



## Regulatory Update - SFC takes First Disciplinary Action against Manager-in-Charge over Internal Control Failures (November 2021)

On 1 November 2021, the Securities and Futures Commission (“SFC”) announced that they have fined and reprimanded Fullbright Securities Limited (“FSL”) \$3.3 million and suspended its Responsible Officer (“RO”) Eric Liu Chi Ming for six months for committing various internal control failures relating to placing activities and recording of client order instructions.

The SFC has taken disciplinary action following its investigation into FSL’s conduct as placing agent in a share placing of a Hong Kong-listed company in August 2018.

This regulatory update highlights the key facts of this case and the issues that ultimately led to FSL receiving this fine in addition to Mr. Liu being the first Manager-in-Charge of a core function to be subject to serious disciplinary action.

### SENIOR MANAGEMENT RESPONSIBILITIES

According to the SFC, at that time, Mr. Liu served as RO, Director, Deputy General Manager, MIC of Overall Management Oversight (“OMO”) and Key Business Lines (“KBL”) of FSL and was responsible for managing and supervising FSL’s business operations in regulated activities.

Mr. Liu was said to have approved and signed the placement documents and was the key decision-maker in FSL’s acceptance of the application. He was also involved in reviewing the telephone orders placed by clients and should have been aware that FSL was not implementing the requirements for telephone orders as they were expected to do as a licensed firm. However, the SFC stated that when this misconduct was identified, he took no steps to rectify the situation.

The SFC considered that FSL’s failings were directly attributable to Mr. Liu’s failure to discharge his duties as RO and as a member of FSL’s senior management team. In light of this, the SFC clarified that FSL’s misconduct would also be regarded as Mr. Liu’s misconduct under section 193(2) of the SFO.

As part of the senior management team Mr. Liu failed to ensure that FSL maintained appropriate standards of conduct and adhered to proper procedures, which was a direct breach of general principle 9 of the code of conduct. This also called into question Mr. Liu’s suitability as a licensed person and his ability to competently carry out regulated activities.

### CONCLUSION

Here, the SFC has addressed a number of important issues regarding the regulation of dealing in securities. Firstly, it has been critical of, and has taken action on, issues relating to record keeping and the suitability of client trades. Second, it has taken similar action against a Manager-in-Charge for failing to ensure compliance with relevant rules and to report compliance breaches to the Commission.

In deciding what disciplinary action to take against FSL and Mr. Liu, the SFC, as usual, took into account the fact that both parties had cooperated in resolving the various SFC concerns. In addition, FSL agreed to engage an independent reviewer to conduct a review of the relevant



internal controls and to implement any recommended changes to rectify the identified deficiencies.

For more details of the case, please visit SFC's website: [SFC reprimands and fines Fulbright Securities Limited \\$3.3 million and suspends its responsible officer for internal control failures | Securities & Futures Commission of Hong Kong](#)

## HOW WE CAN HELP

Our dedicated team of professionals can provide expert advice and guidance on your current internal controls relating to senior management oversight, account opening processes and procedures, suspicious transaction monitoring and identification and recording of client order obligations to ensure that your firm meets both regulatory and industry best practice standards. In addition, we can provide customised compliance training solutions on these topics and more to ensure that your team are familiar with the various standards they must adhere to.

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