

SFC suspends former responsible officer of China Securities Holdings Limited

18 Sep 2013

The Securities and Futures Commission (SFC) has suspended Mr Wong Yip Chuen for a period of eight months from 18 September 2013 to 17 May 2014.

Wong was former responsible officer of China Securities Holdings Limited (China Securities) (Notes 1 & 2).

The disciplinary action follows an SFC investigation into the affairs of China Securities from 2007 to 2011 in which serious deficiencies in relation to order record keeping, employment of unlicensed dealing staff and supervision of its dealing functions were found. Disciplinary actions against China Securities and one of its responsible officers were taken in August 2013 (Note 3).

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 4 & 5).

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 6).

Wong was responsible for the failures of China Securities. In determining his level of penalty, the SFC took into account the role he played and his degree of responsibility in relation to the business operations of China Securities.

End

Notes:

1. Wong was a former representative and responsible officer of China Securities and is licensed under the SFO to carry on Type 1 (dealing in securities) regulated activity. He is currently not accredited to any licensed corporation.
2. China Securities (formerly known as Vermont Securities Company Limited) is licensed under the SFO to carry on business in Type 1 (dealing in securities) regulated activity. China Securities ceased business on 31 December 2012.
3. Please see the SFC's press release dated [15 August 2013](#).
4. 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.
5. 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.
6. 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 operations, 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.
7. A copy of the [Statement of Disciplinary Action](#) in relation to the matter is available on the SFC website.

Page last updated : 19 Sep 2013

STATEMENT OF DISCIPLINARY ACTION

The Disciplinary Action

1. The Securities and Futures Commission (**SFC**) has suspended Wong Yip Chuen (**Wong**)¹, the former responsible officer of China Securities Holdings Limited (**China Securities**), formerly known as Vermont Securities Company Limited², for 8 months pursuant to section 194 of the Securities and Futures Ordinance (**SFO**).
2. China Securities was reprimanded and fined on 15 August 2013 for failures to comply with General Principles 2, 7 and 9 of the Code of the Conduct³ in carrying on its business in regulated activities from 2007 to 2011. 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 Wong 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;
 - (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

¹ Wong was a former representative and responsible officer of China Securities and is licensed under the SFO to carry on Type 1 (dealing in securities) regulated activity. He is currently not accredited to any licensed corporation

² Vermont Securities Company Limited changed its name to China Securities Holdings Limited in February 2012 and has ceased business since 31 December 2012.

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

- (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, one was seldom at the office and Wong 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 Wong was assigned to work in the dealing room.

Failure on Wong's part

11. Wong became one of the three responsible officers of China Securities from May 2009. One responsible officer seldom attended the office at the material time. The other responsible officer left China Securities in March 2010 and Wong was the only responsible officer at the office since then. From May 2011 onwards, Wong was directly responsible for China Securities' dealing room. China Securities' failures during the relevant periods are therefore attributed to Wong's neglect of his management responsibility and connivance of the unlicensed activities at the firm.

Conclusion

12. Having considered all the circumstances, the SFC is of the view that Wong is guilty of misconduct and his fitness and properness as a licensed person have been called into question.
13. The SFC has decided to suspend Wong's licence for 8 months after taking into consideration his acceptance of his failures.