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## Enforcement Actions

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7 August 2006

### **SFC Issues Restriction Notice on Wing Yip Company Limited**

The SFC has issued a restriction notice on Wing Yip Company Limited to preserve the assets of the company and its clients, and to protect the interests of these clients and the investing public.

Wing Yip is a securities dealer. It has about 280 active cash clients. It does not engage in securities margin financing (Note 1).

The restriction notice is issued today pursuant to sections 204 and 205 of the Securities and Futures Ordinance to prohibit Wing Yip from carrying on all of the activities for which it is licensed, disposing of or dealing with any assets held by it or held on behalf of its clients, and assisting, counselling or procuring another person to dispose of or deal with any such property without the SFC's prior written consent.

In a review of Wing Yip's financial returns, the SFC suspected that the firm was in breach of the Securities and Futures (Financial Resources) Rules (FRRs). The SFC then conducted an unannounced inspection of the firm. Upon questioning by the SFC, Mr Yip Kwok Kay, a Responsible Officer and also the major shareholder of the firm, admitted to the SFC that he had misappropriated client securities and provided falsified statements to the clients concerned, with the admitted shortfall in client securities, as of yesterday (6 August), amounting to about \$4.3 million. The SFC also found that the firm had a deficit in required liquid capital as at 30 June 2006, in breach of the FRRs.

It appears to the SFC that Wing Yip has dissipated, transferred or otherwise dealt with clients' property in a manner prejudicial to the interest of its clients and that there might be further such dissipation, transfer or dealing.

The SFC considers that the issue of a restriction notice is desirable in the interest of

the investing public or in the public interest.

The SFC will continue to investigate into the case to determine what further regulatory actions may be necessary. The SFC will issue further announcements on this matter when appropriate.

Clients of Wing Yip who have any enquiries in the meantime may contact the SFC at its Investor Hotline at 2840 9333.

The SFC would like to take this opportunity to remind investors to seriously consider using the Investor Participant account (IP account), or at least the Stock Segregated Account with Statement Service (SSA), at CCASS.

IP accounts give investors full control of their shares. A broker whose clients use the SSAs will establish separate accounts for the clients' securities at CCASS. While investors' shares are still under the control of brokers, investors using the SSAs receive more timely information on any movement of their securities and will find out if there have been any unauthorised transfers. Hong Kong Exchanges and Clearing Limited is also working on enhancements to enable Internet access to SSAs.

The SFC will also remind brokers to raise investor awareness of these services and facilitate investors' use of them.

[A list of questions and answers for Wing Yip clients](#), including some general advice for investors, is attached.

Ends

Note:

1. Wing Yip is licensed under the SFO to carry on business in Type 1 regulated activity (dealing in securities).

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## Questions & Answers For Investors

1. If I am a client of Wing Yip, what should I do now?
  - The SFC's action is to protect clients' interests by preventing their assets held with Wing Yip from being taken out or misused. You are advised to keep all your trading records and account statements and check whether those documents accurately reflect your money balance and share holdings at Wing Yip.
  - If you wish to register a claim against the Investor Compensation Fund, contact the Investor Compensation Company Limited ("ICC") (Phone: 2523 7382. Address up to 13 Aug 2006: Room 408, 4/F, St. George's Building, 2 Ice House Street, Central, Hong Kong. Address from 14 Aug 2006: Room 510, 5/F, Chater House, 8 Connaught Road Central, Hong Kong.)

*Note: Claim forms can also be deposited to a special collection box located at the SFC's reception counter on 8/F, Chater House, Central, Hong Kong.*

2. Will Wing Yip clients get back their shares and money? If so, when?
  - Due to the imposition of the restriction notice, shares and money cannot be returned to any clients in the meantime.
  - The SFC is still investigating and will issue further announcements when appropriate.
3. Can Wing Yip clients transfer their shares to another broker firm?
  - Due to the imposition of the restriction notice, requests for share transfers cannot be entertained for the time being.
4. If, in the end, Wing Yip clients cannot get back all their money and shares, will their losses be compensated?
  - The statutory Investor Compensation Fund offers a maximum payment of \$150,000 per client on default of a broker firm. Wing Yip clients may wish to contact the ICC for more details.
5. If Wing Yip clients bought some shares / warrants through the firm before the imposition of the restriction notice. Should they proceed to settle?
  - Wing Yip clients are advised to seek legal advice for their specific situation.
6. If Wing Yip clients can't sell their shares / warrants now, and the price subsequently drops, will SFC compensate them?
  - No. But, the SFC will strive to have clients' assets returned as soon as possible, subject to the circumstances of the investigation and all necessary legal steps being taken.

7. If an administrator is appointed later to take over Wing Yip's business, when can clients get back their money and shares?

- In the event of an administrator being appointed by the Court to take over Wing Yip's business, the administrator would conduct a proper circularisation to verify each client's cash and share balances.
- In general, clients should be able to get back their shares if they have been properly segregated.
- In other cases, how assets are going to be returned to clients will be up to the Court to decide.

8. What should investors watch out for when they receive their account statements?

- On receipt of their account statements, investors should immediately check that transaction details, cash and share balances in them are accurate. Information on a genuine account statement should not have been amended. However, photocopies or faxed copies can be more easily forged. Investors who suspect irregularities (e.g. alterations by hand) should contact the SFC immediately.

9. How can investors protect their own interests?

- While the SFC remains vigilant in its monitoring and supervision of brokers, investors should also proactively safeguard their own interests. Some possible measures are:

- a) Investors can open Investor Participant (IP) accounts in their own name in the Central Clearing And Settlement System (CCASS) and have full control of their shares. CCASS only processes a withdrawal of shares from an IP account upon receipt of the investor's direct instructions, which can be given by phone or via the Internet. For instance, when you sell your shares, you need to place a sell order with your broker and direct CCASS to settle the trade from your IP account. CCASS provides statements for share balance and activities in an IP account.

There is no fee for opening an IP account. Similar to keeping shares in an account of a broker firm, there are charges like stock custody fee (min \$20 per month), dividend collection fees, corporate action fees.

Investors can call HKEx's enquiry hotline on 2979 7000 for details about IP accounts.

- b) Ask their brokers to open a Stock Segregated Account with Statement Service (SSA) for them in CCASS. A broker whose clients use SSAs will establish separate accounts for those investors' shares at CCASS.

Even though investors' shares are still under the full control of brokers, investors using SSAs will receive a statement from CCASS whenever there is a stock movement in their SSAs. Such statements enable investors to verify against the account statements provided by their brokers and will know quickly whether their shares have been moved without their permission. The cost charged by CCASS is \$10 per month per account. HKEx is working on enhancements to enable Internet access to SSAs.

- c) Never permit hold mail arrangement, as receiving transaction documents (e.g. contract notes, account statements) on a timely basis is essential for investors to closely monitor their accounts. Generally speaking, account statements should be issued at least once a month.
- d) Proactively chase up sale proceeds and dividends due.