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SFC Reprimands Sharegain Development Limited, Ko Ka Wo and Ming Shui Sum for Supervision and Internal Control Failures

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The SFC has reprimanded Sharegain Development Limited, its sole responsible officer, Mr Ko Ka Wo, and its representative and de facto director, Mr Ming Shui Sum.

The public reprimand stems from an investigation in which the SFC found that from June 1998 to December 2000, a then dealer's representative of Sharegain had misappropriated client assets by conducting unauthorised trades and falsifying client account statements (Note 1). Sharegain dismissed the dealer's representative in January 2001 for misconduct but did not report the incident and the dismissal to the SFC until August 2001.

The SFC found that Sharegain did not have adequate internal controls, in particular adequate segregation of duties and supervisory controls, which facilitated the dealer's representative's misconduct. Sharegain had also breached the Code of Conduct for Persons Registered with the SFC, Rules of the Exchange and the Securities Ordinance by failing to report the incident to the SFC and Stock Exchange of Hong Kong Limited on time. Ko was at the time the sole dealing director of Sharegain who bore direct responsibility for Sharegain's failures and breaches.

Ming was the ultimate owner of Sharegain and a de facto director. The SFC found that Ming had failed to delegate effectively to Ko and to supervise the delegated functions. While he had compensated the clients, he failed to recognise that he had a duty to follow up on other issues arising from the misappropriation and to make reasonable enquiry to ensure that Ko had properly discharged his responsibilities.

As a result, the SFC concludes that the fitness and properness of Sharegain, Ko and Ming has been called into question and decided to publicly reprimand them after taking into account Sharegain's undertaking to improve its internal control system. Sharegain has undertaken to: (i) strengthen its supervisory capabilities; (ii) appoint independent auditors to review its internal controls and implement the auditor's recommendations; (iii) ensure a clear segregation of functions within its operations; and (iv) formalise its internal controls in writing and ensure that its staff members are familiar with the procedures.

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "Brokers should ensure that their internal controls are adequate to safeguard clients assets. Misappropriation is a serious matter and should be promptly reported. Whilst directors are entitled to delegate particular functions to others and to trust their competence and integrity to a reasonable extent, the exercise of the power of delegation does not absolve a director from the duty to supervise the discharge of delegated functions."

Ends

Notes:

1. The registration of the dealer's representative was revoked in December 2001 following an investigation. Please refer to the press release issued on 6 December 2001.

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