
STATEMENT OF DISCIPLINARY ACTION

The Disciplinary Action

1. The Securities and Futures Commission (**SFC**) has publicly reprimanded Changjiang Asset Management (HK) Limited (**CJAM**)¹ and fined it HK\$3.4 million pursuant to section 194 of the SFO.
2. The disciplinary action is taken following an SFC investigation into reports from CJAM and its auditors about possible non-compliance with the Securities and Futures (Client Money) Rules (**Client Money Rules**).
3. The SFC's investigation found that CJAM has internal control failures relating to segregation of client money and provision of statements of accounts to clients, in breach of the Client Money Rules, the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules (**Contract Notes Rules**) and the Code of Conduct for Persons Licensed by or Registered with the SFC (**Code of Conduct**).

Summary of regulatory requirements

4. The Client Money Rules require licensed corporations to:
 - (a) within one business day after its receipt of client money, pay the client money: (i) into a segregated account, (ii) to the relevant client, or (iii) in accordance with a written direction or a standing authority given by the client (section 4(4));
 - (b) retain client money in a segregated account until it is paid to the client (on whose behalf it is held), paid in accordance with a written direction or standing authority from the client, used to meet the client's settlement or margin requirement, or used to pay money that the client owes to it or its associated entity (section 5(1)); and
 - (c) give written notice to the SFC within one business day after it becomes aware that it does not comply with the requirements set out in, among others, sections 4(4) and 5(1) of the Client Money Rules (section 11).
5. Under the Contract Notes Rules:
 - (a) a licensed corporation for asset management shall provide the statement of account to the client no later than the end of the tenth business day after the end of the monthly accounting period (section 11(4)(b)); and
 - (b) a statement of account shall include, among others, a valuation of the client's portfolio as at the end of the monthly accounting period, providing details of the quantity and market value of each description of securities, and the money balance held for that account as at the end of the period (section 11(5)(b)).

¹ CJAM is licensed under the Securities and Futures Ordinance (**SFO**) to carry on Type 4 (advising on securities) and Type 9 (asset management) regulated activities.

6. The Code of Conduct requires licensed persons to:
- (a) act with due skill, care and diligence, in the best interests of clients and market integrity when conducting business activities (General Principle 2);
 - (b) comply with, and implement and maintain measures appropriate to ensuring compliance with, all applicable legal and regulatory requirements (General Principle 7 and paragraph 12.1);
 - (c) ensure that client assets are promptly and properly accounted for and adequately safeguarded. In particular, where the licensed person (or a third party on its behalf) is in possession or control of client positions or assets, the licensed person should ensure that client positions or assets are adequately safeguarded (General Principle 8 and paragraph 11.1);
 - (d) ensure that any representations made and information provided to the client are accurate and not misleading when it advises or acts on behalf of a client (paragraph 2.1); and
 - (e) immediately report to the SFC any material or suspected material breach, infringement of or non-compliance with any law, rules, regulations, and codes administered or issued by the SFC by themselves or their employees (paragraph 12.5).

Summary of facts and breaches

Non-compliance with the Client Money Rules

7. Between May 2015 and August 2017, CJAM under-segregated client money to the extent of HK\$300 to HK\$1.05 million:
- (a) by withdrawing client money held in its segregated client accounts² to meet the settlement obligations of five clients (**Five Clients**) on eight occasions when there were negative or insufficient account balances for each of the clients in the segregated client accounts to cover the settlement amounts, such that money belonging to other clients in the segregated client accounts was used to meet the Five Clients' settlement obligations. There is no evidence that Operations had checked that the Five Clients had sufficient account balances in CJAM's segregated client accounts to meet their settlement obligations prior to each withdrawal, contrary to CJAM's internal policies³; and
 - (b) while remitting certain fund redemption proceeds from its segregated client account to the bank accounts of two clients (**Two Clients**) pursuant to their withdrawal requests. Both remittances initially failed, incurring a total of HK\$920 bank charges (**Charges**). CJAM deducted the Charges from the initial remittance amounts before returning the amounts to its segregated client account (**Deducted Amounts**). When CJAM repeated the remittance process, it remitted the initial amounts in full to the Two Clients instead of the Deducted Amounts, such that HK\$920 belonging to other

² CJAM's segregated accounts for holding client money.

³ CJAM's internal policy stipulates that Operations staff should check that funds or security holdings are sufficient for settlement.

clients in the segregated client account was remitted to the Two Clients, in breach of section 5(1) of the Client Money Rules.

8. The SFC's investigation also revealed that one of the Five Clients had subscribed a fund (**Fund**) of which CJAM was the investment advisor. On three occasions in January, May and June 2017, the Fund rebated performance fees in amounts ranging from HK\$651,518 to HK\$8.5 million (**Rebates**) to the client via its investment manager, Changjiang Asset Management (Cayman) Limited (**CJAMCL**).
9. However, the Rebates were first kept in CJAMCL's account for around 22 to 81 days before they were transferred to CJAM's house account. CJAM then delayed for 15 to 32 days before transferring the Rebates from its house account to its segregated client account. CJAM's failure to pay client money it had received into a segregated client account within one business day after its receipt is contrary to section 4(4) of the Client Money Rules.
10. According to CJAM, it became aware of its non-compliance with the Client Money Rules in 2017. However, it only made the self-report to the SFC on 6 April 2018, in breach of section 11 of the Client Money Rules and paragraph 12.5 of the Code of Conduct.
11. CJAM's failures summarised in paragraphs 7 to 10 above are also breaches of General Principles 2, 7 and 8, and paragraphs 11.1 and 12.1 of the Code of Conduct.

Non-compliance with the Contract Notes Rules

12. The SFC's investigation also revealed that CJAM issued inaccurate statements of accounts to three clients between December 2016 and February 2017. CJAM explained that the statements of accounts were prepared manually and the errors were caused by the negligence or inadvertence of its staff members. Specifically:
 - (a) in a client's statement of account for February 2017, a stock sold on 28 February 2017 but yet to be settled as of the end of the reporting period was mistakenly reported to be securities held at the end of the reporting period; and
 - (b) the percentage of cash in two clients' investment portfolios was incorrectly stated to be 0% in their statements of accounts when there was a positive cash balance,in breach of section 11(5)(b) of the Contract Notes Rules and paragraph 2.1 of the Code of Conduct.
13. The evidence also shows that CJAM had failed to provide statements of accounts to four clients on 19 occasions within the prescribed time limit, in breach of section 11(4)(b) of the Contract Notes Rules.
14. CJAM's failures summarised in paragraphs 12 and 13 above are also breaches of General Principles 2 and 7, and paragraph 12.1 of the Code of Conduct.

Conclusion

15. Having considered all relevant circumstances, the SFC is of the view that CJAM is guilty of misconduct.
16. In deciding the disciplinary sanction set out in paragraph 1, the SFC has had regard to its Disciplinary Fining Guidelines and has taken into account all relevant considerations, including CJAM's acceptance of liability and otherwise clean disciplinary record.