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29 October 1998

Report of Inquiry into Dealings in HSBC Holdings Shares

The Securities and Futures Commission today published a report on an inquiry into dealings in the shares of HSBC Holdings Plc (HSBC) on 29 and 30 October 1997.

It concluded that there was no evidence that any of those selling substantial quantities of HSBC shares or those identified as short selling HSBC shares on either day were privy to information contained in an unfavourable announcement by Moody's Investors Service (Moody's) concerning HSBC on 30 October 1997.

There was also no indication that any of the brokers involved in the dealings had acted improperly.

While no further investigation is recommended, the Financial Secretary considers it desirable to publish the findings to help dispel public misapprehension that the high level of selling of HSBC shares on the two days might have been connected to abuse of insider or non-public information, and allow justice to be seen to be done.

The report is published with the consent of the Secretary for Justice under Section 33 of the Securities and Futures Commission Ordinance.

The SFC's investigations commenced after volatile trading in the HSBC shares in the week of 27 October 1997 and a significant increase in short selling of HSBC shares on 29 and 30 October. There was press speculation about possible leakage of the Moody's announcement prior to its official release, linking the possibility to the short selling activities.

Moody's issued a statement in the morning of 30 October 1997 which downgraded the outlook of Hong Kong banks and placed the rating of HSBC on review for a possible downgrading.

The SFC's inquiry covered 80% of trading in HSBC shares on 29 October and on 30 October 1997 prior to the Moody's announcement. The remaining 20% was considered insignificant as it was scattered among many brokers trading less than 40,000 shares each.

Three major traders who sold large quantities of HSBC shares on both days were identified. They provided logical and commercially and economically justifiable explanations to their dealings, and all denied any knowledge of the Moody's announcement before its issue. None could be connected to those involved in the events leading to the announcement.

The New York office of Moody's also provided a sequence of events leading to its announcement including details of the persons involved. These persons were compared with those identified in the inquiry and no connection was established.

Moody's also confirmed that great care had been taken to ensure no information was disclosed to any third party and that HSBC had only been approached half an hour before the announcement.

Investigators also noted that prior to Moody's announcement, there had been considerable speculation concerning the future profits of HSBC and the provisions it might have to make for bad debts resulting from the financial turmoil in the region. Such speculation had occurred before Moody's commenced its consideration of a possible downgrading of HSBC's credit rating on 28 October 1997.

Note to Editor: A copy of the inquiry report is being posted to you. It can also be viewed on the SFC Website at <http://www.hksfc.org.hk>. Copies of the report are also available at the SFC's office.

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