

SFC Reprimands Grand Onward Securities Limited and Suspends Tsang Chi Suen Trini and Wong Tin Fuk Alex

17 Dec 2004

The SFC has reprimanded Grand Onward Securities Limited, a deemed licensed corporation, and suspended its then sole responsible officer, Mr Tsang Chi Suen Trini, for nine weeks from 3 January 2005 to 6 March 2005 (both dates inclusive). It has also suspended the licence of one of its licensed representatives, Mr Wong Tin Fuk Alex, for nine weeks from 17 December 2004 to 17 February 2005 (both dates inclusive) under the Securities and Futures Ordinance (Note 1).

The action stems from an SFC inquiry under section 56 of the Securities Ordinance following a routine inspection of the operations of Grand Onward.

A number of serious deficiencies were identified during the inquiry:

- client securities were used without proper written authorisation to settle other clients' transactions;
- inadequate measures to prevent illegal short selling;
- failure to properly segregate settlement and dealing functions;
- absence of written company policies and procedures manual;
- failure to implement effective internal and compliance systems;
- failure to monitor the activities of staff members; and
- inadequate clearing and settlement procedures.

The SFC concludes that Grand Onward has been guilty of misconduct and its fitness and properness has been called into question. In reaching its decision to reprimand Grand Onward, the SFC took into account that Grand Onward had since introduced a written compliance manual to strengthen its internal controls and ensure compliance with the relevant rules and regulations.

The SFC also found that Wong had:

- failed to ensure shares which had been short sold were bought back through the Central Clearing and Settlement System (CCASS);
- used client securities without proper written authorisation to settle other clients' transactions; and
- failed to perform stock and bank reconciliation on a daily basis.

The SFC found that Grand Onward's failure to implement adequate guidelines and control measures to prevent unauthorised borrowing of client securities had contributed to Wong's misconduct. The SFC noted that Grand Onward's clients suffered no loss as a result of Wong's unauthorised borrowing of their securities.

The SFC found that Tsang, as Grand Onward's sole responsible officer, had failed to discharge his functions properly in managing and supervising Grand Onward's operations. The SFC also found that Tsang had turned a blind eye to the borrowing of client securities without proper authorisation for settlement purpose by Wong and had on at least one occasion personally allowed the unauthorised borrowing of client securities.

The SFC decided to suspend each of their licences for three months.

Tsang and Wong appealed the SFC's decisions to the Securities and Futures Appeals Tribunal. Their proceedings have now been withdrawn as part of a compromise on the basis that both Tsang and Wong fully admit their misconduct and both Tsang's and Wong's licences will each be suspended for nine weeks.

The SFC considers the settlements to be in the public interest.

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "Weak internal controls in a brokerage put its clients and the firm itself at risk. At worst, they allow brokerage employees to defraud clients. A strong internal control system will better protect the interests of the company and the investing public. Those firms and their management who fail to put in place adequate internal

controls can expect to face disciplinary action."

Ends

Notes to Editor:

1. Grand Onward is a deemed licensed corporation in Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising in corporate finance) and Type 9 (asset management (securities only)) regulated activities.

Tsang is a deemed licensed responsible officer in Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising in corporate finance) and Type 9 (asset management (securities only)) regulated activities accredited to Grand Onward Securities Limited.

Wong is a deemed licensed representative in Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising in corporate finance) and Type 9 (asset management (securities only)) regulated activities accredited to Grand Onward Securities Limited.

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