



SFC PRESS RELEASE

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TO THE BUSINESS EDITOR
FOR IMMEDIATE RELEASE

SFC Reprimands and Fines Luen Fat Securities Company Limited and its Responsible Officer Wong Shue Yung Teresa for Internal Control Failings

The SFC has reprimanded Luen Fat Securities Company Limited and one of its responsible officers Ms Wong Shue Yung Teresa and fined them \$150,000 and \$30,000 respectively for internal control failings (Note 1).

An SFC inspection in September 2003 revealed a number of internal control failings in Luen Fat's operations. They included:

- re-pledging securities of certain margin clients to banks without valid standing authority from clients;
- transferring approximately \$24,000 interest accrued from client money to its own account without client consent;
- keeping inadequate audit trails of client orders;
- inadequate monitoring of staff dealing transactions; and
- inadequate supervision and monitoring of discretionary accounts.

The SFC views Luen Fat's failings more seriously than would otherwise be the case because some of the deficiencies were previously detected during a routine inspection by the SFC in 2000. However, despite the SFC notice given at that time, Luen Fat failed to take steps to remedy the deficiencies. The failings were unintentional and a result of omissions and oversight. As a responsible officer of Luen Fat, Wong bore responsibility of the negligent failings. As a result, the SFC concludes that the fitness and properness of Luen Fat and Wong has been called into question.

In deciding the fines, the SFC has considered the Disciplinary Fining Guidelines (Note 2) and all the circumstances of the case including the fact that:

- some of the failings were repeated breaches, a factor which the SFC considers aggravating;
- the management who were responsible in 2000 have since left Luen Fat;
- Luen Fat has taken remedial action and strengthened its internal control system;
- no loss or damage to clients was identified;
- Luen Fat was previously disciplined by the SFC (Note 3); and



- Luen Fat co-operated with the SFC.

This disciplinary action is the result of a settlement between Luen Fat, Wong and the SFC. The SFC considers the settlement to be in the interests of the investing public and in the public interest.

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "Licensed corporations have been repeatedly reminded that it is paramount for them to have adequate internal controls. Responsible officers have a duty to ensure the adequacy of internal control systems to achieve regulatory compliance. Lax controls are unacceptable because they expose the licensed corporations and their clients to unnecessary risks and possible losses. Licensed corporations should properly address deficiencies which have been identified in inspections. Repeated breaches will not be condoned and are considered as an aggravating factor which will be reflected in the penalty imposed."

Ends

Notes to Editor:

1. Luen Fat is licensed under the Securities and Futures Ordinance to carry on business in Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities. Wong is licensed to carry on Type 1 and Type 4 regulated activities and is accredited to Luen Fat.
2. The Disciplinary Fining Guidelines are available on the SFC website at <http://www.sfc.hk>.
3. See SFC press releases dated 3 June 1999 and 1 September 2000 for details.
4. For enquiries, please contact Ernest Lau at 2840 9470.

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