Press Release

LCQ5: Manipulation of stock prices by dissemination of false price-sensitive information

Wednesday, December 10, 2014

Following is a question by the Hon Kenneth Leung and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (December 10):

Question:

It has been reported that in recent years, there have been a number of cases involving suspected dissemination of false information about companies listed in Hong Kong through the Internet and mainland media, triggering substantial fluctuations in the stock prices of such companies over a short period of time. Some members of the securities industry have pointed out that these incidents have aroused concern among investors that some people have made use of channels such as the Internet to disseminate false price-sensitive information in an attempt to manipulate stock prices. In this connection, will the Government inform this Council:

(1) of the measures currently put in place by the authorities for monitoring the circulation of price-sensitive information on the Internet, including whether they have taken the initiative to conduct patrols; if they have conducted patrols, of the government departments and regulatory bodies responsible for this and the manpower involved; the number of cases involving dissemination of false price-sensitive information uncovered by the authorities in each of the past five years and, among such cases, the number of those in which the information was disseminated outside Hong Kong; the number of cases in which the authorities instituted prosecutions against the persons concerned and the number of convictions among such cases, with a breakdown by the offence involved; the differences between the cases involving the dissemination of such information within Hong Kong and those outside Hong Kong in terms of handling procedure and law enforcement;

(2) of the mechanism currently put in place by the authorities for handling complaints about the dissemination of false price-sensitive information by making use of the Internet; the number of such complaints received by the

authorities in each of the past five years and, among such cases, the respective numbers of cases found to be substantiated and those involved the dissemination of information outside Hong Kong; the number of cases in which the authorities instituted prosecutions against the persons concerned and the number of convictions among such cases, with a breakdown by the offence involved; and

(3) whether any mechanism is currently in place for monitoring the coverage of price-sensitive information about Hong Kong-listed companies by the local and mainland media, so as to ensure the fair operation of the securities market and safeguard the interests of investors; if such monitoring mechanism is in place, of the details; whether the authorities will, in view of the implementation of the Shanghai-Hong Kong Stock Connect, conduct a review afresh to see if such monitoring mechanism can serve its due functions under the new investment environment?

Reply:

President,

(1) and (2) The current regulations and procedures in Hong Kong can effectively tackle false markets and uneven dissemination of information.

The Hong Kong Exchanges and Clearing Limited is the frontline regulator of Hong Kong listed companies. The Stock Exchange of Hong Kong (SEHK) closely monitors stock price movements of issuers listed in Hong Kong, as well as popular websites on financial news. If there are unusual movements in the price or trading volume of a stock which may be caused by uneven dissemination of or leaks in price sensitive information in the market, or if there are deliberate market manipulation activities, the SEHK will suspend trading of the stock. The purpose of a suspension is to ensure a fair and orderly market. In such circumstances where there appear to have been rumours creating a false market, the listed issuers shall issue clarification announcement.

Part XIVA of the Securities and Futures Ordinance (SFO) sets out the continuous disclosure obligations of listed companies. Listed companies must announce to the market any price sensitive information as soon as reasonably practicable. The jurisdiction of the Market Misconduct Tribunal (MMT) covers cases involving infringement of the statutory disclosure requirements.

In addition, pursuant to sections 277 and 298 of the SFO, it can be market misconduct and criminal offence to disclose false or misleading information to the public to induce securities transactions in Hong Kong, irrespective of the location of the person who disseminates such information. The maximum criminal penalties on conviction on indictment are a fine of $10 million and imprisonment for 10 years.

For market misconduct proceedings, the MMT can impose a number of orders against a person engaged in market misconduct activities, including disqualification order, cold shoulder order, cease and desist order, disgorgement order and costs order. Under Part XIVA of the SFO, the MMT may also impose a maximum regulatory fine of $8 million.

In addition to criminal and civil sanctions, if any investors suffer losses as a result of the false or misleading information, the Securities and Futures Commission (SFC) may apply to the Court of First Instance for remedial orders against the person who disseminated such information, pursuant to section 213 of the SFO.

Both the MMT and the Court of First Instance can make orders against defendants outside Hong Kong.

The SFC maintains ongoing surveillance over any abnormal movements in the Hong Kong stock market and the possible causes of such movements, including information disseminated through different media.

The SFC publishes in its annual and quarterly reports the statistics on complaints and enforcement actions. However, the statistics are not compiled in the manner described in the question. According to the SFC, while there were a number of cases where Hong Kong persons disseminating false information in Hong Kong were prosecuted and convicted, there have been no prosecution cases brought against persons outside Hong Kong for dissemination of false information in Hong Kong.

Meanwhile, investors are advised to do their homework and gather sufficient and credible information before making investment. They should refrain from following the herd or trading on rumours. More relevant information is available on the website of the Investor Education Centre.

(3) As mentioned above, the current regulations and procedures in Hong Kong can effectively tackle false markets and unequal dissemination of information. The regulatory regimes are constantly under review by the regulatory authorities.

Under the Shanghai-Hong Kong Stock Connect (Stock Connect), in October 2014, the SFC and the China Securities Regulatory Commission (CSRC) entered into a Memorandum of Understanding (MoU) on strengthening cross-boundary regulation and enforcement. The MoU provides that the SFC and the CSRC will -

* provide for the sharing of information and data on risks and alerts about potential or suspected misconduct in either the Hong Kong stock market or the Shanghai stock market under Stock Connect;

* make a commitment and draw up procedures for joint investigations;

* ensure complementary enforcement actions can be taken where there is misconduct in both jurisdictions; and

* ensure that enforcement actions in both jurisdictions will protect the investing public of both the Mainland and Hong Kong, including necessary actions arising from the provision of financial redress or compensation to affected investors.

We believe that the above arrangements can facilitate the implementation of Stock Connect.

Ends