
Press Releases

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5 November 2002

Pacific Pearl Securities Limited

The SFC is taking action to protect investors' interests after finding that Pacific Pearl Securities Limited has failed to operate with sufficient liquid capital.

SFC staff discovered unusual fund transfer activities in the accounts of Pacific Pearl Securities during continuous monitoring of the firm's financial position in October. SFC staff also found that Pacific Pearl Securities had failed to meet the minimum liquid capital requirement under the Financial Resources Rules. The SFC has since been in contact with the owner of the firm to address the deficiencies.

The problem appeared to have been temporarily rectified in the middle of October. However, SFC staff, who continued to keep a close watch on the firm, found upon insistent inquiries further breaches of the FRRs since 1 November.

The owner was given an urgent deadline to meet the capital requirement. He was also requested to give an undertaking not to transfer funds out of Pacific Pearl Securities to its holding company or any other related entities.

The owner finally confirmed to the SFC yesterday afternoon that he was unable to provide the required capital. Consequently, the firm voluntarily suspended trading today on the stock exchange and will cease business. It can no longer execute trades and will only receive stock withdrawal instructions from clients.

The SFC has requested that the firm make appropriate arrangements for the orderly return of assets to clients. The SFC must be notified immediately if there is any shortfall in stocks or money available to be returned to clients.

Pacific Pearl Securities had about 150 clients at the end of September, of whom

about 140 were cash account clients.

Client assets properly protected

The SFC has since discovery of the problem put Pacific Pearl Securities and its related registered entity, Pacific Pearl Futures Limited, under close monitoring in order to safeguard the interests of investors.

The management of Pacific Pearl Securities has confirmed to the SFC that there has not been any misappropriation of assets and all client assets are properly segregated.

As of today, Pacific Pearl Futures is in compliance with the Financial Resources Rules.

SFC's Executive Director of Intermediaries and Investment Products, Alexa Lam, said: "The SFC has given Pacific Pearl Securities ample opportunities to rectify the irregularities and capital inadequacy, at the same time ensuring that client assets are not at risk."

"The Financial Resources Rules are the SFC's fundamental tool in its prudential regulation of brokers. We will continue to apply the rules vigilantly but pragmatically taking into account the need to protect investors and the difficult operating environment of the industry," she said.

The SFC will continue to follow up on the matter and monitor the situation. It will take all necessary measures to protect the interests of investors.

The SFC will also consider whether disciplinary action should be taken against any licensed firms or individuals.

Advice to clients

Pacific Pearl Securities is contacting its clients regarding the cessation of business and the transitional arrangements. Clients may call Pacific Pearl Securities at 2537 0300 for enquiries.

Clients may withdraw stocks from Pacific Pearl Securities or request it to transfer their shares to their designated brokers through the Central Clearing and Settlement System (CCASS).

In addition, clients are advised to exercise caution in their settlement with Pacific Pearl Securities. For instance, clients who have bought securities through the broker in the last two days are advised to pay against delivery of scrip.

Investors may also call the SFC investor hotline at 2840 9333 if they have grounds for complaints.

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