

China regulator levies huge fine for market manipulation

China's securities regulator, the China Securities Regulatory Commission (CSRC), has levied one of its largest ever fines for market manipulation as authorities ramp up enforcement efforts. The CSRC penalised a businessman and his associates with confiscation orders and fines in excess of RMB1.2 billion (US\$174 million) for manipulation of mainland-listed stocks. The latest action follows the regulator's RMB3.5 billion (US\$507 million) fine of a separate party in February 2017 for market manipulation arising from false information disclosures. The news comes as the CSRC and Hong Kong's Securities and Futures Commission (SFC) ramp up their joint efforts to tackle cross-border market manipulation.

Overview

These two cases alone have already made 2017 a record year for CSRC fines, just a quarter of the way through the year. The CSRC levied RMB4.3 billion in fines in 2016, up nearly three times from 2015's total which was itself a record.

As noted in our previous briefing ([Shanghai-Hong Kong Stock Connect: CSRC and SFC jointly tackle market manipulation](#)), the CSRC alleged that Tang Hanbo was involved in manipulating the stock price of Zhejiang China Commodities Group, a stock listed in Shanghai that also traded under Shanghai Connect. As a result of the price manipulation, Tang made illegal gains of RMB42 million (US\$6 million).

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 (US\$36.2 million). Tang supposedly achieved the manipulation through the use of various Hong Kong and mainland accounts to conduct the trades.

The CSRC alleged that Tang and others artificially ramped up and maintained 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. The use by Tang of Hong Kong accounts was allegedly intended to disguise his activity. Whereas regulators and stock exchanges in the mainland maintain a system for identifying traders in real time, the SFC requests the identities of investors after trades have taken place.

Key issues

- 2017 has already become a record year for CSRC fines.
- In its decision, the CSRC recognised the co-operation of the SFC in providing evidence.
- Cross-border collaboration between regulators is a key enforcement goal in 2017.

Decision

In two related decisions concerning Tang and his associates ([2017] No. 20 and 21), the CSRC ruled that:

- As Chinese citizens, the CSRC has jurisdiction over the unlawful activities of Tang and his associates;
- Tang exerted control over the various accounts in question;
- The manipulation was done by way of reverse trading, self-trading and false declarations;

- Tang provided the funds and computers which were used to place the orders and which were hidden in his flat;
- Tang paid for all the costs related to the placement of orders and directly placed orders himself;
- The use of Hong Kong trading accounts was an insidious way to exert reverse manipulation over the onshore market and evade regulatory investigation.

The CSRC ordered the confiscation of Tang's illegal income of RMB280 million and imposed fines on him totalling RMB896 million. The total illegal income confiscated from Tang and his associates amounted to RMB290 million and the total fine imposed was RMB952 million.

SFC collaboration

The CSRC dismissed the defendants' argument that since the evidence in the case was collected by the SFC, there were issues regarding the legality and validity of the evidence. The CSRC likewise dismissed their argument that since the place of the unlawful acts was Hong Kong, the CSRC did not have jurisdiction.

The CSRC went out of its way to comment on the SFC's evidence as trustworthy, having been compiled in exercise of its investigatory powers under the SFO. It also recognised the SFC's rights to conduct its own investigation into the case. It cited a number of PRC regulations under which the CSRC may cooperate with overseas securities regulatory authorities to carry out duties regarding cross-border supervision and administration of the securities market. These included the *2016 Memorandum of Understanding on*

Strengthening and Expanding Cross-Boundary Regulatory and Enforcement Cooperation (the Memorandum). It also relied on the fact that both the CSRC and the SFC are members of the International Organisation of Securities Commissions. The evidence provided by the SFC had strictly complied with the relevant procedural requirements concerning the handing over of evidence as well as relevant laws and regulations.

Collaboration of this sort was hailed by Thomas Atkinson, the SFC's Executive Director of Enforcement, in his speech to the 7th Pan Asian Regulatory Summit in Hong Kong on 9 November 2016. Atkinson cited the active executive staff exchange programme the SFC has with the CSRC to enhance the mutual understanding of each other's work, as well as the regular joint training initiatives. Atkinson also commended the joint investigations between the two regulators which he said "*provide excellent opportunities for officers of both organisations to build trust and establish long-term working relationships.*"

This is the first time we have seen the Memorandum in action, with the CSRC making use of SFC investigation findings and giving credit to the SFC for its help in the investigation. Regulators on both sides will be hoping that the CSRC decision will mark a significant deterrent to those who would try to use international links to circumvent securities laws, to the detriment of investors.

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