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SFC Takes Action Against Kwan Yick Securities (International) Limited and its Dealing Directors, Lee Cheng Suet Chun and Lee Kai Yan, for Internal Control Failings

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The SFC has suspended the licences of Mrs Lee Cheng Suet Chun and Mr Lee Kai Yan, dealing directors of Kwan Yick Securities (International) Limited, for two months for internal control failings, and has reprimanded the firm.

The action follows an SFC investigation during which an independent accounting firm was commissioned by Kwan Yick at the SFC's request to look into suspected falsification of trading accounts by a dealer's representative between April 2001 and February 2002 (Note 1). The independent accountants also conducted a comprehensive review of Kwan Yick's internal control system and identified a number of specific weaknesses including:

- (a) weak control over account opening procedures and the steps necessary to change client particulars;
- (b) inadequate segregation of duties in the form of weak control over clients' dealing and settlement;
- (c) inadequate monitoring of discretionary accounts and staff accounts; and
- (d) weak control over the issue and delivery of trading documents.

The SFC concludes that the fitness and properness of Kwan Yick and its two dealing directors has been called into question.

In deciding on the punishments, the SFC notes that all these three licencees were publicly reprimanded on 1 September 1997 for aiding and abetting unregistered securities dealing. The SFC has also taken into account that Kwan Yick and its staff have been co-operative throughout the inquiries and subsequently agreed to revise most of its internal controls to address the weaknesses.

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. They allow brokerage employees to defraud clients who will suffer financial loss arising from theft or other dishonest acts. It is essential for brokerages to minimise risk to clients and themselves by exercising adequate supervision as well as ensuring their staff fully understands and complies with company policies and procedures, particularly under the new legislation, rules and regulations which came into force on 1 April 2003. The SFC will punish licensed firms more harshly if they repeatedly fail to put in place sufficient internal controls and we will consider suspensions or fines where appropriate."

Kwan Yick and the two dealing directors were registered securities dealers under the Securities Ordinance at the time of the misconduct.

Ends

Notes:

1. The SFC revoked the registration of the representative, Mrs Leung Lam Yuen Ching Juanita, a year ago. Please see press release issued on 18 July 2002. On 24 February 2003, Leung was sentenced to 28 months' imprisonment after pleading guilty to 14 counts of charges contrary to the Theft Ordinance.

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