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SFC Reprimands Ong Asia Securities (HK) Limited and Lynn Kwok Hung George for Failing to Understand the Listing Rules and to Keep an Adequate Client Order Audit Trail

4 Mar 2003

The SFC has reprimanded Ong Asia Securities (HK) Limited and its Dealing Director, Mr Lynn Kwok Hung George.

The reprimand stems from an inquiry about whether Ong Asia and Lynn took reasonable steps to ensure that the Placing Guidelines for Derivative Warrants under Appendix 6A of the Listing Rules were complied with between March 2000 and January 2001 when Ong Asia placed to its clients three warrants issued by Robert Fleming Equity Derivatives Limited and 38 warrants issued by KBC Financial Products International Limited.

The inquiry found that Ong Asia and Lynn failed to understand the Placing Guidelines then in effect, in particular the requirements requiring a minimum number of placees. The SFC also found that Lynn had failed to ensure staff of Ong Asia handling warrant issues understood the Placing Guidelines. Ong Asia did not maintain a sufficient internal control system to ensure that an adequate client order audit trail about the timing of clients' warrant trading activities was kept because they destroyed phone tapes after three months and did not keep any other records.

Accordingly, the SFC considered that the fitness and properness of Ong Asia and Lynn as registered persons had been called into question and decided to reprimand them.

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "Placing agents should be aware of the continuing regulations governing derivative warrant issues, in particular those changes made in December 2001 under the new regime (note 1). It is important for brokerages to keep a proper audit trail to record the warrant trading time in order to comply with relevant legislation, our Code of Conduct and Management, Supervision and Internal Control Guidelines. We shall continue to monitor the market and ensure registered persons handle warrant issue activities in an orderly and fair manner."

Both Ong Asia and Lynn are registered under the Securities Ordinance as dealers.

Ends

Note:

1. Following the changes to the regulations concerning derivative warrants issued in December 2001, issuers are no longer required to sell a specified percentage of an issue before it can be listed, nor are they required to have placed it to a minimum number of placees. Issuers are now required to provide liquidity for warrants by appointing a liquidity provider.

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