

SFC Reprimands and Fines Guangdong Securities Limited and Reprimands Yang Jian for FRR Breaches

23 Mar 2005

The SFC has reprimanded Guangdong Securities Limited (GSL) and one of its responsible officers Mr. Yang Jian for breaching the liquid capital requirement. GSL has also been fined \$100,000 (Note 1).

GSL breached section 6 of the Securities and Futures (Financial Resources) Rules (FRR) by failing to maintain the required liquid capital for one day in early 2004.

GSL received and executed considerable size buy orders from a private fund managed by it. Before GSL executed the orders, it should have checked and ensured the adequacy of liquid capital. GSL failed to do so. GSL discovered the liquid capital deficiency and reported the breach to the SFC and took remedial action. The SFC found that GSL had failed to implement adequate internal controls, hence contributing to the FRR breach. In particular, GSL had:

- failed to put in place an adequate system to ensure its FRR compliance; and
- failed to ensure effective communication and coordination among departments.

At all material times, Yang was the responsible officer of GSL responsible for FRR compliance. Yang bears responsibility for GSL's failures.

In deciding on the penalty, the SFC has taken into account all the circumstances of the case and the Disciplinary Fining Guidelines (Note 2), including the following:

- the breach was technical, unintentional, and of relatively short duration;
- GSL implemented remedial action without delay;
- no loss or damage was suffered by clients, the public, or market users;
- GSL co-operated fully with the SFC's investigations; and
- GSL has no previous disciplinary record.

Mr. Alan Linning, SFC's Executive Director of Enforcement, said: "Compliance with the FRR is vital for the protection of the investing public. The SFC views any breach of the FRR seriously. Licensed corporations should have adequate internal controls to ensure compliance with the FRR. The SFC will take appropriate disciplinary actions against those licensed corporations and their responsible management who fail to comply."

Ends

1. GSL is a corporation licensed under the Securities and Futures Ordinance to carry on business in Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) & Type 9 (asset management) regulated activities. Yang is a licensed representative accredited to and a responsible officer of GSL. He is licensed to carry on Type 1, 4, 6 and 9 regulated activities.

2. The Disciplinary Fining Guidelines were issued by the SFC in March 2003 under section 199(1)(a) of the Securities and Futures Ordinance.

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