
Enforcement Actions

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21 December 2005

SFC Reprimands and Fines Shenyn Wanguo Securities (HK) Limited for Internal Control Inadequacies

The SFC has reprimanded Shenyn Wanguo Securities (HK) Limited and fined it \$353,000 because it failed to detect and prevent the misconduct of an account executive, to safeguard client assets, and to establish the true and full identity of an account holder (Note 1). The reprimand and fine are the result of a settlement between Shenyn Wanguo and the SFC.

The disciplinary action follows an SFC investigation into a report made by Shenyn Wanguo in 2003 on the conduct of one of its account executives, who is suspected of misappropriating client assets in two clients' accounts. The whereabouts of the account executive are still unknown.

Evidence showed that the account executive had imitated clients to change the clients' addresses for account statements, conducted unauthorised trading and sold clients' stocks without their knowledge, and breached Shenyn Wanguo's policy by offering discretionary services.

The account executive appeared to have borrowed the identity of her relative to open an account for her own use. When Shenyn Wanguo found that there had been no tape-recorded client instructions for the transactions in the account, it issued the account executive with a warning letter but did not further check the account executive's dealings in other client accounts. The suspected misappropriation was revealed only after the account executive had failed to return to work after vacation and a client had lodged complaint about his account balance with Shenyn Wanguo. Shenyn Wanguo's checking of taped records of the client instructions was inadequate to detect and prevent the account executive's misconduct.

The SFC concludes that Shenyn Wanguo has been guilty of misconduct and that

its fitness and properness has been called into question.

In considering the settlement with Shenyin Wanguo, the SFC has taken into account that:

- Shenyin Wanguo engaged independent accountants to review its internal controls and took remedial measures including compensating the affected clients;
- Shenyin Wanguo co-operated with the SFC in settling the disciplinary action;
- Shenyin Wanguo's previous disciplinary record (Note 2); and
- its size of operation and financial resources.

The SFC considers that it is in the interest of the investing public and in the public interest to settle its disciplinary action against Shenyin Wanguo.

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "The adequacy of internal control systems is fundamental to the fitness and properness of a licensed corporation. The SFC takes a serious view of internal control inadequacies and will consider fining licensed corporations when necessary."

Ends

Notes to Editor:

1. Shenyin Wanguo is 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), and Type 9 (asset management) regulated activities.

2. Please refer to [SFC press release dated 20 November 2002](#) for details.

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