

An Empirical Study of the Incidence of Insider Trading in China

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I. Introduction

Insider trading has become a globally debated topic. The decade of the 1990s witnessed an explosion in the number of nations adopting laws prohibiting insider trading. Before 1990, just 34 countries had insider trading laws, but by 2000, this number rose sharply to 87.¹ It therefore has been said that the world evolved from a situation, at the start of the 1990’s, in which the majority of countries with stock market did not prohibit insider trading, to a situation where the overwhelming majority of countries with stock markets had adopted such a prohibition by the year 2000.²

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¹ Utpal Bhattacharya & Hazem Daouk, ‘The World Price of Insider Trading’, available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=200914 , at 3 (last visited on 1 June 2006).

² Franklin A. Gevurtz, ‘The Globalization of Insider trading Prohibitions’ (2002) 15 *Transnational Lawyer* 63, 65-66. Although the significant increase in the number of countries with stock markets in the 1990s may contribute to the growth of insider trading laws, this is not the principal reason. In fact, the number of nations with insider trading laws grew clearly out of proportion to the increase in the

China has followed this international trend. Due to China's continuing strong economic development and its membership in the WTO, China is becoming an increasingly attractive investment destination. The securities market has become an important channel for foreign investment in China, and it is needed for China's industries and enterprises to grow.³ However, despite its rapid development, the Chinese market is still in its early stages of development and is afflicted with many problems, one of which is insider trading. Although China has been working hard to crack down on insider trading, the insider trading regulation is widely considered far from effective in practice.⁴

In order to improve the efficacy of insider trading regulation, it is necessary first to understand the nature and extent of the underlying problem. Moreover, since China's securities market is an emerging and rather unique one in the context of a transitional economy, insider trading exhibits some interesting features in comparison to that in Western developed markets. Therefore, this paper aims to review all reported insider trading cases in China, and then, together with relevant empirical findings, analyzed the features of insider trading activity in China, including who are likely to be insider traders, types of insider trading, and situations where insider trading likely occurs.

II. An Overview of China's insider trading regulation

The Chinese securities market is certainly a product of China's economic reforms. After 1949 when the People's Republic of China (PRC) was established, all pre-existing financial centers were dismantled as China moved into a centrally planned socialist economy.⁵ For better or worse, a national distaste for securities which were regarded as ideologically undesirable, characterized national policy for about thirty years. The economic reforms in the late 1970's challenged these taboos, and attempted to transform China into a market economy under an increasingly capitalist interpretation of "socialism with Chinese characteristics". In order to more effectively allocate capital to business and facilitate greater overall economic efficiency, China's securities market was brought back to life.

China's securities market has seen remarkable progress in a relatively short period of time after the initial economic reforms, and is playing a more and more important role domestically and internationally. Securities gradually returned to

number of nations with stock markets. Before 1990, just over half of the developed countries with stock markets chose to prohibit insider trading, while 39% of the countries with emerging markets did. By 2000, in contrast, all of the developed countries and 80% of the countries with emerging markets chose to do so. See Utpal Bhattacharya & Hazem Daouk, *supra* note 1.

³ Stephen C. Thomas and Chen Ji, "Privatizing China: The Stock Markets and Their Role in Corporate Reform", 31(4) 1 July 2004, *China Bus. Rev.* 58, 2004 WLNR 11626777.

⁴ See e.g., Chunfeng Wang et al., 'Insider Trading and the Regulation on China's Stock Market: International Experience and China's Response' (2003) 3 *Guoji Jingrong Yanjiu [International Finance Research]* 57, 63 (stating that China's insider trading regulation needs to be improved); Donghui Shi & Hao Fu, 'The Regulation of Insider Trading in China: A Legal and Economic Study' (paper presented at the Symposium on "Behavioral Finance and Capital Market", Nanjing, China, 29-30 November 2003) 36 (positing that "China's insider trading regulation is not effective").

⁵ See Zhenlong Zheng et al., *Zhongguo Zhengquan Fazhan Jianshi [The History of China's Securities Development]* (2000) 152-156.

Chinese economic life in the 1980s, and securities markets developed accordingly, culminating in the establishment of the Shanghai Stock Exchange and the Shenzhen Stock Exchange in the early 1990s. The securities market has since grown exponentially with the overall market capitalization in the two stock exchanges reaching 11.97 trillion Chinese yuan (roughly US\$1.53 trillion) at the end of 2006, almost 116 times the figure in 1992.⁶

In keeping with the rapid development of the underlying stock market, China's securities regulatory regime has evolved over time, from a number of dispersed regional regulators to a highly centralized national regulator. Since 1998, the China Securities Regulatory Commission (CSRC) has been the primary securities regulatory authority under the State Council, charged with implementing unified regulation of China's securities market.⁷

Notwithstanding the great achievement in China's securities market, there are many serious problems that need to be addressed. The problem of insider trading is an excellent example of the difficulties that Chinese regulators must confront. Generally speaking, China has been quick to react to the problem of insider trading, with the Chinese government regulating insider trading at almost the same time the stock market was established. Indeed, with the benefit of overseas experience, in a relatively short period of time, China has made a remarkable achievement in setting up its insider trading regulatory regime. It started with exchange-level regulations, followed by two successive waves of governmental regulations with nationwide application; the Securities Law of the Peoples' Republic of China (Securities Law) built on these experiences, marking the era of regulating insider trading in a rule-of-law based approach.⁸

The main insider trading provisions are now found in Ch 3, Pt 4 of the Securities Law. Article 73 generally prohibits a person with knowledge of inside information from using it to trade securities. Article 74 goes on to define the notion of insiders with a long list of people who may be considered to be insiders, including but not limited to corporate directors, substantial shareholders and regulatory officials. It also covers so-called temporary or constructive insiders, namely a group of nominal outsiders who participate in securities trading pursuant to their statutory duties or private contracts, such as underwriters, accountants and lawyers. It is important to note that the notion of insiders includes both natural persons and entities. Article 75

⁶ Shanghai Stock Exchange, *Shanghai Stock Exchange Statistics Monthly (December 2006)*, at 4, available at <http://www.sse.com.cn/sseportal/ps/zhs/yjcb/sztjyb.shtml?year=2007&month=01&x=13&y=7> (accessed on 8/June/2007); Shenzhen Stock Exchange, *Shenzhen Stock Exchange Statistics Yearbook 2006*, at 3, available at <http://www.szse.cn/main/marketdata/wbw/marketstat/> (accessed on 8/June/2007).

⁷ See the official website of the CSRC: <http://www.csrc.gov.cn/csrsite/eng/eabout/eintr.htm> (accessed on 6 June 2007); also Hong Wu et al., *Zhongguo Zhengquan Shichang Fazhan de Falu Tiaokong [Legal Adjustment of the Development of China's Securities Market]* (2001) 9-10.

⁸ *Zhonghua Renming Gongheguo Zhengquanfa [Securities Law of the People's Republic of China]* (promulgated on 29 December 1998 and effective from 1 July 1999, amended in 2005) (PRC) (hereafter Securities Law). For a more detailed account of the history of China's insider trading regulation and a critical examination of the legal rules, see Hui Huang, 'The Regulation of Insider Trading in China: A Critical Review and Proposals for Reform' (2005) 17(3) *Australian Journal of Corporate Law* 281, 283-85. In 2005, the Securities Law underwent substantial revisions in many respects, but no significant changes have been made to the insider trading regime.

contains a definition of inside information. Under Article 76, the prohibited conduct by persons in possession of inside information includes not only trading, but also tipping and procurement.

However, the task of regulating insider trading is difficult for China in its current climate of rapid and somewhat chaotic economic transformation. Although the Chinese securities law has made a quantum leap in the area of insider trading, China's efforts to combat insider trading are far from satisfying. As discussed below, there have been a very limited number of reported insider trading cases so far, contrasting strikingly with the perceived prevalence of insider trading activities in the market. These cases will be examined closely to investigate the nature and extent of insider trading activity in China, with a view towards informing the future legislative reform of China's insider trading regulation.

III. Reported Insider Trading Cases

By the end of June 2004, there were eleven insider trading cases reported in China. Under Article 179 of the Securities Law, the CSRC is authorized, among other things, to investigate and deal with violations of laws and administrative regulations concerning the regulation of the securities market.⁹ In practice, the CSRC plays a central role in regulating insider trading. As discussed below, nine out of the total eleven cases were dealt with by the CSRC through its administrative power and involved only administrative liabilities. And until March 2003, China did not have any criminal insider trading cases.

A. Cases Handled by the CSRC

According to Article 184 of the Securities Law, "all the decisions reached by the securities regulatory authority under the State Council [the CSRC], on the basis of the results of its investigations, to impose penalties on illegal acts in relation to securities, shall be made public".¹⁰ The CSRC publicizes all of the cases it handled in the *China Securities Regulatory Commission Official Bulletin (Zhongguo Zhengquan Jiandu Weiyuanhui Gonggao)*, which is issued on a monthly basis and accessible by hard copy or via internet.¹¹ By June 2004, the CSRC had publicized a total of nine insider trading cases. The following will discuss them in order of time.

1. Xiangfan Shangzhen Case¹²

This case is the first insider trading case in China. In 1993, the CSRC undertook an inquiry into the share transaction by the Shanghai branch of the Xiangfanshi Trust Investment Co Ltd of the Agricultural Bank of China ("Xiangfan Shangzhen"). The inquiry discovered that, on the evening of 16 September 1993, employees of Xiangfan Shangzhen held a business meeting with employees of another company—Shenzhen

⁹ Securities Law, art. 179(7).

¹⁰ Securities Law, art. 184.

¹¹ See the official website of the CSRC: <http://www.csrc.gov.cn/cn/homepage/index.jsp>

¹² Decision of the China Securities Regulatory Commission on the punishment of the Shanghai branch of the Xiangfan Investment Company of Chinese Agricultural Bank for breaching the securities regulations (28 January 1994) (1994) 1 *China Securities Regulatory Commission Official Bulletin*.

Huayang Health Care Production Co Ltd, and became aware that the latter company was about to purchase a large number of shares in Shanghai Yanzhong Joint Stock Company (“Shanghai Yanzhong”). As a result, Xiangfan Shangzhen thrice purchased Shanghai Yanzhong shares between 17 September and 27 September, and the aggregate number was 627,300. All these purchased shares were sold on 7 October 1993 at a profit of more than 16 million Yuan.

The CSRC found on the grounds of the relevant articles in the Provisional Measures that Xiangfan Shangzhen had committed insider trading, and imposed administrative penalties, including confiscation of the illegal profit, fine and suspension of the business of Xiangfan Shangzhen for two months.

2. Baoan Shanghai, Baoan Huayang and Shenzhen Ronggang Case¹³

This case has been the only short swing case reported in China to date. Once again, the shares traded in this case belonged to the Shanghai Yanzhong Joint Stock Company (“Shanghai Yanzhong”). This case involved three defendants, namely the Shanghai Subsidiary Company of Shenzhen Baoan Group Co Ltd (“Baoan Shanghai”), the Shenzhen Baoan Huayang Health Care Production Co Ltd (“Baoan Huayang”), and the Shenzhen Ronggang Baoling Electrical Lighting Co Ltd (“Shenzhen Ronggang”). All of the three defendants were related companies.

On 29 September 1993, Baoan Shanghai held 4.56% of Shanghai Yanzhong shares, Baoan Huayang 4.52%, and Shenzhen Ronggang 1.57%. Thus, the aggregate Shanghai Yanzhong shares held by the three related defendants already reached 10.65% of all the outstanding Shanghai Yanzhong shares, which had triggered the block shareholding reporting duty under the existing law. However, the next day, namely on 30 September 1993, without fulfilling that reporting duty, Baoan Shanghai made a further purchase of Shanghai Yanzhong shares and as a result the total shareholdings of the three defendants became 17.07%. In the course of this transaction, Baoan Huayang and Shenzhen Ronggang sold 1,147,700 Shanghai Yanzhong shares they held to Baoan Shanghai on the Shanghai stock market and sold the remaining 246,000 Shanghai Yanzhong shares to the general public.

After investigation, the CSRC reached the conclusion that the three defendants traded in Shanghai Yanzhong shares in violation of securities regulations. The conclusion was based on Article 38 of the Provisional Regulations which prohibits short swing transaction. Under this article, if directors, supervisors, senior management persons, or entity shareholders who hold not less than five percent of the shares of one joint stock limited company, sells, within six months of purchase, the shares he holds of the company to which they are affiliated, or repurchase the shares within six months after selling the same, the earnings so obtained would belong to the company. Thus, the CSRC ruled that the transactions of Baoan Huayang and Shenzhen Ronggang constituted short swing transaction and as such the profits realized should be returned to Shanghai Yanzhong.

¹³ Decision of the China Securities Regulatory Commission on the punishment of the Shanghai Subsidiary Company of Shenzhen Baoan Group Company, the Baoan Huayang Health Care Production Company, and the Shenzhen Ronggang Baoling Electrical Lighting Company for breaching the securities regulations (25 October 1993) (1993) 4 *China Securities Regulatory Commission Official Bulletin*.

3. Zhangjiajie Tourism Development Co Ltd Case¹⁴

In 1997, an allegation of insider trading was laid by the CSRC against the Zhangjiajie Tourism Development Co Ltd (“Zhangjiajie Tourism”). During the period from 2 September 1996 to 18 November 1996, Zhangjiajie Tourism purchased a total number of 2,128,883 of its own shares, through 15 accounts opened by its subsidiaries. Before its board of directors publicly announced one resolution which would drive down the market price on 22 November 1996, the defendant sold 1,432,000 of the said shares on 18, 20, and 21 November respectively at a profit of 11,805,000 Yuan.

The CSRC held that, amongst other things such as unlawful buyback of own shares, the transactions of Zhangjiajie Tourism constituted insider trading on the grounds of Article 3 of the Provisional Measures which prohibits any entities or natural persons from using inside information to issue or trade shares for the purpose of gaining profits or avoiding losses.

4. Nanfang Securities Co Ltd and Beida Chehang Joint Stock Company Case¹⁵

In October 1996, the vice president of Nanfang Securities Co Ltd (“Nanfang Securities”) visited Beida Chehang Joint Stock Company (“Beida Chehang”). In the course of the visit, Beida Chehang tipped the vice president of Nanfang Securities some inside information, including earnings forecasts, new investment programs and new share issue plans and so on. It was also found that Beida Chehang and Nanfang Securities reached an agreement to cooperate to commit insider trading and market manipulation on the basis of the inside information. During the period between October 1996 and April 1997, Nanfang Securities purchased a huge number of Beida Chehang shares. This purchase drove up the market price of Beida Chehang shares by almost 100%. Finally, Nanfang Securities sold all the acquired shares at a net profit of 77,418,900 Yuan, of which 850,000 Yuan went to Beida Chehang.

The CSRC held that Nanfang Securities committed insider trading in breach of Articles 3, 4(1), 4(3) of the Provisional Measures, while Beida Chehang was in breach of Articles 3, 4(2) of the Provisional Measures.

5. China Qingqi Group Co Ltd Case¹⁶

This case concerned the defendant China Qingqi Group Co Ltd (“Qingqi Group”), which was found liable on several counts including insider trading. The employees of the securities business division of Qingqi Group, were held to have access to inside information by virtue of the nature of their work and their positions.

¹⁴ Decision of the China Securities Regulatory Commission on the punishment of Zhangjiajie Tourism Development Company, Hunan Stock Exchange Center for breaching the securities regulations, (1997) 3 *China Securities Regulatory Commission Official Bulletin*.

¹⁵ Decision of the China Securities Regulatory Commission on the punishment of Nanfang Securities Limited Company, Beida Chehang Joint Stock Limited Company and other entities and individuals for breaching the securities regulations, (1999) 10 *China Securities Regulatory Commission Official Bulletin*.

¹⁶ Decision of the China Securities Regulatory Commission on the punishment of China Qingqi Group Co Ltd, other entities and relevant individuals for breaching the securities regulations, (1999) 9 *China Securities Regulatory Commission Official Bulletin*.

During the period between November 1996 and January 1997, the division continued to take up shares in Jinan Qingqi Motorcycle Joint Stock Company (“Jinan Qingqi”) which was a subsidiary of Qingqi Group, and the shareholdings reached as many as more than 5,800,000 in the end. In February 1997, Jinan Qingqi announced its annual report in which the good news about its earnings and profits were present. The market price of its shares went up as a result and thus the securities business division of Qingqi Group sold its shareholdings altogether, making a profit of 25,420,000 Yuan.

In August 1997, Qingqi Group decided to take over Qionghaiyao Joint Stock Company (“Qionghaiyao”), another listed company in the stock market. The securities business division came into possession of this material information and subsequently purchased a large number of Qionghaiyao shares. After the takeover was finalized and the price of Qionghaiyao shares rose sharply, the division reaped a profit of 2,630,000 Yuan by selling the shares.

The penalties imposed by the CSRC included, among other things, confiscating the illegal profit, fining and disqualifying relevant persons responsible for the misconduct from securities business.

6. Dai Lihui Case¹⁷

An allegation of insider trading was made by the CSRC against Dai Lihui who was then the legal representative of Sichuan Tuopu Computer Equipment Factory and the CEO of Sichuan Tuopu Technology Co Ltd (“Sichuan Tuopu”). During the period of his employment, Dai Lihui got access to inside information that Sichuan Tuopu was going to carry out a capital reconstruction program with Sichuan Changzhen Machine Tool Joint Stock Company (“Sichuan Changzhen”) and the primary business of Sichuan Changzhen would change significantly as a consequence. Based on this information, Dai Lihui purchased a total of 572,600 Sichuan Changzhen shares between 27 November 1997 and 29 November 1997, and resold all the shares after the share price surged as a result of the reconstruction program, at a profit of 675,700 Yuan.

Under Article 72 of the Provisional Regulations and Articles 3, 13 of the Provisional Measures, the illegal profit of Dai Lihui was confiscated and, in addition, a fine of 150,000 Yuan was imposed.

7. Wang Chuan Case¹⁸

The next insider trading case involved Wang Chuan, who was then the vice-president of Beijing Beida Fangzheng Group Co Ltd (“Beida Fangzheng”) and concurrently the manager-general (legal representative) of Beijing Beida Technology Development Co Ltd (“Beida Keji”). In February 1998, Beida Fangzheng failed to get

¹⁷ Decision of the China Securities Regulatory Commission on the punishment of Da lihui for breaching the securities regulations, (1999) 6 *China Securities Regulatory Commission Official Bulletin*.

¹⁸ Decision of the China Securities Regulatory Commission on the punishment of Wang Chuan for breaching the securities regulations, (1998) 10 *China Securities Regulatory Commission Official Bulletin*.

exemption from the CSRC on its planned takeover by agreement of tradable shares of Shanghai Yanzhong Joint Stock Company (“Shanghai Yanzhong”). As a consequence of the failure of takeover by private agreement, in March 1998, the Office of the University-owned Enterprise of Beijing University (“Beijing University Office”) decided to take over Shanghai Yanzhong by tender offer and ordered four companies it owned to purchase Shanghai Yanzhong shares on the secondary market. By 11 May 1998, the four companies jointly held a total of 5.077% of Shanghai Yanzhong shares, 3.2964% of which was held by Beida Keji.

Because Wang Chuan was the vice-president of Beida Fangzheng and the manager-general of Beida Keji, he became aware of the inside information relating to the takeover plan. On the basis of this information, Wang Chuan purchased 68,000 Shanghai Yanzhong shares on 10 February 1998, and garnered a profit of 610,000 Yuan after reselling all the shares on 15 April 1998.

On the grounds of Article 72 of the Provisional Regulations and Article 3 of the Provisional Measures, the CSRC confiscated the illegal profit and imposed an additional fine of 100,000 Yuan.

8. Yu Mengwen Case¹⁹

In 1999, a charge of insider trading was brought by the CSRC against Yu Mengwen who was then the associate chief of the Technology Management Section of Panzhihua Iron Co Ltd. During the period between March 1998 and April 1998, on the basis of inside information concerning the capital reconstruction of Panzhihua Plate Joint Stock Company (“Panzhihua Plate”) which was a subsidiary of Panzhihua Iron Co Ltd, Yu Mengwen purchased a total of 30,000 shares in Panzhihua Plate, and resold all the shares in May 1998 at a profit of 80,000 Yuan.

According to Articles 3, 13 of the Provisional Measures, the illegal profit was confiscated and in addition a fine of 50,000 was imposed.

9. Gao Fashan Case²⁰

This case involved Gao Fashan who was then the director of Tianjin Lida Group Co Ltd. On 20 June 1999, Gao Fashan attended a board meeting in which a resolution was reached about the equity transfer of Tianjin International Shopping Center Joint Stock Limited Company (“Tianjin Guoshang”) to implement a takeover program. Subsequently, he purchased 2,000 Tianjin Guoshang shares on 22 June 1999.

On 17 February 2000, the CSRC held that the transaction constituted insider trading in violation of Article 72 of the Provisional Regulations, and ordered Gao Fashan to sell all the illegally obtained securities with all proceeds going to the Treasury.

¹⁹ Decision of the China Securities Regulatory Commission on the punishment of Yu Mengwen for breaching the securities regulations, (1999) 6 *China Securities Regulatory Commission Official Bulletin*.

²⁰ Decision of the China Securities Regulatory Commission on the punishment of Gao Fashan for breaching the securities regulations, (2000) 2 *China Securities Regulatory Commission Official Bulletin*.

B. Criminal Insider Trading Cases

In 1997, the Criminal Law was amended to expressly outlaw insider trading and set out its criminal liabilities, including imposition of fine, confiscation of illegal gains and imprisonment of up to 10 years.²¹ However, criminal liabilities have been scarcely imposed in practice. As showed below, the first criminal insider trading case occurred in March 2003, almost seven years after the amendment of the Criminal Law. And there were only two criminal insider trading cases by the end of June 2004.

1. Shenshen Fang Case²²

This case is the first criminal insider trading case in China. This case involved Ye Huanbao who was then the chairman of the board of Shenshen Fang Joint Stock Company (“Shenshen Fang”), and Gu Jian who was then the director of Saige Shuma Guangchang Co Ltd (“Saige Shuma”). In May 2000, Gu Jian borrowed RMB 10 million Yuan and bought Shenshen Fang shares between 15 May and 19 May 2000. Two months later, in July when Shenshen Fang publicly disclosed the completion of its major investment in Saige Shuma, Gu Jian sold all of the shares at a profit of more than RMB 780,000 Yuan (roughly US\$95,122).

In November 2002, Ye Huanbao and Gu Jian were charged with insider trading before the Luo Hu District People’s Court in the city of Shenzhen. The prosecutor set out two arguments to support the charge. Firstly, Gu Jian bought the shares before the information disclosure of Shenshen Fang and sold them thereafter. The information at issue was material information, and Ye Huanbao, as an insider of Shenshen Fang, knew the inside information. Secondly, Ye Huanbao helped Gu Jian open securities trading accounts and even personally lent one million Yuan to Gu Jian for trading shares. In the view of the prosecutor, this fact was indicative of an unusual relationship between Ye Huanbao and Gu Jian and thus it was inferred that Ye Huanbao had tipped the inside information to Gu Jian.

Ye Huanbao’s lawyer argued that Ye Huanbao did assist Gu Jian in opening securities accounts and providing some money, but did not tip any inside information to Gu Jian. The argument of Gu Jian’s lawyer was that the information concerning the investment was already public because the timetable of the investment had already been publicly disclosed on 3 April and no substantial new information was disclosed on 19 June 2000.

On 10 March 2003, the court found Ye Huanbao and Gu Jian guilty of insider trading. The court simply rejected the arguments of the defense lawyers without offering any explanation. In the end, Gu Jian was sentenced to jail for two years and was fined 800,000 Yuan, while Ye Huanbao was sentenced to three years imprisonment and a fine of 800,000 Yuan for insider trading.²³

²¹ Zhonghua Renming Gongheguo Xingfa [Criminal Law of the People’s Republic of China] (October 1997) (PRC) (hereinafter Criminal Law), art. 180.

²² Yuan Gu, ‘The Former Chair of Shenshen Fang was Convicted of Insider Trading’, *Zhengquan Ribao [Securities Daily]* 30 June 2003, at 2; Ying Yu, ‘Insider Trading by the Chair of One Listed Company’ *Zhengquan Shichang Zhoukan [Securities Market Weekly]* 2 June 2003 at 6.

²³ Because Ye Huanbao was also found guilty on other counts, the final term of imprisonment was nine years.

2. Changjiang Konggu Case²⁴

The next criminal case concerned Liu Bangcheng who was then the legal representative of several listed companies. In May 2000, Liu Bangcheng was invited to restructure loss-making Sichuan Changjiang Baozhuang Konggu Joint Stock Company (“Changjiang Konggu”). In order to do this, Liu Bangcheng established several new companies and wildly overvalued them. In November 2000, Liu Bangcheng exchanged shares of the new companies for shares of Changjiang Konggu, and thus controlled Changjiang Konggu.

With the fraudulent restructuring of Changjiang Konggu, Liu Bangcheng transformed Changjiang Konggu into a profit-making company on the accounting book. On the basis of this false “good” news, Liu Bangcheng bought a large number of Changjiang Konggu shares before disclosure of the information and then sold them thereafter at a profit of RMB 9.6 million Yuan (roughly US\$1.17 million).

On 24 October 2003, the Intermediate People’s Court of Chengdu City in Sichuan Province sentenced Liu Bangcheng to three years imprisonment for insider trading. And, on 26 November 2003, the High Court of Sichuan Province affirmed the judgment.

3. Guan Weiguo Case²⁵

In this case, insider trading was clearly involved but not dealt with by the court, and the defendant was prosecuted on other counts. Even though the defendant was not charged with insider trading, some commentators nevertheless have regarded this case as insider trading.²⁶ This case is not counted as an insider trading case in this thesis, but it is nevertheless discussed here because it can provide some useful insights into the incidence of insider trading in China.

This case concerned Guan Weiguo who was then the first vice director of the Shenyang System Reform Committee, the vice director of the Shenyang Securities Commission and the director of the Shenyang Securities Regulatory Commission.²⁷ During the period between February 1993 and August 1993, Guan Weiguo took bribes from several joint stock companies in forms of cash and shares. Moreover, Guan Weiguo was engaged in share trading in the name of his family members so as to circumvent the regulation prohibiting staff members of the securities regulatory

²⁴ Lu Wang, ‘The Restructuring Part of Changkong Company was Convicted of Crime of Swindling’, *Shanghai Zhengquan Bao [Shanghai Securities News]* 28 October 2003, at 5; Wenjian Xiang, ‘Taiguang Company is a Big Cheat and Who will Save Changkong Company’ *21 Shiji Jingji Baodao [21 Century Economic Reports]* 1 December 2003 at 3.

²⁵ The Research Office of the Central Disciplinary and Supervisory Commission of the Communist Party of China, *Information Database of the Party’s Anti-Corruption Work and Disciplinary Cases* (1996) 1389. See also Han Hu, ‘The Drowned are Always Those Able to Swim’ *Meiri Caijing [Daily Business]* 29 August 2003 at 2.

²⁶ See e.g., Xie Fei, ‘Discussion on Some Issues about Insider Trading Legislations in China’, available at http://www.chinalawedu.com/news/2003_12%5C3121915365576.htm (last visited on 8 June 2006).

²⁷ The Shenyang Securities Commission and the Shenyang Securities Regulatory Commission were the regional branches of the SCRC and the CSRC respectively in the city of Shenyang at that time.

authority from trading shares. It was also alleged that, in 1993, Guan Weiguo attended a meeting in Beijing in which he became aware of material information about the planned listing of one company, and then purchased shares of the said company and resold them after the price rose, reaping a profit of RMB 770,000 Yuan (roughly US\$94,756).

On 21 September 1994, the Intermediate Peoples' Court of Shenyang City found Guan Weiguo guilty of bribery and handed down a sentence of six-year imprisonment in addition to confiscation of the illegal profits. However, the misuse of the material information was not dealt with by the court, simply because there was no criminal liability for insider trading in the Criminal Law at that time.²⁸

C. Summary

As discussed above, a total of eleven insider trading cases have been reported in China to date. Compared to some Western countries, especially the US,²⁹ China has certainly a small number of insider trading cases. However, given the short history of the insider trading regulation in China, eleven cases are actually a remarkable achievement. For example, the first insider trading case appeared in China as early as 1994. This situation has even led the normally staid *Economist* to state that:

One successful insider trading case puts China streets ahead of some far more developed markets. Switzerland and Italy have yet to bring a successful prosecution under their insider trading laws. Japan has nabbed just one culprit since it banned the practice back in 1989.³⁰

Indeed, most of the countries with insider trading prohibition except the US and the UK have a poor record of insider trading cases. For example, Australia had only three convictions before 1999, while its insider trading prohibition was introduced as early as 1970.³¹ By 2000, only 38 out of 87 nations with insider trading laws had undertaken prosecutions of insider trading activities.³²

Although the paucity of reported insider trading cases has made it virtually impossible to provide a comprehensive picture of the prosecution process in China, those cases are nonetheless valuable and useful for us to gain some understanding of insider trading incidence in China. They reflect, to a significant extent, the incidence of insider trading and the distinctive features of insider trading activities in China, such as who are likely insiders, what types of insider trading frequently take place, under what circumstances insider trading is likely to occur and so on. For the sake of

²⁸ Article 180 providing criminal liability for insider trading was added to the Criminal Law in 1997.

²⁹ See e.g., J Naylor, 'The Use of Criminal Sanctions by UK and US Authorities for Insider trading' (1990) 11 *The Company Lawyer* 53 (showing that in the period between 1994 and 1997 alone, 77 convictions were brought by the US Department of Justice and 189 civil cases were brought by the SEC).

³⁰ 'Turfing Insider-traders out', *Economist* 16 July 1994, at 67; Brain Daly, 'Of Shares, Securities, and Stakes: The Chinese Insider Trading Law and the Stakeholder Theory of Legal Analysis' (1996) 11 *American University Journal of International Law and Policy* 971, 1026 (concluding that "Chinese securities law has made a quantum leap in the area of insider trading").

³¹ Lori Semaan and Mark A Freeman and Michael A Adams, 'Is Insider Trading a Necessary Evil for Efficient Markets?: An International Comparative Analysis' (1999) 17 *Company and Securities Law Journal* 220, 243.

³² See supra note 1, at 3.

analytical convenience, key elements of these cases are displayed in a tabular form (See Appendix II : The Summary of Reported Insider Trading Cases in China).

IV. The Extent of Insider Trading

The above-mentioned cases serve as valuable direct evidence of the existence of insider trading in China and provide us with a good platform to analyze the incidence of insider trading. However, it is unclear how those cases reflect the true scope of insider trading. There can be no doubt that the actual insider trading incidence in China is in no way limited to the reported cases. But one cannot go any further and perfunctorily draw any sensible conclusion in this respect solely on the basis of those cases. Clearly, more data are needed to answer the question of how widely insider trading is happening in China.

A. Empirical Findings of Qualitative Research by Interviews

There are few specific studies on the extent of insider trading in China. There are two main reasons for this. Firstly, it has been taken for granted by many people in China that insider trading has existed as a serious problem on the stock market and the important question is only how to deal with it.³³ Secondly, even if one believes that there is a need to inquire into the extent of insider trading in China, they will be prevented from carrying it out due to methodological problems. Indeed, it is very difficult, if not impossible, to use traditional statistical methods to study insider trading which is a hidden form of misconduct. Even though qualitative research methodology such as interviews might offer an effective alternative, it has significant costs in terms of both time and money which would present a frustrating block to Chinese scholars.

In fact, the issue of the incidence of insider trading is important for any debate on relevant topics. It is not as clear as many might think, and thus deserves more study. In this section, the question will be investigated thoroughly by interviews. While the empirical findings of interviews might be subject to the criticism that they are anecdotal evidence and merely perceptions of people rather than concrete economic data, their importance should never be underestimated, especially because insider trading, as a form of secret misconduct in nature, makes economic data virtually unavailable.³⁴

The interviews took place in three major cities in China and covered a wide variety of occupational groups.³⁵ All interviewees were asked specifically the question of the extent about insider trading in China.

³³ See e.g., Xia Jun, 'Information Asymmetry: Optimal Enforcement of Stock Market Insider Trading Regulation' (2001) 9 *Zhongguo Guanli Kexue* [Chinese Journal of Management Science] 16 (stating that the prevalence of insider trading in China is an indisputable fact).

³⁴ Such a methodology has been successfully used to investigate insider trading in Australia. See Roman Tomasic, *Casino Capitalism? Insider Trading in Australia* (National Gallery of Australia, 1991).

³⁵ For more information on the interview methodology, see Appendix I: Methodology.

All of the regulatory officials consulted for this research responded that insider trading was “widespread” and “perhaps it happens every day”. One official said that “insider trading is not only extensive, but also ingrained.” The point that “huge profits associated with insider trading are irresistible to everybody” was the reason offered by another official to explain why insider trading is so widespread. This official reflected a common view that “insider trading is deeply entrenched and thus hard to eradicate”.

However, one experienced investigator admitted that he had little direct evidence about the incidence of insider trading, stating that “insider trading is extremely difficult to detect and prosecute. So I can assure you that insider trading is quite widespread even though a small number of relevant cases have been reported.” In the meantime, one pointed out that “insider trading is not the most extensive misconduct and perhaps market manipulation or misrepresentation is.” But he thought that it was almost impossible to ascertain the precise extent of insider trading.

Most of the securities practitioners said that “insider trading is pretty rife indeed,” and that “it has been already an open secret”. One responded strongly by asking “wouldn’t you conduct insider trading if you had inside information? It is the reality of human nature. If you refuse, you will be sidelined and eliminated by the fierce competition simply because other people will take the chance when they have it.” Another echoed this view and said that “insider trading is not a taboo subject. It is very hard to outperform the market and survive if you do not engage in something illegal such as insider trading. Many people do not trade shares unless they have inside information. We simply have no choice in such an environment.”

According to another broker, “insider trading is actually the main way to make profits for some companies. You need some skills to commit insider trading without being caught”. However, having admitted the possibility of insider trading occurring, some did not agree nevertheless that insider trading is widespread because “there is no convincing evidence to support that view” and “insider trading is not as serious as other abuses, such as market manipulation and misrepresentation.”

The fact that securities practitioners are under enormous pressure to survive the fierce competition clearly has impact on the incidence of insider trading. Is this a safe and effective way to survive? The view on the risk of insider trading was expressed by a broker who said “the likelihood of getting caught is very low, almost negligible”. According to another broker, “even if you are unlucky enough to get caught, the punishment is not a big deal in comparison with the profits of insider trading. Indeed, insider trading can make a huge profit, but it is subject to relatively light punishment”. Ethical concern has also been absent here. As one fund manager pointed out that “almost everyone would commit insider trading if they had the chance, and nobody would feel ashamed of it if unfortunately being pinned down.”

None of the officials from the Shanghai Stock Exchange denied the occurrence of insider trading but there was some disparity in their assessment of its extent. One responded that “insider trading does exist, but it is wrong to say that it is widespread. This is, in my view, due to the exaggerated media reports”. Another official said that “our surveillance system is highly computerized and newly updated. This will greatly deter the insiders because the computer program can detect any abnormal transactions.

In most cases, price fluctuations have nothing to do with the occurrence of insider trading.”

However, this optimistic view was opposed by a fellow member who made the point that “insider trading is quite widespread because insider trading is highly profitable and there was no effective way to stop it. Even if there is suspicion of occurrence of insider trading, it is very difficult to substantiate it.” He went on to say that “we probably can detect big insider trading cases with our computerized real-time surveillance system. However, it is very difficult to spot small insider trading cases. In practice, the majority of insider trading cases are in small volumes.”

The common response of the ordinary investors is that “insider trading is very widespread.” One investor in Shanghai said that “I will be very surprised if someone thinks insider trading is not widespread,” and politely kidded that “frankly, I do not think you need to ask this question.” Another investor from Beijing backed his opinion with examples of insider trading he had personally seen or heard of and said that “it is so self-evident to us but we have no choice. After all, there is only one stock market in China and we have to play there even though we know we might be exploited.” In Guangzhou, one investor made his point that “widespread insider trading is totally understandable. We have got used to it to some degree. Quite frankly, I will make money through insider trading if I had inside information.”

A well-known journalist aptly described this state of mind amongst many ordinary investors as “desperate, helpless and cynical”, and went on to say that “insider trading seems very extensive. Whenever some important information is disclosed, in retrospect, you can always find abnormal trading situations one day or two before that disclosure. It is quite possible those are caused by insider trading.” He also remarked that “many people, including my friends, often ask me whether I have inside information during my reporting work. Insider trading is illegal, but ironically, many people want to do it and people with access to inside information are really popular. Insider trading is not a matter of shame, but instead, if you can commit insider trading, you can be proud of it.”

Similarly, academics generally felt that insider trading was quite widespread and should be seriously dealt with. The strongest view from this group was expressed by a professor who said that “insider trading is so widespread as to severely endanger the stock market. Almost all the abnormal transactions prior to major information disclosure, especially in the context of takeover, have something to do with insider trading.” The phenomenon of this pre-disclosure trading abnormality was summed up by another professor who made the point that “it is often an omen of upcoming major disclosure. Chinese investors have been so familiar with this rule.” Another professor echoed this view by likening insider trading to “the biggest malign tumor in the body of our stock market”.

However, in the words of a professor at a prestigious university, “insider trading does exist, and probably more than just a little, but I am not quite sure about the precise extent. Scientifically speaking, there is no sound evidence available to suggest that insider trading is widespread. Insider trading is probably the most serious problem in character, but perhaps not the most extensive misconduct on the market. Misrepresentation actually ranks first in terms of the number of reported cases.” This

view was supported by another professor who said that “insider trading always happens in connection with market manipulation, and market manipulation is probably the most serious misconduct because insider trading is carried out in secret whilst many manipulators now dare to openly manipulate share prices.”

In the judges’ view, “insider trading is out there and perhaps quite a lot.” One judge said that “it is very hard to assess accurately the extent of insider trading in reality. At present, we accept and hear civil securities cases in relation to misrepresentation, but not insider trading. Insider trading is hard to detect and prove.” Another judge remarked that “insider trading is a serious problem in need of solution in the market. But it does not appear to be the biggest problem in terms of the number of reported cases. Misrepresentation or market manipulation probably is.”

The common view expressed by lawyers was that “a large percentage of securities trading on our market may be insider trading but it is hard to know the exact number.” A lawyer also offered examples to support this view. Another lawyer thought that “insider trading exists, but there is little evidence to support that it is widespread. In my experience, misrepresentation seems more serious. Insider trading often happens in relation to entrepreneurial stock.”

B. Analysis of the Empirical Findings

a. Insider Trading is Widespread

As the interviews have shown, a vast majority of interviewees commonly felt that insider trading is widespread in China. Ordinary investors thought that they were the direct victims of insider trading and held the strongest view about the prevalence of insider trading. Their disappointment and anger could be strongly sensed during the interviews. Governmental regulators were also prone to say that insider trading was serious. Predictably, the officials from the stock exchange generally appeared to be very cautious and stated that one should avoid overstating the incidence of insider trading. Other groups, including academics, judges and lawyers, were also in favour of the view that insider trading was widespread.

It should be noted that the attitude of securities practitioners towards insider trading was fairly surprising. At the beginning of this project, it was expected that securities practitioners, often considered as the most likely insider trading perpetrators, would be evasive or at least very conservative to talk about insider trading. However, most, if not all, the securities practitioners, including brokers, investment bankers and fund managers, appeared very straightforward and frank.

A majority of securities practitioners made the point clearly that insider trading was widespread. It was also suggested that insider trading has been widely and even openly resorted to in the industry. As one broker said, “the circle of securities industry is like a big dye vat, and you cannot possibly keep yourself clean. Otherwise, you will be certainly forced out of the market sooner or latter.” Therefore, even if one is suspected of insider trading, there will be a minimum of professional opprobrium. In fact, securities practitioners themselves are not satisfied with such situations and want

to have a well-regulated and clean market because they are tired of this kind of vicious competition.

This finding has been backed by other empirical works which indirectly indicate the incidence of insider trading in China. As early as in 1994, field work was carried out within Sichuan Province by researchers in the Legal Institute of the Sichuan Province Academy of Social Science, and found that insider trading had been widely committed, particularly by securities practitioners.³⁶ Some researchers, notably economic scholars, have conducted empirical studies on the basis of the changes in some representative variables, such as stock price changes before and after material information disclosure.

A recent comprehensive study selected a sample of all the listed companies on the Shanghai Stock Exchange between 2000 and 2001, and investigated the effects of the disclosure of four kinds of material information, namely substantial investment projects, rights issuance, corporate control transfer, and the substantial increase in earnings in the annual report.³⁷ The study showed that the figures of the Cumulative Abnormal Return (CAR) increased remarkably in the period of 20 days before information disclosure and decreased sharply thereafter. In regards to the rate of changeover of shares, similar situations appeared; the rate was 1.125% before disclosure and 0.334% after. Another indicator, the figure of market volatility, also experienced the same change. It was concluded that the information at issue might have leaked out before its public disclosure and massive insider trading might have occurred to create the abnormal changes in those financial variables.³⁸

The same conclusion was reached by other empirical studies which each focus on one single type of material information. In 1996, some commentators randomly sampled 100 listed companies on the Shanghai Stock Exchange and investigated their price changes from 1990 to 1995 around the time of information disclosure on the distribution of dividends.³⁹ They found that stock prices hiked preceding information disclosure and then fell sharply following the disclosure; two other variables, namely the volatility figure and the CAR, showed similar changes. Based on this, they believed that the anomalies might have been due to the occurrence of insider trading.⁴⁰

More researchers focused on the information about corporate control transfer and traced the changes in stock prices and trading volumes around information disclosure. A study selected a sample of all the reported cases of corporate control transfers of listed companies between January 1990 when the two stock exchanges were

³⁶ Yousu Zhou et al., 'The Situation of the Breach of Securities Regulations in Sichuan Province' (1995) 2 *Xiandai Faxue [Modern Legal Science]* 81, 84.

³⁷ Chunfeng Wang et al., 'Insider Trading and the Regulation on China's Stock Market: International Experience and China's Response' (2003) 3 *Guoji Jingrong Yanjiu [International Finance Research]* 57.

³⁸ *Ibid* 61.

³⁹ Chaojun Yang & Jin Xin, 'An Empirical Study of Stock Price Movements on Shanghai Stock Exchange' (1997) in Shanghai Stock Exchange (ed), *Zhongguo Zhengquan Shichang Wenti de Shizheng Fenxi [Empirical Analysis of the Issues of China's Securities Market]* (1997) 74.

⁴⁰ *Ibid* 76.

established and June 2002 when the program was undertaken.⁴¹ Its conclusion was that insider trading might have taken place in the case of takeovers, and that the anomalies emanated from insider trading that insiders purchase shares prior to information disclosure and sell them thereafter at huge profits.⁴² Another study selected a much smaller sample of 53 takeover cases in 1998, and concluded that there might have been existence of insider trading because stock prices changed violently before information disclosure.⁴³ A later study which sampled 103 listed companies whose control were transferred in 1999 and 2000, also found that insider trading might have occurred in the event of takeovers, even one and half months before public announcement.⁴⁴

Hence, those empirical studies have clearly shown that the incidence of insider trading is particularly high in the cases of takeovers and insider trading is rampant in China. There have been many similar empirical studies overseas which also found a noticeable relation between insider trading and takeover.⁴⁵ However, the abnormal pre-announcement share price run-up in the US is later than in China where share prices usually change at least twenty days preceding announcement. For example, one American empirical study indicated that stock prices in the New York Stock Exchange fluctuated only one week before information disclosure, and most of the CAR took place on the announcement day.⁴⁶ And in one case, the abnormal price change during the week prior to the public announcement of one acquisition had reportedly prompted the SEC to launch investigation.⁴⁷ This suggests that insider trading may be more serious in China than in developed countries.

b. Insider Trading vs. Other Types of Misconduct

Having said that insider trading appears to be widespread, it does not necessarily mean that insider trading is the most serious form of misconduct in China's securities market. Rather, some commentators argue that market manipulation and

⁴¹ Xiuchi Li, 'Research on the Incidence of Insider Trading and Market Manipulation in the Case of Takeover on China's Stock Market' (2003) (unpublished working paper of China Securities Research Co Ltd, on file with the author).

⁴² Ibid.

⁴³ Yilin Sun & Xuejie He, *Shangshi Gongsì Jianbing Shougou Xiaoguo de Fenxi [Analysis on the Result of the Merger and Acquisition of Listed Companies]* (2001) 68-72. For example, forty-two of the sampled fifty-three companies have seen their stock prices skyrocket 84% before information disclosure.

⁴⁴ Donghui Shi & Hao Fu, 'The Regulation of Insider Trading in China: A Legal and Economic Study' (paper presented at the Symposium on "Behavioral Finance and Capital Market", Nanjing, China, 29-30 November 2003). However, the researcher posited that the trading anomalies were not solely generated by insider trading, but instead the combination of insider trading and market manipulation, and insiders always begin selling the purchased shares before the disclosure rather than after. Ibid 28-29.

⁴⁵ See e.g., Keown & Pinkerton, 'Merger Announcements and Insider Trading Activity: An Empirical Investigation' (1981) 36 *J. Fin.* 855 (empirical research showing above-normal gains in stock prices of takeover targets prior to the first public announcement of takeover plans); The Epidemic of Insider Trading, *Bus. Wk.*, April 29, 1985, at 79-80 (a two-year analysis of stock price movements in advance of takeovers, mergers, and leveraged buy-outs indicated presence of insider trading). Further, the volatile mix of takeovers and insider trading is entertainingly depicted in a famous US movie *Wall Street* (1987).

⁴⁶ Robert Jennings, 'Intraday Changes in Target Firm's Share Price and Bid-Ask Quotes around Takeover Announcements' (1994) 17 *The Journal of Financial Research* 255.

⁴⁷ The Epidemic of Insider Trading, *Bus. Wk.*, April 29, 1985, at 79.

misrepresentation may be more serious. This is largely due to the comparison of the quantities of reported cases of them. In practice, market manipulation and misrepresentation account for a larger percentage of detected and reported securities cases. According to one empirical study, there were 60 cases publicized by the CSRC between 1993 and 1999, 30% of which were market manipulation cases and less than 10% of which fell into insider trading.⁴⁸ This statistical result was echoed by a later empirical research in which all the cases handled by the CSRC before December 2001 were examined and insider trading cases were found to account for only 2.6% of total cases.⁴⁹

However, the statistical studies on the number of reported cases should be looked at with due caution for two reasons. Firstly, reported cases may not have fully reflected what actually happened. Compared to insider trading, market manipulation or misrepresentation is much easier to detect because their impacts on the market are more visible than those of insider trading. The evidence of market manipulation and misrepresentation is also more easily to collect: there are trading records in the cases of market manipulation and false statements are readily available to prove misrepresentation. Thus, one above-mentioned study has rightfully pointed out that the small number of reported insider trading cases did not necessarily suggest that there is a low rate of occurrence of insider trading in reality, considering the difficulties in detecting insider trading.⁵⁰

Secondly, the reliance on the classification of reported cases may be problematic. Securities cases are often very complicated, and some types of misconduct, especially insider trading and market manipulation, are frequently intertwined in one case for the purposes of enhancing the profitability of the overall misconduct.⁵¹ This makes it very hard to correctly characterize the involved misconduct. In some instances the CSRC might have unwittingly made mistakes in this characterization work, classifying insider trading cases as market manipulation. Additionally, out of the considerations of regulatory tactics, the CSRC might have intentionally chosen the count of market manipulation to deal with cases where insider trading and market manipulation were actually both present, because market manipulation or other charges could be more easily proved than insider trading.

V. Features of Insider Trading Activities in China

Although those reported insider trading cases might not have painted a complete picture of the incidence of insider trading in China, they can, coupled with other materials, serve as a good starting point to analyze the features of insider trading activities in China. As will be demonstrated below, insider trading in China exhibits distinctive features which are of great significance for the purpose of seeking to effectively regulate insider trading in the context of China.

⁴⁸ Jianjun Bai, 'An Empirical Study on the CSRC's Sixty Punitive Decisions' (1999) 11 *Fa Xue [Legal Science]* 55, 62.

⁴⁹ Sibing You and Shentao Wu, 'An Empirical Study of Illegal Securities Cases in China' (2001) 6 *Zhengquan Shichang Daobao [Securities Market Guiding News]* 16, 23.

⁵⁰ Jianjun Bai, 'An Empirical Study on the CSRC's Sixty Punitive Decisions' (1999) 11 *Fa Xue [Legal Science]* 55, 62.

⁵¹ For a more detailed discussion of this issue, see *infra* notes 62-65 and accompanying text.

A. Likely Insiders

As those reported cases shows, insiders can be both entities and natural persons. The prominent feature here is that entity insiders seem to contribute considerably to the incidence of insider trading in China. Of all the eleven reported cases, five involve entity insiders, including the *Xiangfan Shangzhen* case, the *Baoan Shanghai*, *Baoan Huayang* and *Shenzhen Ronggang* case, the *Zhangjiajie Tourism Development Co Ltd* case, the *Nanfang Securities Co Ltd & Beida Chehang Joint Stock Company* case, and the *China Qingqi Group Co Ltd* case. Another feature common to those entity insiders is that all of them are state-owned corporations. This contrasts strikingly with insider trading in Western countries where insiders are usually natural persons. The fact that entities commit insider trading suggests that insider trading smacks of organized group crimes in China and not limited to individual crimes. This in turn reflects that insider trading is very serious in China and the corresponding regulation is very weak.

As to natural person insiders, most of them are directors, senior management officers of state-owned corporations, such as Dai Lihui who was then the legal representative of Sichuan Tuopu Computer Equipment Factory and the CEO of Sichuan Tuopu Technology Co Ltd; Wang Chuan who was then the vice-president of Beijing Beida Fangzheng Group Co Ltd and concurrently the general manager (legal representative) of Beijing Beida Technology Development Co Ltd; Yu Mengwen who was then the associate chief of the Technology Management Section of Panzhihua Iron Co Ltd; Gao Fashan who was then the director of Tianjin Lida Group Co Ltd.

Apart from business persons, there are also government officials and staff members of securities regulatory authorities found in reported cases, such as Guan Weiguo, who was then the first vice director of the Shenyang System Reform Committee, the vice director of the Shenyang Securities Commission and the director of the Shenyang Securities Regulatory Commission. This case suggests that there is a high chance of insider trading committed by government officials. This is not surprising to the extent that governmental officials frequently have privileged access to price sensitive information by virtue of their positions.

Finally, there is a clear trend that more and more insider trading cases involve individual insiders. It is relatively easier to detect insider trading committed by entities than natural persons because more people are involved in the former situation. This trend suggests that insider trading become increasingly concealed and thus makes it more difficult to detect.

B. Types of Insider Trading

In most of the reported cases committed by natural persons, insider trading was carried out by traditional insiders in a traditional way, namely, trading on inside information accessed by virtue of their positions. This is illustrated by the *Wang Chuan* case, the *Dai Lihui* case, the *Yu Mengwen* case, the *Gao Fashan* case and the *Changjiang Konggu* case.

However, other types of insider trading also occurred on China's stock market. There have been short swing cases, such as the *Baoan Shanghai*, *Baoan Huayang* and *Shenzhen Ronggang* case. In addition, there is no shortage of cases where constructive insiders are involved. For instance, in the *Xiangfan Shangzhen* case, one financial

intermediary got inside information from a business meeting with its client. Further, tipping cases are also available such as the *Shenshen Fang* case. In general, the number of tipping cases is relatively small because of the increased difficulties in detecting or proving the communication of information. This suggests that more work needs to be done to handle more sophisticated forms of insider trading.

Another interesting feature of those reported cases is that all of the used inside information was positive information or good news. As the cases showed, all of the perpetrators committed insider trading by purchasing shares on the information and reselling them after information disclosure. However, this by no means suggests that insider trading only takes place on the basis of good news in China. Two possible reasons may explain this feature.

Firstly, it might be easier to detect insider trading on good news than that on bad news. Insider trading on good news needs two transactions, namely purchase and subsequent sale, while trading on bad news can consummate merely by sale before information disclosure. Secondly, the levels of the evidential difficulties involved in the two kinds of insider trading are different. It is always easier to find a readily available reason to justify a sale than a purchase before information disclosure. For example, insider trading suspects can readily argue that they sold the shares for urgent money to pay mortgage, their children's tuition or something else, and it would be very hard to rebut such ostensibly plausible arguments.

As far as the forms of conducting insider trading are concerned, all the reported cases appear to be so blatant that the CSRC has hardly experienced any major legal difficulties in handling those cases. Indeed, all of the defendants did not seriously defend themselves. This is not surprising because it is actually useless or difficult to present any meaningful defense in the face of egregious cases like those. In other words, all these cases were carried out in a traditional and primitive way, and there was little doubt about the culpabilities in those cases as a matter of law. As a result, the CSRC did not encounter any big problems with respect to the elements of insider trading, such as whether the information at issue is non-public and material, whether the perpetrator falls within the concept of insider, and whether the perpetrator meets the subjective elements of insider trading. In short, the reported cases did not raise any interesting legal problems, and this may disappoint those who expect to study China's insider trading law on the basis of the reported cases.

It is also important to note that in response to the increasingly effective regulation of insider trading, the ways of committing insider trading are becoming more and more sophisticated. Firstly, the types of insiders are changing from entities to individuals. Secondly, where entities commit insider trading, they began using investments in the names of other people rather than themselves, thereby minimizing the risk of being caught. For example, in the earliest cases, both Xiangfan Shangzhen Co Ltd and Baoan Co Ltd traded on their own accounts to carry out insider trading. Thereafter, Zhangjiajie Tourism Development Co Ltd and China Qingqi Group had evolved to employ the accounts of other entities and individuals as opposed to their own accounts. This change in the ways of carrying out insider trading presents a new challenge to the regulation of insider trading which in turn needs to improve accordingly.

C. Serious Offences but Light Punishment

The reported cases have shown the seriousness of insider trading in China. In terms of profits realized in those cases, some cases could have been treated as big fishes even had they taken place in developed countries including the US.⁵² For example, the *Nanfang Securities Co Ltd & Beida Chehang Joint Stock Company* case involved a total of up to 77,419,000 Yuan (roughly US\$9.7 million); Xiangfan Shangzhen reaped 16,700,000 Yuan (roughly US\$2 million) in a short period of one month; the direct profits involved in the *Zhangjiajie Tourism Development Co Ltd* case also reached as high as 11,800,000 Yuan (roughly US\$1.4 million); more notably, Qingqi Group made a profit of 25,420,000 Yuan (roughly US\$3 million) by insider trading within four months, which in fact amounted to the annual net profit of Jinan Qingqi which was the main subsidiary of Qingqi Group and whose shares were traded in this case.

As to individual insiders, Dai Lihui made a profit of 670,570 Yuan (roughly US\$81,776); Wang Chuan 610,000 Yuan (roughly US\$74,390); Guan Weiguo 770,000 Yuan (roughly US\$93,902); Yu Mengwen 80,000 Yuan (roughly US\$9,756). However, all these cases involve only administrative penalties, such as confiscation of illegal profits, small fine and business suspension for a short term. These penalties are far too lenient, compared to those imposed in overseas insider trading cases.

R v Rivkin,⁵³ a recently reported Australian insider trading case, offers a good comparison. In April 2003, Rene Rivkin, a famous Australian stockbroker, was found guilty of insider trading in the New South Wales Supreme Court. It was alleged that he used inside information regarding a proposed takeover to buy 50,000 Qantas shares on 24 April 2001, and sold them a week later on the morning of 1 May 2001. The profit realized in the week-long trade was only AU\$2600 (roughly US\$1950).⁵⁴ Despite this small amount of money involved, Rivkin was sentenced to nine months periodic detention and a fine of AU\$30,000 on 29 May 2003.⁵⁵

It was held by the court that the sentence would act as a deterrent both to Rivkin and to other people in the industry. Although he recognized that “the present insider trading case is by no means the most serious or even a very bad case of insider trading,” Justice Whealy emphatically stated that “the community generally would be rightly outraged if a sentence other than imprisonment was imposed.”⁵⁶ The Australian Securities and Investments Commission (“ASIC”), the watchdog of the Australian securities market, echoed this view, stating that Rivkin deserved the sentence and accused Rivkin of trivializing his insider trading case.⁵⁷ Assuming that

⁵² The Ivan F. Boskey case was famous in the US, involving profits of around US\$100 million from insider trading activities. See generally Robert D. Rosenbaum and Stephen M. Bainbridge, ‘The Corporate Takeover Game and Recent Legislative Attempts to Define Insider Trading’, (1988) 26 *Am. Crim. L. Rev.* 229; Donald C. Langevoort, *Insider Trading: Regulation, Enforcement, and Prevention* (West Group) (looseleaf) §1.01, at 3.

⁵³ *Regina v Rivkin*, 45 ACSR 366 (2003).

⁵⁴ Anne Lampe, ‘Rivkin Guilty but Vows Fightback’ *Sydney Morning Herald* 1 May 2003.

⁵⁵ ‘Rivkin Fined, Gets Periodic Detention’ *Australian Financial Review* 29 May 2003.

⁵⁶ Kate Askew, ‘Cell, Cell, Cell: Rivkin Goes Inside’ *Sydney Morning Herald* 30 May 2003.

⁵⁷ ‘Rivkin Deserves Jail: ASIC’ *Illawarra Mercury* 02 June 2003. However, this sentence did not come without scepticism. Some believed that such a sentence was reached partly because Rivkin was flamboyant, too rich and exhibited “contemptuous arrogance” as the judge described his behaviour at trial, which rendered him an ideal example for the ASIC and the court to set. This cynicism is not

the sentence of imprisonment is appropriate for Rivkin, it is safe to say that more severe penalties should have been imposed on those insiders in China who committed far more serious offenses than Rivkin in terms of profits realized, had those cases occurred in Australia.

D. Likely Situations where Insider Trading Occurs

On the basis of the reported cases, it appears that situational market factors play an important role in the incidence of insider trading. Indeed, market situations heavily affect opportunities for insider trading. More specifically, insider trading is more likely to occur during periods of heightened market activities, such as a bull market and takeover situations. This is hardly surprising because the level of market volatility is an important factor for carrying out insider trading.

Firstly, insider trading is highly likely to happen when the market is very active in a bull market. Out of the eleven reported cases, eight took place in the bull markets of 1993, 1996, 1999 and 2000, and plus the *Guan Weiguo* case, the number reaches nine. The year of 1993 witnessed a speedy development of the stock market under favorable government policies.⁵⁸ The first two cases, namely the *Xiangfan Shangzhen* case and the *Baoan Shanghai, Baoan Huayang and Shenzhen Ronggang* case, happened at this very year. The *Guan Weiguo* case also took place in 1993. Then, in 1996, the market was again bullish and was so overheated that the government had to cool it down at the end of 1996.⁵⁹ It was in 1996 that three serious cases emerged, including the *Zhangjiajie Tourism Development Co Ltd* case, the *Nanfang Securities Co Ltd & Beida Chehang Joint Stock Company* case, and the *China Qingqi Group Co Ltd* case. Finally, after 19 May 1999, China entered another bull market. The *Gao Fashan* case, the *Shenshen Fang* case and the *Changjiang Konggu* case occurred during this period.

Two factors may be responsible for this. On the one hand, a bull market provides more opportunities for insider trading. In a bull market, share prices are highly volatile and there are a lot of investment activities. The volatility of the market offers more chances for profitable speculations such as insider trading. On the other hand, a bull market may make it safer to commit insider trading because the chance of detection becomes lower. Thus, the volatility in share prices encourages insider trading to a significant degree.

Secondly, the reported cases reveal a distinct relationship between takeover activity and the incidence of insider trading. Eight of the eleven reported cases, including the *Xiangfan Shangzhen* case, the *Baoan Shanghai, Baoan Huayang and Shenzhen Ronggang* case, the *China Qingqi Group Co Ltd* case, the *Wang Chuan* case,

wholly baseless, and even David Knott, the chief of the ASIC, admitted that “I am unable to determine whether Rene Rivkin is the victim of a witch-hunt or the recipient of some long overdue justice.” See ‘Rivkin: Witch-hunt or Justice Overdue’ *Australian Financial Review* 11 June 2003. However, there is little doubt that the penalties imposed by the CSRC on the insiders are far too light, even though it could be argued that Rivkin received a somewhat draconian punishment.

⁵⁸ Xu Chen & Yong Liu, ‘Policy Suggestions and Empirical Analysis on the Efficacy of the Stock Market’ (1999) 3 *Touzi Yanjiu [Investment Research]* 34.

⁵⁹ Editorial, ‘Properly Viewing the Current Stock Market’ *Renmin Ribao [People’s Daily]* 15 December 1996, at 1.

the *Dai Lihui* case, the *Yu Mengwen* case and the *Gao Fashan* case, took place in the context of takeovers and reconstructions.

This can be explained by two reasons. The first is that takeovers always result in major price movements and thus create a favorable environment for insider trading. In the context of takeovers, insider trading is typically committed through buying shares ahead of information disclosure on takeovers and thereafter selling them at a profit. Secondly, the fact that many people are involved in preparing takeovers and thus the relevant information may be easily leaked out increases the chance of insider trading. As discussed earlier, this feature has been supported by other empirical studies.⁶⁰

E. Insider Trading Connected with Other Types of Market Misconduct

A closer examination of the incidence of insider trading in China reveals that insider trading is often connected with other types of market misconduct. The temptation of making money through insider trading may embolden people to violate not only insider trading provisions, but also other relevant provisions. Coupled with other types of misconduct, insider trading has proven to have a more damaging effect on China's stock market.

Firstly, in the case of insider trading committed by securities companies, a huge block of funding is needed and securities companies always choose to misappropriate their clients' transaction clearing funding, which is expressly prohibited under Article 139 of the Securities Law.⁶¹ This is well illustrated in the *Xiangfan Shangzhen* case in which the majority of the funding employed by Xiangfan Shangzhen was misappropriated clients' transaction clearing funding.⁶² This is a very dangerous activity because it could seriously damage the interest of many ordinary investors and thus the stability of the market.

Secondly, as shown in the *Zhangjiajie Tourism Development Company* case, listed companies always trade their own shares to commit insider trading. In fact, a company's repurchase of its own issued shares has been strictly prohibited under Article 149 of the Company Law, save in exceptional circumstances.⁶³ It is interesting to note that, in order to avoid the breach of this provision, companies often form an alliance with another company, most commonly, securities companies, and let their allies trade on inside information. The *Nanfang Securities Co Ltd & Beida Chehang Joint Stock Company* case offers a good example. In this case, Beida Chehang provided Nanfang Securities with inside information, and then Nanfang Securities carried out transactions, in agreement that they shared the profits of insider trading.

Thirdly, insider trading appears to be closely connected with market manipulation.⁶⁴ The combination of market manipulation and insider trading enhances

⁶⁰ See supra Part IV.A .

⁶¹ Securities Law, art. 139.

⁶² Apart from insider trading, Xiangfan Shangzhen was also charged with misappropriation of its clients' transaction clearing funds. See supra note 13.

⁶³ Company Law, art. 149.

⁶⁴ This feature is also present in the securities markets of Western countries. See e.g., Barry A. K. Rider, *Insider Trading* (1983) 53.

the chance of succeeding in making money and as such, damages the market in a more subversive way.

In China, one stated form of market manipulation is carrying out combined or successive purchases or sales, alone or with others, by building up an advantage in terms of funding or shareholding or using one's advantage in terms of information, thereby manipulating the trading prices of securities to an artificial level.⁶⁵ This sort of manipulative practice is generally referred to as a "pool" in Western countries.⁶⁶ The so called "one's advantage in terms of information" is always inside information.

When market manipulators plan to rig the market, they prefer to have an information advantage, aside from funding or shareholding advantages. Firstly, in so doing, they can certainly profit from the price movement caused by material information disclosure, even if other manipulative activities fail to move the price to an expected artificial level. Inside information is therefore acting as a security for profit-making in this scenario. Secondly, in the cases that other manipulative activities have already successfully moved share prices well enough to make profits, manipulators can reap even more if they use inside information to change the prices further. Thus, inside information can be employed as an additional tool to increase the profitability of market manipulation.

This phenomenon has been well exemplified by the *Nanfang Securities Co Ltd & Beida Chehang Joint Stock Company* case. In this case, apart from the charge of insider trading, Nanfang Securities was also found liable for market manipulation. After Nanfang Securities got inside information from its client, Beida Chehang, it acquired a large number of Beida Chehang shares in a succession of trades. These transactions, coupled with the disclosure of inside information, drove the share price up by almost 100%. Then, Nanfang Securities sold all the shares at a huge profit. Finally, Nanfang Securities was found to have committed, among other things, both insider trading and market manipulation.⁶⁷

VI. Conclusion

Based on the reported insider trading cases and relevant empirical studies, this paper has investigated the nature and extent of insider trading in China. It is submitted that insider trading is presently quite serious in China, exhibiting distinctive features in terms of likely insiders, types of insider trading, likely situations where insider trading occurs and so on.

Specifically, corporate insiders are found to have contributed considerably to the incidence of insider trading in China. This stands in stark contrast with insider trading in Western countries where insiders are usually natural persons. On the other hand, in most of the reported cases committed by natural persons, insider trading was carried

⁶⁵ Securities Law, art. 77(1).

⁶⁶ In Australia, for example, the term "pool" has long been used. See Senate Select Committee on Securities and Exchange, *Australian Securities Market and their Regulation*, 1974, pars 8.1-8.2; see also Ashley Black, 'Regulating Market Manipulation: Sections 997-999 of the Corporations Law' (1996) 70 *The Australian Law Journal* 987, 994. After 2001, this so-called pool activity is prohibited in Section 1041B(1) of the Corporations Act 2000 (Australia). In the US, the corresponding provision is Section 9(a)(1) of the Securities Exchange Act 1934.

⁶⁷ See supra note 16.

out by traditional insiders in a traditional way, namely, trading on inside information accessed by virtue of their positions. However, it seems clear that insider trading has become increasingly sophisticated over time and therefore more difficult to detect and prosecute. It is revealed that insider trading is more likely to occur in certain situations such as in the context of takeover, and that insider trading is often linked with other types of market conduct, particularly market manipulation. Another striking feature is that although those reported cases are serious in nature, they received rather light punishment. This is clearly below the international standard, which may help explain the prevalence of insider trading in China. It is hoped that these findings will provide useful information for the future reform to improve the efficacy of China's insider trading regulation.

Appendix I: Methodology

I. Why Adopts Qualitative Research?

This article adopts a primarily qualitative methodology, using semi-structured and in-depth interviews to obtain empirical data on insider trading in China.⁶⁸ The interviews were conducted in China during September and October 2003. To date, there has been very little empirical research of this kind undertaken with respect to insider trading in China. This field work has provided a first-hand and deeper understanding of the incidence of insider trading in China.⁶⁹

This author recognizes the criticism directed at the use of qualitative methodology. Criticism is based on the belief that qualitative data generated by interviews is merely evidence of the “beliefs and opinions” of a certain number of selected interviewees and “not of the fact”.⁷⁰ However, although it does not produce concrete economic data, this method is nevertheless of great value in collecting useful information, especially in the area of insider trading. This is because insider trading is by nature a hidden form of misconduct and thus not readily susceptible to other forms of empirical analysis.

Indeed, empirical research on insider trading is severely hindered by the subject’s illegality. As stated by one commentator, “the inherent secrecy involved with insider trading ensures that there will be no significant observable data.”⁷¹ The only possible source of data concerning illegal trades is the trading reports filed by corporate insiders, and it is unlikely that they would willingly report their own violations. Even if this were to occur, it is impossible that these insiders are the only violators of securities laws. As one commentator observed:

[I]t is often extremely difficult to obtain a precise picture or interpretation of laws governing corporate and securities market merely from an examination of the somewhat flimsy case law that has developed in this area. Much of this body of law has not been adequately tested in the courts so the law reports are a poor guide to understanding these laws. It is therefore necessary to look elsewhere for an understanding of the “law in action”.⁷²

Unlike homicides, robberies, and other commonly reported crimes, there are no regularly reported statistics on the incidence of illegal insider trading. Hence,

⁶⁸ Semi-structured interviews are generally based on “a structured conversation in which the interviewer asks prearranged questions and records answers”. Michael Q. Patton, *Qualitative Evaluation and Research Methods* (Sage Publications, 3rd ed., 2001), p. 288. For more information on qualitative research, see S. Sarantakos, *Social research* (Palgrave Macmillan, 3rd ed., 2005); W. Lawrence Neuman, *Social Research Methods: Qualitative and Quantitative Approaches* (Allyn & Bacon, 5th ed., 2002).

⁶⁹ Professor Roman Tomasic successfully used this method to investigate insider trading in Australia in 1988. See Roman Tomasic, *Casino Capitalism? Insider Trading in Australia* (National Gallery of Australia, 1991).

⁷⁰ Ashley Black, 'The Reform of Insider Trading Law in Australia' (1992) 15(1) *The University of New South Wales Law Journal* 214, 218.

⁷¹ James D. Cox, 'Insider Trading and Contracting: A critical Response to the 'Chicago School'' (1986) 1986 *Duke L. J.* 628, 645.

⁷² Tomasic, above n 2, preface.

qualitative data obtained through interviews may help to gain a great understanding of insider trading.

Moreover, interviews are a particularly valuable tool in assessing the extent of insider trading and the success of prohibitions against insider trading. In this regard, the importance of people's perceptions of the incidence of insider trading should not be underestimated:

Specifically, what determines the willingness of individuals to invest is not how much trading on inside information actually goes on, but rather how much of such trading prospective investors *think* is going on.⁷³

It follows that the prohibition on insider trading may succeed in encouraging investment if the prohibition creates the perception that there is less trading on inside information. In other words, an insider trading prohibition can fail to increase investor confidence if the perception is that insider trading remains widespread despite the prohibition. Therefore, for this purpose, interview data concerning the extent of insider trading may provide a more meaningful measure of success than a conventional study.

II. Preparation

Prior to the interviews being conducted, a comprehensive literature review was undertaken. This author also attended a specialized course offered by the Faculty of Arts & Social Science at UNSW on qualitative research methodology in 2003. The questionnaire used in the interviews was drafted in middle 2003 and revised several times on the basis of the comments provided by experienced people in the field. Further, a number of pilot interviews were conducted in early September 2003. The questionnaire was finalized after incorporating comments from the pilot interviews. The majority of interviewees were approached before September 2002, from Australia.

III. Sampling

A total of 31 semi-structured interviews were conducted in China in the period between 28/August/2003 and 25/October/2003. Interviewees were chosen proportionately from different occupational groups. These included regulatory officials, judges, academics, brokers, lawyers, stock exchange officials, financial journalists and ordinary investors. For the purpose of gaining geographically balanced findings, the interviews were conducted in three major cities in different areas of China, including Beijing (Northern China), Shanghai (Central China) and Guangzhou (Southern China). Tables 1 and 2 show the occupational and geographical distribution of the interviewees respectively.

Sampling of interviews was carefully designed with reference to a number of different criteria:

In the case of regulatory authorities, interviews were conducted with officials from different department of the CSRC, including the Department of Legal

⁷³ Franklin A. Gevurtz, 'The Globalization of Insider trading Prohibitions' (2002) 15 *Transnational Lawyer* 63, 92 (emphasis in original).

Affairs, the Department of Public Offering Supervision, the Department of Intermediary Supervision and the Second Enforcement Bureau.

Officials from the Shanghai Stock Exchange were from different divisions such as the Legal Affairs Department and the Market Surveillance Department. Brokers interviewed for this project were from all three cities and came from the top ten firms in China. Merchant bankers and fund managers were also interviewed. It should be noted that, for the purpose of this project, these three occupations are referred to as “securities practitioner”.

Securities lawyers interviewed were chosen from major law firms in each of the cities.

Interviews were also conducted with senior judges at the level of intermediate courts and above (including the Supreme Court of the PRC) in Beijing and Shanghai.

A number of financial journalists were also interviewed.

One secretary of the board of directors of a large listed company in China was also interviewed.

Academics interviewed included high profile professors from leading universities and institutes in China.

Ordinary investors were evenly selected and interviewed in Beijing, Shanghai and Guangzhou.

Table 1: Occupational designation of interviewees

Occupational Designation	Persons Interviewed
Regulatory Officials (CSRC, Beijing)	5
Stock Exchange Officials (Shanghai)	3
Securities Practitioners	6
Lawyers	4
Financial Journalists	2
Judges	2
Academics	5
Listed Company	1
Ordinary Investors	3
Total	31

Table 2: Geographical distribution of interviews

City	Persons Interviewed
Beijing	14
Shanghai	12
Guangzhou	5
Total	31

IV. The Conduct of Interviews and the Application of Data

Interviews usually lasted between one hour and two hours. Each interview was conducted individually and face to face. The locations of interviews differed to suit the convenience of each particular interviewee. Locations included the interviewee's office, interviewee's home, restaurants and other places. In response to concern over confidentiality and anonymity, tape recorders were not used. This allowed interviewees to speak more freely. As a result, note taking was the main method of recording interviews. Great efforts were made to take notes during the interviews and transcribe and check them immediately afterwards. In the case that notes appeared unclear, information was clarified with the interviewee by phone at a later date.

It is important to note that due to time and funding constraints, only a relatively small number of interviews were conducted. Thus, caution should be used when generalizing from such a small sample of interviews, despite the fact that the interviews produced a relatively clear picture of insider trading in China. Undoubtedly, this is a good starting point but more work could be done in the future.

To support interviews, documentary materials were collected and considered in the process of drawing relevant conclusions. Interview data is therefore used in conjunction with documentary materials (including quantitative data) wherever possible to try to enhance the reliability of the analysis thereupon.

Appendix II: The Summary of Reported Insider Trading Cases in China

- Note: 1. The data are collected as of June 2004.
 2. Where the entities were the traders, the punishments were imposed on the entities, unless otherwise indicated.
 3. All the warnings and fines below were administrative rather than criminal penalties in character, unless otherwise indicated.

Case Name	Insiders	Information	Activities	Profits (unit US\$, roughly)	Punishment (unit US\$, roughly)	Time of Case	Time of Handling
Xiangfan Shangzhen case	Securities company	Takeover	Trade on the basis of inside information (“Trade”)	2 million and the value of 5,200 shares	Profits confiscated; a fine of 0.25 million for the entity; business suspension for two months	September 1993	January 1994
Baoan Shanghai, Baoan Huayang and Shengzhen Ronggang case	substantial shareholder	Takeover	Short swing	The value of 246,000 shares	Return the profit to the company	September 1993	October 1994
Zhangjiajie Tourism Development Co Ltd case	Listed company	Resolution of dividend distribution	Trade	1.4 million	Profits confiscated; a fine of 0.25 million for the entities; business suspension for one month; warning for relevant personnel; fines of 4,000 or 6,000 for the personnel	September – November 1996	March 1997

Nanfang Securities Co Ltd & Beida Chehang Joint Stock Company case	Securities company and listed company	Capital increase; substantial investment	Tip inside information and trade	a total of 9.7 million	Profits confiscated; a fine of 0.8 million for the entities; warning for relevant personnel; business suspension of one principal for 6 months; fines of 4,000 or 6,000 for the personnel	October 1996-April 1997	October 1999
China Qingqi Group Co Ltd case	Listed company	Annual report; takeover	Trade	3 million	Profits confiscated; a fine of 0.6 million; lifetime business disqualification of one principal; business suspension of four principals for 3 years; fines of 4,000 or 6000 for the personnel	November 1996-January 1997	September 1999
Dai Lihui case	Senior management	Reconstruction	Trade	81,776	Profit confiscated; a fine of 20,000; warning	November 1997	May 1999
Wangchuan case	Vice-general manager	Takeover	Trade	74,390	Profit confiscated; a fine of 12,500; warning	February-April 1998	October 1998
Yu Mengwen case	Senior officer	Reconstruction	Trade	9,756	Profit confiscated; a fine of 6,000	March-April 1998	June 1999
Gao Fashan case	Director	Takeover	Trade	The value of 2000 shares	Profit confiscated; warning	June 1999	February 2000

Guan Weiguo case	Securities regulator	Company listing	Tip family members to trade	93,902	Not charged with insider trading	1993	September 1994
Shenshen Fang case	Director	Major investment	Tip insider information	95,122	Profit confiscated; a criminal fine of 100,000; three-year imprisonment	May 2000	March 2003
Changjiang Konggu case	Substantial shareholder	Earnings	Trade	1.17 million	Profit confiscated; a criminal fine of 12,500; three-year imprisonment	November 2000	October 2003