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## SFC reprimands and fines China Securities Holdings Limited \$1.3 million and banned its responsible officer for 27 months

15 Aug 2013

The Securities and Futures Commission (SFC) has issued a reprimand to China Securities Holdings Limited (China Securities); fined it \$1.3 million and banned its responsible officer, Ms Stephanie Liu Suk Wai, for a period of 27 months effective from 15 August 2013 to 14 November 2015 (Notes 1 & 2).

The decision follows an SFC investigation into the affairs of China Securities from 2007 to 2011 in which a number of serious deficiencies were found in relation to order record keeping, employment of unlicensed dealing staff and supervision of its dealing functions.

The SFC found that China Securities employed staff who were unlicensed as dealers to take order instructions from clients and to execute them on behalf of clients and permitted its dealing room to be operated by two unlicensed dealers without a responsible officer to supervise the dealing functions (Notes 3 & 4).

The SFC also reviewed the dealing records of China Securities from November 2009 to June 2011 and found that most if not all of China Securities' order tickets were not time stamped. As a result, the incomplete order records failed to enable trade executions to be traced through China Securities' system to identify for whose accounts those trades were executed (Note 5).

China Securities ceased business on 31 December 2012. But for the firm ceasing business, the SFC would have revoked its licence given the sustained, serious and deliberate nature of its misconduct.

The failures of China Securities were attributed to Liu who was one of the three responsible officers of China Securities at the relevant time. She was seldom at the office and neglected her management responsibility. Her failure was serious in that she connived the unlicensed activities.

In determining Liu's penalty, the SFC took into account that she was no longer licensed and that she did not dispute the SFC's findings. Had Liu remained licensed, her licence would have been revoked.

The SFC's investigation into the roles of other members of the management team at China Securities is continuing.

End

Notes:

1. China Securities (formerly known as Vermont Securities Company Limited) is licensed under the Securities and Futures Ordinance (SFO) to carry on business in Type 1 (dealing in securities) regulated activity.
2. Liu was a former representative and responsible officer of China Securities and was licensed under the SFO to carry on Type 1 (dealing in securities) regulated activity. She is currently not a licensed person.
3. Section 114 of the SFO prohibits any person from performing any regulated function except a licensed representative. Regulated function means any function performed for a licensed corporation related to a regulated activity, other than work ordinarily performed by an accountant, clerk or cashier.
4. Paragraph 4.2 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (Code of Conduct) further provides that a licensed person should ensure that it has adequate resources to supervise diligently and does supervise diligently persons employed or appointed to conduct business on its behalf.
5. Among other things, the Securities and Futures (Keeping of Records) Rules requires a licensed corporation to keep records that are sufficient to explain its business operation, including all orders and instructions. The required records have to enable an executed trade to be traceable through the licensed corporation's trading system. Paragraph 3 of the Code of Conduct requires order instructions to be time stamped and trade executions to be fairly allocated to clients.
6. A copy of the [Statement of Disciplinary Action](#) in relation to the matter is available on the SFC website.



## STATEMENT OF DISCIPLINARY ACTION

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### The Disciplinary Action

1. The Securities and Futures Commission (**SFC**) has publicly reprimanded China Securities Holdings Limited (**China Securities**), formerly known as Vermont Securities Company Limited<sup>1</sup>, and ordered it to pay a pecuniary penalty of \$1.3 million and banned its former responsible officer, Ms Stephanie Liu Suk Wai (**Liu**)<sup>2</sup> for a period of 27 months pursuant to section 194 of the Securities and Futures Ordinance (**SFO**).
2. The disciplinary action is taken for China Securities' failures to comply with General Principles 2, 7 and 9 of the Code of the Conduct<sup>3</sup> in carrying on its business in regulated activities. In particular, China Securities:
  - (a) failed to keep order records sufficient to ensure fair allocation of trade executions and to enable such trade executions to be traced through its trading system;
  - (b) connived the performance of its regulated functions by unlicensed persons; and
  - (c) did not apply adequate resources to supervise and did not diligently supervise the dealing functions for ensuring the maintenance of appropriate standards of conduct and adherence to proper procedures.
3. These failures and misconduct were attributed to the neglect and connivance of Liu as a responsible officer of China Securities.

### Summary of facts

#### *Inadequate order records*

4. Among other things, the Securities and Futures (Keeping of Records) Rules requires a licensed corporation to keep records that are sufficient to explain its business operation, including all orders and instructions. The required records have to enable an executed trade to be traceable through the licensed corporation's trading system. The Code of Conduct requires order instructions to be time stamped and trade executions to be fairly allocated to clients.
5. China Securities' order records from November 2009 to June 2011 obtained by the SFC show that:
  - (a) nearly all of the order tickets were not time stamped and they were not recording order instructions but trade executions;

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<sup>1</sup> Vermont Securities Company Limited changed its name to China Securities Holdings Limited in February 2012 and has ceased business since 31 December 2012.

<sup>2</sup> Liu was a former representative and responsible officer of China Securities Holdings Limited and was licensed under the SFO to carry on Type 1 (dealing in securities) regulated activity. She is currently not a licensed person.

<sup>3</sup> Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission

- (b) not all of the order instructions appearing on the trade blotters were marked with an order time and had corresponding order tickets prepared after the orders were executed; and
  - (c) not all trades appearing on the trade journals issued by the Hong Kong Stock Exchange can be traced to order instructions appearing on the trade blotters or to order tickets.
6. In short, China Securities' order records cannot identify for whose accounts the trades were executed and the executed trades cannot be traced through China Securities' trading system. In addition, it is entirely unclear as to how China Securities could be able to satisfy that the trade allocations to clients had been fair without the order time and the order instruction records.

*Regulated functions performed by unlicensed persons*

7. Section 114 of the SFO prohibits any person from performing any regulated function except a licensed representative. Regulated function means any function performed for a licensed corporation related to a regulated activity, other than work ordinarily performed by an accountant, clerk or cashier.
8. China Securities' incomplete order records were prepared by two dealers who were not licensed by the SFC. They took orders from clients and executed the orders for clients in the market. Despite China Securities' management, including its responsible officers, was aware that the two dealers were not licensed and that it was inappropriate for them to take orders from clients, the misconduct continued for years.

*Supervision of the dealing functions*

9. General Principle 9 of the Code of Conduct provides that the senior management of a licensed corporation should bear the primary responsibility of ensuring the maintenance of appropriate standards of conduct and adherence to proper procedures by the firm. Paragraph 4.2 of the Code of Conduct further provides that a licensed person should ensure that it has adequate resources to supervise diligently and does supervise diligently persons employed or appointed to conduct business on its behalf.
10. China Securities' management not only connived the unlicensed activities of the two dealers but also failed to supervise the dealing functions. From about March 2009, the responsible officer responsible for the dealing functions was removed from the dealing room. Regarding the other two responsible officers, Liu was seldom at the office and the other believed he was only responsible for settlement functions. As a result, the dealing room was left to the hands of two unlicensed persons until May 2011 when one of the responsible officers was assigned to work in the dealing room.

*Failure on Liu's part*

11. Despite being one of the three responsible officers of China Securities at the material time, Liu seldom attended the office. She had neglected her management responsibility and connived the unlicensed activities of the firm. Her failure was serious and resulted in the misconduct of China Securities.

## **Conclusion**

12. Having considered all the circumstances, the SFC is of the view that China Securities and Liu are guilty of misconduct and their fitness and properness as licensed persons have been called into question.
13. The SFC has decided to reprimand China Securities and fine it for \$1.3 million, and banned Liu from entering into the industry for 27 months.