

SFC Reprimands Soen Tak Securities Company Limited and Suspends Chan Chun Shing for Poor Internal Controls and Account Executive Supervision and for Misleading the SFC

21 Dec 2005

The SFC has reprimanded Soen Tak Securities Company Limited and suspended the licence of Mr Chan Chun Shing, its former responsible officer, for eight months from 21 December 2005 to 20 August 2006 (Note 1). The reprimand and suspension are the result of a settlement between Soen Tak and Chan, and the SFC.

The reprimand and suspension follow an SFC inquiry into suspected misappropriation of clients' assets by a former representative of Soen Tak (Note 2). The inquiry identified a number of deficiencies in Soen Tak's internal controls.

The SFC found that, from February to June 2002, the former representative of Soen Tak had been able to conduct unauthorised trading activities in his clients' accounts because:

- there were deficiencies in procedures for authenticating changes of clients' information, and for monitoring clients' trading; and
- Soen Tak allowed its cash clients to carry on trading, even if there was an outstanding balance in the clients' accounts, on the condition that the representatives of those clients agreed to pay interest on the outstanding balance. Owing to this settlement practice, the former representative was not required to immediately settle the unauthorised trades he conducted in the clients' accounts, and was able to conceal his improper activities until the outstanding amounts reached an unacceptable level.

Chan reported the improper conduct of the representative to the SFC on 10 October 2002. However, in a letter dated 24 October 2002 and subsequent correspondence with the SFC, Chan withdrew his report and provided misleading information to the SFC with a view to dissuading the SFC from initiating an investigation into the matter. Chan did so to help the representative avoid having to face the SFC investigation, after the representative agreed to repay the losses he had caused Soen Tak.

The SFC concludes that Soen Tak and Chan have been guilty of misconduct and their fitness and properness has been called into question. In deciding the appropriate penalties, the SFC has taken into account Soen Tak and Chan's agreement to resolve the disciplinary action by settlement, which saved the SFC's resources. The SFC considers the settlement to be in the public interest and in the interests of investors.

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "Brokers should have effective internal control procedures and adequate resources to supervise their staff diligently in order to protect their operations and clients from financial losses arising from dishonest acts or other improper conduct. Brokers are also expected to report any material breach or non-compliance with any regulatory requirements whether by themselves or their staff to the SFC immediately so that the SFC can respond swiftly. Chan's conduct demonstrated that he had protected Soen Tak's and its former employee's interests at the expense of its clients' interests. This is unacceptable and casts serious doubt on Soen Tak's integrity as a licensed corporation."

Ends

Notes to Editor:

1. Soen Tak ceased to carry on Type 1 (dealing in securities) regulated activity on 20 December 2005. Chan is currently not accredited to any licensed corporation.
2. The case is under Police investigation.

