SFC reprimands and fines Yuanta Securities (Hong Kong) Company Limited $4 million

29 Feb 2016

The Securities and Futures Commission (SFC) has reprimanded and fined Yuanta Securities (Hong Kong) Company Limited (Yuanta Securities) $4 million for failing to disclose the actual execution price and properly and adequately disclose the financial gains it made whilst handling bond transactions for its clients (Note 1).

An SFC investigation found that from 1 July to 31 December 2012, Yuanta Securities, acting as its clients' agent, made approximately $3.1 million in commission by marking-up or marking-down the execution prices in some of the 256 bond transactions for 96 clients without making proper and accurate disclosure to the clients.

After receiving a client's buy order, Yuanta Securities' financial product team would buy the product through a counterparty and mark-up the trading price before passing it to the sales team which would further mark-up the price before selling it to a client. The same approach was used in executing sell orders by marking down the trading prices.

Whilst some of the clients appeared to be aware of the amount of the commission the sales team earned from the trades, such commission was not always properly disclosed in the trading instruction form and was not mentioned in the daily statements sent to the clients. Furthermore, the clients were charged additional fees by Yuanta Securities without their knowledge and consent since they were not informed of the financial product team's mark-up/mark-down.

The SFC concluded that Yuanta Securities failed to:

- properly avoid and disclose conflicts of interest and treat its clients fairly or act in their best interests;
- provide accurate information to the clients regarding the actual execution price and the full extent of the fees or charges it made in respect of the transactions; and
- set out the actual execution price and the commission and charges in the daily statements sent to clients as required under the law (Note 2).

End

Notes:

1. Yuanta Securities is licensed under the Securities and Futures Ordinance to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contract), 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.
2. Section 5(1) of Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules requires licensed corporations which enter into securities transactions with or on behalf of clients to prepare and provide contract notes to the clients. Such contract notes must include the information as stipulated under sections 5(3) and (4) of the Rules, including the price of the securities, the rate or amount of commission and charges payable in respect of the transaction.

A copy of the Statement of Disciplinary Action is available on the SFC website

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