

# SFC Disciplines Chong Chin and Yao Sze Ling for Management and Supervisory Failures and Yicko Securities Limited for Improper Client Margin Management and Failure to Comply with Client Money Rules

12 Apr 2006

The SFC has suspended Mr Chong Chin for eight months, from 12 April 2006 to 11 December 2006, and reprimanded Ms Yao Sze Ling and fined her \$60,000 for their failures to competently manage the regulated activities of Yicko Futures Limited and Yicko Securities Limited (Note 1).

The SFC has also reprimanded Yicko Securities for its failure to ensure proper client margin management and compliance with the Securities and Futures (Client Money) Rules.

The disciplinary sanctions are the result of a settlement between Chong, Yao, Yicko Securities and the SFC. The disciplinary action follows an SFC investigation into Yicko Futures' failure to pay its margin requirement and the variation adjustment to the HKFE Clearing Corporation Limited in September and October 2003 (Note 2).

The investigation showed that a Client Registered Trader of Yicko Futures had not had adequate margin to support his portfolio in HSI Index options and futures contracts (Note 3). Instead of restricting the Client Registered Trader's trading activities and reducing the size of his trading portfolio, Chong contributed to the Client Registered Trader's overtrading by lending him money to foot his margin shortfall. The SFC found that Chong and Yao had failed:

- to exercise adequate internal controls over the Client Registered Trader's activities;
- to possess sufficient competence in monitoring the Client Registered Trader's option trading portfolio;
- to effectively monitor the Client Registered Trader's financial resources;
- to assess the appropriate level of margin requirement for the Client Registered Trader;
- to enforce its margin policy against the Client Registered Trader;
- to notify the regulators of the Client Registered Trader's failure to meet with his margin requirements; and
- to ensure compliance with the Client Money Rules and the Securities and Futures (Financial Resources) Rules.

The SFC also inspected the business of Yicko Securities and found that Yicko Securities had:

- not promptly collected margin requirements due for collection;
- allowed clients to initiate new positions notwithstanding margin deposits were not sufficient to cover existing positions;
- margined clients at below the SEHK's requirement as a result of an erroneous margining methodology; and
- financed under-margined clients unintentionally with the surplus funds of other clients in breach of the Client Money Rules.

Both Chong and Yao were the responsible officers of Yicko Securities at the relevant times. They were directly involved in the management of Yicko Securities and were responsible for its failures.

The SFC concludes that Chong, Yao and Yicko Securities have been guilty of misconduct and their fitness and properness has been called into question. In deciding the penalties, the SFC has considered the following factors:

- Yicko Futures has ceased business and is the subject of a winding up petition;
- Yicko Futures' clients other than the Client Registered Trader were not financially affected;
- Yicko Securities, Chong and Yao have no previous disciplinary history;
- Yicko Securities, Chong and Yao co-operated with the SFC in settling the disciplinary action; and
- Yicko Securities has taken the initiative to engage a compliance consultant to review and strengthen its policies and internal controls.

The SFC would have fined Yicko Futures as well if it had remained in business. The SFC considers

that it is in the interest of the investing public and in the public interest to settle its disciplinary actions against Chong, Yao and Yicko Securities.

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "Futures and option trading carries a higher degree of risk than trading the underlying assets because of the effect of leverage and gearing. Exploiting deviations in market value and fair value may be a risky venture notwithstanding that option positions appear to be hedged. Even the most sophisticated financial models are subject to model and parameter risks. A model may treat a trading position as low risk because of the assumptions made and parameters chosen. These assumptions and parameters have to be critically evaluated in light of circumstances. A licensed corporation should understand and manage the risks involved before engaging in these lines of business. Any investor may go under if his/her financial resources are inadequate to meet with margin calls on short notice. Professional traders are no exception. In this case it is clear that Chong and Yao did not understand the true nature and extent of the risk that the Client Registered Trader had assumed. Their lack of a thorough understanding led to the collapse of Yicko Futures."

Ends

Notes:

1. Yicko Futures was licensed under the Securities and Futures Ordinance to carry on business in Type 2 (dealing in futures contracts), Type 5 (advising on futures contracts) and Type 9 (asset management) regulated activities. Yicko Futures ceased business in May 2004 and its licence was revoked. Chong was the responsible officer and Yao was a licensed representative accredited to Yicko Futures.

Yicko Securities is licensed under the SFO to carry on business in Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities. Both Chong and Yao are responsible officers accredited to Yicko Securities.

2. [Please see SFC press release dated 2 October 2003 for details.](#)

3. A Client Registered Trader is a client nominated by an Exchange Participant and approved by the Hong Kong Futures Exchange Limited to quote prices in specified markets.

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