

SFC revokes licences of Goodcape Securities Limited and its responsible officers Tang Lin Sun and Chang Siu Ming

15 Dec 2016

The Securities and Futures Commission (SFC) has revoked the licences of Goodcape Securities Limited (Goodcape) and its two responsible officers, Mr Tang Lin Sun and Mr Chang Siu Ming (Notes 1 & 2).

Tang and Chang have also been prohibited from re-entering the industry for life and three years from 15 December 2016 to 14 December 2019 respectively.

The disciplinary action followed SFC's investigation which found that Goodcape, which was prohibited from holding client assets and was required to place all orders with an execution broker as part of its licensing conditions as an introducing broker, had deliberately failed to relay trading instructions from a large number of clients to an execution broker (Note 3).

The trading instructions of these clients had been passed to Tang instead of the execution broker.

Clients also deposited funds into bank accounts controlled by Tang at the request of Chang and other Goodcape's licensed representatives in the belief that the funds had been used to settle their securities transactions.

In order to conceal the deceptive scheme, bogus account statements had been issued to the clients while their deposited funds were withdrawn in cash or transferred to the personal bank account of Tang or his wife. A sum of approximately \$90.5 million had been withdrawn from these bank accounts by Tang.

Chang, who failed to communicate order instructions of a number of Goodcape's clients to the execution broker at Tang's behest, had turned a blind eye to the deposit of funds by clients and connived in the issue of bogus statements.

The SFC is of the view that Goodcape, Tang and Chang are guilty of misconduct and are not fit and proper to remain licensed. In deciding the penalty, the SFC took into account all relevant circumstances including that the misconduct was egregious and serious; the significant losses suffered by Goodcape's clients and the need to remove Goodcape, Tang and Chang from the industry to protect the investing public.

End

Notes:

1. Goodcape, Tang and Chang are licensed to carry on Type 1 (dealing in securities) regulated activity under the Securities and Futures Ordinance (SFO).
2. On 2 January 2015, the SFC issued a restriction notice pursuant to sections 204 and 205 of the SFO to prohibit Goodcape from carrying on, whether directly or through agents, all of the regulated activities for which it is licensed; disposing of or dealing with any relevant property in any manner; and assisting, counselling or procuring another person to dispose of or deal with any relevant property in any manner without the SFC's prior written consent. Please see our press release dated [2 January 2015](#).
3. Goodcape's licence is subject to various conditions, including that it shall not hold client assets and conduct business other than communicating offers to effect dealings in securities to an execution broker, in the names of the persons from whom those offers are received; and introducing persons to two execution brokers, in order that such execution brokers may effect dealings in securities or make offers to deal in securities.

[A copy of the Statement of Disciplinary Action is available on the SFC website](#)

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STATEMENT OF DISCIPLINARY ACTION

The Disciplinary Action

1. The Securities and Futures Commission (**SFC**) has revoked the licences of Goodcape Securities Limited (**Goodcape**) and its responsible officers, Tang Lin Sun (**Tang**) and Chang Siu Ming (**Chang**) and prohibited Tang and Chang from re-entering the industry for life and three years respectively pursuant to section 194 of the Securities and Futures Ordinance (**SFO**).
2. The SFC found that Goodcape has:
 - (a) failed to, as introducing broker, communicate clients' order placing instructions to Paul Securities Limited (**Paul**) to effect dealings in securities;
 - (b) accepted clients' order placing instructions and caused them to deposit funds into the bank account of Goodcape Limited¹, held at Bank of China (Hong Kong) Limited (**GL BOC Account**) and Nanyang Commercial Bank Limited (**GL NCB Account**), in purported settlement of their securities transactions, when in fact their instructions were not communicated to Paul; and
 - (c) issued false statements under the joint names of Goodcape and Goodcape Limited to clients to lead them into believing that the funds they deposited into the GL BOC Account and/or GL NCB Account were used to settle their securities transactions, when such client assets were ultimately misappropriated by Goodcape and/or Tang.
3. Goodcape's misconduct, in breach of General Principle (**GP**) 1 of the Code of Conduct for Persons Licensed by or Registered with the SFC (**Code of Conduct**) and the conditions of Goodcape's Type 1 licence, is attributable to the failure of Tang and Chang to discharge their duties as responsible officers.
4. Tang have misappropriated client assets in breach of GP1. Chang has failed to communicate the clients' order placing instructions to Paul and connived in and/or turned a blind eye to the matters constituting the failures of Goodcape and/or Tang in breach of GP 2 of the Code of Conduct.

Summary of facts

5. On 29 December 2014, the SFC received a complaint alleging that Tang had failed to return the shares of the complainant's late husband's with a portfolio worth about \$4 million.

¹ Goodcape's predecessor was Goodcape Investment Company (佳壑投資公司). Goodcape Investment Company was previously known as Goodcape Limited (佳壑有限公司). With effect from 1 April 1986, the business name of "Goodcape Limited" was changed to "Goodcape Investment Company". Goodcape Limited was a registered dealer from 8 July 1982 to 24 May 1986 and a registered adviser from 18 November 1980 to 31 July 1989 under the repealed Securities Ordinance.

6. As a result of the complaint, the SFC conducted an inspection of Goodcape in December 2014. Tang claimed that he owed the securities shown in the statements issued in the names of Goodcape and Goodcape Limited to the complainant's late husband in his personal capacity and the statements served as a debit note. He also asserted that a verbal agreement had been reached whereby the complainant's late husband would lend him those securities and in return he would pay him monthly interest.
7. On 2 January 2015, the SFC issued a restriction notice against Goodcape pursuant to sections 204 and 205 of the SFO, prohibiting Goodcape from carrying on, whether directly or through agents, all of the regulated activities for which it is licensed; disposing of or dealing with any relevant property in any manner, and assisting, counselling or procuring another person to dispose of or deal with any relevant property in any manner without the SFC's prior written consent.
8. After issuance of the Restriction Notice, Goodcape's clients started to make enquiries with the SFC. **As of August 2016, about 388 clients reported losses of about \$127.8 million, including stock value of \$57 million, cash of \$38 million and fixed deposits of \$32 million deposited by these clients under a deposit-taking scheme apparently operated by Goodcape or Tang.**

Brokerage agreement between Goodcape and Paul

9. By way of an agreement dated 1 December 2005, clients would open accounts with Paul through Goodcape and Goodcape would, as introducing agent, relay the orders of such clients to Paul for the trading of securities.
10. The clients referred by Goodcape would sign the account opening forms of Paul at the office of Goodcape. Thereafter, a representative of Goodcape stationed in the office of Paul, would take trading instructions from Goodcape regarding the orders of the clients placed with Goodcape. The representative would then inform the trading staff of Paul for execution of those orders, and would collect and pass the daily and monthly statements of the clients issued by Paul to Goodcape for reconciliation or reference after execution of the transactions.
11. According to the monthly statements of all clients referred by Goodcape to Paul for the month of December 2014, 136 complainants did not hold an account with Paul. For those who held accounts with Paul, the total value of stocks held by them amounted to \$756,000 and their total cash balance was zero as of 31 December 2014.

Breaches and reasons

12. As licensed persons, Goodcape and Tang are under a duty to act honestly, fairly, in the best interests of its clients and the integrity of the market under GP 1 of the Code of Conduct. Tang is also under a duty to act with due skill, care and diligence, in the best interests of its clients and the integrity of the market under GP 2 of the Code of Conduct.
13. Goodcape's licence is subject to various conditions, including that it must not (a) hold client assets and (b) conduct business other than (i) communicating offers to Paul to effect dealings in securities, in the names of the persons from whom those offers are received, and (ii) introducing persons to Paul or Lamtex

Securities Limited, in order that they may effect dealings in securities or make offers to deal in securities.

14. In breach of Goodcape's licensing conditions, Goodcape had accepted trading instructions from a large number of clients and had deliberately failed to relay the same to Paul for execution.
15. Chang had withheld trading orders from clients and passed them to Tang instead of Paul in accordance with Tang's instructions. At the request of Chang and other licensed representatives of Goodcape, clients were asked to deposit funds into the GL BOC Account or GL NCB Account in purported settlement of their transactions.
16. With a view to concealing their dishonest acts, Goodcape and/or Tang then created bogus Goodcape statements and issued them to clients. Our investigation revealed that funds deposited by clients into the GL BOC Account and GL NCB Account were withdrawn by cash or transferred to the personal bank account of Tang or his wife.
17. By holding client funds in the GL BOC Account and GL NCB Account, Goodcape had breached its licensing condition not to hold client assets. During the period from February 2008 to December 2014, a total sum of approximately \$90.05 million had been withdrawn from the GL BOC Account and GL NCB Account.
18. As of August 2016, there was a large discrepancy in the stock value and cash balance claimed by the clients and their securities and cash positions as indicated in the account statements provided by Paul. The total shortfall for stock value and cash balance was approximately \$59.1 million and \$12.4 million. Since 7 January 2015, the GL BOC Account and GL NCB Account had balances of only around \$9,000 and \$1,000.

Conclusion

19. Having considered all the circumstances, the SFC is of the view that Goodcape, Tang and Chang are guilty of misconduct and are not fit and proper persons to remain licensed.
20. The SFC has decided to revoke the licences of Goodcape, Tang and Chang. Tang and Chang have also been prohibited from re-entering the industry for life and three years respectively.
21. In deciding the disciplinary sanction against Goodcape, Tang and Chang, the SFC has taken into account all the circumstances of this case, including:
 - the misconduct was egregious and serious. Goodcape and Tang abused the trust its clients placed in them;
 - Goodcape's failures are attributed to Chang's connivance and/or turning a blind eye to Tang's misconduct;
 - investors' and the public's confidence in market integrity was damaged;
 - the losses suffered by Goodcape's clients were significant; and

- Goodcape, Tang and Chang had an otherwise clean disciplinary record; and
- the need to remove Goodcape, Tang and Chang from the industry in order to protect the investing public.