

SFC Suspends Chan Wai Chow Johnnie and Reprimands Lei Shing Hong Securities Limited and Lau Shun King Susanna for Poor Internal Controls on Short Selling

13 Oct 2003

The SFC has suspended the licence of Mr Chan Wai Chow Johnnie for a period of four weeks, from 13 October 2003 to 9 November 2003, and has reprimanded Lei Shing Hong Securities Ltd (LSH) and Ms Lau Shun King Susanna under the Securities and Futures Ordinance. Both Lau and Chan are responsible officers of LSH (Note 1).

The actions stem from a routine inspection of LSH by the SFC in November 2001. The inspection found that a former dealing director of LSH, Mr Heng Hian Mok, had been suspected of engaging in illegal short selling of securities listed on the Stock Exchange of Hong Kong. Heng later pleaded guilty to 24 summonses under section 80 of the Securities Ordinance. (Note 2)

The SFC inspection also revealed that LSH had failed to put in place adequate internal controls and procedures to prevent and detect short selling of securities and to monitor discretionary account activities. LSH also failed to adequately and diligently supervise its employees.

At the relevant time, Lau was responsible for the overall operations of LSH while Chan was responsible for LSH's dealing activities. The SFC found that they had failed to exercise due care and diligence in discharging their duties to the standards expected of them as a dealing director. Their failures in relation to LSH's operations had called into question their abilities to carry out their functions as a dealing director in a fair and efficient manner.

As a result, the SFC has decided to discipline LSH, Lau and Chan. In deciding the level of penalty, the SFC has taken into account that LSH, Lau and Chan have initiated measures to improve LSH's deficiencies in internal controls and procedures in relation to short selling. Chan received a heavier penalty because of his previous disciplinary record. (Note 3)

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "A licensed person must establish and maintain effective policies, operational procedures and controls in relation to its day-to-day business operations. In particular, prior to executing a client order, a designated staff member must check the sufficiency of available funds or securities in the relevant account, its margin position (including any applicable limits) and the authority of the person placing the order. Furthermore, the SFC takes a licensee's disciplinary history seriously and considers repeated breaches an aggravating factor in determining the appropriate level of penalty."

Ends

Notes:

1. LSH is a deemed licensed corporation in Types 1, 4, 6 and 9 regulated activities.
2. Heng was convicted of short selling of securities in contravention of Section 80 of the Securities Ordinance. The SFC took disciplinary action against him and suspended his registrations for one month. Please refer to the press releases issued on 26 November 2002 and 28 January 2003.
3. In 1999, the SFC suspended Chan's registration for three months for aiding and abetting unregistered dealing activities. Please refer to the press release issued on 10 October 1999. Chan was also warned in January 2003 for assisting the provision of sham placees and negligently approving warrant placement.

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