

Measures unveiled to tackle misappropriation

In response to recent broker failures involving misappropriation of client assets, the SFC has unveiled measures to increase protection of investors against misappropriation.

There are three important aspects to addressing the issue:

- Continuing rigorous supervision of brokers
- Maintaining dialogue with the accounting profession
- Educating investors on how to protect their own interests

The SFC has devoted additional resources to the supervision of brokers, and will continue to take decisive and tough action against dishonest practitioners.

The SFC will discuss with the Hong Kong Institute of Certified Public Accountants measures to strengthen co-operation, and require auditors to conduct client circularisation in annual audits.

The SFC will continue to help investors protect their own interests. Investors should:

- Open an Investor Participant (IP) account;
- Ensure timely receipts of the originals of monthly statements, verify the information immediately, and never allow brokers to hold them for you; and
- Upon request from the auditors for verification of account positions, perform checking immediately and revert to the auditors direct (see "What is circularisation" and "Know your broker" on pages 5 and 6).

Investors are also encouraged to learn more about protection against misappropriation on our InvestEd website at www.InvestEd.hk.

For details, please visit the InvestEd website's "Features & Dr Wise / Rules & Regulations / Market Misconduct" section at: http://www.invested.hk/invested/html/EN/features/rules/features_83_63_148.htm.

Message from SFC CEO

Dear Reader,

Although it is the summer holiday season, our work in the past two months has been as busy as ever.

We uncovered two problem securities broker firms, Tiffit Securities and Wing Yip, and issued restriction notices against them to preserve their assets and those they held for clients. We also obtained the Court's appointment of administrators to help return clients' assets.

We have unveiled measures to increase investor protection against misappropriation (see main article on the left).

With the gazettal of the Securities and Futures (Amendment) Ordinance 2006 on 23 June, the Government created the new post of Chief Executive Officer (CEO) and at the same time designated the Chairman as non-executive. Under the new structure, the Chairman will lead the SFC Board in setting overall direction, policies and strategies of the Commission while the CEO has the executive responsibility for the day-to-day running of the SFC. I was appointed as the CEO of the SFC on the same day.

Martin Wheatley

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Alert list helps investor avoid boiler rooms

The SFC has recently received a thank you letter from an investor, Ms Georgina Lestini, of France.

Suspicious of a share offer which required making a deposit, Ms Lestini visited the Alert List on our investor portal (www.InvestEd.hk) and noted that the caller was one of the entities on the List, and therefore, avoided becoming another victim of the scam operator.

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I want to thank you for your website's Alert List. I have been contacted by a company called Vannex Corporation offering to buy from me some shares I was swindled to acquire five years ago. Vannex sent me a contract detailing the offer, including how much they offered to buy my shares and how the settlement would be made. Thanks to the useful information in your Alert List, I have not made another mistake again.

Georgina Lestini

(Letter reformatted. Published with sender's consent)

A fruitful first quarter for 2006-07

The SFC has published the first Quarterly Report for the financial year 1 April 2006 - 31 March 2007.

In the quarter to end June, the SFC had some major achievements, especially on the enforcement front.

The SFC took action against 38 entities for various breaches - a record in a quarter. The most notable case was a disciplinary action against UKFP (Asia) HK Limited (formerly Towry Law (Asia) HK Limited) for mis-selling

of funds. UKFP offered substantial payments to settle claims by eligible investors. With the Stock Exchange of Hong Kong, the SFC took action against Deloitte & Touche Corporate Finance Limited and its responsible officer over sponsor failures. The SFC also for the first time joined with the Hong Kong Monetary Authority to reprimand and fine a bank related futures company for unlicensed activities.

The SFC issued a restriction notice on a broker to preserve the assets of the company

and its clients. The Court had appointed an administrator to handle return of client assets.

On the international front, the SFC hosted the 31st Annual Conference of the IOSCO in June with huge success and a record attendance in IOSCO events in recent years (see below).

For details, please see press release issued on 14 August 2006, available on the SFC website at: <http://eapp01.sfc.hk/apps/cc/PressRelease.nsf/eng/lkupNewsCode/06PR178?openDocument>.

Webcast on IOSCO Annual Conference

The 31st IOSCO Annual Conference was successfully held in Hong Kong between 5 and 8 June attracting more than 650 regulators and market participants from 135 jurisdictions all over the world.

For those who were unable to attend the Conference in person, those who happened to have missed some of the sessions, or those who simply want to review the sessions, a webcast of the public sessions can be viewed on the 31st IOSCO Annual Conference website (www.iosco2006.org).

The webcast includes the full video coverage of the Opening Ceremony, the four public panels (with the presentation slides), and the Closing Press Conference.



Circulars

The following recently published circulars are available on the SFC website under "Legislation & Regulatory Handbook" - "Regulatory Handbook" - "Codes, Guidelines and Circulars" at: <http://eapp01.sfc.hk/apps/cc/RegulatoryHandbook.nsf/eng/GenerateHTMLTB?openAgent>.

1. Circular to Fund Management Companies of SFC-authorized Funds - Information relating to the Risk Management and Control Process of UCITS III Funds applying for SFC authorisation (23.08.2006)
2. Circular to All Licensed Corporations Licensed for Dealing in Securities - Heighten Clients' Awareness of the Investor Participant Account (IP) and the Stock Segregated Account (SSA) Services (8.08.2006)
3. Invitation to Seminars on the New Requirements to Address Risks Arising from Securities Margin Financing (25.07.2006)
4. Circular to All Licensed Corporations - Prepare for Implementation of the New Requirements to Address Risks Arising from Securities Margin Financing (25.07.2006)
5. Circular to Licensed Corporations and Associated Entities - Anti-Money Laundering Training Seminar (21.07.2006)
6. Circular to Licensed Corporations and Associated Entities - Anti-Money Laundering / Combating Terrorist Financing - Quarterly Suspicious Transaction Report Analysis issued by the Joint Financial Intelligence Unit (18.07.2006)
7. Circular to Licensed Corporations and Associated Entities - Anti-Money Laundering / Combating Terrorist Financing (1) Non-cooperative Countries and Territories (2) United Nations Sanctions (Democratic Republic of the Congo) Regulation 2005 (3) United Nations Sanctions (Cote d'Ivoire) Regulation 2006 (18.07.2006)

Stellar growth of fund management business

Hong Kong's fund management business last year experienced another year of record growth.

At the end of 2005, the total asset size of the combined fund management business in Hong Kong was \$4,526 billion, 25.1% higher than a year ago.

SFC-licensed corporations and registered institutions respectively accounted for \$3,495 billion and \$1,031 billion.

The total asset size included \$38 billion worth of REITs. Excluding REITs, funds sourced from overseas investors stood at 63% or \$2,830 billion of the combined fund business, representing a year-on-year growth of 25%.

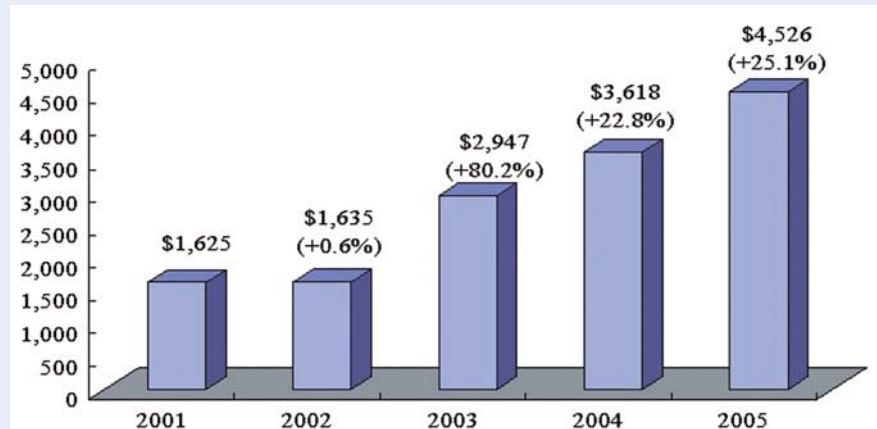
53% or \$1,725 billion of the total non REITs

assets under management (\$3,242 billion) were managed onshore.

The size of the combined fund management

business as at end 2005 was equivalent to 55% of Hong Kong's stock market capitalisation.

Combined Fund Management Business (HK\$ in billions)



Notes: 1. Percentages in brackets represent year-on-year growth
2. The 80.2% growth in 2003 was an exceptional case as registered institutions began to participate in the survey in that year

Alert list helps investor avoid boiler rooms

(continued from page 1)

The Alert List shows suspected boiler rooms, scam websites, phishes and unlicensed overseas entities which have come to the attention of the SFC.

The SFC set up the Alert List in November 2000. As of now, over 350 suspicious entities are on the List. We are encouraged by Ms Lestini's story as it proves once again

that the List has served the purposes of protecting investors.



Investor resources

The following items of investor resources have been made available to the investing public or updated recently. They can be found on the InvestEd website at the URLs provided.

Investor Alert Updates (<http://eapp01.sfc.hk/apps/ie/eIRCAAlertList.nsf/eng/alert?openpage>):

13 unlicensed companies have been added to the Alert List: "Imperial Trust LLC", "International Securities Tax Commission", "Links Mergers & Acquisitions" (11.08.06); "Abbey House Acquisitions" (09.08.2006); "Masters & Bettman" (02.08.2006); "Global Market Group Limited", "Global Market Group LLC" (28.07.2006); "www.fortiswm.com" (21.07.2006); "Morgan&Bonds", "Cooper&Price" (11.07.2006); "Gordon Stanford Acquisitions", "American Energy Exchange (AMENX)", "York Commodities" (06.07.2006). Information of one entities including "Whitman Pearce & Partners" (02.08.2006) has been updated on the list.

Dr Wise's Column (<http://www.invested.hk/invested/html/EN/features/index.htm>):

"Privatisations - Your Vote Can Make a Difference" (25.07.2006) and "Don't Ignore the Auditor Circular" (26.06.2006)

Other publications

The following publications have been published since the release of the last SFC Alert. They are available on the SFC website under "Speeches, Publications & Consultations" - "Publications" at: <http://www.sfc.hk/sfc/html/EN/speeches/public/public.html>.

1. SFC Enforcement Reporter - August 2006 (22.08.2006)
2. SFC Quarterly Report - April to June 2006 (14.08.06)
3. SFC Enforcement Reporter - July 2006 (27.07.2006)
4. Fund Management Activities Survey (19.07.2006)

HSI constituent changes

HSI Services Ltd recently announced changes to the Hang Seng Index (HSI), which marked the first time inclusion of one H-share company in the HSI (see the charts below).

Earlier, HSI Services Ltd also revealed that the methodology for compiling the index would be changed from a full market capitalisation weighted formula to a freefloat-adjusted one, with a 15% cap on individual stock weightings.

The SFC has advised investors in a research paper to be particularly alert to the possible increase in trading and volatility of stocks around the time of the rebalancing exercise of the HSI.

Since the weightings of large cap stocks will be capped under the new methodology, the portfolios of funds tracking or otherwise

associated with the HSI may need to be rebalanced by selling some large cap stocks and buying other constituent

stocks. The changes mean that some stocks could experience heavy trading and price volatility immediately before and after the rebalancing exercises.

However, it is not possible to predict precisely the impact of the adjustments because many variables remain unknown.

Therefore, investors need to be aware of possible rebalancing activities and their effects, and to take such information into account when making their investment decisions.

Derivatives traded more active in Hong Kong than overseas

According to SFC research, the growth in the trading of listed equity derivatives is higher in Hong Kong and such trading is in general more active than in overseas markets.

For the stock option on HSBC, traded in Hong Kong, the UK and US, Hong Kong accounted for 62% of turnover in the first four months of 2006. In another nine stock option classes, traded in Hong Kong and the US, the market share of Hong Kong was 58%. This represented a reversal from a year ago.

The growth was underpinned by the trading activities of the underlying stocks, as an active cash market is essential for investors to price and hedge the derivatives. Moreover, recent measures such as narrowing of trading spreads of underlying stocks and relaxation of position limits may have contributed to this growth.

For details, please see the research paper issued on 22 June 2006, available on the SFC website at: <http://www.sfc.hk/sfc/doc/EN/research/research/rs%20paper%2031.pdf>.



For details, please see research paper published on 11 August 2006, available on the SFC website at: <http://www.sfc.hk/sfc/doc/EN/research/research/rs%20paper%2032.pdf>.

Bulletin board - licensing matters

The SFC relies on the details and information provided by intermediaries to contact them during emergency situations. It has come to our attention that some licensed corporations and registered institutions may not have kept the SFC updated of their emergency contacts. Licensed corporations are required to notify

the SFC in writing within seven business days after any changes take place, pursuant to section 135 of the Securities and Futures Ordinance and section 4 of the Securities and Futures (Licensing and Registration) (Information) Rules. Registered institutions are required to notify the changes to both the Hong Kong Monetary Authority and the SFC.

In this regard, the SFC urges licensed corporations and registered institutions to promptly notify the SFC and the HKMA accordingly of any changes to their emergency contact person details. Licensed corporations/registered institutions should contact the SFC Licensing Department if they have any questions regarding this matter.

SFC issues **restriction notices** against broker firms

The SFC cracked down on two brokers during the last two months to protect investors.

During an onsite inspection in July, the SFC uncovered a material shortfall in the securities held by Tiffit Securities (Hong Kong) Ltd for its clients and a breach of the Securities and Futures (Financial Resources) Rules (FRRs).

As a result, on 18 July 2006, the SFC issued a restriction notice against Tiffit, prohibiting the company from carrying on regulated activities and preserving the assets of the firm and its clients.

On 24 July, the SFC successfully applied to the Court to appoint administrators to administer the property of Tiffit and property it held for clients, to investigate Tiffit's affairs, to verify clients' claims, and to return client assets.

To ensure that the major shareholder of Tiffit remains available to assist the administrators, the SFC obtained a Court Order prohibiting him from leaving Hong Kong.

Separately, in a review of Wing Yip Company Ltd's financial returns, the SFC suspected a breach of the FRRs. The SFC then conducted an unannounced inspection. Upon questioning by the SFC, the major shareholder admitted

that he had misappropriated client securities and provided falsified statements to the clients.

On 7 August, the SFC issued a restriction notice against Wing Yip.

On 10 August, the SFC successfully obtained the Court's appointment of administrators.

The SFC will not hesitate to take decisive and tough action against those found stealing from clients.

For more details, please see the relevant press releases available on the SFC website at: <http://eapp01.sfc.hk/apps/cc/PressRelease.nsf/eng/HTMLGeneralNews?openAgent>.

What is **circularisation**

Circularisation is an important audit step taken by auditors looking for direct, third party confirmation to check the existence, completeness and accuracy of positions, as recorded by the company being audited.

It is therefore not uncommon for auditors of a broker firm to send a request to clients of the broker firm, typically on a sample basis, enclosing a statement of account detailing their positions, including account and cash balance, open positions, stockholdings, and asking them to confirm the accuracy of such positions.

If you receive a confirmation request from an auditor, it does not necessarily mean that your broker firm is in trouble or client assets have gone missing. It may just be a routine verification exercise. If that is the case, there should not be any need to be alarmed.

What you should do is to carefully check the information on the enclosed statement of account against your records, and promptly report to the person named on the confirmation request, who is independent of your broker firm.

When the information is accurate, you still need to respond as it will definitely help the auditors. With a low response rate, the auditors may have difficulty in assessing the reliability of the broker firm's records and this will defeat the purpose of conducting a circularisation.

If you spot any discrepancies, it is not a good idea to directly contact your broker firm, let alone your account executive. Instead, you should immediately contact the person designated by the audit firm.

For details, please visit the InvestEd website's "Features & Dr Wise / Dr Wise's Column" section at: http://www.invested.hk/invested/html/EN/features/doctor/features_87_226_332.htm.

Appointments

- The Financial Secretary has appointed **Mrs Angelina Lee** as an SFC **Non-Executive Director** from 1 August 2006 to 31 July 2008, to succeed **Mr Raymond Kwok**. The SFC thanks Mr Kwok, who has been one of its longest-serving Non-Executive Directors, for his tremendous contribution in the past eight years to the SFC and the Hong Kong financial market.
- The SFC has re-appointed 12 members to the **Public Shareholders Group** for a one-year term, effective 1 July 2006. The members include Executive Director of the SFC Corporate Finance Division (Chairman) (Ex-Officio), **Mr Jamie Allen, Mr Rex Auyeung, Prof. K. C. Chan, Mr Vincent Chan, Mr Wing Luk Chan, Mr David Cheung, Prof. Stephen Cheung, Mr William Kerr, Mr Stuart Leckie, Mr Karl Lung, and Mr David M. Webb**. The SFC thanks **Prof. Andrew Chan** and **Mr Vincent Duhamel**, who have retired from the Group.

In brief

- The SFC has commenced an inquiry under **section 179 of the SFO** into the affairs of Ocean Grand Holdings Ltd and Ocean Grand Chemicals Holdings Ltd to establish if the business of the companies has been conducted for any fraudulent or unlawful purpose.



To safeguard your interest, it is important for you to choose an appropriate broker.

As a first step to know your broker, you may look up the “Public Register of Licensed Persons and Registered Institutions” under the “Intermediaries, Licensing and Investment Products” section on the SFC website (www.sfc.hk). You can search for a licensee by entering the licensee’s name in Chinese or English.

For each licensed corporation, the register contains information under the following sections:

- Licence Details: The name and Central Entity No. (CE No.), an SFC designed reference number, of the corporation, date of licence and the regulated activities allowed to carry out.
- Addresses: Its business address and website, if any, of the corporation.
- Responsible Officers: The names of the responsible officers (at least two) supervising the corporation’s regulated activities.
- Representatives: The names of the representatives accredited

to the corporation.

- Complaints Officers: The contact information, e.g. phone/fax numbers, email/correspondence addresses, of the corporation’s complaints officers.
- Conditions: The licence condition, if any, attached to the corporation (e.g. it cannot hold client assets).
- Public Disciplinary Actions: Public disciplinary actions, if any, taken by the SFC against the corporation in the past five years.
- Previous Name: Any previous name(s) used by the corporation.

For the responsible officers and representatives of each licensed corporation, you may get their individual information, such as the date of their licence, the regulated activities allowed to carry out, and any public disciplinary actions taken against them in the past five years.

Appointing a right broker is an important decision. Remember to make the appropriate checks before you act.

In brief

- From May to July, the SFC organised 15 **investor education workshops** for secondary school teachers, covering wide-ranging investment topics and site visits, and attracted 1,900 enrolments. The workshops are recognised as Continuing Professional Development courses for teachers by the Education and Manpower Bureau. After the workshops, SFC staff also spoke to the teachers on learning and

teaching of investor education at three post-training workshops offered by the Bureau.

- Tune in to our new education radio segments **Learn More About Investing** on MetroFinance at 7:20 pm every Tuesday and Thursday until 7 September 2006. Celebrities will remind you of the dos and don’ts when engaging in different investment activities. Visit our InvestEd website at www.InvestEd.hk for tips to participate in the quiz at the end of each segment.

Some celebrities appearing in the segments will also share their personal investment experiences in the Singtao Investment Weekly Magazine published each Monday.

- The Government has published the 2005 Annual Report of **Process Review Panel** for the SFC. The Panel reviewed 58 completed cases and SFC procedures covering various areas of its work, and concluded that, in general, the SFC had been adhering to established internal procedures in its decisions and actions.



Recruitment

The following SFC positions are open. For application and details of the openings, please visit the SFC website at: <http://www.sfc.hk/sfc/html/EN/aboutsfc/employment/employment.html>.

- **Senior Manager- Intermediaries and Investment Products Division (Investment Products Department)**
- **Temporary Assistant Manager - Finance**



Subscription information

The bi-monthly *SFC Alert* forms part of our range of regular publications; others include the monthly *SFC Enforcement Reporter*, the *Quarterly Report*, the *Quarterly Bulletin* and the *Annual Report*. All these publications are posted on the SFC website.

Free subscription to the electronic version of the *SFC Alert* (and other publications) can be made to sfcalert@sfc.hk.



Feedback

Tell us what you think of the *SFC Alert*. Questions and comments can be sent to sfcalert@sfc.hk.

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