



## Joint ICAC-SFC Operation Targets Bribery and Insider Dealing in Hong Kong's Securities Sector

The Independent Commission Against Corruption (**ICAC**) and the Securities and Futures Commission (**SFC**) conducted a joint operation codenamed **Operation Fuse** on 10 and 11 March 2026, targeting insider dealing and corruption involving senior executives of three SFC-licensed corporations, comprising two securities firms and a hedge fund management firm. During the operation, officers of the ICAC and the SFC searched a total of 14 locations, including the offices of the licensed corporations and the residences of the persons arrested. The ICAC arrested six men and two women, aged between 35 and 60, including senior executives of the two licensed securities firms and the licensed hedge fund management firm, as well as a middleman.

The case centres on allegations that brokerage executives accepted bribes exceeding HK\$4 million from the owner of the licensed hedge fund management firm in return for disclosing confidential information regarding share placements of various Hong Kong-listed companies before the information was publicly announced. Armed with that confidential information, the hedge fund management firm is alleged to have established short positions in the relevant stocks, enabling its hedge fund to generate profits of approximately HK\$315 million when the share prices of the concerned stocks declined following the public announcement of the placements.

The operation underscores the willingness of Hong Kong's principal regulatory and anti-corruption authorities to collaborate in tackling financial crime and sends a clear signal to market participants that misconduct at the intersection of corruption and market abuse will be pursued with the full weight of the law.

### The Alleged Insider Dealing

According to the [joint ICAC/SFC press release \(Joint ICAC/SFC Press Release\)](#) and publicly available reports, the suspected scheme operated broadly as follows. Senior executives at two SFC-licensed securities firms are alleged to have disclosed material, non-public information concerning forthcoming share placements of various Hong Kong-listed companies — including details that would enable trading counterparties to anticipate the pricing impact of such placements — to the owner of a licensed hedge fund management firm. A middleman is also alleged to have been involved in facilitating the scheme. In exchange, the brokerage executives are reported to have received bribes totalling in excess of HK\$4 million.

The trading strategy allegedly employed by the hedge fund management firm is particularly noteworthy. Rather than acquiring shares in anticipation of a price increase, the hedge fund is alleged to have established short

positions in the relevant stocks by short selling the stocks in the market and/or entering into short equity swap contracts. Share placements are commonly associated with downward pressure on the share price of the issuing company, owing to the dilutive effect of the new share issuance and the discount at which placement shares are typically offered. By establishing short positions in advance of the public announcement of the placements, the hedge fund was positioned to profit when the share prices of the concerned stocks declined upon the announcements being made. The resulting profit attributable to these short positions is reported to be in the region of HK\$315 million, a figure that, if substantiated, would represent a substantial return on what was, by comparison, a relatively modest outlay in corrupt payments.

The scheme, as alleged, is notable both for its scale and for the apparent degree of coordination between individuals across multiple licensed entities.

## Impetus for the SFC Investigation

The joint operation stemmed from the SFC's initial investigation of the suspected insider dealing activities, which uncovered potential corruption. The case was subsequently referred to the ICAC for investigation into the suspected corruption, while the SFC continued to focus on insider dealing and other misconduct under the Securities and Futures Ordinance. The operation was conducted under the arrangement of the Memorandum of Understanding signed between the ICAC and the SFC (**MOU**).

## Hong Kong's Regulatory Framework governing Bribery and Insider Dealing

The arrests engage multiple pillars of Hong Kong's criminal and regulatory architecture. As set out in the **Joint ICAC/SFC Press Release**, the individuals involved are suspected of breaching provisions under the Prevention of Bribery Ordinance, the Securities and Futures Ordinance, and the Organized and Serious Crimes Ordinance.

### Prevention of Bribery Ordinance (Cap. 201)

The Prevention of Bribery Ordinance (**POBO**) is the cornerstone of Hong Kong's anti-corruption framework. The **Joint ICAC/SFC Press Release** specifically references suspected offences of offering advantages to agents and agents accepting advantages — that is, both the offering and acceptance of bribes. Section 9(1) of the POBO makes it an offence for an agent to solicit or accept, without lawful authority or reasonable excuse, any advantage as an inducement to or reward for doing or forbearing to do any act in relation to his principal's affairs or business. Section 9(2) creates the corresponding offence for any person who, without lawful authority or reasonable excuse, offers any advantage to an agent as an inducement to or reward for doing or forbearing to do any act in relation to his principal's affairs or business.

In the context of the present case, the brokerage executives who allegedly accepted payments in return for disclosing confidential placement information are suspected of breaching section 9(1), whilst the owner of the hedge fund management firm who allegedly made those payments is suspected of breaching section 9(2). The maximum penalty upon conviction on indictment under section 9 is seven years' imprisonment and a fine of HK\$500,000.

The alleged involvement of a middleman raises the possibility of additional charges relating to conspiracy to commit offences under the POBO or, alternatively, charges of aiding and abetting such offences.

### Securities and Futures Ordinance (Cap. 571)

The insider dealing dimension of the case falls to be considered under Part XIII and Part XIV of the Securities and Futures Ordinance (the **SFO**). Section 270 of the SFO provides that a person connected with a listed corporation who has information that he knows is inside information in relation to that corporation must not deal in the listed securities of that corporation or counsel or procure another person to deal in those securities. Section 291, which applies more broadly, prohibits any person who has inside information in relation to a listed corporation from dealing in, or counselling or procuring another to deal in, the securities of that corporation if he knows that the information is inside information.

Inside information is defined under section 245 of the SFO as specific information about the corporation, a shareholder or officer of the corporation, or the listed securities of the corporation that is not generally known to persons who are accustomed or would be likely to deal in the listed securities of the corporation but which would, if so known, be likely to materially affect the price of the listed securities.

Information concerning an upcoming share placement — including the identity of the issuer, the size and pricing of the placement, and the anticipated announcement date — would, in the ordinary course, satisfy this definition.

Such information is plainly specific, is not generally available to the investing public, and would be expected to have a material effect on the price of the relevant securities. Importantly, the definition of dealing in the SFO encompasses both acquiring and disposing of securities, as well as entering into agreements to do so. Short selling and the entry into short equity swap contracts in reliance upon inside information would therefore fall within the scope of the insider dealing provisions.

Insider dealing may be pursued through criminal prosecution under Part XIV of the SFO, where the maximum penalty is ten years' imprisonment and a fine of up to HK\$10 million, or through civil proceedings before the Market Misconduct Tribunal under Part XIII. The authorities' choice of route will depend on a range of factors, including the strength of the evidence, the seriousness of the conduct, and the public interest.

### **Organized and Serious Crimes Ordinance (Cap. 455)**

The joint press release also references suspected offences under the Organized and Serious Crimes Ordinance (the **OSCO**), specifically the handling of property known or believed to represent proceeds of an indictable offence, commonly known as money laundering. Section 25(1) of the OSCO provides that a person commits an offence if he deals with any property knowing or having reasonable grounds to believe that the property in whole or in part directly or indirectly represents any person's proceeds of an indictable offence. The maximum penalty upon conviction on indictment is 14 years' imprisonment and a fine of HK\$5 million.

The inclusion of money laundering charges is significant, as it suggests that the authorities intend to trace and, where possible, restrain the proceeds of the alleged insider dealing and bribery. The profits of approximately HK\$315 million generated by the hedge fund, as well as the bribes of over HK\$4 million received by the brokerage executives, could each constitute property representing the proceeds of indictable offences for the purposes of section 25 of the OSCO. The OSCO also provides the authorities with powers to apply to the Court of First Instance for restraint orders and charging orders over property suspected of being the proceeds of crime, which may be deployed to preserve assets pending the outcome of criminal proceedings.

### **ICAC/SFC Dual-Track Enforcement and Inter-Agency Cooperation**

The joint nature of the operation is itself significant. Whilst the ICAC has primary jurisdiction over bribery and corruption offences, and the SFC is the principal regulator of securities market misconduct, the two agencies operate under a formal MOU that provides a framework for cooperation in cases that straddle both regimes. The SFC has the power under section 187 of the SFO to compel the production of documents and to require persons to answer questions, and evidence gathered in the exercise of these powers may, subject to certain use restrictions, be shared with the ICAC. Equally, the ICAC possesses extensive investigatory powers under the ICAC Ordinance (Cap. 204), including powers of search, seizure, and the restraint of assets.

The involvement of both agencies, and the scale of the operation — encompassing 14 searches and eight arrests — suggests that the authorities intend to pursue the full spectrum of potential offences and are likely to seek both criminal sanctions against individual wrongdoers and regulatory consequences for the licensed entities concerned.

### **Regulatory Consequences for SFC-Licensed Corporations and Individuals**

Beyond the criminal dimension, the individuals and firms involved face serious regulatory repercussions. The Hong Kong SFC has broad disciplinary powers under sections 194 to 196 of the SFO to revoke or suspend licences, impose public or private reprimands, impose fines of up to HK\$10 million or three times the profit gained (or loss avoided), and prohibit individuals from re-entering the industry.

Where an SFC-licensed corporation's internal controls are found to have been deficient — for example, where information barriers were inadequate, where there was insufficient oversight of employee trading, or where compliance monitoring failed to detect suspicious patterns — the SFC may take the view that the firm has failed to comply with the general obligations set out in section 129 of the SFO and the detailed requirements of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the **SFC Code of Conduct**). General Principle 2 of the SFC Code of Conduct requires licensed persons to act with due skill, care, and diligence, in the best interests of their clients and the integrity of the market. General Principle 7 requires compliance with all regulatory requirements applicable to the conduct of business activities so as to promote the best interests of clients and the integrity of the market.

The SFC may also seek orders under section 213 of the SFO in the Court of First Instance to restore the parties to the position in which they would have been had the contravention not occurred. This could include orders requiring the disgorgement of profits and the payment of compensation to persons who have suffered loss as a result of

the misconduct. Given the magnitude of the alleged profits — approximately HK\$315 million — the potential financial exposure of the hedge fund management firm and its principals under section 213 is considerable.

## The SFC's Guidelines for Market Soundings — Relevance to the Present Case

The conduct alleged in Operation Fuse is directly relevant to the SFC's Guidelines for Market Soundings (**Hong Kong Market Sounding Guidelines**), which took effect on 2 May 2025. The Hong Kong Market Sounding Guidelines were gazetted on 1 November 2024 and apply to SFC-licensed or registered persons who disclose or receive "Market Sounding Information" in the course of a "Market Sounding" conducted in connection with a possible transaction in shares listed on a stock exchange (whether in Hong Kong or elsewhere) and any other securities likely to have a material effect on the price of such shares. A detailed summary of the Hong Kong Market Sounding Guidelines and the SFC's Consultation Conclusions on which they are based is set out in the [Charltons November 2024 Newsletter](#).

The Hong Kong Market Sounding Guidelines were introduced precisely to address the risks of information leakage and misuse that arise when confidential information about forthcoming transactions — such as share placements — is communicated to potential investors in the course of gauging market appetite. The type of confidential placement information that the brokerage executives in the present case are alleged to have disclosed to the owner of the hedge fund management firm falls squarely within the definition of "Market Sounding Information" under the Hong Kong Market Sounding Guidelines. Market Sounding Information is defined as confidential information that is entrusted to an SFC-licensed or registered person by its client, an issuer, or an existing shareholder selling or buying in the secondary market (a **Market Sounding Beneficiary**). Non-exhaustive examples of Market Sounding Information include the name of the relevant security or specific information that would enable its name to be deduced, the Market Sounding Beneficiary's identity, the Market Sounding Beneficiary's intention to undertake a possible transaction, and the terms or details of the possible transaction, for example its potential size, timing, pricing structure or trading method. Information concerning the identity of an issuer conducting a placement, the size and pricing of the placement, and its anticipated timing would clearly constitute Market Sounding Information of this nature.

The Hong Kong Market Sounding Guidelines establish four Core Principles that all "Market Sounding Intermediaries" — both "Disclosing Persons" who communicate Market Sounding Information and "Recipient Persons" who receive it — are required to observe.

- **Core Principle 1 (Handling of Information)** requires Market Sounding Intermediaries to protect and safeguard the confidentiality of Market Sounding Information and to ensure that they have in place an effective system of barriers to prevent inappropriate disclosures, leakage and misuse of this information. This includes implementing appropriate standards of conduct for staff handling Market Sounding Information, clear and robust information-sharing principles and processes, and physical and functional segregation of incompatible duties in compliance with the "need-to-know" principle.
- **Core Principle 2 (Governance)** requires robust governance and oversight arrangements, including senior management assuming overall responsibility for overseeing market soundings and the designation of a committee or person(s) to monitor market sounding activities.
- **Core Principle 3 (Policies and Procedures)** requires the establishment, maintenance and periodic review of effective written policies and procedures covering matters such as the timing and prescribed procedures for market soundings, the roles and responsibilities of staff engaged in market sounding, and firm and staff dealing policies and procedures designed to prevent the inappropriate disclosure, misuse or leakage of Market Sounding Information for benefit or financial advantage.
- **Core Principle 4 (Review and Monitoring Controls)** requires effective procedures and controls to monitor and detect suspicious behaviour, suspected misconduct, and inappropriate or unauthorised disclosure, misuse or leakage of Market Sounding Information, including periodic reviews of firm and staff personal trading activities, voice and electronic communications, and unauthorised access to Market Sounding Information.

In addition to the Core Principles, the Hong Kong Market Sounding Guidelines impose specific requirements on Disclosing Persons. Before conducting a market sounding, a **Disclosing Person** is required to:

- obtain agreement or consent from the Market Sounding Beneficiary; and
- determine:

- o a standard set of information to be disclosed;
- o appropriate timing for conducting market soundings (for example, close to the launch of the possible transaction and outside trading hours for the securities associated with the market sounding);
- o an appropriate number of Recipient Persons or other potential investors to contact, such that market soundings are restricted to as few investors as necessary to gauge their interest; and
- o use recorded communication channels authorised by their senior management or independent functions and must use a standardised script approved by senior management or independent functions during market soundings. Disclosing Persons are also required to keep records of their market soundings for at least two years.

**Recipient Persons** are likewise subject to specific requirements, including the obligation to authorise an individual with adequate knowledge of the firm's internal policies on the receipt and handling of Market Sounding Information to receive market soundings, and to inform Disclosing Persons of whether they wish to receive market soundings in relation to all or only specified types of transactions.

## Implications for the Hong Kong Market

This case carries several important implications for SFC-licensed intermediaries and fund managers operating in Hong Kong.

- **The integrity of the placement process:** share placements are, by their nature, conducted on a confidential basis precisely because premature disclosure of placement terms can distort market pricing and disadvantage both the issuing company and existing shareholders. The alleged conduct in this case — the systematic exploitation of advance placement information through short selling — strikes at the heart of market confidence in the fairness of the capital-raising process. It may be anticipated that the SFC will use this case to reinforce the message that the leaking of placement information will be treated with the utmost seriousness and that the authorities will devote considerable resources to detecting and prosecuting such conduct. The Hong Kong Market Sounding Guidelines, which have been in effect since 2 May 2025, provide a clear and detailed framework for the proper handling of confidential placement information, and SFC-licensed firms should expect rigorous scrutiny of their compliance with these Guidelines in the wake of Operation Fuse.
- The **adequacy of compliance frameworks** within SFC-licensed firms: the SFC has, over a number of years, issued extensive guidance on the management of confidential information, the operation of information barriers (commonly referred to as **Chinese walls**), and the monitoring of employee dealings. SFC-licensed corporations would be well advised to review their existing arrangements in light of this case to ensure that they meet the standards expected by the regulator. Particular attention should be paid to the controls surrounding placement and block trade activity, where the potential for information leakage is inherently elevated.
- The **sophistication of enforcement surveillance:** the fact that the SFC's initial investigation into suspected insider dealing was capable of uncovering the corruption dimension of the scheme demonstrates the depth of the regulator's analytical capabilities. Both the SFC and the ICAC have invested significantly in their capacity to detect unusual trading patterns around corporate events. The SFC's integrated market surveillance system is capable of identifying anomalous trading activity — including unusual short selling volumes and equity swap activity — in real time and correlating it with the flow of confidential information through licensed intermediaries. Market participants should be under no illusion that sophisticated trading strategies designed to exploit inside information, including strategies involving derivatives and synthetic short positions, will evade detection indefinitely.
- The addition of **money laundering charges under the OSCO.** The authorities' willingness to deploy the full armoury of criminal sanctions — including money laundering offences carrying a maximum penalty of 14 years' imprisonment — signals an increasingly aggressive posture towards financial crime in the securities sector. SFC-licensed firms and fund managers should ensure that their anti-money laundering and counter-terrorist financing frameworks are sufficiently robust to identify and report suspicious transactions that may be connected to market misconduct.

## Key Takeaways for Hong Kong Compliance Professionals

In light of this enforcement action, compliance professionals at SFC-licensed intermediaries and fund managers

may wish to consider the following areas as a matter of priority:

- Firms should conduct a thorough review of information barrier arrangements, particularly in relation to capital markets and placement activity, to ensure that material non-public information is not accessible to persons who do not require it for legitimate business purposes.
- Employee dealing policies and monitoring frameworks should be assessed to confirm they are capable of identifying suspicious trading activity — including short selling and equity swap transactions — linked to transactions in which the firm is involved.
- Training programmes should be updated to ensure that all relevant staff understand both the criminal and regulatory consequences of bribery, insider dealing, and money laundering, including the personal liability that may attach to individuals who facilitate or fail to prevent such conduct, and the specific requirements of the Hong Kong Market Sounding Guidelines applicable to their roles as Disclosing Persons or Recipient Persons. Firms should also review their arrangements for the reporting of suspicious activity, both internally and to the relevant authorities, and should ensure that whistleblowing channels are effective and well publicised.
- Firms acting as Disclosing Persons in market soundings should check that they have fully implemented the Hong Kong Market Sounding Guidelines' specific requirements, including obtaining Market Sounding Beneficiary consent, using authorised and recorded communication channels, deploying standardised scripts, providing written summaries to Recipient Persons, and maintaining records for at least two years.
- Firms acting as Recipient Persons should confirm that they have designated authorised individuals with adequate knowledge of internal policies to receive market soundings and have informed Disclosing Persons of their preferences regarding the types of transactions for which they wish to receive market soundings.
- Finally, given the involvement of a middleman in the alleged scheme, firms should be alert to the risk that corrupt approaches may be made through intermediaries rather than directly, and should ensure that their anti-bribery and corruption policies address this risk.

## Conclusion

Operation Fuse represents a forceful demonstration of the authorities' commitment to maintaining the integrity of Hong Kong's financial markets. The scale of the alleged misconduct — bribes exceeding HK\$4 million facilitating short-selling profits of approximately HK\$315 million — places this case among the more significant insider dealing prosecutions in Hong Kong's recent enforcement history. The breadth of the suspected offences, spanning bribery, insider dealing, and money laundering, and the coordinated deployment of ICAC and SFC resources under their formal MOU, underscore the seriousness with which the authorities regard conduct of this nature. The case also serves as a timely and powerful illustration of the risks that the SFC's Hong Kong Market Sounding Guidelines, in effect since May 2025, were designed to mitigate, and reinforces the imperative for all SFC-licensed intermediaries to ensure full compliance with those Guidelines.

As the investigation progresses and, in due course, any charges are brought before the courts, the case will be closely watched by market participants, compliance professionals, and legal practitioners alike.

Both the ICAC and the SFC have confirmed that the investigation is ongoing and that no further comments will be made at this stage. We will continue to monitor developments and provide further updates as the matter proceeds.

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