

# SFC Suspends Luk Kam Yuen Perry for Breaches of Anti-Money Laundering Guidelines, the Securities and Futures (Financial Resources) Rules and Code of Conduct, and Internal Control Failures

18 Jul 2006

The SFC has suspended Mr Luk Kam Yuen Perry for five months from 17 July 2006 to 16 December 2006 for breaching the Anti-Money Laundering Guidelines, the Securities and Futures (Financial Resources) Rules (FRR) and Code of Conduct, and lack of internal controls while acting as a responsible officer for Hooray Securities Limited. The suspension is the result of a settlement between the SFC and Luk (Notes 1, 2 and 3).

## Breach of Anti-Money Laundering Guidelines

Between September and November 2001, Hooray Securities acted as the selling broker in a number of significant non-AMS transactions in the shares of:

- Karl Thomson Holdings Limited;
- Gold Wo International Holdings Limited;
- Eforce Holdings Limited;
- South Sea Holding Company Limited; and
- Fourseas.com Limited.

Following these transactions, a large portion of the sale proceeds (ranging from \$39 million to \$81 million representing 33% to 60% of sale proceeds relating to each company's shares) was transferred by the sellers to the accounts of five parties, including four BVI companies, for no discernible reason. The accounts of the four BVI companies with Hooray Securities were opened shortly before the transactions. The flow of funds could not be traced beyond the BVI companies because the funds were subsequently transferred out of Hong Kong.

These transfers were suspicious and were noted by Hooray Securities to be unusual. However, Luk did not ensure that Hooray Securities had internal policies or procedures in place to comply with the Guidelines nor had he appointed an officer to be responsible for disclosure by staff members of suspicions about a person, transaction or property.

## Breach of FRR

Hooray Securities failed to maintain the requisite liquid capital on a total of eight days between May 2003 and March 2004 as a result of miscalculating its liquid capital returns. Luk failed to act responsibly as he:

- hired an inexperienced member of staff to calculate FRR computations;
- failed to ensure that he was suitably trained and knowledgeable in FRR; and
- failed to adequately supervise him in FRR computation.

## Breach of Code of Conduct by an employee

Between July and September 2004, a licensed representative of Hooray Securities breached the Code of Conduct as a result of Luk's failures to:

- ensure tape recordings were maintained for at least three months;
- implement measures to check the handling of orders by account executives by listening to tape recordings and checking order placing records; and
- prevent discretionary trades from being conducted before receipt of proper written authorisations from clients (Note 4).

## Lack of internal controls

Between 27 July 2002 and 20 August 2003, a former sales director of Hooray Securities opened seven accounts in the name of seven persons given by a third party who was not a client of Hooray Securities. Without any written authorisation, the third party gave orders to the director to conduct transactions in the accounts in the shares of New Chinese Medicine Holdings Limited. Of the 30 days when New Chinese Medicine was traded in August and September 2002, the third party placed buy/sell orders through some of the accounts at the same price on 11 days.

Luk failed to ensure that Hooray Securities had written guidelines or procedures requiring a written authorisation for orders placed by a third party on behalf of an account holder. Further, Luk failed to ensure that somebody at Hooray Securities checked the contents of the calls recorded by the tape recording system to ascertain whether orders had been properly executed.

### Conclusion

The SFC concludes that Luk has been guilty of misconduct and his fitness and properness has been called into question. The SFC considers the settlement to be in the public interest and in the interest of the investing public. In settling the disciplinary action, the SFC took into account all the circumstances of the case including the fact that:

- the breach of the Anti-Money Laundering Guidelines was serious;
- Hooray Securities was warned twice by the SFC in March and November 2002 in relation to mistakes in FRR computation;
- the FRR breaches took place on many days; and
- there was a clear pattern of mismanagement and inadequate internal control procedures in Hooray Securities.

Mr Eugène Goyne, an SFC Senior Director of Enforcement, said: "Failure to implement adequate anti-money laundering measures will subject those responsible to severe disciplinary sanction. Luk failed as a responsible officer to implement any anti-money laundering controls. Substantial amounts of money were transferred to BVI companies of unknown ownership. As a responsible officer, Luk had an obligation to query these suspicious transfers but failed to do so. All market participants are reminded that the failure to report suspicious transactions may also attract criminal liability under the Organised and Serious Crimes Ordinance and/or the Drug Trafficking (Recovery of Proceeds) Ordinance."

"As for the other breaches, the SFC reminds licensees that they should take necessary and appropriate steps to ensure compliance with the relevant laws and codes of conduct. In particular, responsible officers who sign an FRR return will ultimately be held responsible for its accuracy," Mr Goyne added.

Ends

Notes to Editor:

1. Luk is licensed under the Securities and Futures Ordinance to carry on Type 1 (dealing in securities) regulated activity. Luk is a representative currently accredited to Asia-Pac Securities Limited.
2. The relevant version of the Money Laundering: Revised Guidance Notes (or referred to as the Anti-Money Laundering Guidelines) was issued in July 1997.
3. The relevant versions of the Code of Conduct for Persons Licensed by or Registered with the SFC came into effect in April 2001 and April 2003.
4. Please see [SFC press release dated 14 September 2005 for details](#).

Page last updated : 1 Aug 2012