

SFC Reprimands and Fines Lucky Securities Company Limited

8 Aug 2007

The SFC has issued a reprimand to Lucky Securities Company Limited (Lucky) and fined it \$470,000 (Note 1).

This decision follows an SFC investigation which found that Lucky had failed to institute sufficient internal systems and controls to prevent internal fraud. The SFC found that, since 2004, a licensed representative of Lucky had misappropriated client assets amounting to about \$1.2 million (Note 2).

Mr Mark Steward, SFC's Executive Director of Enforcement, said: "This firm had insufficient systems and controls to guard against fraud risk in three main areas. First, the firm allowed trading staff to control the delivery of client confirmations. This makes it easier for unscrupulous staff to destroy or alter incriminating trading records being sent to their clients. Secondly, the firm allowed trading staff to deliver physical share certificates to clients without confirming written receipt of the certificates from the clients. Thirdly, the firm had no system in place to check client orders against phone records, even on a sample basis."

In deciding the penalty, the SFC took into account all the circumstances including Lucky's co-operation as well as the fact that the firm had paid compensation to the victims and engaged an independent accounting firm to review its internal controls.

"The adequacy of internal control systems is fundamental to the fitness and properness of a licensed corporation. Firms with poor internal controls increase the risk of internal fraud and client losses," added Mr Steward.

Ends

Notes:

1. Lucky is a corporation licensed under the Securities and Futures Ordinance to carry on Type 1 (dealing in securities) regulated activity.
2. The licensed representative was dismissed by Lucky and the SFC has banned him from re-entering the industry for life. Please see SFC [press release](#) dated 22 February 2007 for details.