

SFC Reprimands Prudence Securities Company Limited and Suspends Or Wai Hung Kenneth for Internal Control Failings

7 Apr 2004

The SFC has reprimanded Prudence Securities Company Limited, a licensed company, and suspended the licence of one of its responsible officers, Mr Or Wai Hung Kenneth, for six months from 7 April 2004 to 6 October 2004.

The inquiry into the conduct of Prudence under section 56 of the Securities Ordinance stems from an SFC inspection into Prudence which found Mr Tam Siu Ki Simon, one of Prudence's former dealer's representatives, had engaged in trading malpractices (Note 1).

The inquiry found that Prudence had:

- failed to adequately segregate settlement and dealing functions;
- failed to put in place written company policies;
- insufficient internal and compliance systems to guard against short selling and unauthorised trading;
- inadequate margin lending controls;
- inadequate clearing and settlement controls;
- failed to monitor the activities of staff members;
- failed to implement adequate procedures for staff dealing and reporting of interests in related accounts; and
- failed to maintain adequate audit trails.

In deciding to reprimand Prudence, the SFC has taken into account its appointment of independent accountants to conduct a comprehensive review of Prudence's internal control systems. The SFC notes that Prudence has, in accordance with the accountants' recommendations, strengthened the majority of its internal control weaknesses.

The SFC found that Or, at that time the sole dealing director of Prudence, bore direct responsibility for the internal control failings and for failing to properly supervise Tam who was under his direct control.

The SFC concludes that Or's fitness and properness has been called into question and decides to suspend him for six months.

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "Weak internal controls in a brokerage put the broker's clients and the broker itself at risk. At worst, they allow brokerage employees to defraud clients as happened in this instance. Brokerages and responsible officers should take note that under the Securities and Futures Ordinance, serious internal control failings will be treated more harshly and may attract a fine."

Ends

Note:

1. The SFC revoked Tam's licence on 30 October 2003. Please see [press release](#) dated 30 October 2003 for details of the case.