

Shanghai-Hong Kong Stock Connect: CSRC and SFC jointly tackle market manipulation

The China Securities Regulatory Commission (CSRC) and the Securities and Futures Commission of Hong Kong (SFC) have joined forces to successfully target market manipulation under the Shanghai-Hong Kong Stock Connect programme (Shanghai Connect). The case is significant as it marks the first enforcement action against cross-border market manipulation under Shanghai Connect since its launch in October 2014.

The action highlights the regulators' shared commitment to reinforcing market order and establishing a sound and mutual market access system between the mainland China and Hong Kong securities markets.

The CSRC announced the operation during its regular press conference on 18 November 2016.

Market manipulation

The CSRC alleged that an individual named Tang was involved in manipulating the stock price of Zhejiang China Commodities City Group, a stock listed in Shanghai which was also traded under Shanghai Connect. As a result of the price manipulation, Tang made illegal gains of around RMB40 million.

During the investigations, the CSRC also found that Tang was involved in manipulating the prices of five other domestic stocks unrelated to Shanghai Connect from 2014 to 2015, and as a result made an illicit gain of around RMB250 million.

According to the CSRC, Tang and two other family members have been investigated, penalised and fined several times since 2010 for violations including market manipulation and failure to disclose shareholdings in a timely manner.

Tang and other relevant persons are now suspected to have traded via numerous domestic and overseas securities accounts from different parts of China. They are alleged to have engaged in manipulative stock trading activities through artificially created trading prices and volumes with a view to misleading market investors into trading in the same stock.

The CSRC said these violations had severely disrupted market order and damaged the interests of other investors. While the CSRC stressed that serious measures would be taken against these violations according to the applicable laws, it did not specify exactly how Tang and his associates would be penalised.

Key issues

- The CSRC and SFC have joined forces to target market manipulation.
- This is the first joint enforcement action against cross-border market manipulation since the launch of Shanghai Connect in 2014.
- Thomas Atkinson, the SFC Executive Director of Enforcement, has recently praised the co-operation between the regulators, a trend that is set to continue.

During the press conference, the CSRC spokesman specifically acknowledged the assistance provided by the SFC during the investigations. He emphasised the significance of strengthening the collaborative ties between the CSRC and SFC in light of the development of the inter-connection programme between the mainland and Hong Kong securities markets.

Evolving collaboration

On 17 October 2014, the CSRC and SFC entered into the *Memorandum of Understanding on Strengthening of Regulatory and Enforcement Cooperation under the Shanghai Stock Connect* (Memorandum).

The Memorandum establishes the fundamental framework of the regulatory and enforcement collaboration between the two regulators with respect to the identification and notification of suspected misconduct and alerts, investigatory assistance, joint investigations, service of documents, assistance in execution, and investor compensation and so on.

The SFC – a new focus

Thomas Atkinson, the SFC's Executive Director of Enforcement, paid tribute to this cooperation in his recent speech to the 7th Pan Asian Regulatory Summit in Hong Kong on 7 November 2016, citing the active executive staff programme with the CSRC and the holding of regular joint training initiatives.

He also talked of a successful "Market Manipulation Conference" jointly held with the CSRC in Xi'an, at which some of the world's leading experts spoke on how to tackle cross-jurisdictional market manipulation investigations.

Joint Training

Earlier this month, the CSRC and SFC also jointly organised a training session in Beijing on combating new types of securities and futures-related market manipulation cases.

During the training, various types of cross-border market manipulation activities were highlighted. They included (i) manipulations using

highly-leveraged funds raised through structured products, (ii) the opening of multiple domestic and overseas accounts, and (iii) the use of overseas servers that facilitate two-way orders, frequent cancellation of orders and self-dealing activities.

Looking forward

With the recent regulatory developments and the upcoming launch of the Shenzhen-Hong Kong Stock Connect, it is expected that the joint efforts of the CSRC and SFC will continue to intensify as both regulators continue to build on their close partnership.

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