SFC Suspends Stephane Hug

13 Dec 2006

The SFC has suspended Mr Stephane Hug, a convertible bond proprietary trader and SFC licensee who is accredited to Credit Suisse (Hong Kong) Limited, for four months from 13 December 2006 to 12 April 2007 (Note 1).

Following an investigation, the SFC found that:

- on 28 November 2003, a representative of Daiwa Securities SMBC (Europe) Limited in Geneva telephoned Hug and told him about a potential convertible bond issue by Sumitomo Light Metal Industries Limited (SLM), a company listed on the Tokyo Stock Exchange (Note 2);
- the terms of the potential convertible bonds were disclosed to Hug to “sound out” his views about the attractiveness of the bonds to investors (Note 3);
- on 1 and 2 December 2003, while in possession of this information, Hug placed orders to sell SLM shares and he eventually sold 204,000 SLM shares (with a value of approximately US$230,000) on 2 December 2003;
- the trading on 2 December 2003 occurred while Hug was in possession of additional information (which had been communicated to him on 1 December 2003) confirming the convertible bonds would be announced to the market after the market closed on 2 December 2003 and the issue price would be fixed on 3 December 2003; and
- Credit Suisse (Hong Kong) donated $56,000 to charity. The amount donated represents the profits made through the transaction.

As the trading in this case occurred on the Tokyo Stock Exchange, Hug’s conduct did not contravene Hong Kong’s securities laws. However, the SFC formed the view that Hug’s conduct was a breach of General Principle 2 of the Code of Conduct. This requires licensed persons in Hong Kong to act with due skill, care and diligence in the best interests of clients and market integrity, a breach of which raises issues of fitness and properness.

In determining the penalty, the SFC took into account the fact that Hug obtained no personal benefit, cooperated with the SFC’s inquiry, consented to this decision and has an otherwise unblemished regulatory record. As well, the SFC took into account the fact that Credit Suisse (Hong Kong) suspended Hug for one month without pay, fined him and denied him US$400,000 worth of discretionary bonus he would otherwise have received.

Mr Mark Steward, SFC’s Executive Director of Enforcement, said: “This case is a warning to all firms to review internal practices and guidelines on handling confidential information to ensure the obvious risks of sounding out – including insider dealing and prejudicial conflicts of interest - are adequately addressed. Regulated persons, both firms and individuals, who fail to heed this warning will face serious consequences.”

“We also thank the Japanese Securities and Exchange Surveillance Commission (SESC) for its referral of this matter to us. This case is a great example of the growth in cross-border co-operation and cross-border enforcement of securities laws.”

Ends

Notes:

1. Hug is licensed under the Securities and Futures Ordinance to carry on Type 1 (dealing in securities) regulated activity.

2. Daiwa Securities SMBC (Europe) Limited in Geneva was the underwriter of the convertible bond issue and had provided Hug with the terms of the issue for the purpose of “sounding out” Hug’s views about the attractiveness of the issue and his interest in taking up a position for Credit Suisse (Hong Kong).

3. It is common for convertible bond underwriters to “sound out” prospective buyers with the likely terms before the issue is publicly announced to ensure that the bond issue will sell. This usually

involves disclosing non-public information. Usually the information is not traded on and those who trade upon the information are likely in breach of the insider trading provisions if the shares are listed in Hong Kong.

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