

## STATEMENT OF DISCIPLINARY ACTION

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### The Disciplinary Action

1. The Securities and Futures Commission (**SFC**) has suspended the licence of Mr Lun Sheung Nim (**Lun**), a responsible officer of GEO Securities Limited (**GEO**), from conducting all regulated activities, and the approval for him to act as a responsible officer for a licensed corporation for 7.2 months under section 194 of the Securities and Futures Ordinance (**SFO**).

### Summary of facts

2. Lun has been licensed under the SFO since 30 November 2004. He is currently accredited to GEO and has been approved as its RO for Type 1 (dealing in securities) regulated activity since 23 July 2013, Type 4 (advising on securities) regulated activity since 7 May 2014, and Type 9 (asset management) regulated activity since 21 March 2018.
3. The SFC found that, in breach of the conditions on its licence<sup>1</sup>, GEO:
  - (a) provided discretionary account management services to eight clients in return for an annual management fee between 1 July 2014 and 15 June 2015; and
  - (b) introduced 36 clients directly to four listed companies to subscribe for their unlisted bonds totalling around HK\$108 million between 28 October 2014 and 16 November 2015.
4. The SFC also found GEO failed to<sup>2</sup>:
  - (a) conduct adequate product due diligence on the unlisted bonds before recommending them to clients. In particular, GEO:
    - (i) primarily evaluated the default risk of the issuers but did not examine the individual features of the unlisted bonds to understand and assess their risks and suitability for clients prior to August 2015;
    - (ii) failed to implement a methodology to assign a risk rating to each unlisted bond, and allowed the bonds of two issuers to be recommended to clients before the completion of their due diligence;

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<sup>1</sup> Between 3 May 2013 and 22 March 2016, GEO's licence was subject to the following conditions: (a) GEO shall not hold client assets; and (b) for Type 1 regulated activity, GEO shall not conduct business other than: (i) communicating offers to effect dealings in securities to a corporation that is licensed by or registered with the SFC for Type 1 regulated activity, in the names of the persons from whom those offers are received; and (ii) introducing persons to a corporation that is licensed by or registered with the SFC for Type 1 regulated activity in order that they may effect dealings in securities or make offers to deal in securities.

<sup>2</sup> Please refer to the SFC's press release and Statement of Disciplinary Action published on 23 March 2021.

- (iii) summarised its product due diligence in internal reports but did not record information such as the steps taken and enquiries made to verify the information in the internal reports nor the rationale for restricting the distribution of the bonds to professional investor clients only; and
    - (iv) failed to establish written policies and procedures for the conduct of due diligence during the material period;
  - (b) establish adequate and effective internal controls and procedures to assess risk tolerance of clients and to ensure the recommendations / solicitations made to clients on the unlisted bonds were suitable and reasonable. In particular, GEO:
    - (i) relied on the clients' self-declared risk tolerance and did not have procedures to independently review clients' self-declared risk tolerance prior to October 2015;
    - (ii) failed to establish written policies or procedures to determine the suitability of investment products for clients, and appears to have largely relied on the judgement of its account executives (**AEs**) to determine the suitability of an investment product for its clients; and
    - (iii) failed to implement a system to ensure AEs complied with the requirement to distribute the unlisted bonds to professional investor clients only or require AEs to mandatorily attend internal training seminars despite claims this sales restriction was communicated to AEs during such seminars;
  - (c) maintain any documentary records of the recommendations / investment advice given to clients for subscribing to the unlisted bonds nor provide them with a copy of the written advice; and
  - (d) disclose to clients the commission it received or would receive from the issuers for the successful placement of the unlisted bonds.
- 5. The SFC considers the deficiencies in GEO's systems and controls set out above were attributable to Lun's failure to discharge his duties as an RO and a member of GEO's management. In particular, Lun failed to:
  - (a) properly understand and manage GEO's business;
  - (b) understand his duties as a responsible officer and a member of GEO's senior management;
  - (c) properly manage the risks associated with GEO's business, including its regulatory risk; and
  - (d) implement adequate procedures and controls to ensure the maintenance of appropriate standards of conduct in relation to GEO's sale of unlisted bonds to clients.

6. In light of the above, the SFC is concerned that Lun's conduct was contrary to:
- (a) General Principle 2 of the Code of Conduct for Persons Licensed by or Registered with the SFC (**Code of Conduct**), which requires a licensed person to act with due skill, care and diligence and in the best interests of the client and integrity of the market;
  - (b) General Principle 9 of the Code of Conduct, which requires senior management of a licensed corporation to bear primary responsibility for ensuring the maintenance of appropriate standards of conduct and adherence to proper procedures by the firm; and
  - (c) Paragraph 14.1 of the Code of Conduct, which requires senior management of a licensed corporation to properly manage the risks associated with the firm's business.

### **Conclusion**

7. The SFC concludes that GEO's misconduct was a result of Lun's consent or connivance, or attributable to neglect on his part as an RO and a member of senior management, and should also be regarded as misconduct on Lun's part. As Lun has breached General Principles 2 and 9 and paragraph 14.1 of the Code of Conduct, his fitness and properness to carry on regulated activities is called into question.
8. In deciding the disciplinary sanction set out in paragraph 1 above, the SFC has taken into account all relevant circumstances, including:
- (a) GEO's internal control deficiencies and regulatory breaches were serious;
  - (b) no client appeared to have suffered losses from GEO's distribution of the unlisted bonds;
  - (c) Lun has been in the financial industry for a considerable period of time, yet failed to appreciate and discharge his responsibilities as an RO and senior management of a licensed corporation; and
  - (d) Lun's cooperation with the SFC in resolving the SFC's regulatory concerns.