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SFC reprimands and fines Glory Sun Securities Limited \$1.2 million and suspends its current and former responsible officers

15 Jul 2019

The Securities and Futures Commission (SFC) has reprimanded and fined Glory Sun Securities Limited (Glory Sun) \$1.2 million for failing to diligently supervise its account executives and implement effective controls to ensure compliance with the short selling requirements (Notes 1 & 2).

The SFC has also suspended Glory Sun's responsible officer, Ms Eva Wong, and former responsible officer, Mr Alfred Lam Wai Kwong, for six months, respectively, from 12 July 2019 to 11 January 2020 for the failures (Note 3).

The disciplinary action arose from a case where a **Glory Sun account executive** was convicted by the Court for illegal short selling in Coslight Technology International Group Limited (Coslight) shares on multiple occasions in August 2015 (Note 4).

At the material time, Glory Sun had two trading systems, one which checked a client's stock balance before a sell order was placed to the Stock Exchange of Hong Kong Limited but another trading system (Speed Station) – through which the sell orders in Coslight shares were placed by the account executive for his personal trading account – did not have such function. As such, Glory Sun's controls to prevent illegal short selling were ineffective.

Glory Sun claimed that there were reviews of the trading activities of its account executives by Wong and Lam. However, there was no record of the purported reviews. Since most of the reviews were conducted at day-end, they were ineffective in preventing the placing of short sale orders to the market. In addition, Glory Sun only became aware of the illegal short selling activities of the account executive when informed by the SFC.

The SFC is of the view that Glory Sun, Wong and Lam are in breach of the Code of Conduct (Note 5).

In deciding on the sanctions, the SFC took into account all relevant circumstances of the case, including:

- the account executive's illegal activities went undetected until the SFC informed Glory Sun of it;
- Glory Sun ceased to permit its account executives to execute orders through the Speed Station since July 2018;
- the parties' otherwise clean disciplinary record; and
- a deterrent message needs to be sent to the market that failures to adequately supervise and implement effective controls will not be tolerated.

End

Notes:

1. Glory Sun, formerly known as China Goldjoy Securities Limited (until 4 April 2019) and China Yinsheng Securities Limited (until 11 November 2016), is licensed under the Securities and Futures Ordinance (SFO) to carry on business in Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities.
2. Under section 170(1) of the SFO, a person shall not sell securities at or through a recognised stock exchange unless at the time of the sale he has a presently exercisable and unconditional right to vest the securities in the purchaser of them, or believes and has reasonable grounds to believe that he has such a right.
3. Lam and Wong are licensed under the SFO to carry on Type 1 (dealing in securities) regulated activity. Wong is also licensed under the SFO to carry on Type 9 (asset management) activity. At the material time, Lam and Wong were Glory Sun's responsible officers. Lam had since left the employment of Glory Sun.
4. On 26 July 2018, the account executive was convicted at the Eastern Magistrates' Court of 33 counts of illegal short selling in the shares of Coslight contrary to section 170 of the SFO. He was fined \$231,000

and was also ordered to pay the SFC's investigation costs. For details, please see the SFC's press release dated [26 July 2018](#).

5. General Principle 7 and paragraph 12.1 of the Code of Conduct for Persons Licensed by or Registered with the SFC (Code of Conduct) require licensed corporations to comply with, and implement and maintain measures appropriate to ensure compliance with, relevant regulatory requirements. Paragraph 4.2 of the Code of Conduct requires licensed corporations to ensure that they have adequate resources to supervise diligently and do supervise diligently persons employed or appointed to conduct their business. Paragraph 12.4 of the Code of Conduct requires licensed corporations to be responsible for the acts or omissions of their employees and agents in respect to the conduct of their business. General Principle 9 and paragraph 14.1 of the Code of Conduct require the senior management of licensed corporations to properly manage the risks associated with their business and bear primary responsibility for ensuring the maintenance of appropriate standards of conduct and adherence to proper procedures by the firms.

[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 publicly reprimanded and fined Glory Sun Securities Limited (**Glory Sun**)¹ \$1.2 million for failing to supervise its account executives and implement effective controls to ensure compliance with the short selling requirements.
2. The SFC has also suspended Glory Sun's responsible officer, Ms Eva Wong (**Wong**), and former responsible officer, Mr Alfred Lam Wai Kwong (**Lam**), for six months, respectively, from 12 July 2019 to 11 January 2020 for the failures.
3. Glory Sun is licensed under the Securities and Futures Ordinance (**SFO**) to carry on business in Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities.
4. Lam and Wong are licensed under the SFO to carry on Type 1 (dealing in securities) regulated activity. Wong is also licensed under the SFO to carry on Type 9 (asset management) activity. At the material time, Lam and Wong were the responsible officers of Glory Sun. Lam had since left the employment of Glory Sun.

Summary of facts

5. Under section 170(1) of the SFO, a person shall not sell securities at or through a recognized stock exchange unless at the time of the sale he has a presently exercisable and unconditional right to vest the securities in the purchaser of them, or believes and has reasonable grounds to believe that he has such a right. Further, section 170(4) provides that a person who contravenes section 170(1) commits an offence liable on conviction to a fine of level 6 and to imprisonment for 2 years.
6. On 26 July 2018, a licensed representative accredited to Glory Sun was convicted by the Court for illegally short selling shares of Coslight Technology International Group Limited (**Coslight**) on multiple occasions in August 2015.²
7. At the material time, Glory Sun had two trading systems, one which checked a client's stock balance before a sell order was placed to the Stock Exchange of Hong Kong (**SEHK**) but another trading system, the Speed Station, through which the sell orders in Coslight shares were placed by the account executive for his personal trading account, did not have such function.

¹ Glory Sun was formerly known as China Goldjoy Securities Limited (until 4 April 2019) and China Yinsheng Securities Limited (until 11 November 2016)

² See the SFC's press release of 26 July 2018

8. Lam and Wong claimed that they had monitored and reviewed the trading activities of account executives through visually watching their trade executions during trading hours, and randomly checking the daily trade journal and stock overdrawn report at day-end.

Failures to adequately supervise account executives and implement effective controls to ensure compliance with the short selling requirements

9. General Principle 7 and paragraph 12.1 of the Code of Conduct for Persons Licensed by or Registered with the SFC (**Code of Conduct**) require licensed corporations to comply with, and implement and maintain measures appropriate to ensure compliance with, relevant regulatory requirements.
10. Paragraph 4.2 of the Code of Conduct requires licensed corporations to ensure that they have adequate resources to supervise diligently and do supervise diligently persons employed or appointed to conduct their business. Paragraph 12.4 of the Code of Conduct requires licensed corporations to be responsible for the acts or omissions of their employees and agents in respect to the conduct of their business.
11. In addition, General Principle 9 and paragraph 14.1 of the Code of Conduct require the senior management of licensed corporations to properly manage the risks associated with their business and bear primary responsibility for ensuring the maintenance of appropriate standards of conduct and adherence to proper procedures by the firms.
12. Given that one system (i.e. BSS) would check the stock availability before placing sell orders to the SEHK while the other system (i.e. Speed Station) would not, by allowing its account executives to execute sell orders through the Speed Station, Glory Sun had exposed itself to the regulatory risk of non-compliance with the short selling requirements.
13. Although Glory Sun submitted that the trading activities of the account executives were purportedly reviewed by Lam and Wong, there is no evidence to suggest that the reviews were intended to detect and prevent short selling, and in any event, to the extent that such reviews were conducted at day-end, they could not have prevented short sale orders from being placed to the market.
14. The illegal short selling activities of the account executive went undetected until the SFC informed Glory Sun of it. This suggests that the trading activities of account executives were not diligently supervised by Glory Sun and its responsible officers.

Conclusion

15. Having considered all the circumstances, the SFC considers that Glory Sun's failures constitute a breach of General Principle 7 and paragraphs 4.2, 12.1 and 12.4 of the Code of Conduct, and Lam and Wong have breached General Principle 9 and paragraphs 4.2 and 14.1 of the Code of Conduct.
16. The SFC has accordingly decided to publicly reprimand Glory Sun and fine it \$1.2 million, and to suspend Lam's and Wong's licences and the approval for them to act as responsible officers for six months.

17. In deciding the appropriate sanctions, the SFC has taken in account all the relevant circumstances of the case, including:
- (a) the account executive's illegal activities was undetected until the SFC informed Glory Sun of it;
 - (b) Glory Sun ceased to permit its account executives to execute orders through the Speed Station since July 2018;
 - (c) the parties' otherwise clean disciplinary record; and
 - (d) a deterrent message needs to be sent to the market that failures to adequately supervise and implement effective controls will not be tolerated.