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SFC Reprimands Phillip Securities (HK) Limited for Poor Internal ControlsA

29 Apr 2003

The SFC has severely reprimanded Phillip Securities (HK) Limited.

The SFC has noted a substantial number of incidents involving representatives of Phillip in the past three years, including client complaints and matters Phillip itself reported to the SFC. As a result of our investigation into those incidents, we have taken no fewer than 11 separate disciplinary actions against Phillip's representatives resulting in sanctions ranging from revocations, suspensions to reprimands. In July 2000, the SFC also conducted a review of Phillip's operations. Afterwards, Phillip agreed to engage an independent accounting firm to conduct a comprehensive review of its internal control systems.

The reviews found that substantial deficiencies had existed in Phillip's internal control systems for a long period of time. This had made it easier for Phillip's staff to commit misconduct to the detriment of its clients' interests. These deficiencies included:

- inadequate controls over change of client information;
- no written policies and procedures for assessing and evaluating margin ratios to reflect the current market risk;
- no written policy on margin calls; and
- inadequate controls on accounts with overdue balances.

The SFC concludes that the fitness and properness of Phillip has been seriously called into question.

In deciding the penalty, the SFC has taken into account that Phillip has rectified the internal control weaknesses identified during the reviews and devoted a considerable amount of resources to doing so. It therefore decides that a severe public reprimand is appropriate in the circumstances.

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "Weak internal controls in a brokerage put the broker's clients and the broker itself at risk. They may facilitate employees' misconduct that prejudices clients' interests. We will not tolerate firms with poor internal controls. If this case were to be dealt with under the Securities and Futures Ordinance, we would have considered imposing a fine and other new sanctions."

Phillip is a licensed corporation under the Securities and Futures Ordinance.

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