

## SFC reprimands and fines Taifair Securities Limited and Kwok Fai

15 Aug 2011

The Securities and Futures Commission (SFC) has issued a reprimand to Taifair Securities Limited (Taifair) and its responsible officer, Mr Kwok Fai. The SFC has also fined them \$400,000 and \$100,000 respectively (Note 1).

The decision follows an SFC investigation which found that Taifair's settlement supervisor, who was not licensed with the SFC, had misappropriated clients' assets (Note 2).

The SFC investigation revealed that Taifair had a number of internal control deficiencies, including:

- insufficient management supervision over daily operations – the settlement supervisor who misappropriated clients' assets was largely unsupervised, and management did not review a number of important reports concerning Taifair's daily operations;
- there was no compliance function set up at Taifair;
- there was no comprehensive manual that governed Taifair's daily operational policies and procedures; and
- weak data protection measures – access control to Taifair's computer brokerage system (the POP system) was weak, trading data in the POP system was susceptible to manipulation and the audit logs in the POP system could be turned off such that manual modifications of data could be made without any audit trail.

Kwok was a responsible officer of Taifair and oversaw the compliance function at Taifair. In such capacity, Kwok was responsible, but failed to ensure that effective compliance procedures were in place and properly implemented. As such, Kwok should bear responsibility for Taifair's failure in that regard.

In deciding the sanction, the SFC took into account all the circumstances including:

- Taifair's failures in primary internal controls are serious;
- Kwok has seriously undervalued the importance of Taifair's compliance function and internal controls;
- The affected clients did not suffer any loss because Taifair has reimbursed all affected clients and reported the matter to the SFC shortly after the discovery of the misappropriation;
- Taifair and Kwok are remorseful, and Taifair has remediated its internal control failures by adopting the recommendations of an independent accounting firm which conducted a review of its internal controls;
- Taifair and Kwok have co-operated with the SFC; and
- Taifair and Kwok have no previous disciplinary record.

The whereabouts of the settlement supervisor remains unknown. The matter has also been reported to the Police by Taifair.

End

Notes:

1. Taifair is licensed under the Securities and Futures Ordinance to carry on Type 1 (dealing in securities) regulated activity. Kwok is licensed under the Securities and Futures Ordinance to carry on Type 1 (dealing in securities) and Type 2 (dealing in futures contracts) regulated activities and is accredited to Taifair and Taifair Futures Limited. Kwok remains a responsible officer of Taifair.
2. As a result of the same investigation, the SFC has already taken disciplinary action against Mr Peter Tam Man Chuen, an account executive of Taifair. Please see SFC's [press release](#) dated 2 July 2010 for details of the disciplinary action taken by the SFC against Tam, suspending his licence for 18 months.