STATEMENT OF DISCIPLINARY ACTION

The Disciplinary Action

1. The Securities and Futures Commission (SFC) has taken the following disciplinary action against Credit Suisse Securities (Hong Kong) Limited (**Credit Suisse**) pursuant to section 194 of the Securities and Futures Ordinance (**SFO**):

   (a) publicly reprimanded Credit Suisse, pursuant to section 194((1)(b)(iii) of the SFO; and

   (b) imposed a financial penalty of HK$1.6 million on Credit Suisse, pursuant to section 194(2) (b) of the SFO.

2. The disciplinary action relates to Credit Suisse's failure to comply with the Securities and Futures (Contracts Limits and Reportable Positions) Rules (the **Rules**) and its failure to put in place effective controls to ensure compliance with the Rules.

Summary of facts

Credit Suisse's position limit breaches

3. On 16 December 2011, the Stock Exchange of Hong Kong Limited (**SEHK**) notified the SFC that Credit Suisse and Credit Suisse International held a combined position of 62,359 and 72,579 contracts in option class Industrial and Commercial Bank of China Limited (**ICBC Option**) in the upside direction on 14 and 15 December 2011 respectively[1], in breach of the prescribed position limit in one market direction of 50,000 contracts (**December Breach**). The holding of ICBC Option contracts was reduced to below the prescribed limit of 50,000 contracts on 16 December 2011.

4. Credit Suisse had previously obtained from the SEHK an increase in position limit applicable to ICBC Option to 80,000 open contracts in any one market direction for all expiry months combined in November 2010, but the increased prescribed position limit had expired in June 2011.

5. When asked by the SFC to review its positions in all stock options for the period from October to December 2011, Credit Suisse conducted a review of all stock option classes from July to December 2011, and reported to the SFC that its position in ICBC Option had also exceeded the prescribed position limit of 50,000 contracts on 27 October 2011 (**October Breach**). The holding of ICBC Option contracts was reduced to within the prescribed position limit by the end of the next trading day.

Causes for the position limit breaches

[1] The positions in ICBC Option held by Credit Suisse and Credit Suisse International are under the same control and are therefore aggregated for the purpose of applying the prescribed position limit.

6. At the material time, Credit Suisse had in place a control system to ensure compliance with the Rules. A number of reports are generated on a daily basis to facilitate the monitoring of position limits by the traders. One of the reports is a position warning report which is generated for the purpose of indicating high utilization of the position limit of any particular stock option class, which has reached 75% of its prescribed limit.

7. There were, however, a number of limitations in the warning report:

   (a) the position limit of the respective stock option class shown in the warning report was always 50,000 contracts irrespective of any excess limit approved by SEHK; and

   (b) the indicator of exceeding position limit did not correctly reflect the true status of the stock option class as the open positions arising from the market making and the proprietary activities of Credit Suisse and Credit Suisse International were not combined.

8. At the relevant time, three stock option classes had previously been the subject of applications for extensions.

9. The warning report was introduced in April 2011. The traders raised the limitations in the warning report with Credit Suisse but no steps to address the limitations in the warning report were taken until after the December Breach.

10. As a result, pending improvements being made to the warning report, with respect to stock options contracts in which extensions were granted, the traders had to rely on their memories of any approved excess limits in monitoring compliance with the Rules.

11. At the time of the October Breach and the December Breach, the traders were not immediately aware from looking at the warning report that the previously extended position limit for ICBC Option had already lapsed in June 2011 (see paragraph 4 above). Therefore, they mistakenly believed that the position limit for ICBC Option was 80,000 contracts.

Breaches and reasons

12. As a licensed corporation, Credit Suisse is under a duty to implement measures to ensure compliance with all applicable laws and regulatory requirements:

   (a) Section 4(1) of the Rules provides that no person, except persons authorized by the SFC or SEHK, may hold or control stock options contracts in excess of the prescribed limit.

   (b) Section 5(b) of the Rules provides that the limit on the number of contracts that may be held or controlled, in the case of stock options contracts, is specified in Schedule 2 of the Rules.

   (c) Schedule 2 of the Rules provides that the prescribed limit for stock options contracts on shares listed on the SEHK is 50,000 open contracts per option class in any one market direction for all expiry months combined.

(d) General Principle 2 of the Code of Conduct requires a licensed person to act with due skill, care and diligence, in the best interests of its clients and the integrity of the market in conducting its business activities.

(e) General Principle 7 of the Code of Conduct requires a licensed person to comply with all regulatory requirements applicable to the conduct of its business activities.

(f) Paragraph 12.1 of the Code of Conduct requires a licensed person to comply with and maintain appropriate measures to ensure compliance with the law, rules, regulations and codes administered or issued by the SFC, exchanges, clearing houses and other regulatory authorities which apply to the licensed person.

13. Credit Suisse's breaches of the Rules with respect to the ICBC Option on 27 October 2011, 14 December 2011 and 15 December 2011 also constitute a breach of General Principle 7 of the Code of Conduct.

14. The controls to ensure compliance with the Rules that Credit Suisse had in place up until December 2011 had shortcomings:

(a) The warning report was intended to assist the traders to ensure compliance with the prescribed position limit, but the position limit of the respective stock option class shown in the warning report was always 50,000 contracts irrespective of any excess limit approved by SEHK, i.e. the warning report did not show any increased prescribed position limits and their expiry dates.

(b) Traders were required to use their memories to ensure compliance with position limits with respect to stock options contracts which had been granted excess limits – they had to resort to their memories of the increased prescribed position limits.

(c) After introduction of the warning report in April 2011, the traders raised the limitations in the warning report with Credit Suisse but Credit Suisse took no steps to address them until after the December Breach.

15. In the circumstances, the SFC considers that Credit Suisse has failed to maintain and implement appropriate measures in respect of the positions which were granted extensions to ensure compliance with the Rules, in breach of paragraph 12.1 of the Code of Conduct. Such failure also reflects that Credit Suisse has failed to act with due skill, care and diligence in conducting its business activities, in breach of General Principle 2 of the Code of Conduct.

Conclusion

16. Having regard to the nature and causes of Credit Suisse's breaches, particularly its delay in taking appropriate measures to address shortcomings in the warning report, the SFC has decided to take the disciplinary action against Credit Suisse as described in paragraph 1 above.