
Enforcement News

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13 August 2003

SFC Reprimands Victory Enterprises (Investment) Limited for Poor Internal Controls

The SFC has reprimanded Victory Enterprises (Investment) Limited, a licensed corporation under the Securities and Futures Ordinance.

The SFC conducted an inquiry into the conduct of Victory following its reporting of misappropriation of clients assets by two former dealer's representatives from June 1998 to June 2001 (Note 1).

In July 2001, an independent accounting firm was commissioned by Victory at the SFC's request to conduct a comprehensive review of Victory's internal control system. A number of major deficiencies were identified during the review, including:

- the lack of segregation of incompatible duties;
- the lack of supervision of staff; and
- weak control over dealing procedures, settlement procedures, and distribution of trade documents.

In light of these findings, the SFC concludes that the fitness and properness of Victory as a licensed corporation has been called into question. The SFC therefore decides to reprimand Victory.

In reaching this decision, the SFC took into account that:

- Victory reported the matter to the SFC;
- Victory agreed to commission an accounting firm to conduct an investigation into the misappropriation acts of the employees and a review on its internal control system;
- Victory co-operated fully with the SFC during the inquiry;
- Victory compensated its clients' loss promptly; and
- Victory rectified the internal control weaknesses following the review and implemented remedial measures by strengthening its internal controls to ensure compliance with the relevant rules and regulations.

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "Licensees must have adequate and comprehensive internal controls. The privilege of dealing with other people's money demands it. With proper internal controls, fraud and misconduct such as misappropriation can be detected at an earlier stage or be prevented altogether. Intermediaries can then better protect the interests of their firms and the investing public. So, we treat any failure to observe our high standards of internal controls very seriously. We will have no hesitation in taking disciplinary action against members of management and the firms themselves should they fail to put in place adequate internal controls."

Ends

Notes :

1. The SFC revoked the registrations of the two former dealer's representatives in 2001. For details, please refer to the SFC [press release issued on 15 November 2001](#).

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