
Enforcement Actions

To save a copy for future reference, right click [here](#) and select "Save Target As..."

20 July 2006

SFC Reprimands and Fines Celestial Securities Limited and Kwan Pak Leung Horace

The SFC has reprimanded Celestial Securities Limited and its responsible officer, Mr Kwan Pak Leung Horace, and fined Celestial \$21,000 and Kwan \$7,000 for internal control failures (Note 1). The reprimand and fine are the result of a settlement between Celestial, Kwan and the SFC.

The disciplinary action follows an SFC investigation into the short selling activities conducted by a client of Celestial who was a former staff member that placed short sell orders directly with dealers of Celestial between 17 October and 11 November 2003 (Note 2).

The SFC's investigation revealed that the written internal policies of Celestial required account executives to check clients' balances before execution of their sell orders. However, Celestial's actual practice also permitted dealers to execute clients' sell orders delivered by account executives first without checking clients' account information and input account information within 15 minutes after the orders were executed. The unclear administration of policy in Celestial caused confusion to its dealers. As a result, the dealers in this case accepted the orders from the client without checking the account information immediately and Celestial did not detect the short selling activities carried out by the client.

The SFC found the following internal control weaknesses of Celestial including :

- its failure to put in place effective procedures to detect and prevent intra-day short selling; and
- its failure to implement and maintain measures appropriate to ensuring compliance with the applicable law and codes issued by the SFC.

At all material times, Kwan was one of the responsible officers of Celestial who

was involved in approving Celestial's internal controls. He supervised Celestial's dealers and daily operation. Accordingly, the SFC concludes that Celestial and Kwan have been guilty of misconduct and their fitness and properness has been called into question.

In determining the fine, the SFC has taken into account the Disciplinary Fining Guidelines and all the circumstances of the case including the co-operation by Celestial and Kwan in settling the disciplinary actions with the SFC (Note 3).

The SFC considers that it is in the interest of the investing public or in the public interest to settle its disciplinary actions against Celestial and Kwan.

Mr Eugène Goyne, an SFC Senior Director of Enforcement, said: "A licensed corporation has a duty to ensure it and its staff fully comply with the law and all the regulatory requirements. Internal policies are intended to give guidance to staff. Brokerages controls relating to short selling must consist of measures to reasonably guard against both intra-day and inter-day short selling."

Ends

Notes:

1. Celestial is licensed under the Securities and Futures Ordinance to carry on business in Type 1 (dealing in securities) and Type 3 (leveraged foreign exchange trading) regulated activities. Kwan is a responsible officer accredited to Celestial. He is licensed to carry on business in Type 1 (dealing in securities), Type 2 (dealing in Futures Contracts) and Type 7 (Providing Automated Trading Services) regulated activities.

2. Please see [SFC press release dated 30 June 2005](#) for details.

3. [The Disciplinary Fining Guidelines are available on the SFC website at http://www.sfc.hk.](http://www.sfc.hk)

Page last updated: 20 July 2006