

[Home](#) ▶ [News & announcements](#) ▶ [News](#) ▶ [Enforcement news](#)

## SFC reprimands and fines Ko's Brother Securities \$250,000

27 Aug 2010

The Securities and Futures Commission (SFC) has issued a reprimand to Ko's Brother Securities Company Limited (Ko's Brother) and fined it \$250,000 for internal control deficiencies (Note 1).

The disciplinary action follows an SFC investigation into intra-day short selling in derivative warrants by a client of Ko's Brother (Note 2). The SFC found a number of internal control deficiencies at Ko's Brother, including:

- failure to implement adequate internal control procedures to detect and prevent intra-day short selling; and
- inadequate supervision of staff such that staff are left to their own devices in preventing and detecting short selling by clients.

The SFC found that Ko's Brother turned a blind eye to the client's short selling activities and inadequacies in the firm's internal control procedures were conducive to such illegal activities.

In deciding the penalty, the SFC took into account all the circumstances, including the decision of Ko's Brother to take steps to improve its systems so as to address their current inadequacies in preventing and detecting intra-day short selling.

Ko's Brother subsequently filed an application with the Securities and Futures Appeals Tribunal (SFAT) for review of the SFC's decision one day after the prescribed deadline. On 26 August 2010, the SFAT dismissed its application for an extension of time to lodge the application for review (Note 3). Consequently, the SFC's decision is of operative effect.

End

Notes:

1. Ko's Brother is licensed under the Securities and Futures Ordinance to carry on Type 1 (dealing in securities) regulated activity.
2. The client was fined \$30,000 after pleading guilty to 12 charges of illegal short selling derivative warrants. Please see SFC [press release](#) dated 19 April 2010 for details.
3. A copy of the SFAT's decision is posted on the SFAT's website (<http://www.sfat.gov.hk/>).

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