

SFC Takes Action Against Daiwa Securities (HK) Limited and Osamu Semba

16 Oct 1998

The Securities and Futures Commission announced today that it had reprimanded Daiwa Securities (HK) Limited (Daiwa) and its former managing director, Mr Osamu Semba (Semba). Daiwa also voluntarily ceases to engage in proprietary trading activities in Hong Kong quoted stocks for a period of three months with immediate effect.

The disciplinary action stemmed from an inquiry conducted under section 56 of the Securities Ordinance and the findings of two independent reviews commissioned by the parent company, Daiwa Securities Co Limited, on the margin lending procedures and internal control systems of Daiwa. The reviews concluded, among others, that:

- (a) Daiwa's internal control procedures were materially inadequate to monitor its credit and margin lending operations;
- (b) Daiwa had an inadequate organisation structure, management systems and risk control framework; and
- (c) Daiwa had not established and maintained proper "Chinese Walls" for its proprietary trading operations to prevent apparent and potential conflict of interests.

Semba, the former accredited securities dealer who was responsible for overseeing the operation of Daiwa at the material times, was also reprimanded for failing to exercise due care and diligence in the management and supervision of the dealing business of Daiwa. Semba ceased to be a director of Daiwa on 14 April 1998.

In determining the appropriate disciplinary action to be taken against Daiwa, the SFC took into account the following:

- (a) Daiwa Securities Co Limited had on its own initiative commissioned an independent review on its margin accounts and internal control policy and procedures by its legal and accounting advisers;
- (b) Daiwa had co-operated fully with and actively assisted the SFC in its inquiry including the submission of an internal report relating to its proprietary trading operations;
- (c) Daiwa has been taking steps to enhance its compliance capabilities and systems since April 1998;
- (d) Daiwa has voluntarily ceased to engage in proprietary trading activities in Hong Kong quoted stocks since January 1998;
- (e) the failings at Daiwa did not result in actual loss to Daiwa's clients; and
- (f) the other staff directly involved are no longer employed by Daiwa.

The SFC stressed that it is the responsibility of a registered intermediary to ensure that it has adequate internal control and risk management procedures which can be reasonably expected to protect its business from financial loss arising from theft, fraud, and other dishonest acts or omissions. Moreover, a registered intermediary should also ensure that its business is properly managed and appropriately supervised.