

STATEMENT OF DISCIPLINARY ACTION

The Disciplinary Action

1. The Securities and Futures Commission (SFC) has taken the following disciplinary action against Cheong Lee Securities Limited (**Cheong Lee**) pursuant to section 194 of the Securities and Futures Ordinance (**SFO**):
 - (a) publicly reprimanded Cheong Lee, pursuant to section 194(1)(b)(iii) of the SFO; and
 - (b) imposed a financial penalty of HK\$2 million on Cheong Lee, pursuant to section 194(2)(b) of the SFO.
2. Cheong Lee failed to put in place effective system and control procedures to detect and prevent the execution on the exchange securities trades that were self-matching in the same account.
3. The failure constitutes a breach of General Principle 2 (Diligence) of the Code of Conduct for Persons Licensed by or Registered with the SFC.

Summary of facts

4. In December 2008, Cheong Lee was advised by the SFC that it should have adequate and effective internal control systems in place to prevent self-matching of orders from the same clients.
5. In July 2011, the SFC found that Cheong Lee allowed its clients to adopt a master account and sub-accounts structure, under which the account holder maintained multiple sub-accounts and authorized traders to give trading instructions for each of the sub-accounts. The trading activities among the sub-accounts resulted in self-matching trades.
6. Cheong Lee said it had taken steps to prevent and detect the self-matching trades, including reviewing the self-matching trades, monitoring the orders from the sub-accounts, warning the relevant clients, and launching a new Broker Supplied System (**BSS**).
7. These steps are clearly insufficient and ineffective not only because there were over 1,500 self-matching trades during the period from December 2008 to November 2011 but also:
 - (a) the reviews:
 - (i) on average failed to identify 30% of the self-matching trades; and
 - (ii) failed to satisfactorily explain why the self-matching trades occurred;

- (b) the monitoring only involved eye-ball checking the client orders which was prone to mistakes and omissions;
- (c) no action was taken despite repeated warnings were given to clients; and
- (d) the BSS which can identify self-matching trades were launched only in June 2012.

Breaches and reasons

- 8. As a licensed corporation, Cheong Lee is under a duty to act in the best interest of market integrity. Cheong Lee should therefore implement adequate system and controls to prevent and detect trading irregularities, including self-matching trades, which were executed at the same price and of the same quantity, for the same master account.
- 9. In the circumstances, the SFC considers that Cheong Lee has failed to exercise due skill, care and diligence to ensure the regulated activities it carried on as a business were in the best interest of market integrity. The self-matching trades are not in the interest of market integrity given they are of no economic value and will result in an inflation of market turnover.

Conclusion

- 10. Having considered all the circumstances, the SFC has decided that the sanction of public reprimand and fine of HK\$2 million is the most appropriate and commensurate with the view of the SFC on the gravity of the failures.