

**Notice under Sections 204 and 205 of the
Securities and Futures Ordinance
Cap. 571 ("Ordinance")**

It appears to the Securities and Futures Commission ("**Commission**"), for the reasons set out in the Statement of Reasons of even date, that the Commission should exercise the powers conferred by sections 204 and 205 of the Ordinance.

THE COMMISSION HEREBY GIVES NOTICE THAT:

Except with the prior written consent of the Commission, such consent to be granted by any one Executive Director of the Commission:

1. Pursuant to section 204 of the Ordinance, Global Group Securities Limited ("**Specified Corporation**") is prohibited from carrying on any business, whether directly or through agents, which constitutes regulated activities for which it is licensed by the Commission.
2. Pursuant to section 205(1) of the Ordinance, the Specified Corporation is prohibited from:
 - (a) disposing of or dealing with any relevant property (as defined in section 205(2) of the Ordinance) in any manner; and
 - (b) assisting, counselling or procuring another person to dispose of any relevant property or deal with any relevant property.
3. Pursuant to the provisions of section 217 of the Ordinance, an application may be made to the Securities and Futures Appeals Tribunal for a review of the Commission's decision to impose the prohibitions by this Notice. Such application must be made within twenty-one days after the day on which this Notice is served on the Specified Corporation. Further, pursuant to the provisions of section 208 of the Ordinance, the Specified Corporation may apply to the Commission for the prohibitions imposed by this Notice to be withdrawn, substituted or varied.

This Notice takes effect at the time of service upon the Specified Corporation.

Dated this 7th day of June 2023

For and on behalf of
Securities and Futures Commission

Julia Leung
Chief Executive Officer

Statement of Reasons
Pursuant to Section 209(2) of the Securities and Futures Ordinance
(Cap. 571) (“Ordinance”)

1. Global Group Securities Limited (“**Specified Corporation**”) is a corporation licensed under the Ordinance to carry on Type 1 and Type 4 regulated activities, subject to condition that for Type 4 regulated activity, the licensee shall only provide services to professional investors. It is a participant of the Stock Exchange of Hong Kong Limited (“**SEHK**”) and a direct clearing participant of Hong Kong Securities Clearing Company Limited (“**HKSCC**”).
2. It appears to the Securities and Futures Commission (“**Commission**”) that:
 - (a) the property of the Specified Corporation’s clients might be dissipated, transferred or otherwise dealt with in a manner prejudicial to the interest of its clients;
 - (b) the Specified Corporation is not a fit and proper person to remain licensed or is not a fit and proper person to carry on any regulated activity for which it is licensed;
 - (c) the Specified Corporation has failed to comply with the requirement specified in section 180(2) of the Ordinance; and
 - (d) the imposition of the prohibitions set out in the Notice issued by the Commission of even date under sections 204 and 205 of the Ordinance (to which this Statement of Reasons is attached) is desirable in the interest of the investing public or in the public interest.
3. The Commission has reached this view on the basis of the following matters:
 - (a) suspected misappropriation of client money and suspected breach of the Securities and Futures (Client Money) Rules (“**CMR**”);
 - (b) suspected breach of the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules (“**CNR**”); and
 - (c) suspected breaches of the Securities and Futures (Financial Resources) Rules (“**FRR**”) and the Securities and Futures (Keeping of Records) Rules (“**KRR**”).

(a) Suspected misappropriation of client money and suspected breach of CMR
4. On 7 October 2022, an individual (“**Client**”) opened a securities trading cash account at the Specified Corporation. The Client subsequently made two

deposits of HK\$999,885 each on 19 October 2022 and 20 December 2022 respectively, totalling HK\$1,999,770 (“Funds”) into the Specified Corporation’s client bank account.

5. On 9 May 2023, the Client contacted the Specified Corporation to withdraw the Funds from his account and submitted a completed withdrawal form on 10 May 2023. As of the date of the Notice, the Funds have not been returned to the Client.
6. During the Commission’s enquiries into this matter pursuant to section 180 of the Ordinance, the Specified Corporation admitted that it had moved the Funds out of the segregated client account into its house account and used the Funds to pay for its operating expenses.
7. The Client was among a group of three potential investors (“**Potential Investors**”) interested in acquiring the Specified Corporation. The Potential Investors had been in discussions with the Specified Corporation on the terms of a Memorandum of Understanding (“**MoU**”). Under the terms of the draft MoU, the operating expenses of the Specified Corporation, including but not limited to the rental expenses and salaries, would be borne by the acquirer between execution of the sale and purchase agreement (“**SPA**”) and completion of the acquisition.
8. The Specified Corporation initially represented that the Funds were not client money but a deposit for the acquisition of the Specified Corporation. It subsequently elaborated that the Funds were a deposit intended to cover those expenses that the Specified Corporation would incur pending the negotiation and finalization of the acquisition.
9. Notwithstanding the Specified Corporation’s representations, no MoU or SPA has been signed between the parties to the proposed acquisition of the Specified Corporation. Furthermore, the Funds held in the segregated client account were not paid to the Client, in accordance with the Client’s written direction or standing authority, or pursuant to any of the other specified circumstances, contrary to section 5(1) of the CMR. The suspected unauthorized use of the Funds by the Specified Corporation to pay for its operating expenses may amount to a breach of the CMR and misappropriation of client money.
10. Additionally, by comparing the Specified Corporation’s client bank account balances with its client ledger balances, the Commission identified unreconciled items and discrepancies which appear to indicate under-segregation and potential misappropriation of client money belonging to clients other than the Client in the client bank accounts prior to 30 May 2023¹. Despite repeated requests by the Commission, the Specified Corporation has failed to provide satisfactory responses to the Commission’s enquiries

¹ The Specified Corporation transferred money from its house bank account to the client bank accounts on 30 May 2023, which was unclear to the Commission whether it was an attempt to address the issue of under-segregation of client money belonging to clients other than the Client.

in relation to the discrepancies identified. The Specified Corporation represented that (i) its book-keeping activity ceased on 1 December 2022 and; (ii) it has discontinued the performance of client money reconciliation from 10 December 2022 onwards after the departure of its accounting staff. The Specified Corporation could not provide documentary evidence to demonstrate that its financial position was being properly managed or that client money was being properly monitored and segregated. Accordingly, it is possible that the actual sum of the total client money shortfall is larger than the Funds owed to the Client of HK\$1,999,657.80².

11. The Specified Corporation has been using its house bank account as the settlement bank account with the HKSCC for the settlement of client trades. Under normal circumstances, its accounting staff would perform client money reconciliation on a daily basis so that it could identify the relevant amount of client money to move out of the house bank account and segregate it at the client bank accounts. However, this practice ceased since 10 December 2022 after the departure of the accounting staff. As such, client money has been commingled with house money in the house bank accounts and based on the information currently available, the Commission is unable to identify the exact amount of house money and client money residing in the house bank account. The Specified Corporation is suspected to have breached section 4(4) of the CMR by failing to segregate the client money deposited into its house account within one business day.

12. On 31 May 2023, the Specified Corporation provided to the Commission its own client money reconciliation as of 19 May 2023 and 30 May 2023 to explain the unreconciled items which the Commission had identified. In addition to the shortfall or surplus identified from the Specified Corporation's own calculation (i.e. a shortfall of HK\$34,307.46 on 19 May 2023 and a surplus of HK\$122,788 on 30 May 2023)³, the Commission noted several issues pertaining to the work performed: (i) the Specified Corporation improperly included a house account balance of HK\$100.29 held at one of the Banks it has accounts with as part of the segregated client money; (ii) the Specified Corporation prepared the reconciliation by comparing total client ledger balances in HK\$ equivalent to total client bank balances in HK\$ equivalent instead of in the corresponding currency to determine the amount of surplus or shortfall in client money; and (iii) the Specified Corporation may also have incorrectly deemed two balances totalling MYR24,066.82 (equivalent to HK\$40,901.89) held at two overseas brokers⁴ as part of the segregated client money. The Commission have doubts on the accuracy and reliability of the client money reconciliation performed by the Specified Corporation.

² The monthly client statement issued to the Client for December 2022 provided by Specified Corporation showed a cash balance of HK\$1,999,657.80 after a "monthly interest" of HK\$112.20 was deducted from the Client's account.

³ The Specified Corporation has not provided a satisfactory explanation on the discrepancies noted by the Commission.

⁴ There is no indication that the accounts at these two brokers were designated as client accounts. As such, it is not clear to the Commission that the balances in these accounts are client money.

(b) Suspected breach of CNR

13. Although the Client first deposited money on 19 October 2022 into the Specified Corporation's client bank account, the first monthly statement of account provided to the Client was for the month of December 2022. Such delay was not in compliance with section 11(2) of the CNR which requires a statement of account to be provided to the client no later than the end of the seventh business day after the end of the monthly accounting period
14. Despite the Specified Corporation claimed that the Funds were not client money, its issuance of monthly statements of account to the Client seems to contradict this claim and indicate that it did treat the Funds as client money. However, the monthly statements of account sent to the Client from December 2022 to April 2023 were misleading as they recorded incorrect cash balances and showed that the Funds were still credited to the Client's account when in fact the Funds had already been transferred and allegedly used by the Specified Corporation to pay for its operating expenses. This was not in compliance with section 11(3) of the CNR and amounted to the provision of false and misleading information to a client. Such conduct was in breach of GP1 and paragraph 2.1 of the Code of Conduct for Persons Licensed by and Registered with the Securities and Futures Commission and calls into question the honesty and integrity of the Specified Corporation.

(c) Suspected breaches of FRR and KRR

15. Despite repeated requests by the Commission, the Specified Corporation was unable to produce records to support the computation of its liquid capital since 10 December 2022. This calls into question (i) whether the Specified Corporation has maintained financial resources in accordance with section 4 of the FRR at all times; and (ii) how the Specified Corporation is able to ascertain whether it maintains sufficient financial resources as required under the FRR at all times. The inability of the Specified Corporation to produce the required records also constitutes breaches of section 3(1)(a)(i), (iii), (iv), (v), (vi), and 3(1)(b) of the KRR.
16. The Specified Corporation appears to have failed to comply with the required liquid capital requirement under section 6 of the FRR at least since the end of October 2021. According to the financial returns submitted by it since October 2021, it had reported a sum of approximately HK\$1,179,000 as "other amounts receivable from clients arising from dealing in securities". Based on the information available to the Commission, it appears that the sum of approximately HK\$1,179,000 represented commission receivables and IPO underwriting fee receivables recognized in prior years, which do not appear to qualify for inclusion as liquid assets under section 35 of the FRR when computing liquid capital. As such, it appears that the Specified Corporation has been incurring a required liquid capital deficit ranging from approximately HK\$84,000 to HK\$579,000 since the end of October 2021.

Commission's Conclusions

17. In light of the foregoing, the Commission has concerns regarding the safekeeping of client assets. The Commission considers that the above matters call into serious question the honesty, reliability and integrity of the Specified Corporation, its ability to carry on regulated activities competently, honestly and fairly, and therefore its fitness and properness to remain licensed.
18. As at 30 May 2023, the Specified Corporation held approximately HK\$2.8 million client money and approximately HK\$3.2 million client securities on behalf of 38 clients according to its client money and client securities ledger balances.
19. In the circumstances, the Commission considers it desirable in the interest of the clients of the Specified Corporation, and more particularly in the interest of preserving the integrity of their assets, and in the wider interest of the investing public or in the public interest, to impose on the Specified Corporation the prohibitions stipulated in the Notice to which this Statement of Reasons is attached.

Dated this 7th day of June 2023

For and on behalf of
Securities and Futures Commission

Julia Leung
Chief Executive Officer