

China launches war against securities insider trading

China needs to improve legislation and take more comprehensive measures to further crackdown on malpractice in its securities market, experts told Xinhua Friday.

In less than six months, six executives with securities trading firms and a local bank were either arrested or put under investigation for market malpractice in the latest move by the Chinese government to clean the securities markets.

China Galaxy Securities Company Ltd, one of the country's largest securities firms, confirmed on May 15 that its former chief executive Xiao Shiqing was arrested May 13 on unspecified criminal charges connected to his former job as a securities regulator.

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Lei Bo, head of Guo Jin Securities, was also confirmed on May 13 to be under investigation for personal malpractice in the market.

Additionally, the China Securities Regulatory Commission (CSRC), the country's securities watchdog, unveiled investigation into three insider trading cases on May 12, which involved fraudulent securities issuance, leaking of important information concerning listed companies and insider trading.

A local bank manager and a vice manager of an industrial company in Shandong province were accused of profiteering from handling merger deals in 2007. The CSRC did not disclose the company name and the individuals involved in the case. Specific illegal earnings are under further investigation, according to the CSRC.

As of March, the CSRC had transferred 19 cases of securities malpractice to public security departments for criminal investigation since 2008, including six cases of listed companies, eight cases of insider trading, two cases of market manipulation, two cases of illegal investment consulting operation, and one case of embezzlement by the financial institution staff.

Li Jing, a researcher with Securities and Futures Institution of China's Central University of Finance and Economics, said in an interview with Xinhua on Friday that most of the malpractice cases in China's securities market were related to insider trading, which made small and individual investors victims of stock price manipulation,

Experts attribute the violations to an inadequate legal system and slack law enforcement.

"A lack of specific definition of securities dealing fraud activities leaves loopholes for controlling shareholders of listed companies, relevant parties involved in mergers and acquisitions, and securities brokers to conduct malpractice," said Li Jing.

A lawyer in Beijing who declined to be named told Xinhua on Thursday that insider dealers, once discovered, usually get a slap on the wrist at a civil misconduct tribunal, or at worst, a fine or a professional disqualification, which was not tough enough to curb the malpractice in this industry.

The lawyer also blamed a lax and inefficient self-supervision within the industry for impeding the establishment of a sound market.

The nation's securities watchdog has made its continuous efforts to safeguard a clean market order and interests of investors through strengthening legislation and the law enforcement in recent years.

A latest amendment of the Criminal Law in February reinforces punishment on the "mouse storehouse" activities, from which securities brokers gain huge profits by trading shares through insider news. Offenders will face a five- to ten years jail sentence, and a fine of up to ten times of their illegal earnings, according to the amendment regulation.

However, experts believe the regulators need to further improve the rules promptly in light of changes in the market, and reinforce the punishment on the offenders.

"Instead of solely resorting to the Criminal Law, the Civil Laws and administrative regulations should be comprehensively applied. More explicit definition on securities misconduct will help target the offenders in the future," said Li.

Li also suggested the industry establish a more efficient self-regulation system to guarantee a prompt and reliable channel for disclosures of listed companies.

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