STATEMENT OF DISCIPLINARY ACTION

The Disciplinary Action

1. The Securities and Futures Commission (**SFC**) has publicly reprimanded and fined Bright Smart Securities International (H.K.) Limited (**BSSIHK**)[1] HK$2.8 million pursuant to section 194 of the Securities and Futures Ordinance (**SFO**).

2. The disciplinary action is taken because BSSIHK failed to implement effective internal control procedures to monitor and detect wash trades[2] conducted by its clients, which contributed to the execution of 1,021 pairs of wash trades executed by 615 clients (**Wash Trades**) during the period from 1 November 2023 to 13 September 2025 (**Relevant Period**).

Summary of relevant regulatory requirements

3. The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (**Code of Conduct**) provides that a regulated person should:

   (a) in conducting its business activities, act with due skill, care and diligence, in the best interests of its clients and the integrity of the market (General Principle (**GP**) 2 (Diligence)); and

   (b) have internal control procedures and financial and operational capabilities which can be reasonably expected to protect its operations, its clients and other licensed or registered persons from financial loss arising from theft, fraud, and other dishonest acts, professional misconduct or omissions (paragraph 4.3 (Internal control, financial and operational resources)).

Summary of Facts

4. In August 2024, the Hong Kong Exchanges and Clearing Limited (**HKEx**) identified potential wash trade activities involving a client of BSSIHK and referred its findings to the SFC. Following the HKEx's referral, the SFC conducted an investigation into the matter.

5. The investigation revealed that:

   (a) Since the end of 2023, BSSIHK implemented a system that generated daily abnormal trading reports as a post-trade monitoring tool to identify suspicious trading activities, including potential wash trades and other abnormal trading patterns, across client accounts. A responsible officer

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[1] BSSIHK is licensed under the SFO to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 7 (providing automated trading services) regulated activities.

[2] A wash trade is a transaction that does not involve any change in beneficial ownership of the shares. Such trades can create a false or misleading appearance of trading activity, thereby distorting the actual supply and demand of the shares in question. Under section 295(5) of the SFO, it is an offence for any person to enter into or carry out, directly or indirectly, any sale or purchase of securities that does not involve a change in the beneficial ownership of them (i.e., a wash trade).

(**RO**) would review these reports twice daily, contact clients identified as having suspicious trading activity to seek explanations and understand their investment strategy or motive, and inform them that such conduct was not permitted by the regulator. At that time, BSSIHK generally adopted an advisory approach and did not restrict the client from placing further orders.

(b) In March 2024, BSSIHK enhanced its controls by introducing a pre-trade interception system under which, where an RO identified a suspicious pair of same-stock, same-time, same-price buy and sell transactions by the same client, the RO would immediately notify Customer Services to contact the client and inform it that such conduct was not permitted by the regulator. If the client repeated the conduct, the RO would arrange for system settings to be adjusted to prevent the client from entering further simultaneous buy and sell orders at the same price.

(c) Despite these enhancement measures, the controls remained inadequate. The post-trade monitoring process was inherently reactive, identifying wash trades only after they had occurred, which limited the effectiveness in preventing their execution beforehand. Although a pre-trade interception system was introduced in March 2024, it depended on manual intervention rather than automated controls, which may not be effective to prevent a client from placing further wash trade orders in all instances.

(d) Moreover, the pre-trade interception system was typically applied after repeated wash trades were detected, meaning clients could engage in prohibited activities more than once before restrictions were implemented. Furthermore, the system counted multiple wash trades by the same client within a single day as a single occurrence, failing to capture and address repeated misconduct within the same trading day.

(e) These deficiencies allowed the Wash Trades to be conducted during the Relevant Period, involving 736 stocks and warrants.

(f) There were 82 occasions where clients executed multiple pairs of wash trades within a single day without being restricted or suspended, as BSSIHK's system did not capture repeated misconduct within the same day. In addition, 11 clients executed a total of 43 wash trades across multiple instances on at least 3 separate days. BSSIHK explained that, because the pre-trade interception system relied on manual operation, there were instances where the application of trading restrictions was not implemented promptly.

6. The SFC considers BSSIHK's approach to monitoring and controlling irregular trading activities inadequate. The reliance on reactive and largely manual controls, the absence of effective automated pre-trade measures, and deficiencies in system design and implementation revealed significant weaknesses in BSSIHK's internal controls and risk management framework.

Conclusion

7. Based on the matters set out above, the SFC found that BSSIHK failed to maintain adequate and effective internal control procedures to prevent the

execution of the Wash Trades, in breach of GP 2 and paragraph 4.3 of the Code of Conduct.

8. The SFC is of the opinion that BSSIHK is guilty of misconduct.

9. In deciding the disciplinary sanction set out in paragraph 1 above, the SFC has taken into account all relevant circumstances, including:

   (a) similar deficiencies had been repeatedly identified in BSSIHK's operations previously and BSSIHK had been reminded to strengthen its relevant internal control systems, but BSSIHK failed to fully rectify the deficiencies in each instance;

   (b) BSSIHK has implemented enhancements to its systems and controls to prevent future breaches, and has undertaken to engage an independent reviewer to verify the effectiveness of those measures; and

   (c) BSSIHK's co-operation in resolving the SFC's concerns.