

## SFC reprimands and fines Deutsche Securities Asia Ltd

16 Dec 2008

The Securities and Futures Commission (SFC) has issued a reprimand to Deutsche Securities Asia Ltd (DSAL)(Note 1) and fined it HK\$6 million.

An SFC investigation into DSAL's services provided to institutional clients through its facilitation trading desk (Note 2) found that, from May 2001 to 30 September 2005, DSAL failed to:

- put in place an adequate system to identify and resolve potential conflicts of interest arising from commingled proprietary and client trades executed by the facilitation trading desk;
- maintain an appropriate and effective compliance function to detect and manage the risks to clients involved in dealing with clients as principal; and
- keep adequate audit trails of client order instructions.

"Brokers offering facilitation services must ensure their systems effectively record that the client involved knows the transaction is not a normal agency trade and that the execution of the order as a proprietary or agency order is clear," the SFC's Executive Director of Enforcement, Mr Mark Steward, said. "This is a case where these fundamental systems were not in place."

"DSAL has acknowledged this deficiency, taken rectification steps, and accepted the SFC's reprimand and fine," Mr Steward added.

In issuing the reprimand and imposing a fine of HK\$6 million, the SFC has taken into account all the circumstances of the case including:

- as a result of DSAL's report to the SFC in November 2005, the control deficiencies were discovered; and
- DSAL has been co-operative with the SFC and has agreed to accept the reprimand and fine.

End

Notes:

1. DSAL is licensed under the Securities and Futures Ordinance to carry on business in Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 5 (advising on futures contracts).

Facilitation trading involves brokers and clients executing transactions on a principal to principal basis rather than on an agency basis. Facilitation trading can give advantages to clients by providing them with liquidity and more certain execution. As the nature of the relationship with client may change in a facilitation transaction (because the broker is no longer an agent but dealing with the client as principal), conflicts of interest may arise. Therefore, brokers offering facilitation services need systems in place to identify, manage and control any conflicts that may arise in the provision of facilitation services.

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