

SFC Settles Disciplinary Action with Grand Cathay Securities (Hong Kong) Limited and its Responsible Officer Kwan Pok Tat for Internal Control Failings

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The SFC has reprimanded Grand Cathay Securities (Hong Kong) Limited and its responsible officer Mr Kwan Pok Tat and also fined Grand Cathay \$60,000 for internal control failings (Note 1). This is the result of a settlement between Grand Cathay, Kwan and the SFC.

The disciplinary proceedings follow an SFC inquiry in which an account executive was found to have placed personal orders and discretionary orders without authorisation in six clients' accounts from November 2002 to April 2003. The account executive also allowed an unauthorised third party to place orders in two clients' accounts. In the course of placing these orders, the account executive also breached Grand Cathay's policy on the telephone recording of orders. Grand Cathay required orders to be recorded on tapes and if the orders were not recorded on tapes, the time of the receipt of the orders had to be recorded on the dealing tickets. Kwan as a responsible officer was aware of the account executive's misconduct, which was material, in April 2003 but did not report the misconduct to the SFC until February 2004. There was no adequate system at Grand Cathay to ensure that material breaches were reported to the SFC immediately. Further, there was no adequate system to ensure that breaches of the telephone recording policy by account executives were reported to the management so that proper follow-up action could be taken.

From November 2003 to October 2004, two other account executives were found to have placed orders in three clients' accounts without following Grand Cathay's telephone recording policy. Kwan discovered the omissions of the two account executives in late 2003 and early 2004. Despite warnings, the two account executives continued to breach Grand Cathay's policy until they left Grand Cathay in October and December 2004 respectively. Grand Cathay lacked sufficient measures to stop and prevent the account executives from continuously breaching its policy. Had Kwan been vigilant, the misdeeds of the two account executives could have been prevented.

The SFC concludes that Grand Cathay and Kwan have been guilty of misconduct and their fitness and properness has been called into question.

The SFC considers that it is in the interests of the investing public and in the public interest to settle its disciplinary action against Grand Cathay and Kwan. The SFC will pay the fine to the government revenue.

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

- the failure to sufficiently enforce the telephone recording policy meant that a proper audit trail of records was not kept, resulting in repeated omissions by employees and causing losses of about \$800,000 to Grand Cathay;
- the failure to report the breach of misconduct to the SFC immediately delayed the SFC's action in dealing with the problems at Grand Cathay;
- both Grand Cathay and Kwan promised to improve and to adhere to Grand Cathay's internal control procedures to prevent a re-occurrence of the failures;
- both Grand Cathay and Kwan co-operated in settling the disciplinary action; and
- both Grand Cathay and Kwan had a clean disciplinary record.

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "Licensed corporations must have sufficient internal control measures to protect the interests of their clients and themselves. Grand Cathay suffered losses of about \$800,000 due to the unauthorised trades. Had there been a proper control system over the telephone record checks, the misdeeds causing the losses could have been prevented. Brokers are required to report any material breach or non-compliance with any regulatory requirements whether by themselves or their staff to the SFC immediately."

Ends

Notes to Editor:

1. Both Grand Cathay and Kwan are licensed under the Securities and Futures Ordinance to carry on business in Type 1 (dealing in securities) regulated activity.
2. The [Disciplinary Fining Guidelines](http://www.sfc.hk) are available on the SFC's website at <http://www.sfc.hk>.

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