SFC Reprimands Cheung Tung Woon and China Southern Securities (Hong Kong) Limited for Poor Internal Controls

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The SFC has reprimanded China Southern Securities (Hong Kong) Limited and Mr Cheung Tung Woon, a responsible officer of China Southern, for internal control failings.

The action follows SFC investigations into two incidents in recent years involving China Southern, at the time known as South Capital Brokerage Limited, and its representatives.

The SFC found that:

- between August 1998 and June 2001, China Southern did not have any written guidelines or policies in place. This led to a staff member breaching Hong Kong Exchanges and Clearing Limited's Placing Guidelines For Derivative Warrants then in force and conducting personal trades which China Southern could not monitor to prevent conflicts of interest (Note 1). The staff member said he did not disclose the relevant trades because China Southern did not require him to; and
- between May 1999 and February 2001, another account executive of China Southern (Note 2) continued to execute trades in five of his clients' accounts when the margin call values exceeded the margin limits for prolonged periods from six to 14 months. As a result of this lax approach to credit control, the debit balances of these clients' accounts grew substantially.

The SFC found that both Cheung and China Southern were responsible for the lack of written guidelines or policies, in particular in the area of warrant placements business and staff dealing. Also, China Southern had a lax credit control policy for which Cheung was not responsible.

In view of the above failings, China Southern's and Cheung's fitness and properness has been called into question, and the SFC therefore decides to reprimand them. In deciding this penalty, the SFC has taken into consideration that China Southern appointed an external accountant to review its internal control measures and that there has been management change and internal control improvements in China Southern.

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "Brokerage firms are expected to have a proper internal control system in place. A written manual listing out the procedures of how to comply with the relevant rules and regulations is a basic requirement. Lax credit control poses a danger to the level of a brokerage's liquid capital and it is not an acceptable practice. Internal control systems and policies must be in place to ensure client accounts are properly managed and under control. This is essential to ensure that there is no unauthorised trading by account executives and that there is proper disclosure on the part of staff of their own accounts and/or their relatives' accounts. Responsible officers must ensure that relevant rules and regulations are compiled with at all times. We will therefore continue to investigate and where appropriate take disciplinary action against licensed corporations and members of their management who fail to comply with the requirements."

Ends

Notes:

1. For details, please refer to SFC press release dated 28 March 2003.

2. The licence of the account executive has been revoked due to the reason of cessation of business.