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SFC reprimands and fines Quam Securities Company Limited and its responsible officer \$1.3 million for internal control deficiencies in handling Mainland clients' accounts

19 May 2011

The Securities and Futures Commission (SFC) has issued a reprimand to Quam Securities Company Limited (QSCL) and its responsible officer, Calvin Chiu Chun Kit (Chiu) and fined them \$1,000,000 and \$300,000, respectively over internal control deficiencies in handling Mainland clients' accounts (Notes 1 and 2).

An SFC investigation found system and control deficiencies in QSCL's handling of 279 Mainland clients referred to QSCL by Mainland-based agents between December 2006 and July 2007.

In particular, the SFC found that:

- QSCL's staff had signed account opening documents for some of the Mainland clients even though they had never met them;
- QSCL failed to detect that 11 Mainland clients had used the office address of an unlicensed Mainland-based agent as their correspondence address; and
- QSCL allowed Mainland clients to deposit money into the personal Mainland bank account of an employee of QSCL to facilitate funds transfer from the Mainland to QSCL's client accounts in Hong Kong.

As a result, QSCL not only failed to comply with "know your client" procedures, but also failed to implement appropriate measures to safeguard client assets, as required under the SFC's Code of Conduct (Note 3).

As Chiu was in charge of QSCL's Mainland business operation at the material time and responsible for implementing the relevant procedures, he was primarily responsible for the deficiencies identified in the SFC investigation.

In deciding the sanctions, the SFC took into account that:

- QSCL and Chiu have co-operated with the SFC by accepting responsibility for the above breaches;
- there is no evidence of any dishonesty on its part or its senior management in its business activities;
- QSCL has agreed to engage an independent audit firm to review its internal controls system and account opening procedures;
- QSCL has agreed that it will cease operating the relevant Mainland client accounts apart from taking those clients' sell order instructions and/or transferring their securities and remaining balances to those clients; and
- QSCL and Chiu's otherwise clear disciplinary record.

"The SFC has made it clear now that Hong Kong licensees must comply fully with Hong Kong standards in relation to opening client accounts regardless of where the client resides", the SFC's Executive Director of Enforcement, Mr Mark Steward said.

End

Notes:

1. QSCL is licensed under the Securities and Futures Ordinance (SFO) to carry on business in Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 9 (asset management) regulated activities.
2. Chiu is licensed under the SFO to carry on business in Type 1 (dealing in securities) and Type 2 (dealing in futures contracts) regulated activities. Chiu is a director and a responsible officer accredited to QSCL.
3. Please also refer to SFC's [circular](#) dated 1 April 2010.

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