

Enforcement Actions

12 February 2004

Inquiries into Unusual Bids during Pre-opening Sessions

The SFC is investigating trading activities during the pre-opening session before the listing debut of two companies last year, to determine if there was market manipulation or other misconduct.

The SFC notes with concern that unreasonably high bid orders for PICC Property and Casualty Company Limited and Great Wall Automobile Holding Company Limited were placed during the pre-opening sessions on 6 November 2003 and 15 December 2003 respectively.

The SFC commenced inquiries shortly afterwards. It has concluded some cases with the issue of warning letters to a number of brokers and licensed persons. Some cases are still being actively pursued.

SFC's inquiries revealed that bid orders at levels substantially higher than the IPO subscription price were placed and cancelled within a very short period of time during the pre-opening sessions. This gave rise to serious concern as to their genuineness. The SFC also discovered that the majority of these orders belonged to accounts controlled by licensed persons.

At the time when these orders were entered into the trading platform of the Stock Exchange of Hong Kong Limited, they caused the Indicative Equilibrium Price (IEP) of the relevant stock to rise. The IEP serves as an ongoing indication of the opening price of an individual stock. Towards the end of the pre-opening session, orders outstanding would be matched at the final IEP (the opening price). The IEP is particularly useful for investors as reference in the case of newly listed stocks where no previous closing price is available.

Although ultimately these orders did not affect the opening prices because they were cancelled, the SFC considers that these actions distorted the price discovery process during the pre-opening sessions and gave a misleading impression to the general public that the stocks would be traded at substantially higher prices than they were reasonably expected to.

The SFC will assess the seriousness of individual cases before determining the appropriate action to be taken against any wrongdoers. It takes this opportunity to remind all licensed persons that this trading practice is unacceptable and would impugn the fitness and properness to remain licensed of anyone discovered engaging in this practice.

Ends

Page Last Updated: 12 February 2004