SFC Reprimands TMT Financial Services Limited for Supervisory Failures

12 Dec 2005

The SFC has reprimanded TMT Financial Services Limited for supervisory failures (Note 1).

The SFC investigated the complaint of a couple who had intended to retire and had followed the recommendation of TMT's representatives to gear up four times their investment in a with-profit fund. They ended up losing more than their entire initial investment because of the interest charges and exit penalties imposed.

The SFC found that TMT's representatives had failed to consider the suitability of the gearing strategy in light of the investors' investment objective, risk profile and financial circumstances before advising on geared investment (Note 2). The SFC also considered that TMT had failed to provide the investors with a balanced explanation of the advantages and disadvantages of gearing an investment. Furthermore, the SFC found that the assumed rate of return used to justify the cost of borrowing for the gearing had been unreasonably high given the nature of the fund was low risk.

The failures showed that TMT had not supervised its representatives adequately to ensure that the recommendations given to its clients were reasonable. TMT had a duty to diligently supervise its representatives in their performance of business activities and was responsible for their failures.

The SFC concludes that TMT's fitness and properness has been called into question and decides to reprimand TMT. The SFC noted that the investors also took advice from other advisers which they might have relied on in addition to TMT. Had the investors relied more heavily on TMT's advice, the penalty against TMT would have been more severe.

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "It is a primary duty of investment advisers to ensure that their investment recommendations are reasonable. Licensed corporations have a duty to adequately supervise their staff to reasonably ensure that investment strategies suggested are suitable for their clients. A written financial plan should be reviewed against the profile of an investor to ensure suitability of investment strategy and products. In considering the suitability of investment, an investment adviser should take into account the investor's investment objective, risk profile, financial circumstances and whether the investment recommended is in the interests of the investor."

Ends

Notes to Editor:

1. TMT is a corporation licensed under the Securities and Futures Ordinance to carry on business in Type 4 (advising on securities) regulated activity.

2. The representatives who gave the advice are no longer licensed with the SFC and not subject to the SFC's disciplinary jurisdiction under the Securities Ordinance. They would, however, have to answer the SFC's concerns if they were to reapply for licences.

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