STATEMENT OF DISCIPLINARY ACTION

The Disciplinary Action

1. Pursuant to section 194 of the Securities and Futures Ordinance, the Securities and Futures Commission (**SFC**) has:

   (a) reprimanded and fined Enlighten Securities Limited (**ESL**)[1], $5,000,000; and

   (b) suspended Mr Denny Kua Kong Chak (**Kua**)[2], responsible officer (**RO**) of ESL, for 7 months from 21 March 2025 to 20 October 2025.

2. The SFC found that from 1 May 2020 to 30 November 2022 (**Relevant Period**), ESL failed to implement adequate risk management controls over its securities margin financing activities as it failed to:

   (a) set triggers for stopping further securities purchases by margin clients with insufficient account equity;

   (b) effectively manage margin calls and/or exercise forced liquidation on margin clients and document the explanation for deviation from its margin lending and margin call policy;

   (c) properly manage its margin clients' credit limits; and

   (d) promptly collect margin due by clients.

3. The SFC considers that ESL's failures were attributable to Kua's failure to discharge his duties as an RO and a member of the senior management of ESL during the Relevant Period.

Summary of Facts

A. Background

4. In February 2015, following a limited review of the business activities of ESL, the SFC issued a management letter to ESL (**2015 Management Letter**), setting out a number of deficiencies in ESL's internal controls, including amongst others, ESL's failure to implement prudent margin lending policy and risk management controls and to collect margin calls promptly.

5. In June 2019, the SFC was concerned that ESL's financial position might be seriously impacted due to a price plunge of its major margin collateral securities. By way of a letter of undertaking, ESL undertook to implement measures to address such concerns, including an undertaking to promptly collect all outstanding margin calls from its clients.

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[1] ESL is licensed under the Securities and Futures Ordinance to carry on Type 1 (dealing in securities) regulated activity.

[2] Kua has been a director of ESL since 10 October 2003 and accredited to it and approved to act as its responsible officer since 30 November 2004. He has also been a Manager-In-Charge of Key Business Line, Operational Control and Review, Overall Management Oversight and Risk Management of ESL since 14 July 2017.

6. In September 2021, the SFC conducted a further limited review of the business activities of ESL (**2nd Review**) and found similar internal control deficiencies identified in the 2015 Management Letter.

7. In January 2022, the SFC issued another management letter to ESL, raising its concerns about ESL's failure to address the issues identified in the 2015 Management Letter and requested ESL to take remedial actions.

8. In light of the matters revealed during the 2nd Review, the SFC investigated into ESL's risk management controls and practices over securities margin financing and examined whether ESL and its senior management members have complied with relevant regulatory requirements.

B. Margin Clients

9. The SFC selected 16 margin clients for sampling analysis on how ESL managed its risks over securities margin financing (**Margin Clients**)[3] and found that these clients had long outstanding margin shortfalls and a poor history of settling margin calls[4]. Amongst these Margin Clients:

   (a) 7 clients (**7 Margin Clients**) were allowed to make further purchases despite their outstanding margin shortfalls, with 3 of them being allowed to make further purchases even though margin call letters were issued to them.

   (b) 6 clients were allowed to withdraw securities from their accounts despite their outstanding margin shortfalls, with 4 of them having received margin call letters from ESL.

C. Failure to set triggers for stopping further securities purchases by margin clients with insufficient account equity

10. ESL had not established a clear margin lending policy that adequately addressed the triggering level for stopping further purchases of securities by margin clients during the Relevant Period. It was not until November 2022 that ESL revised its policy to prohibit clients under margin call from making further purchases. Prior to this revision, ESL and its senior management (including Kua) permitted 7 Margin Clients to execute additional purchases despite having unsettled margin calls during the Relevant Period.

11. In the circumstances, ESL had exacerbated its clients' credit risks by accepting instructions from clients who were under margin calls to make additional purchases, but failed to ensure that they possessed the financial capacity to settle the purchases. ESL was in breach of:

   (a) paragraph 3 of Schedule 5 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (**Code of Conduct**) which requires a licensed corporation (**LC**) to assure itself that the margin client has the financial capacity to meet obligations arising from instructions the margin client

[3] ESL had 84 margin clients during the Relevant Period and the 16 selected margin clients represented the top 70% clients in terms of the total outstanding margin shortfalls during the Relevant Period.
[4] One client, in particular, had margin shortfalls for at least more than 8 years and substantial margin shortfalls of more than HK$22 million which remained unsettled at the end of the Relevant Period.

gives and in the absence of such assurance, it shall not accept instructions from such margin client;

(b) paragraphs 10 and 12(i) of Schedule 5 of the Code of Conduct which require an LC to have a clear margin lending policy developed, documented, and communicated to all relevant staff for strict enforcement;

(c) paragraph 6.1 of the Guidelines for Securities Margin Financing Activities (**SMFA Guidelines**) which requires an LC to prudently set the triggers for margin call, for stopping further advances to, and further purchases of securities by, margin clients, and for forced liquidation of margin clients' securities collateral; and

(d) paragraph 6.2 of the SMFA Guidelines which requires an LC to clearly document in its margin lending policy the methodology adopted and factors considered in determining the triggers for margin call, for stopping further advances to, and further purchases of securities by, margin clients, and for forced liquidation of margin clients' securities collateral.

D. Failure to effectively manage margin calls and/or exercise forced liquidation on margin clients and document the explanation for deviation from its policy

12. ESL had effectively granted waivers of margin calls and forced liquidation to the Margin Clients as ESL did not promptly collect margin due by the Margin Clients (see Section F below) or exercise forced liquidation when these clients' margin loan balances had reached the triggering level for forced liquidation.

13. Under the SMFA Guidelines and ESL's policies, waiver of margin call and/or forced liquidation should be exercised with caution and deviation from the policies should be prudently assessed, documented and approved by senior management. ESL failed to do so, and instead adopted lax procedures for managing clients' settlement of margin loans. In the circumstances, ESL was in breach of:

(a) its own policies on forced liquidation;

(b) paragraph 10 of Schedule 5 of the Code of Conduct (see paragraph 11(b) above);

(c) paragraph 6.5 of the SMFA Guidelines which requires an LC to stop waiving margin calls on any margin client:

(i) who has a poor history of settling margin calls; or

(ii) whose outstanding margin loan balance exceeds the market value of the underlying collateral; and

(d) paragraph 6.7 of the SMFA Guidelines which requires an LC to strictly apply its margin call and forced liquidation policies; and any deviation from these policies must be prudently assessed, documented, and approved by senior management.

E. Failure to properly manage its margin clients' credit limits

14. ESL and members of its senior management (including Kua) approved an increase in 7 Margin Clients' credit limits even though on the day prior to approval, these clients had (a) a negative balance in their current accounts and (b) outstanding margin calls.

15. When determining ESL's margin clients' credit limits, ESL and members of its senior management (including Kua) mainly assessed the value of the margin clients' securities collaterals and had little or no regard to the clients' background and financial situation.

16. An LC should be prudent in managing its margin clients' credit limits and ensure that its clients have the financial capabilities to meet the obligations arising from the financing provided. By accepting the clients' instructions to increase their credit limit even though they had negative balance in their accounts and outstanding margin calls, ESL had failed to properly manage its clients' credit limit and assess the clients' financial capacities. ESL's failure was in breach of paragraph 3 of Schedule 5 of the Code of Conduct (see paragraph 11(a) above).

F. Failure to promptly collect margin due by clients

17. During the Relevant Period, the Margin Clients had a poor history of settling margin calls, with the period of outstanding margin shortfalls (from the date of initial margin to the last day of the Relevant Period) ranging from 429 to 3135 days.

18. Although these Margin Clients had a poor history of settling margin calls, ESL and members of its senior management (including Kua) failed to take adequate steps to collect margins due by clients in a timely manner:

    (a) ESL did not have a consistent practice and strict timeline on when its clients were required to settle margin calls.

    (b) Apart from requiring its account executives to follow up with the clients and issuing margin call letters to clients requesting them to settle the margin shortfalls, ESL or members of its senior management (including Kua) did not take any other action to address the ongoing margin shortfalls:

        (i) Margin Clients were allowed to make further purchases and withdraw securities from their accounts even though these clients were under margin calls and some of them had received margin call letters from ESL (see paragraphs 9(a) and 9(b) above);

        (ii) ESL continued to waive margin calls and/or did not exercise forced liquidation for these Margin Clients (see paragraph 12 above); and

        (iii) 7 Margin Clients were allowed to increase their credit limits despite having margin shortfalls in their accounts (see paragraph 14 above).

(c) ESL's failure to collect margin calls from clients occurred since 2015 (see paragraph 4 above).

19. ESL's failure to promptly collect margin due by clients was in breach of paragraph 3.6 of the Code of Conduct which requires an LC to collect promptly from clients amounts due as margin when dealing or trading for its clients in securities, futures contracts or leveraged foreign exchange contracts that require the provision of margin (including collateral).

G. The SFC's findings

20. Based on the matters set out in paragraphs 4 to 19 above, ESL failed to implement adequate risk management controls over its securities margin financing activities during the Relevant Period. ESL's failure to take heed of the SFC's repeated reminders to implement prudent margin lending policy and risk management controls is serious and could expose the firm to risk of loss as a consequence of client defaults or changing market conditions. Clients' interests will also be affected if liquidity of the firm cannot be maintained. In the circumstances, ESL was in breach of:

(a) General Principle 2 of the Code of Conduct which requires an LC to act with due skill, care and diligence, in the best interests of its clients and the integrity of the market;

(b) paragraph VIII of the Management, Supervision and Internal Controls Guidelines for Persons Licensed by or Registered with the Securities and Futures Commission (**Internal Control Guidelines**) which requires an LC to establish and maintain effective policies and procedures to ensure the proper management of risks to which the firm and, if applicable, its clients are exposed; and

(c) paragraph VIII.2 of the Internal Control Guidelines which requires an LC to establish and follow appropriate and effective procedures to ensure that the firm's risks of suffering loss, financial or otherwise, as a consequence of client defaults or changing market conditions, are maintained at acceptable and appropriate levels.

21. During the Relevant Period, Kua oversaw the overall management of ESL and was a key member of ESL's management committee responsible for making all decisions relating to ESL's securities margin financing activities.

22. The SFC found that ESL's failures set out in sections C to F above were attributable to Kua's failure to discharge his duties as an RO and a member of the senior management of ESL. Specifically:

(a) He was responsible for reviewing and updating the margin lending policy and approving clients' further purchases. However, he failed to ensure that ESL's margin lending policy provide for triggers for stopping further securities purchases, and allowed margin clients to conduct further purchases even though they had insufficient account equity.

(b) He was responsible for reviewing and approving credit limits, and he signed the credit limit forms of the 7 Margin Clients.

(c) He was responsible for following up margin calls and deciding whether to instruct Compliance Department to issue margin calls letters or to exercise forced liquidation. He was the only senior management member of ESL who could approve waiver of margin calls and forced liquidation.

(d) As the person in charge of making decisions on ESL's securities margin financing activities, he failed to take proper steps to address the clients' ongoing margin shortfalls, or to prudently assess and document the reason for deviation from the forced liquidation procedures under ESL's manual.

(e) Despite being aware of the SFC's concerns regarding the deficiencies in ESL's risk management controls and practices over securities margin financing since 2015, he allowed these deficiencies to persist throughout the Relevant Period.

23. Based on the matters set out in paragraph 22 above, Kua failed to implement and enforce prudent policies and rigorous controls so as to diligently supervise ESL's margin lending business and manage the risks involved during the Relevant Period. He has failed to:

(a) ensure the maintenance of appropriate standards of conduct and adherence to proper procedures by ESL, in breach of General Principle 9 of the Code of Conduct; and

(b) properly manage the risks associated with the business of ESL, in breach of paragraph 14.1 of the Code of Conduct.

Conclusion

24. Having considered all relevant circumstances, the SFC is of the opinion that ESL and Kua are guilty of misconduct and that Kua's fitness and properness to carry on regulated activities have been called into question.

25. In deciding the disciplinary sanction set out in paragraph 1 above, the SFC has taken into account all of the circumstances, including:

(a) the duration of ESL's failures – the deficiencies in ESL's risk management controls over securities margin financing were first identified by the SFC in 2015, and persisted throughout the Relevant Period;

(b) the SFC has repeatedly reminded LCs and their senior management to implement prudent risk management policies and procedures and margin lending practices[5]; specifically, ESL was reminded to do so in two management letters issued to it in 2015 and 2022;

[5] See, in particular, the SFC's circulars on "Implementation of prudent risk management policies and procedures" dated 25 February 2008, "Updated Questions and Answers on Margin Lending Policy and Control Requirements" dated 24 August 2009 and "Circular to licensed corporations providing securities margin financing – Call for prudent risk management" dated 10 October 2017.

(c) ESL's failures set out above were attributable to Kua's failure to discharge his duties as a member of ESL's senior management;

(d) ESL's financial position and its decision to cease business[6] – but for these factors, the SFC would have imposed a $6.5 million fine against it;

(e) a strong deterrent message to remind the market that such failures are not acceptable; and

(f) ESL and Kua have otherwise clean disciplinary records.

[6] In January 2025, ESL submitted a notice of cessation of business to the SFC.