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SFC Reprimands KGI Asia Limited for Lax Internal Controls

8 Jan 2004

The SFC has reprimanded KGI Asia Limited.

The reprimand follows an inquiry in which the SFC found that KGI had allowed its staff to engage in securities dealing whilst unregistered. The unregistered dealing activities were made possible by KGI's lax internal control over the management of its branch offices.

The SFC found that KGI had failed to employ any staff to supervise the operation of two of its branch offices for several months in 2000, exposing the firm itself to management risk. When KGI did employ a manager to supervise one of the branch offices, the manager was inexperienced and insufficiently trained. There was confusion as to the supervisory role of the manager because there was no clear delineation of responsibilities. As a result, an unregistered staff member engaged in securities dealing (Note 1). Though KGI's directors made regular visits to the branch office, the unregistered activities were undetected due to poor diligence.

The SFC further found that there was insufficient control of trading limits at that branch office due to an unclear division of duty in this area. Trading often exceeded the limits in two clients' accounts and KGI was exposed to unnecessary financial risks. Further, account executives were given latitude in the control of the trading limits based on their own risk assessment, which lacked uniformity, objectivity and supervision. When an automatic interdiction system was later installed to prevent trading over limits, it still allowed manual circumvention.

The SFC concludes that KGI has been guilty of misconduct and that its fitness and properness has been called into question. It therefore decides that a public reprimand is appropriate in the circumstances.

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "Lax internal controls in a brokerage put the clients and the firm itself at risk. They facilitate employees' misconduct that prejudices the interests of both the clients and the firm. We will not tolerate firms with poor internal controls. If this case were to be dealt with under the Securities and Futures Ordinance, we would have considered imposing a fine and other new sanctions."

KGI is a licensed corporation under the Securities and Futures Ordinance.

Ends

Notes to Editor:

1. The unregistered dealing inquiry has been concluded with no prosecution.

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