STATEMENT OF DISCIPLINARY ACTION

The Disciplinary Action

1. Pursuant to section 194 of the Securities and Futures Ordinance (**SFO**), the Securities and Futures Commission (**SFC**) has:

   (a) reprimanded and fined Victory Securities Company Limited (**Victory**)[1] HK$1.7 million; and

   (b) suspended the licence of Mr Stephen Chiu Che Leung (**Chiu**), a responsible officer (**RO**) and manager-in-charge (**MIC**) of Victory[2], for three months from 22 July 2026 to 21 October 2026.

2. The SFC found that Victory has, in respect of its handling of the account of a client (**Client**), failed to:

   (a) conduct adequate know-your-client (**KYC**) and client due diligence (**CDD**) steps, and take all reasonable steps to establish his financial situation;

   (b) continuously monitor its business relationship with the Client and act with due skill, care and diligence when handling securities transactions for him; and

   (c) report the suspected use of fraudulent or deceptive documents in securities transactions by the Client to the SFC.

3. The SFC is of the view that Victory's failures were attributable to Chiu's neglect in discharging his duties as an RO and a member of the senior management of Victory.

Summary of Facts

A. Background

4. During the SFC's investigation into a suspected ramp-and-dump scheme, the SFC looked into certain securities transactions by the Client via his account with Victory.

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[1] Victory is licensed under the SFO to carry on business in Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 9 (asset management) regulated activities.

[2] Chiu is accredited to Victory and has been approved to act as its RO for Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 9 (asset management) regulated activities since 13 December 2005. Further, he was Victory's MIC of the following core functions: (a) Key Business Line, Operational Control and Review, Overall Management Oversight (**OMO**) between 13 July 2017 and 18 February 2022; and (b) Compliance and Anti-Money Laundering and Counter-Terrorist Financing between 1 April 2020 and 18 February 2022. He has resumed his role as MIC of OMO from 1 October 2024.

B. Client's account opening

5. On 29 October 2019, the Client opened a securities account with Victory, expressing his intention to sell securities held with another brokerage through Victory.

6. Victory informed the Client that in order to do so, he must provide proof of his shareholding and must transfer his shares from the other brokerage to Victory within two working days of the transaction(s) to cover any open positions. The Client agreed with Victory's requirements and indicated that he would send a settlement instruction (**SI**) to Victory on the settlement day.

7. In the account opening documents, the Client self-declared his annual income to be HK\$500,000 – HK\$1,000,000, with estimated net worth of less than HK\$1,000,000.

8. On 29 October 2019, the Client provided a statement from another brokerage (**Broker A**) which showed that as at 29 October 2019, the Client held 7 million shares of a certain listed company (**Company X**) with a market value of over HK\$12 million (**Broker A Statement**).

C. Sales of Company X shares in Client's account

9. The Client placed orders to sell Company X shares on 30 October 2019 (**1st Sale**) and 15 November 2019 (**2nd Sale**), and provided statements purportedly issued by other brokerages as proof of his shareholding in those shares. On both occasions, the Client did not transfer an equivalent quantity of shares as sold from the other brokerages to Victory within two working days of the transactions as previously agreed (see paragraph 6 above). Instead, the Client bought back the same quantity of Company X shares on the same day, thereby squaring off the short positions in respect of those shares.

10. In relation to the 1st Sale on 30 October 2019:

    (a) At 10:28am, the Client placed an order for Victory to sell 40,000 Company X shares. Upon Victory's approval, the Client's sell order was placed and fully executed for a total consideration of HK\$74,360.

    (b) At 2:13pm and 2:33pm, the Client placed buy orders for a total of 40,000 Company X shares in his account with Victory, which were fully executed for a total consideration of HK\$75,280.

11. In relation to the 2nd Sale:

    (a) On 12 November 2019, the Client provided a statement from another brokerage (**Broker B**) dated 11 November 2019 which showed that as at that day, the Client held 5,000,000 Company X shares with a market value of about HK\$10 million (**1st Broker B Statement**).

    (b) On 15 November 2019:

(i) At 11:03am, the Client provided a second statement dated 14 November 2019 from Broker B which showed that as at that day, the Client held 5,000,000 Company X shares with a market value of about HK$17 million (**2nd Broker B Statement**).

(ii) Between 1:57pm and 2:44pm, the Client placed sell orders of 4,316,000 Company X shares at Victory. The Client's sell orders were partially executed, and a total of 3,256,000 Company X shares were sold, for a total consideration of HK$11,178,640.

(iii) Between 2:52pm and 3:02pm, the Client placed buy orders of Company X shares with Victory and purchased the same quantity (3,256,000) of shares, for a total consideration of HK$3,222,640. This represents a gain of HK$7,956,000.

(iv) On the same day, Victory's account manager telephoned the Client and, noting that he had first sold, then bought Company X shares at Victory, requested the Client to provide a statement after the telephone call to show whether he had sold any Company X shares from the other brokerage(s), and if so the timing of such sale(s). While the Client confirmed that he had only sold shares at Victory and not through other brokerages at the same time, he also stated that he had since disposed of all the Company X shares held at the other brokerage(s).

12. On 18 November 2019, the Client emailed to Victory a statement dated 15 November 2019 from Broker B showing that he had disposed of his entire shareholding of 5,000,000 Company X shares on that day (**3rd Broker B Statement**).

13. Following the 2nd Sale, Chiu instructed a back-office staff to keep an eye on the Client's account and if the Client made any request to its Settlement Department, Victory should first request the Client to provide certified true copies of the statements issued by Broker B in November 2019 before processing his requests.

D. Client's account termination

14. On 3 July 2020, Victory received instructions from the Client to transfer certain shares from his account to another brokerage.

15. Victory requested the Client to provide a certified true copy of the monthly statement for November 2019 from Broker B before processing his instructions. On 27 July 2020, the Client provided Victory with a statement from Broker B for November 2019 affixed with a company chop of Broker B (**4th Broker B Statement**).

16. Upon enquires by Victory, Broker B confirmed on 27 July 2020 that the Client was not its client, the 3rd and 4th Broker B Statements were forged documents, and the company chop affixed on the 4th Broker B Statement was also forged.

17. On 28 July 2020, Victory informed the Client that it became aware of suspicious activities in his account and would terminate the account with

immediate effect. On 31 August 2020, the Client attended Victory's office, withdrew his account balance and terminated the account.

18. Throughout the course of these events, Victory did not make any report to the SFC concerning the suspected use of false documents by the Client in his sales of Company X shares.

The SFC's Findings

A. *Victory's handling of the Client's account opening and the monitoring of business relationship with him*

19. At the outset, Victory was made aware that the Client opened an account with Victory to sell shares he held at another brokerage. Victory would have seen from the Broker A Statement that he purportedly held 7,000,000 Company X shares worth over 10 times of his declared net worth in the account opening form.

20. Although the Client's purported holding in Company X shares were incommensurate with his financial profile declared in the account opening documents, Victory did not make enquiries of the Client in relation to such discrepancy.

21. The discrepancy between the Client's declared net worth and his purported ownership of Company X shares was further exemplified when he presented the 1st and 2nd Broker B Statements to Victory (showing he owned 5,000,000 Company X shares worth HK$10 to 17 million). Again, Victory did not make any enquiries with the Client at these instances, and/or see fit to update or modify the Client's financial profile with Victory.

22. The Client's orders for the 2nd Sale also appeared unusually large in amount in light of the Client's declared net worth. However, there is no evidence that Victory has examined the background and purposes of the transaction and set out its findings in writing.

23. Based on the above, the SFC considers that Victory has failed to (a) conduct adequate KYC and CDD steps when onboarding the Client as a client, and take all reasonable steps to establish his financial situation, and (b) continuously monitor its business relationship with the Client when it handled the 1st Sale and 2nd Sale having sight of the statements from Broker A and Broker B.

B. *Victory's handling of the 1st Sale and 2nd Sale*

24. While Victory requested the Client to provide proof of his shareholdings prior to the 1st Sale and 2nd Sale[3], there were a number of red flags which should have called for closer scrutiny of the information provided by the Client.

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[3] Under section 170(1)(b) of the SFO, a licensed corporation shall not sell securities as an agent for its principal unless at the time it sells them, it believes and has reasonable grounds to believe that its principal has a presently exercisable and unconditional right to vest the securities in the purchaser of them. Section 171(5)(a) of the SFO further requires a person who is selling as an agent to receive from his principal an assurance in the form of a document that he has a presently exercisable and unconditional right to vest the securities to which an order relates in the purchaser of them.

25. In relation to the 1st Sale:

(a) The Client was previously unknown to Victory with no track record. He opened an account with Victory expressing his intention to sell securities held with another brokerage, and offered no explanation as to why he did not sell the securities directly through the other brokerage.

(b) The Client's purported holding in Company X shares at Broker A was incommensurate with his declared financial profile.

26. Similarly, in relation to the 2nd Sale, in addition to the red flags set out in paragraph 25 which remained unresolved:

(a) The Client did not send a SI to Victory on the settlement day of the 1st Sale as he claimed he would do (see paragraph 6 above).

(b) Shortly after the 1st Sale, the Client requested to sell a large quantity of Company X shares, which were held at yet another brokerage (i.e. Broker B), without first depositing the shares to Victory, and again without offering any explanation as to why he did not sell the securities directly at that brokerage.

(c) The discrepancy between the Client's declared net worth and his purported holding in Company X shares became further exemplified when he presented the 1st and 2nd Broker B Statements.

27. Despite these red flags, Victory did not make any enquiry with the Client as to why he did not sell the Company X shares directly through Broker A and/or Broker B; and/or seek independent verification of the information and documents provided by him. Further, the statements from Broker A and Broker B only reflected the Client's shareholdings as of the previous trade days.

28. Notwithstanding that the Client's action vis-à-vis the 1st Sale contradicted what he initially told Victory at account opening, Victory did not raise any enquiries with the Client and allowed him to proceed with the 2nd Sale using the same mode of operation.

29. Further, even after the Client had provided Victory with the 3rd Broker B Statement on 18 November 2019 which showed that he had disposed of his entire holding of 5,000,000 Company X shares on the day of the 2nd Sale, Victory still raised no enquiries with the Client even though this flew in the face of the Client's representation to Victory that he had only sold shares at Victory and not through other brokerages at the same time.

30. The SFC considers that the manner in which Victory handled the 1st Sale and the 2nd Sale, in particular its failure to investigate and seek satisfactory answers to the red flags surrounding the 1st Sale and the 2nd Sale before executing the transactions, suggests that Victory has failed to exercise due skill, care and diligence in the interests of the integrity of the market.

31. Chiu was an RO and the chief executive officer of Victory responsible for supervising the firm's overall business operation and ensuring the firm's

compliance with applicable regulatory requirements. He was consulted on the handling of the Client's account opening as well as the 1st and 2nd Sales. He was aware of the Client's intention to sell securities held at other brokerages via Victory and had sight of the statements from Broker A and Broker B. However, he failed to conduct, and/or ensure that Victory's staff conducted, adequate enquiries and sufficient scrutiny on the Client's transactions which appear unusual and/or suspicious and inconsistent with the Client's declared net worth. In the circumstances, he was directly responsible for Victory's failure as summarised in paragraphs 19 to 30 above.

C. Victory's failure to report suspected fraud and client misconduct to the SFC

32. Paragraph 12.5(f) of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (**Code of Conduct**) requires a licensed person to report to the SFC immediately upon the happening of any material breach, infringement or non-compliance of market misconduct provisions set out in Part XIII or Part XIV of the SFO that it reasonably suspects may have been committed by its client.

33. The information in paragraph 13 shows that Victory started to have concerns on the Broker B Statements provided by the Client as early as November 2019. Apart from internal discussions, Victory did not take any action at the time and waited until the Client next approached the firm before making enquiries with Broker B.

34. In any event, it should have become clear to Victory on 27 July 2020 that the Client appeared to have used false documents to induce Victory to proceed with the 2nd Sale. Despite such knowledge, Victory did not notify the SFC.

35. According to Victory, as the MIC of OMO, Chiu was responsible for deciding whether a report should be made to the SFC under paragraph 12.5 of the Code of Conduct. Chiu was therefore directly responsible for Victory's failure to report the Client's conduct to the SFC.

36. Victory's failures in paragraphs 19 to 30 and 32 to 34 above constitute breaches of:

    (a) General Principle 2 (Diligence) of the Code of Conduct which requires a licensed person to act with due skill, care and diligence, in the best interests of its clients and the integrity of the market.

    (b) Paragraph 5.1 (Know your client: in general) of the Code of Conduct which requires a licensed person to take all reasonable steps to establish the true and full identity of each of its clients, and of each client's financial situation, investment experience, and investment objectives.

    (c) Section 5(1) of Schedule 2 to the Anti-Money Laundering and Counter-Terrorist Financing Ordinance and paragraph 5.1 of the Guideline on Anti-Money Laundering and Counter-Terrorist Financing (November 2018 edition) which require a licensed corporation to continuously monitor its business relationship with clients by:

(1) reviewing from time-to-time documents, data and information relating to the clients to ensure that they are up-to-date and relevant;

(2) conducting appropriate scrutiny of transactions carried out for the clients to ensure that they are consistent with its knowledge of the clients and the clients' business, risk profile and source of funds; and

(3) identifying transactions that are complex, unusually large in amount or of an unusual pattern and have no apparent economic or lawful purpose, and examining the background and purposes of those transactions and setting out the findings in writing.

(d) Paragraph 12.5(f) (Notifications to the Commission) of the Code of Conduct.

37. Victory's failures were attributable to Chiu's neglect in discharging his duties as an RO and a member of the senior management of Victory. He has failed to:

(a) ensure the maintenance of appropriate standards of conduct and adherence to proper procedures by Victory, in breach of General Principle 9 of the Code of Conduct; and

(b) properly manage the risks associated with the business of Victory, in breach of paragraph 14.1 of the Code of Conduct.

Conclusion

38. Having considered all circumstances, the SFC is of the opinion that Victory and Chiu are guilty of misconduct and that Chiu's fitness and properness to carry on regulated activities have been called into question.

39. In determining the disciplinary sanction set out in paragraph 1 above, the SFC has taken into account all the relevant circumstances of the case, including:

(a) this was an isolated incident;

(b) there is no evidence of systematic weaknesses in respect of Victory's internal controls;

(c) Victory has since enhanced its internal policies and procedures, and implemented mandatory staff training to prevent the occurrence of similar incidents;

(d) Victory and Chiu's cooperation with the SFC in reaching a resolution of the matter; and

(e) Chiu has an otherwise clean disciplinary record with the SFC.