

Highlights

In April, the SFC:

- convicted five people and firms
- disciplined 11 market intermediaries for various regulatory breaches

Prosecution

Conviction for providing false information

Mr Ho Yan Lock, a former accountant of Quest Stockbroker (HK) Ltd, pleaded guilty to providing false information under the Securities and Futures Commission Ordinance concerning Quest's January 2002 financial return. Ho was fined and ordered to pay the SFC's investigation costs.

(Press release issued on 1 April 2003)

Every person who gives information to the SFC must ensure it is accurate and timely. People who deliberately or recklessly mislead us will be prosecuted, and if licensed, face disciplinary action.

Unlicensed leveraged foreign exchange trader convicted

The SFC successfully prosecuted Mr Chew Chun Ming Anthony under the Leveraged Foreign Exchange Trading Ordinance for unlicensed trading. Chew solicited clients to open accounts with Peace Town Forex Limited and received commission income. Chew was fined and ordered to pay the SFC's investigation costs.

(Press release issued on 1 April 2003)

Unlicensed dealing harms both clients and market integrity. People engaged in unlicensed dealing and licensees assisting them can expect to be prosecuted and face harsher disciplinary sanctions under the SFO. Broker firms, in particular, should ensure they have in place effective systems to prevent these unlawful activities of their employees.

Get your investment advertisements approved

The SFC successfully prosecuted Colliers International Agency Ltd, its managing director, Mr Piers Daniel Carlyle Brunner and its director Ms Kar-yan Rosaline Lam under the Protection of Investors Ordinance. Colliers with the consent of Brunner and Lam, issued advertisements in local newspapers, through postcards, via its website and by an open exhibition inviting the public to invest in a project called "Holiday Inn Wellington" with a guaranteed return. Colliers did not obtain SFC authorisation for the advertisements before issuing them. All three were fined and ordered to pay the SFC's investigation costs.

(Press release issued on 8 April 2003)

SFC approval is essential before the launch of an investment product to the public. Misleading advertisements for investment products must be avoided at all costs as these can cause irreparable damage to investors and market confidence. Those who don't comply will face prosecution. Please call SFC's Investment Products Department (Infoline 2840 9393) for background information on investment products.



SFC Enforcement Reporter

A monthly summary of SFC enforcement action

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Discipline

Revocation for theft

The SFC revoked the licence of Mr Yeung Tsz Chung, a securities dealer's representative, for stealing over \$21 million over a substantial period of time at CLSA Ltd.

(Press release issued on 7 April 2003)

The SFC will not condone those who abuse their clients' trust. Licensees who steal from their clients will be banned from the industry and face probable criminal prosecution by the Police.

Don't help market manipulators

The SFC reprimanded Mr Chong Tin Lung Benny for breaching internal rules of his former employers, Merrill Lynch (Asia Pacific) Ltd and Merrill Lynch Far East Ltd, and the spirit of the SFC's Code of Conduct. Chong gave the impression that he would help manipulate the Global Green Tech Group Ltd share price. It was only one of the conduct problems the SFC had found with him. Chong would have been suspended if he hadn't already been out of the industry since April 2002.

(Press release issued on 1 April 2003)

Market manipulation is a criminal offence. The SFO imposes very serious penalties. Those who help manipulate a share may be prosecuted, and if licensed, face severe disciplinary action. The SFC noted Merrill Lynch had dismissed Chong and reported his actions.

Licences surrendered in warrant manipulation investigation

As a result of the SFC's allegations that Mrs Chu Yuet Wah (Y W Chu) had either actively assisted or turned a blind eye to the manipulative trading by two former employees at Merrill Lynch (Asia Pacific) Limited of derivative warrants issued by Merrill Lynch International & Co C.V. from October 1998 to March 1999, Y W Chu voluntarily surrendered her licences as a securities dealer's representative and a commodity dealer's representative and undertook not to apply for new licences for 24 months. While she may exercise her rights as a major shareholder of Kingston Securities Ltd, Y W Chu undertook not to have any involvement in or influence over the day to day running of its business operations during the period.

Mr Chu Yuk Yui, a dealing director of Kingston, accepted an SFC reprimand for his failure to supervise and monitor Y W Chu's activities as well as for a number of internal control failings at Kingston which facilitated Y W Chu's trading malpractices including account opening deficiencies and inadequate audit trails.

(Press release issued on 3 April 2003)

This case ends our investigation into the market manipulation of the Merrill Lynch derivative warrants. Market participants who are part of schemes to manipulate any market should take note that under the new regime they can either be prosecuted or face civil action. Those who are licensed by us will also face tougher penalties under the SFO.

Facilitating market manipulation leads to suspension

The SFC suspended the licence of Ms Ng Wai Chi Iris for one week. Ng failed to make inquiries into trades placed by a third party purportedly on behalf of the account of one of her clients after her supervisor had told her to pay more attention to trading in the account. She also facilitated the third party's trading beyond the limit imposed on the account.

(Press release issued on 25 April 2003)



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A licensee should always be alert to signs of possible market manipulation. Failure to question suspicious trading shows a disregard for market integrity. The SFC views such failures seriously and suspension periods will be considered in such cases.

Unprecedented sanctions by the Takeovers Executive

The Takeovers and Mergers Executive of the SFC imposed cold shoulder orders on Mr Hui Chuen Kin Daniel and Mr Lui Bing Kin Michael, executive directors of International Capital Network Holdings Ltd (ICNH). Both Hui and Liu were denied access to the markets for 24 months and censured. Hui also voluntarily suspended his licence for 24 months.

The sanctions stemmed from the failure of the ICNH board to consult the Executive on the material transactions entered into by ICNH during an offer period and to issue a response document despite a ruling by the Takeovers Panel. (The cold shoulder orders on Hui and Liu will take effect on 17 June 2003 to allow ICNH time to find another licensed person to carry on its investment advisory business.)

(Press release issued on 24 April 2003)

The sanctions on Hui and Liu were imposed by agreement without admission of fault. This is the first time cold shoulder orders were ever imposed not in relation to Rule 26.1 of the Takeovers Code but rather to other provisions of the Code.

Suspension for allowing unauthorised trading and misleading clients

The SFC suspended Mr Ho Ying Wai for three months. Ho breached both the Code of Conduct and his employer's internal policies by allowing a third party to operate a client's account without obtaining written authorisation from the client. Ho also provided misleading information to the client and her husband on the account's trading activities. Ho appealed against the decision to the Securities and Futures Appeals Panel but withdrew his appeal on 1 April 2003.

(Press release issued on 4 April 2003)

Grave doubts are cast on the fitness and properness of licensees who provide misleading information to their clients. Those who do so will face possible suspension. We will also punish any licensee who fails to obtain a client's written consent before letting a third party trade in the account and to follow an employer's internal policies or guidelines and the requirements in the Code of Conduct.

Reprimand for firm and director for breach of the Financial Resources Rules

Global Credit Securities Ltd failed to maintain the minimum liquid capital for some periods in 2001. It even provided false and misleading information to the SFC that it had met the requirement. It also had inadequate internal controls to ensure continuous compliance with the FRR and failed to supervise its employees diligently. The SFC reprimanded the firm and its supervisory director, Ms Yip Wan Fung Christie.

(Press release issued on 23 April 2003)

A licensed firm must ensure its FRR calculations are accurate; and must not lie to the SFC.

Severe reprimanded for poor internal controls

The SFC severely reprimanded Philips Securities (HK) Ltd for a host of internal controls failings over a substantial period of time. These included inadequate controls over change of client information, absence of written policies and procedures for assessing market risk or on margin calls, and inadequate controls on accounts with overdue balances.

(Press release issued on 29 April 2003)



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Sound internal controls are necessary to protect both the firm and its clients. In future, we may impose fines and other new sanctions under the SFO.

General Enforcement Statistics

For the first month of the financial year 2003-04, the SFC has successfully prosecuted five people and firms, and disciplined 11 market intermediaries for various regulatory breaches.

If you want to know more, the SFC's press releases are available at www.hksfc.org.hk under the section "Press Releases, Publications & Speeches".

If you want to subscribe and receive the Enforcement Reporter monthly by email, simply register for the SFC's Website Update Email Alert service on our homepage and select SFC Enforcement Reporter. Intermediaries licensed by the SFC receive the Enforcement Reporter monthly from their FinNet email accounts.

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