

SFC Reprimands Salomon Brothers Hong Kong Limited

28 Feb 1997

The Securities and Futures Commission ("the Commission") today announced that it has reprimanded Salomon Brothers Hong Kong Limited ("SBHK").

The reprimand related to the operation of the Private Investment Department ("PID") of SBHK during the period April 1993 to March 1994 and resulted from an investigation carried out by the Commission following complaints received from persons who had been sold Collateralised Mortgage Obligations ("CMOs") by staff of PID.

It became apparent to the Commission during the course of its investigation that some failings within SBHK meant that

- persons within PID were not promptly registered with the Commission when undertaking their duties.
- certain staff of PID when marketing CMOs to clients did not fully understand the nature of the product resulting in some clients of PID being sold CMOs without fully appreciating the risks involved in holding the product.

When the Bond market collapsed in February 1994 various clients who had not fully appreciated the risks of CMOs incurred considerable losses as a result of holding high risk versions of this product. However in deciding on a reprimand the Commission took into account a number of mitigating factors including :

- the actions taken by SBHK on its own initiative when it learned about the above problems, which included an internal reorganisation and strengthening of procedures, making contact with clients who had purchased CMOs and settling with them.

the PID department within SBHK was closed down in April 1995.

A Commission spokesman said the investigation has illustrated the danger of firms paying insufficient attention to the responsibilities that arise when they are selling new and high risk products to retail clients. Other firms would be well advised to review thoroughly their own procedures in this regard.