

Joint Press Release by Securities and Futures Commission and the Stock Exchange of Hong Kong Limited Securities and Futures Commission ("SFC") Takes Action Against Merrill Lynch (Asia Pacific) Limited ("MLAP") Merrill Lynch Far East Limited ("MLFE")

10 Apr 2000

The SFC announced today that it has severely reprimanded both MLAP and MLFE for their failure to adequately supervise the trading of some derivative warrants listed on the SEHK and issued by MLICO ("ML warrants"). The SEHK has severely reprimanded MLICO, the issuer of these ML warrants. The four ML warrants specifically investigated were from a total of 24 listed and traded on the SEHK between October 1998 and March 1999.

The action stemmed from an investigation by the SFC under section 33 of the SFC Ordinance into the trading of ML warrants by MLFE and a number of unrelated Hong Kong brokers. The investigation found that two former staff members of MLAP, who were subject to limited day-to-day supervision, had conducted unauthorized and improper trading activities which appeared to be a scheme to benefit nominee accounts maintained with the other HK brokers by one of the two staff members thereby misleading MLAP and others as to the activity in ML warrants. The scheme involved the selling and repurchase of ML warrants to and from the nominee accounts and wash sales through Hong Kong brokers and resulted in there being few trades in these warrants other than those generated by the two staff members of MLAP.

The investigation also found that on some occasions MLFE provided inaccurate and incomplete information to the SEHK in respect of the placing and trading of ML warrants and that as a result a breach of the Listing Agreement by MLICO has occurred. The SEHK also believes that this has given rise to an infringement of Rule 15A.67 and Appendix 6A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

MLAP and MLFE inadequately carried out their supervisory role over the two former staff members in not implementing and maintaining appropriate measures to detect and ensure compliance with the relevant laws, Codes and Listing Rules. Enquiries into the activities of these two staff members and other brokers who facilitated them in the improper trading activities are continuing.

In view of the above findings the SFC has severely reprimanded MLAP and MLFE. The Disciplinary Committee of SEHK, in exercise of its jurisdiction under Rule 2A.09(10), has severely reprimanded MLICO. In deciding on this action the SFC and Disciplinary Committee of the SEHK took into account that MLAP and MLFE:

- have fully co-operated with and assisted in the SFC's investigation;
- accepts responsibility for insufficient supervision of the two staff members in the ML warrants business;
- voluntarily suspended the issue of new ML warrants since the end of May 1999;
- appointed independent auditors to assist in the submission of returns required by the SFC, and to review their internal control systems in respect of their ML warrants business;
- have taken steps to enhance their internal controls, including an undertaking to fully implement all relevant recommendations made by the independent auditors in respect of ML warrants business;
- have determined to continue the suspension of their ML warrants business until such time as all relevant recommendations of the independent auditors and ML's own compliance team are fully implemented, but in any event such business will not resume prior to October 1, 2000.