

## Crafting an Effective Investigation Strategy

### Keynote address at GIR Live: Asia-Pacific Investigations Summit 2024, Singapore

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Good morning, everyone. Thank you, Wilson and Kyle, for inviting me to speak at this event. It's a pleasure to be back in Singapore where I began the Asian phase of my career almost exactly 25 years ago in September 1999. Somewhat distressingly, I am told kids today refer to this as the late 1900s.

Also, congratulations to the Singaporeans on your country's 59th anniversary. I'm sure you all share my gratification in seeing the economic miracle the city-state has achieved, and that also epitomises the impressive progress of Asia as a whole in the past decades. Indeed, both Singapore and Hong Kong have grown together as closer partners and also as leading financial hubs in the region. Core to our success is a shared belief in the rule of law, which translates into a robust regulatory framework and a market of integrity in finance. These elements are vital to sustaining Asia's remarkable growth and attracting investments much needed to power an even brighter future for Asia.

This year also marks the 35th anniversary of the Securities and Futures Commission (SFC). Under our four strategic priorities for 2024-2026, we commit ourselves to bolstering market resilience, global competitiveness, financial innovation, and operational efficiency. For the Enforcement Division which I lead, our primary goal to uphold market integrity is certainly critical to a resilient and competitive market.

Achieving this goal is increasingly challenging. Technological advancements and global connectivity mean we are facing far more sophisticated financial crimes and have to swiftly adapt. In this context, I'll share with you how we "CRAFT" our strategies through: **C**ollaboration, **R**apid Response, **A**lliance, **F**lexibility and **T**echnology.

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Note: This is the text of the speech as drafted, which may differ from the delivered version.



## Teaming up for rapid responses

I'll start with how we approach investigations.

In our Enforcement Division, we divide our investigators into three specialised teams, focusing on market misconduct, corporate misconduct and intermediary misconduct respectively. We specialise so our investigators can develop deep expertise and intuition, helping them anticipate roadblocks and devise targeted solutions for specific types of bad behaviour.

This specialisation works well, except when it doesn't. The financial crimes we investigate are growing in scale, complexity and organisational structure. They now often involve market players from two and sometimes all three of our investigation categories. One example is around ramp-and-dump schemes. A syndicate of bad actors would arrange with the management of a listed company and social media influencers to corner, manipulate and entice retail investors to buy the company's thinly traded stock. As the share price spirals up, the syndicate would dump their shares and leave the now-worthless shares in the hands of retail investors. So we have market misconduct by the syndicate members, potentially corporate misconduct by the management of the listed company and intermediary misconduct if the broker is complicit in the scheme.

To tackle these schemes, we now frequently form task forces traversing two or three of our investigation teams to share intelligence and forensic capabilities and sometimes simply to provide additional manpower.

We have recently set up a Rapid Inquiry Team to respond to certain forms of market abuse activities. This team has a clear mandate: to quickly secure the most crucial pieces of evidence, promptly assess the sufficiency of this evidence, and then make a call on whether to pursue it or let it go. This approach allows us to rapidly resolve some of our more straightforward but still important cases and frees up resources to take on more complex cases.

Detecting and investigating market misconduct takes a special set of skills and coordination. Our market surveillance specialists work alongside investigators to analyse real-time trading activities. Our case triage team interfaces with the SFC's other operational divisions to determine the best course of action where we face urgent public complaints. Also, we deploy our digital forensic specialists to search operations to ensure the integrity of digital evidence.

## From data rich to insight rich

Next is data. Let me share with you some statistics from our investigations. Each year, we review more than 30 million digital image files from seizures. Our investigators send out thousands of notices each year seeking transaction records. Our eDiscovery platform contains up to 50 terabytes of data, and this amount continues to grow year after year.

The growth and diversity of digital devices and technology present enormous challenges for us as investigators in terms of data volume, interoperability and heterogeneity. In other words, we are drowning in data but often starved of actionable insights.



An investigation is much more than just collecting evidence. Evidence becomes useful only if we can do something with it. We need to be able to process, analyse, and ultimately extract actionable insights.

To achieve this, we set up a Strategy and Technology team last year as a centralised function to drive strategic initiatives. The team is pushing our adoption of new technologies so that we can improve operational efficiencies and accelerate investigations. Also, we are now seeing how powerful artificial intelligence (AI) can be to help us fuse information from previously siloed data sources into one unified view, so that we can identify patterns, trends and hidden links among members of a crime syndicate. This team includes financial engineers, data scientists and forensic specialists, and it is really a force multiplier for our investigation teams.

As former US Army General John Pershing reportedly said, “Infantry wins battles, logistics wins wars”. Therefore, the best way to fulfil our statutory mission is by continuous investments in better data and evidence gathering tools, as well as the technologies needed to analyse what we obtain.

### **Diverse paths to positive enforcement outcomes**

I'll now talk about how we take a broader view on enforcement outcomes than we did in the past.

Our Enforcement Division has had a very good year. We secured convictions in a landmark jury trial against a sophisticated market manipulation scheme. We secured our first criminal conviction against a fraudulent scheme related to illegal short selling. We also initiated proceedings against a string of insider traders at both retail and institutional levels, and against listed company directors for fictitious corporate transactions. In addition, over the next few months, we will have a few very large ramp-and-dump cases coming to trial involving multiple defendants.

We are increasingly elevating the prosecution of complex and serious market misconduct cases to higher courts where we can obtain stiffer penalties and jail sentences. We recognise that legal proceedings can take much longer time than expected. So we regularly pursue other avenues to deliver deterrent messages.

We have stepped up our collaboration with the Stock Exchange of Hong Kong (Exchange) on imposing sanctions on listed company directors. We have a broader set of investigatory powers than the Exchange, but we have to go through lengthy court proceedings due to due process constraints to disqualify directors. So now, we share our findings with the Exchange for it to consider disciplinary sanctions through what it calls a “Director Unsuitability Statement”. This essentially achieves the same result when it comes to director misconduct and frees up our resources to tackle more serious issues.

The same misconduct that triggers violations of the Securities and Futures Ordinance, which we enforce, frequently involves corrupt practices such as bribery and money laundering. We are now increasingly joining forces with Hong Kong's Independent Commission Against Corruption (ICAC), the Commercial Crime Bureau of the Hong Kong Police Force and, more recently, Hong Kong's Insurance Authority to take on criminal syndicates and non-compliant behaviours from all angles.

Next, where we observe failings in gatekeeper roles, for example in the case of auditors and lawyers, we refer their misconduct to the relevant authorities. For licensed corporations that have engaged in misconduct, or failed to satisfy our fitness and propriety standards, our discipline team is empowered to take action.

Enforcement outcomes are not always binary. Even when an investigation does not lead to an obvious and publicised enforcement action, it can help us identify gaps between our rules and market practices that we can then codify in future legislation. It can lead us to privately communicate our findings to a regulatee, which serves to put them on notice of our regulatory expectations. Sometimes, we take a big swing at a high-profile case, knowing that even if we miss, the visibility of our efforts may be sufficient to deter wrongdoers and alert investors.

### **Partnership across borders and sectors**

Many of you must be thinking by now, “this is all kind of interesting, but how is securities enforcement work in Hong Kong relevant to me?”

This is relevant because the SFC works very closely with our international regulatory partners in Asia-Pacific and beyond on cross-border enforcement cooperation. This cooperation framework, under the International Organization of Securities Commissions, or IOSCO, is an essential tool for securities regulators to combat global financial misconduct, which, again, is becoming increasingly complex and transnational. I will share a few recent examples of how intelligence and assistance rendered from other regulatory counterparts significantly helped us in our enforcement actions and often securing outcomes:

- We collaborated with overseas regulators including the Monetary Authority of Singapore (MAS), the Singapore Police Force, the Ontario Securities Commission, the United Kingdom’s Financial Conduct Authority, and the US’ Securities and Exchange Commission in obtaining critical evidence that helped us secure a recent criminal conviction in a cross-border manipulation case;
- We obtained a preservation order against a former executive director of a listed company through the British Columbia Securities Commission of Canada;
- We carried out a joint operation with the MAS and the Singapore Police Force against a sophisticated syndicate operating ramp-and-dump schemes in both Hong Kong and Singapore;
- We carried out a joint operation against suspected cross-boundary fraud and misconduct in a listed company with the ICAC and the Macao Judiciary Police; and
- Our long-standing partnership with the China Securities Regulatory Commission continues to bear fruit in our fight against corporate frauds involving Mainland companies listed in Hong Kong.



Just in May, the SFC's Chief Executive Officer, Ms Julia Leung, started her two-year tenure as the Chair of the IOSCO Asia-Pacific Regional Committee. This will surely bring us closer with our enforcement counterparts in the region, so that we can exchange knowledge and experience, and most importantly, align our regulatory approaches to minimise regulatory arbitrage.

In addition to regulatory networks, we must collaborate with the public, our licensees and private-sector stakeholders to achieve our regulatory objectives. The Investor and Financial Education Council is an SFC subsidiary which regularly curates anti-scam and financial literacy campaigns for the investing public. Moreover, the "wanted list" on our website<sup>1</sup> recently received a tip that successfully helped us locate a core member of a sophisticated ramp-and-dump syndicate<sup>2</sup>.

Intermediaries' self-reports on suspicious trading activities continue to supplement and enhance our surveillance capabilities. Lastly, legal professionals like many of you play a crucial role in guiding clients to ensure compliance as they navigate the complexities of the regulatory environment.

## Closing

To wrap up, I must reiterate that technology and digital anonymity have completely changed the landscape of financial crime. Criminals can now commit fraud, run scams and perform other misconduct on a much larger scale from faraway jurisdictions, using increasingly sophisticated techniques. As enforcement regulators, we need to remain agile and responsive to meet these evolving threats with new strategies.

You represent a wide range of industries and jurisdictions. You also perform diverse roles in investigations. But a robust regulatory and enforcement framework is critical to protecting the integrity of our financial systems. In terms of the benefits to us all in having fair and open markets, I believe our interests are truly aligned.

I wish you all a productive and successful summit. Thank you.

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<sup>1</sup> See the "[Have you seen these people?](#)" section on the SFC website.

<sup>2</sup> See the SFC's [press release](#) dated 5 August 2024.