **Altering information on clients' transaction documents.**
- **Producing forged statements to cover up their wrongdoing.**
- **Inducing clients to issue blank cheques and depositing money directly into their accounts.**
- **Using clients' monies to settle their own accounts or other outstanding balances.**

Market Misconduct – Misappropriation (挪用資產)

How can investors protect themselves?

- Always be vigilant and closely monitor your investments. Here are some tips:
- Do not give discretionary authority to your account executives without seriously considering whether this arrangement is necessary or suitable for you. Once discretionary authority is granted, your account executive has the authority to act on his initiative without seeking your instructions.
- Even if a discretionary account is desired, sign a formal account opening document and make a written authorization to properly limit authority of the account executive.

Market Misconduct – Misappropriation (挪用資產)

- **Never allow your account executive to trade his transactions on your account. This will expose you to unnecessary risks.**
- **Make sure you receive contract notes and statements timely. Broker firms must issue contract notes by the second trading day after a stock transaction has been executed, and provide clients with a regular statement of account which should be at least monthly.**

Market Misconduct – Misappropriation (挪用資產)

How can investors protect themselves?

- **Verify the information in your transaction documents. If they contain hand-written amendments or any other discrepancies, clarify with the compliance department or management of the broker firm immediately.**
- **Do not let contract notes and statements to be delivered by your account executive to you. This will create opportunities for interception of these documents and subsequent changes by dishonest persons. Do not agree to hold mail arrangements unless that is absolutely necessary.**

Market Misconduct – Misappropriation (挪用資產)

- **Arrange to receive proper, company-headed hard copies of transaction documents directly from the broker firm. Fax copies can easily be forged.**
- **Never issue blank cheques to anybody or deposit money directly into the bank account of your account executives. Contact your broker firm if money due is not received, or cheques paid to you are not issued by the firm.**

Market Misconduct – Unauthorised Trades

(未經授權交易)

- **Allegations of unauthorised trades arise when investors dispute transactions on grounds that they have not placed the orders or they have not authorised the account executive or the third party to operate their account.**

What are the common features in unauthorised trades cases?

- **The account holder has not given discretionary authority to the account executive or a third party but a verbal agreement is alleged.**
- **The trades cause loss.**
- **The account holder is not aware of the trades as he has not reviewed the contract notes and the statements of account, or has not received these documents altogether.**

Market Misconduct – Unauthorised Trades

(未經授權交易)

- **Even where the account holder has suspected unauthorised trades, the matter is not immediately brought to the attention of the management of the brokerage.**
- **Brokerages are required to keep telephone records of clients' instructions for at least three months, but the tapes may have already been recycled if the account holder only lodges a complaint to the brokerage after three months have lapsed. Hence, the relevant telephone recording may not be available to verify the trade placed by the account holder.**

Market Misconduct – Unauthorised Trades

(未經授權交易)

How to avoid unauthorised trades?

- Provide a written authorisation to the brokerage if you wish to authorise a third party to operate your account. State clearly the authority granted.
- Check with the brokerage to see if they offer discretionary services should you wish your account executive to act on his own initiative without seeking your instructions. In the authorisation letter, state clearly the authority granted. Ensure that the account is designated as a “discretionary account” in the client agreement.
- Avoid placing orders through the account executive's mobile phone to ensure that there is an audit trail of all of your orders.
- Ensure that you receive promptly and directly from the brokerage your contract notes and statements of account. Check these documents. Make sure that all the transactions recorded in them were authorised by you. Verify account balances regularly with the settlement department of the brokerage to ensure their correctness.

Market Misconduct – Unauthorised Trades

(未經授權交易)

- **Do not agree to hold mail arrangements unless that is absolutely necessary. In any event, you must check the details of your account from time to time. The combination of a discretionary account and a hold mail arrangement could expose you to unnecessary risk if unscrupulous intermediaries conduct trades to your detriment.**
- **Make all payments to the brokerage directly. Never pass money or cheques to account executives.**

Market Misconduct – Unauthorised Trades

(未經授權交易)

- **Write on the deposit slip your account number and name together with your signature before passing the slip to the brokerage if you have to deposit funds into the firm's account for settlement.**
- **Immediately contact the responsible officer or the settlement department of the brokerage rather than your account executive for explanation of any discrepancies or alteration in the contract notes or the statements of accounts. Write to the brokerage with details if needed. Note that brokerages are required to keep telephone records for only three months. If the matter cannot be resolved, file a complaint to the responsible officer, the compliance officer or the complaint officer of the firm.**

Scam – Boiler Room (鍋爐室)

Boiler rooms are financial frauds involving high pressure sales techniques, over the phone, Internet and email, to sell worthless investments.

Common features of boiler room operation:

- **Investors are only contacted by phone, e-mail and there are never any face-to-face meetings.**
- **The salespersons claim to represent a legitimate firm with offices usually in the South East Asian region. They try to win investors' trust by describing their firms' past successes, supplemented by nicely printed brochures and impressive web sites.**
- **They may use "virtual offices" to redirect calls and mails to overseas locations where they could hardly be traced.**

Scam – Boiler Room (鍋爐室)

Common features of boiler room operation (con't):

- Investors are often asked to make direct payment to an overseas bank account immediately. Once they make the down payment, they are often bombarded with calls to increase their investment to take advantage of sizeable gains.
- The products offered are often exotic sounding options, bonds or commodities that are difficult to understand.
- They may guarantee a high return on the investments and offer discounts.
- They may also allege that the stocks are only offered to a selected group of people for a short time.

Scam – Boiler Room (鍋爐室)

Common features of boiler room operation (con't):

- **Some investors may receive statements of accounts or stock certificates.**
- **When investors want to sell their stocks and discover that their sales representatives or the firms are no longer reachable, it is often too late. These boiler rooms might have moved to other locations and disappear with the money.**
- **Worse still, investors then discover that their share certificates are worthless forgeries and they cannot retrieve their money.**

Scam Websites (欺詐網站)

Common features of scam websites:

- **Guarantee quick or high return**
- **Offer available for a short time only**
- **Private or exclusive offers**
- **Overseas investment opportunities**
- **Key words for easy spotting of websites**
- **Forged contact information of the exchanges or regulators**

Fraudulent copycat websites

- **Fraudulent copycat websites are a type of Internet fraud where the fraudsters imitate the websites of reputable or well-known financial institutions when in fact the websites are not authorised or related to the relevant financial institutions in any way.**

Phishing Scam (偽冒電子郵件)

- **Similar to fraudulent copycats, phishing scams use emails to entice recipients to disclose their personal financial data such as credit card/bank account numbers, account user names and passwords/Personal Identification Number (PINs).**
- **Similar to fraudulent copycat websites, scamsters usually imitate reputable financial institution such as banks and request the recipients to confirm their personal data due to, for example, system re-installation, etc. As it is difficult to determine the legitimacy of the email and verify the identity of the sender, recipients may unwarily disclose their personal data and facilitate the fraudulent acts.**
- **Quite often, recipients are asked to click on a link attached to the email to provide the requested information. Yet, the pop-up webpages are fake. Some phishers may even cover the actual URL of their fake webpage by an image displaying another URL which imitates the legitimate one.**

Tips to protect yourself against scam

- **Stay vigilant**
- **Confirm the legitimacy and authenticity**
- **Verify the “claims” independently**
- **Beware of offers that are “too good to be true”**
- **Do not invest based solely on “Information” on the internet**
- **Seek professional advice**
- **Keep your personal information**
- **Simply ignore any spams**
- **Report to the regulators**

Risk Management

How can I avoid risk?

- You cannot totally avoid risks. But you can control your exposure to risks to an acceptable level. This doesn't mean sticking to dull investments - it means making sure you understand exactly what you are investing in and recognise the potential problems. Once you have identified the risks, you can take steps to manage them.

How to manage risk?

- You should look at your investment objectives, risk tolerance and constraints, and plan accordingly.
- Take the trouble to learn about the products you wish to invest in. Read prospectuses, offer documents, annual reports and announcements carefully. Pay attention to the "risk factor" sections or "risk warning" messages.
- Diversification is a good antidote.
- Long-term investment in sound assets is also viable.
- You should re-examine the risk profile of your investments from time to time to ensure that they suit your risk tolerance and expectations.

Class Activities

Class activity 1: Pick the term which best describe each situation:

Situation	Answer
Conduction of market activities to interfere with the actual supply and demand of securities or derivatives so as to create a false or misleading appearance of the price or turnover of the securities or derivatives.	
A person obtains information through another person whom he knows is connected with a listed company, i.e. an insider, trades or procures other persons to trade in the securities or derivatives of the company so as to make profits or avoid losses before the public are aware of the information.	
When an account executive trades stocks or uses funds in an account without the clients' consent or knowledge.	
Investors dispute transactions on grounds that they have not placed the orders or they have not authorised the account executive or the third party to operate their account.	

Terms

Misappropriation / Insider Trading / Unauthorised Trades / Market Manipulation

Class Activities

Class activity 1: Pick the term which best describe each situation:

Situation	Answer
Conduction of market activities to interfere with the actual supply and demand of securities or derivatives so as to create a false or misleading appearance of the price or turnover of the securities or derivatives.	Market Manipulation
A person obtains information through another person whom he knows is connected with a listed company, i.e. an insider, trades or procures other persons to trade in the securities or derivatives of the company so as to make profits or avoid losses before the public are aware of the information.	Insider Trading
When an account executive trades stocks or uses funds in an account without the clients' consent or knowledge.	Mis-appropriation
Investors dispute transactions on grounds that they have not placed the orders or they have not authorised the account executive or the third party to operate their account.	Unauthorised Trades

Terms

Misappropriation / Insider Trading / Unauthorised Trades / Market Manipulation

Class Activities

Activity 2: Choose the best way for risk management:

Method	Right	Wrong
High investment risk is no a concern as long as the investment return is good, even though the risk has exceeded my tolerance level		
Choose good quality assets for long term investment		
Invest in single market which shows the best performance		
Read and understand the offering document of the investment products, especially the risk disclosure section		
Diversify investment		

Class Activities

Activity 2: Choose the best way for risk management:

Method	Right	Wrong
High investment risk is no a concern as long as the investment return is good, even though the risk has exceeded my tolerance level		✓
Choose good quality assets for long term investment	✓	
Invest in single market which shows the best performance		✓
Read and understand the offering document of the investment products, especially the risk disclosure section	✓	
Diversify investment	✓	

Q&A

SFC website : www.sfc.hk

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