

SFC Reprimands Hou Tak Securities Limited and Van Tak Sun, Winston for Internal Control Failings, and Wong Yuet Wah, Cynthia for Inadequate Supervision and Failure to Ensure Proper Account Opening

18 Aug 2003

The SFC has reprimanded Hou Tak Securities Limited, its responsible officer, Mr Van Tak Sun Winston, and one of its licensed representatives, Ms Wong Yuet Wah Cynthia (Note 1).

The action stems from inquiries into their conduct under section 56 of the Securities Ordinance (SO) and, in the case of Van, also under section 36 of the Commodities Trading Ordinance (CTO) (Note 2).

Hou Tak and Van

Last year, the SFC investigated certain acts of misappropriation of clients' assets and deception by Ms Chan Hing Fung Katie, a former dealer's representative of Hou Tak. (Note 3)

At the SFC's request, Hou Tak commissioned an independent accountant firm to comprehensively review its internal control procedures. The independent accountant identified a number of serious weaknesses in Hou Tak, which facilitated Chan's dishonest acts. These included:

- failure to segregate settlement and dealing functions;
- absence of written company policies and procedures manual;
- failure to implement effective internal and compliance systems;
- failure to monitor the activities of staff members;
- inadequate procedures for staff dealing and reporting of interests in related accounts;
- inadequate account opening controls;
- failure to restrict access to its computer system and to store securely its company stamp, letterhead stationery, blank contract notes, client agreement and official receipts; and
- inadequate clearing and settlement procedures.

With regard to Van, the SFC found that he had failed to discharge his functions properly in managing and supervising Hou Tak's operations. In deciding to reprimand Hou Tak and Van, the SFC has taken into account their appointment of independent accountants to review the firm's internal controls. The SFC notes Hou Tak and its management has taken substantial remedial action to strengthen its internal control systems in accordance with its accountant's recommendations and that the internal control weaknesses detailed above have now been rectified. Hou Tak and Van have also co-operated fully with the SFC's investigation.

Wong

Wong was found to have inadequately discharged her supervisory duties over Chan.

Wong was also found to have failed to properly check information in account opening forms and to ensure such information was supported by relevant documents. Wong's failings contributed to Hou Tak's failure to detect Chan's dishonest acts and exposed Hou Tak and its clients to serious financial loss that might otherwise have been avoided.

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "Weak internal controls in a brokerage put the broker's clients and the broker itself at risk. At worst, they allow brokerage employees to defraud clients. We will take appropriate disciplinary action whenever we discover brokers with inadequate internal controls and internal management systems. We take into account any remedial action by brokers in our disciplinary action and have taken into account Hou Tak's follow up actions. The events in this case pre-dated the SFO which came into effect on 1 April 2003. Brokers should note that under the new regime the discovery of a catalogue of internal control failings such as occurred in Hou Tak may well attract a fine."

Ends

Notes:

1. Hou Tak is a licensed corporation carrying out Type 1 regulated activities: Dealing in Securities. Van is a responsible officer of Hou Tak and Wong is a licensed representative accredited to Hou Tak.
2. The SO and CTO were among 10 ordinances replaced by the Securities and Futures Ordinance, which became effective on 1 April 2003.
3. The SFC revoked the registration of Chan on 21 October 2002. Please see SFC's press release for details of the case.

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