

SFC reprimands and fines Credit Suisse Securities (Hong Kong) Limited \$1.6 million for regulatory breaches

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The Securities and Futures Commission (SFC) has reprimanded and fined Credit Suisse Securities (Hong Kong) Limited (Credit Suisse) \$1.6 million for regulatory breaches and internal control failings relating to position limit failures (Note 1).

Credit Suisse has also agreed to engage an independent reviewer, to be approved by the SFC, to review its systems and controls for ensuring compliance with the Securities and Futures (Contracts Limits and Reportable Positions) Rules (Rules).

The disciplinary action follows an SFC investigation into the holdings of Credit Suisse and Credit Suisse International of open positions in Industrial and Commercial Bank of China Limited stock options (ICBC Option) in breach of the prescribed position limit of 50,000 contracts on 27 October 2011, 14 December 2011 and 15 December 2011 (Notes 2, 3, 4 & 5).

The SFC also found that Credit Suisse failed to put in place effective internal controls to ensure that all open positions in stock options contracts in which extensions were granted were in compliance with the prescribed position limits.

In particular, the SFC found that at the material time, Credit Suisse had a system in place to ensure compliance with the Rules which generated regular reports including a warning report to signal when positions reached 75% of the available limit. However, excess position limits approved by the Stock Exchange of Hong Kong Limited and the expiry dates of the approved excess limits were not shown in the warning report and traders had to rely on their memories in monitoring compliance with the Rules. At the relevant time, three stock options classes had previously been the subject of applications for extensions.

The three position limit breaches with respect to the ICBC Option in October and December 2011 were caused by the traders' mistaken belief that an approved excess limit which had expired in June 2011 remained available.

The warning report was introduced in April 2011. The traders raised issues about the limitations of the warning report with Credit Suisse but no steps to rectify them were taken until after the position limit breaches in December 2011.

In deciding the penalty, the SFC took into account Credit Suisse's clear disciplinary record, the fact that it has now strengthened its internal controls for monitoring compliance with the prescribed position limits and its full co-operation with the SFC in the investigation.

End

Notes:

1. Credit Suisse is a licensed corporation under the Securities and Futures Ordinance to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities.
2. Rule 4(1) of the Rules provides that no person, except persons authorized by the SFC or the Hong Kong Exchanges and Clearing Limited, may hold or control futures contracts or stock options in excess of the prescribed limit.
3. Section 5(b) of the Rules provides that the limit on the number of contracts that may be held or controlled, in the case of stock options contracts, is specified in Schedule 2 of the Rules.
4. Schedule 2 of the Rules provides that the prescribed limit for stock options contracts on shares listed on the Stock Exchange of Hong Kong Limited is 50,000 open contracts per option class in any one market direction for all expiry months combined.
5. The positions in ICBC Option held by Credit Suisse and Credit Suisse International are under the same control and are therefore aggregated for the purpose of applying the prescribed position limit.
6. A copy of the [Statement of Disciplinary Action](#) in relation to the matter is available on the SFC website.

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