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## Enforcement News

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12 October 2009

### SFC reprimands and fines Sun Hung Kai Investment Services Ltd

The Securities and Futures Commission (SFC) has publicly reprimanded Sun Hung Kai Investment Services Ltd (SHKIS) and fined it \$4,000,000 for internal control failures that contributed to market misconduct (Note 1).

Following an inquiry into dealing in the shares of QPL International Holdings Ltd in 2003, the Market Misconduct Tribunal (MMT) found on 22 January 2009 that Mr Edmond Chau Chin Hung (a former responsible officer of SHKIS) and Ms Connie Cheung Sau Lin (a former account executive of SHKIS) engaged in false trading and price rigging, contrary to the Securities and Futures Ordinance, for the period from 6 May to 10 June 2003.

The MMT further found that:

- the misconduct of Chau was attributable to SHKIS of whom he was an executive director and responsible officer, and to Cheeroll Ltd (now renamed Sun Hung Kai Strategic Capital Ltd) for whom Chau was authorised to trade; and
- SHKIS was vicariously liable for the misconduct of Cheung.

On 25 February 2009, the MMT made certain orders including recommending that disciplinary action be taken by the SFC against SHKIS, Chau and Cheung (Note 2).

The SFC found that there were internal control failures at SHKIS that contributed to the market misconduct because:

- despite policies to segregate proprietary trading and client trading, SHKIS gave Chau the authority to conduct both types of trading which gave him the opportunity to misuse information gathered on the client trading side of the business to engage in unlawful activities in a proprietary account;
- at material times, SHKIS allowed Chau and Cheung to place orders in the same dealing room by open "outcry", which was inconsistent with SHKIS' formal policy to physically separate proprietary and client trading functions; and
- SHKIS did not detect Chau and Cheung's misconduct for five weeks until brought to its attention by the SFC.

In deciding on this outcome, the SFC took into account that:

- Chau and Cheung acted without SHKIS' sanction and in breach of its internal policies;
- SHKIS did not profit from Chau and Cheung's actions;
- SHKIS co-operated with the SFC by entering into a settlement resolution; and
- SHKIS has made improvements to its framework of controls and reporting in the period since.

Mr Mark Steward, the SFC's Executive Director of Enforcement, said: "Sun Hung Kai Investment Services Ltd had in place appropriate policies segregating client and proprietary trading which, in this case, were not properly implemented or policed. Policies designed to prevent market misconduct must

be actively monitored and supervised by senior management and the SFC will hold firms to account for their failure to ensure their compliance systems are working properly.”

End

Notes:

1. SHKIS is licensed under the Securities and Futures Ordinance to carry on business in Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities.
2. The MMT's press release and report can be found on the MMT's website [www.mmt.gov.hk](http://www.mmt.gov.hk)

(see <http://www.info.gov.hk/gia/general/200903/18/P200903180162.htm>)

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