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SFC reprimands and fines China Everbright Securities (HK) and its responsible officer \$1.6 million

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The Securities and Futures Commission (SFC) has reprimanded China Everbright Securities (HK) Limited (CES) and fined it \$1.2 million for internal control and supervisory failures (Note 1).

The SFC has also reprimanded Mr Chan Kam Hop, a responsible officer of CES, and fined him \$400,000 for supervisory and managerial failures (Note 2).

The decision follows an SFC investigation which found that a CES account executive, Mr X failed to perform proper account opening and know-your-client procedures and falsely represented that he had explained the risk disclosure statements and witnessed the execution of the account opening documents in relation to a number of his clients who reside in the Mainland (Note 3).

The SFC found that:

- Mr X operated from the office of a CES affiliate in Shenzhen (CESPR), and made use of middlemen employed by CESPR to refer clients to him and to handle the new clients' account opening procedures;
- Mr X had not met the clients referred to him by the middlemen but nonetheless signed on their account opening documents as a witness and declared that he had explained to them the account opening documents and the risk disclosure statements; and
- CES knew that the majority of Mr X's clients resided in the Mainland and Mr X operated from CESPR's office. CES paid for the overheads of CESPR and was aware of the employment of the middlemen who assisted Mr X in CESPR's office. However, there was no evidence to suggest that CES was aware of the role the middlemen played in the account opening procedures for the clients they referred to Mr X.

The SFC found that CES failed to supervise Mr X's operation in CESPR's office and failed to have controls in place to ensure compliance with proper account opening and know-your-client procedures for the accounts emanating from Mr X's operation in CESPR.

The SFC also found that CES' internal control failures are attributable to Chan's neglect in his capacity as a member of the senior management and responsible officer who oversees CES account executives' daily business conduct.

In deciding the sanctions, the SFC took into account that CES conducted an internal investigation immediately upon becoming aware of Mr X's involvement in opening accounts for new clients without knowing the new clients; CES and Chan co-operated with the SFC; and CES and Chan have no previous disciplinary record.

End

Notes:

1. CES is licensed under the Securities and Futures Ordinance (SFO) to carry on Type 1 (Dealing in Securities), Type 4 (Advising on Securities), Type 6 (Advising on Corporate Finance) and Type 9 (Asset Management) regulated activities.
2. Chan is licensed under the SFO to carry on Type 1 (Dealing in Securities), Type 2 (Dealing in Futures Contracts), Type 3 (Leveraged Foreign Exchange Trading), Type 4 (Advising on Securities), Type 5 (Advising on Futures Contracts), Type 6 (Advising on Corporate Finance) and Type 9 (Asset Management) regulated activities. Chan is a responsible officer of CES.
3. The SFC has also taken proceedings under Part IX of the SFO against Mr X which have not yet concluded. The SFC will not disclose the identity of Mr X at this stage.

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