

## SFC Reprimands Megabase Securities Limited

6 Jan 2003

The SFC has reprimanded Megabase Securities Limited for having poor audit trails which partly contributed to unauthorised trades in a client's account, and for mishandling the client's complaint.

In August 2001, the SFC revoked the dealer's representative registration of an account executive of Megabase after he was found to have conducted unauthorised trading through an account of a client, resulting in trading losses (Note 1). At the SFC's request, Megabase engaged an auditor to conduct an internal control review. According to the SFC's investigation and the auditor's report, Megabase had:

- poor audit trails which partly contributed to the account executive's unauthorised trades;
- tried to improperly persuade a client to drop her complaint with the SFC by agreeing to pay her back the credit balances in her account and to absorb the losses incurred from the account executive's unauthorized trades;
- improperly chased the client for the trading losses even though Megabase should have had reasonable grounds to believe that these trading losses were in fact caused by the account executive, instead of by the client; and
- an inadequate complaints recording system which failed to record all complaints.

Megabase's failings called into question its fitness and properness. The SFC has therefore decided to reprimand the firm.

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "Poor audit trails can facilitate the occurrence of unauthorised trades or other misconduct, which in turn may result in clients lodging complaints with us or the Police. Brokerage houses should maintain proper audit trails for clients' orders so as to prevent any possible dispute about who placed orders. They should also behave fairly when handling clients' complaints, in particular in relation to cases where losses are caused by an account executive's unauthorised trades."

Megabase is a licensed securities dealer.

Ends

Notes:

1. Please see SFC [press release](#) issued on 8 November 2001. The release is available on the SFC website.

Page last updated : 1 Aug 2012