

Enforcement Actions

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3 April 2003

SFC Takes Action Against Chu Yuet Wah and Chu Yuk Yui of Kingston Securities Limited

The SFC has taken action against Mrs Chu Yuet Wah (Y.W. Chu) and Mr Chu Yuk Yui (Y.Y. Chu).

The actions stemmed from an investigation by the SFC into manipulative trading in derivative warrants listed on the Stock Exchange and issued by Merrill Lynch International & Co C.V. (the ML warrants) during the period from October 1998 to March 1999. Two former staff members of Merrill Lynch (Asia Pacific) Limited (MLAP) conducted unauthorised and improper trading activities. The pattern of their trading involved the selling and repurchase of the derivative warrants to and from accounts they operated and controlled at a number of brokerages. Their trading constituted a large proportion of the trades in the ML warrants during the six months period (note 1).

The SFC alleged that Y.W. Chu, a dealer's representative of Kingston Securities Ltd (Kingston), had provided five accounts at Kingston to the two former staff members of MLAP to trade the ML warrants. She accepted and executed all orders from the pair who were not authorised to operate these accounts. She also accepted orders from them on behalf of MLAP when they were not authorised to operate MLAP's account at Kingston.

The trading involved the selling and repurchase of warrants to and from these five accounts. The trading was heavy and had lasted for six months. The SFC alleged that from the nature of the arrangements, the volume of trading and the pattern of the trading, Y.W. Chu knew or ought to have known that the trading being conducted was possibly manipulative, improper and illegal. The SFC alleged that she either actively assisted them or turned a blind eye to their activities. Finally the SFC alleged that when questioned about these matters she gave deliberately misleading initial answers to hinder the SFC's investigations.

As a result of the SFC's allegations, on a non-admission basis, Y.W. Chu has agreed to voluntarily surrender her registrations under the Securities Ordinance and the Commodities Trading Ordinance with effect from 5 April 2003. She has undertaken not to apply for any registrations from the SFC for 24 months and not to have any involvement in or influence over the day to day running of the business operations of Kingston during the said 24 months. She is not prohibited from exercising her rights as a major shareholder of Kingston.

The SFC alleged that Y.Y. Chu, a dealing director of Kingston, had failed to properly supervise Y.W. Chu and monitor her activities. The SFC also alleged that he had failed to put in place adequate internal control procedures at Kingston and such failings helped to facilitate Y.W. Chu's trading malpractices. In particular, Kingston's account opening procedures were not sufficient to determine the true identity of its clients and the identity of those who gave instructions to Kingston. Furthermore, proper audit trails had not been maintained nor contracts notes were issued to clients. The SFC has therefore reprimanded Y.Y. Chu.

An SFC spokesman said that in the interests of the integrity of the market and to protect the interests of investors, all brokers should properly supervise their staff and put in place adequate internal control procedures to ensure that market manipulation, theft, fraud and other dishonest acts, professional misconduct or omission can be detected in a timely manner.

Notes to Editor:

1. On 10 April 2000, Merrill Lynch (Asia Pacific) Ltd (MLAP) and Merrill Lynch Far East Limited were severely and publicly reprimanded for their failure to supervise the trading of some derivative warrants listed on the Stock Exchange of Hong Kong Limited (SEHK) and issued by Merrill Lynch International & Co C.V. Their failure enabled two former staff members of MLAP to conduct unauthorised and improper trading activities. Please see the joint press release issued by the SFC and SEHK, which is available on the SFC website.

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