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## SFC reprimands and fines Citigroup Global Markets Asia Limited \$6 million and suspends its former responsible officer

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The Securities and Futures Commission (SFC) has reprimanded Citigroup Global Markets Asia Limited (Citi Asia), fined it \$6 million, and suspended the approval granted to Ms Lisa Chan Sin Man, to act as a responsible officer. Her licence has also been suspended for eight months from 3 October 2011 to 2 June 2012 (Note 1 and 2).

Citi Asia has also agreed to offer to pay compensation to customers affected by a fraudulent scheme operated by a former licensed representative in the amount of any principal lost by such customers.

The disciplinary action follows an investigation into suspected misconduct of a former licensed representative of Citi Asia, Mr X, who was responsible for operating what appears to have been a fraudulent scheme involving 13 Citi Asia wealth management clients who invested through Mr X on the basis their money would be pooled and used to purchase US Treasuries and other products (Note 3 and 4).

Mr X's scheme operated from 2004 until February 2009 when Citi Asia suspended Mr X while investigating the suspected misconduct. Shortly thereafter, Citi Asia dismissed Mr X for gross misconduct.

However, Citi Asia failed to report Mr X's activities to the SFC in a timely manner as required by the Code of Conduct (Note 5).

After initially reporting to the SFC that Mr X had been dismissed for gross misconduct, Citi informed the SFC that an internal investigation was in progress, when in fact a preliminary report was already available which revealed important information in relation to Mr X's apparent fraudulent scheme. Citi Asia did not provide the report to the SFC until after a follow-up investigation by Citi Asia's external auditor was completed.

By the time these reports were provided to the SFC, Mr X had left Hong Kong. He has not returned since then. While this was not Citi Asia's intention, the consequence of the delay in reporting details of the fraudulent scheme to the SFC meant the SFC and other law enforcement agencies had no opportunity to interview Mr X or to secure his whereabouts pending the completion of the investigation.

The SFC also found that Mr X was insufficiently supervised by Citi Asia with the result that his fraudulent scheme was undetected despite a number of "red flags" which should have caused those supervising Mr X to instigate inquiries.

At the material time, Chan was the supervisor of Mr X and a responsible officer of Citi Asia. The SFC found that Chan did not act sufficiently on a number of "red flags" brought to her attention which would have detected Mr X's apparent misconduct much earlier (Note 6).

Citi Asia has agreed that it will pay for an external auditor, to be appointed by the SFC, to audit the accounts of affected customers and assess the amount of compensation required to make them whole. Citi Asia will also pay for an external expert to conduct a review of the internal and external detection, escalation and notification practices and policies in Citi Asia's private banking division in relation to compliance with all applicable regulatory and legal requirements in its securities business, including:

- the identification and handling of red flags by all staff involved in regulated activities; and
- performance management of all staff engaged in supervision of staff conducting regulated activities, including calculation of compensation in respect to supervisory functions.

Citi Asia will implement all recommendations by the external expert and submit to a surprise audit of all detection, escalation, notification, red flag practices and policies at a time to be selected by the

SFC within two years of today's date.

"Citi Asia not only failed to detect a Ponzi scheme operating under its nose, despite having the opportunity to do so, but then failed to report the scheme to the SFC in a timely way, thus making the investigation of this case more difficult given Mr X's decision to leave Hong Kong after he had been dismissed by Citi Asia, " the SFC's Executive Director of Enforcement, Mr Mark Steward said.

"Intermediaries know they have a duty to report misconduct to the SFC immediately upon discovery, not when they have plumbed the bottom of it. Delay in reporting simply helps the wrongdoer. This public reprimand should make it clear that the SFC condemns such delay in the strongest terms," Mr Steward added.

End

Notes :

1. Citi Asia is licensed under the Securities and Futures Ordinance (SFO ) to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities.
2. Chan is licensed under the SFO to carry on Type 1 (Dealing in Securities) and Type 2 (Dealing in Futures Contracts) regulated activities. Chan's licence was accredited to Citi Asia from 1 December 1998 to 14 June 2011. Chan was also a responsible officer of Citi Asia from 31 May 2005 to 14 June 2011.
3. Mr X was licensed under the SFO to carry on Type 1 (dealing in securities) and Type 2 (dealing in futures contracts) regulated activities and was accredited with Citi Asia until he was dismissed by Citi on 16 February 2009. He was employed by Citi Asia's private banking division at the time of the conduct in question.
4. It appears Mr X promised the affected customers that their principal was protected and returns were guaranteed. Instead, returns were funded wholly or partly from other affected clients induced by Mr X's representations. In effect, Mr X appears to have been operating a Ponzi or Madoff-style scheme in which high returns are paid to investors out of the contribution by new investors. Ponzi Scheme organizers often solicit new investors by promising to invest funds in opportunities claimed to generate high returns with little or no risk.
5. Under paragraph 12.5 of the Code of Conduct, a licensed or registered person is required to notify the SFC immediately on the happening of any material breach, infringement, non-compliance with any rules, law, regulations and codes administered or issued by the SFC by itself or persons it employs to conduct business with clients giving particulars of the breach etc and relevant information and documents.
6. For example, Mr X issued correspondence under Citi Asia's name referring to guaranteed returns contrary to Citi Asia's internal guidelines. Some of this correspondence was brought to Chan's attention but Chan accepted Mr X's explanations and did not conduct any probative inquiry into the true nature of Mr X's dealings on behalf of Citi Asia's clients. The reference to guaranteed returns in Mr X's correspondence was a very clear red flag. A quick check to verify the existence of the US Treasuries and other products supporting Citi Asia's clients' investments should have been conducted.

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