

Enforcement Actions

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27 June 2005

SFC Reprimands and Fines Mansion House Securities (F.E.) Limited for FRR Breaches

The SFC has reprimanded and imposed a disciplinary fine of \$450,000 on Mansion House Securities (F.E.) Limited (MHS) under the Securities and Futures Ordinance (SFO).

MHS breached section 6 of the Securities and Futures (Financial Resources) Rules (FRR) by failing to maintain the required liquid capital between October to December 2003.

MHS offered up to 90% financing to finance clients' initial public offering (IPO) applications. However, MHS failed to take these loans into account when calculating and compiling their FRR returns. The failure to account for the impact of the loans, gave rise to a liquid capital shortfall, leading to MHS's failure to comply with the FRR. MHS was unaware of its failing to maintain the required liquid capital until it was pointed out by the Intermediaries Supervision department of the SFC.

The breaches were subsequently rectified when the application money for unsuccessful applications was refunded.

MHS did not have an adequate internal system in place to ensure compliance with FRR and an employee inexperienced with FRR was responsible for compiling the FRR returns. The responsible officers were also unaware of the requirement to include IPO financing when computing liquid capital.

In deciding the level of fine, the SFC considered the Disciplinary Fining Guidelines (Note 1) and all the circumstances of the case including the fact that:

- the breaches of the FRR were unintentional;
- the absence of an adequate internal system within MHS regarding FRR and the ignorance of its responsible officers;
- no loss or damage was suffered by clients, the public, or market users;
- MHS's previous disciplinary record (Note 2); and
- MHS co-operated with the SFC's investigations.

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "Compliance with the Financial Resources Rules is essential in order to protect investors. It is a fundamental requirement that companies have in place internal systems to ensure compliance. MHS did not have a system nor employees with sufficient knowledge to ensure compliance. The SFC will not tolerate lack of internal control which may lead to breach of rules".

Ends

Notes to Editor:

1. [The Disciplinary Fining Guidelines](#) were issued by the SFC in March 2003 under section 199(1)(a) of the SFO.
2. See [press release dated 17 March 1999](#).

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