

GIBSON DUNN

Financial Regulatory Update

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Hong Kong SFC Renews Scrutiny of IPO Sponsors and Bookrunners as Listings Surge

This update summarises the key findings and regulatory expectations set out in the SFC's October Circular and considers their implications for market participants, including Sponsors, overall coordinators, and capital market intermediaries.

On October 13, 2026, the Securities and Futures Commission (**SFC**) issued a circular to licensed corporations carrying out sponsor work and engaging in bookbuilding and placing activities (the **October Circular**).^[1] The October Circular follows the SFC's circular of January 30, 2026 (the **January Circular**),^[2] which raised concerns about serious deficiencies in IPO sponsor work and imposed heightened reporting, review and resource requirements on licensed corporations carrying out sponsor work (**Sponsors**). While the October Circular acknowledged improvements in Sponsor resources and Principal capacity, the SFC noted that deficiencies persisted in certain listing application documents and highlighted serious concerns about dubious arrangements in some IPOs. On the same day, the SFC announced action against two suspected IPO-rigging syndicates and directed the suspension of dealings in the shares of the listed company in question, demonstrating the SFC's readiness to take enforcement action in response to suspected IPO misconduct.^[3]

This alert summarises the key findings and regulatory expectations set out in the October Circular, and considers their implications for market participants, including Sponsors, overall coordinators (**OCs**) and capital market intermediaries (**CMIs**).

I. The SFC's Renewed Focus on Sponsor Conduct

The SFC's scrutiny of Sponsors is not new. Sponsor misconduct has been a mainstay of the SFC's enforcement efforts for a number of years. The high-water mark came in 2019, with the conclusion of several high-profile cases against prominent financial institutions. These cases concerned failures to conduct adequate due diligence on listing applicants, including allowing listing applicants to control the due diligence process, failing to verify fundamental aspects of the listing applicants' business and operations, as well as failing to follow up on red flags identified during the due diligence process. In the 2018-19 financial year alone, a total of seven Sponsors and three sponsor principals (**Principals**) were disciplined by the SFC with fines totalling HK\$867.7 million (approximately US\$111 million).^[4] This included the fine of HK\$375 million imposed by the SFC on March 14, 2019, which was at the time the largest penalty the SFC had imposed for Sponsor misconduct.

However, as IPO activity declined, Sponsor-related enforcement activity also noticeably slowed. By way of illustration, funds raised through IPOs on The Stock Exchange of Hong Kong Limited (the **SEHK**) fell from HK\$314.2 billion in 2019 raised by 183 new listings^[5] to HK\$46.3 billion in 2023 raised by 73 new listings.^[6] While enforcement action on Sponsor misconduct did not cease altogether, the cases brought during this period tended to involve smaller corporate finance firms and attracted significantly lower fines.

As signalled by the January Circular and October Circular, the recent resurgence in IPO activity has prompted heightened supervisory scrutiny of Sponsor conduct and listing standards. As at September 30, 2026, there had been 118 new listings raising HK\$388 billion, with more than 610 active listing applications in the pipeline. The sheer volume of listing applications has placed considerable strain on Sponsors' resources and, in some cases, affected the quality of their work. Many firms also reduced the size of their sponsor teams during the downturn in IPO activity, leaving them with less capacity to absorb the recent surge in mandates. Against this backdrop, the SFC identified serious deficiencies in listing documents and responses to regulatory comments, as well as failures to properly attend to key regulatory processes during the offer stage. Notably, the January Circular introduced a "Strained Principal" designation for any Principal simultaneously supervising or participating in six or more active listing engagements and required all Sponsors with Strained Principals to submit a rectification plan, signed off by their Manager-in-Charge, within three months.

II. Key Takeaways from the October Circular

Following the January Circular, the SFC has observed constructive market improvements in Sponsor resources and Principal capacity, such as engaging additional Principals and reallocating engagements among Principals. The October Circular reports that: (i) the share of active listing applications in the pipeline involving the five most active Sponsors decreased from around 77% as at January 30, 2026 to around 65% as at September 30, 2026; (ii) between January 30 and September 30, 2026, the number of Sponsors with Strained Principals and the number of Strained Principals each decreased by 78% (from nine to two Sponsors, and from 45

to 10 Principals, respectively); and (iii) the number of approvals granted for new Principals over the same period increased by 65% compared with the same period in 2025, the SFC having expedited its processing of new Principal submissions. Notwithstanding this, the October Circular has identified a number of persistent concerns over the quality of listing applications and Sponsor conduct.

Common Deficiencies in Listing Applications

The vetting process for 65 listing applications was suspended between January and September 2026, of which 14 had resumed as at October 1, 2026 after the initial concerns had been resolved to the satisfaction of the regulators. In addition, up to September 30, 2026, the SFC issued written communications to 11 Sponsors, citing specific concerns identified in 13 listing applications, relating to both the substance of listing applicants' businesses and the adequacy of Sponsors' due diligence and responses. These included:

- acquisitions of new businesses during the track record period that raised questions over suitability and eligibility for listing;
- grossly insufficient information about major products, revenue growth, research and development activities and business model;
- inadequate responses to regulatory requests for sufficient due diligence on significant outstanding issues, major customer and supplier transactions and the genuineness of revenue;
- concerns about the sustainability of the applicant's business considering its persistent losses and prolonged cash conversion cycle;
- concerns about the legality of a listing applicant's business;
- listing timetables structured to achieve technical compliance without a realistic basis for implementation; and
- concerns about the representativeness of a listing applicant's track record results after a pre-IPO reorganisation without reasonable bases.

In light of the above deficiencies identified, the SFC has emphasised that Sponsors should:

- prioritise quality over quantity, exercise professional scepticism when assessing a listing applicant's suitability and eligibility for listing, and focus on substantive due diligence and tailored advice to listing applicants, rather than a process-driven approach;
- ensure that Principal submissions are complete, well-supported and made only for individuals who satisfy the applicable eligibility criteria, with senior management of Sponsors (**Management**) critically assessing the available information and supporting documents before filing;
- maintain sufficient resources to discharge their obligations, with Principals having sufficient capacity to supervise transaction teams and participate in listing engagements, and Management taking responsibility to ensure that Sponsor work is properly allocated and overseen; and

- remain ultimately responsible for their work and ensure that the quality of their own due diligence does not decrease because of reliance on experts and third parties; in particular, they should avoid overreliance on experts and third parties to perform specific tasks without adequately assessing their competence and resources or considering whether their work provides a proper basis for discharging the Sponsors' due diligence obligations.

These concerns are longstanding. The SFC's focus in the October Circular on the quality of due diligence and reliance on experts and third parties is consistent with its previous enforcement focus. As noted above, past enforcement cases have concerned Sponsors allowing listing applicants to control the due diligence process, failing to verify fundamental aspects of the listing applicants' business and operations, and failing to follow up on red flags identified during the due diligence process. A process-driven approach, or uncritical reliance on the work of experts and third parties, is likely to result in deficiencies of the same kind. Sponsors should therefore be conscious that the shortcomings identified in the October Circular are not only of concern from a supervisory perspective but are also likely to give rise to enforcement action.

Dubious IPO and Post-IPO Arrangements

The October Circular also expresses serious concern about dubious arrangements identified by the SFC that may give rise to suspicious orders or artificially inflate investor demand for IPO shares. In particular, the SFC has identified instances where it suspects that:

- listing applicants have entered into undisclosed arrangements with investors, including funding their subscriptions for placing shares or guaranteeing their returns;
- placing shares have been concentrated among designated investors who have undisclosed arrangements with the listing applicant concerning their holdings or post-listing trading of the shares, including market capitalisation maintenance or turnover generation; and
- corporate funds have been channelled by listing applicants to investors or parties connected or associated with investors before or after listing.

Taken together, these arrangements may indicate that investor demand and allocation were pre-arranged or artificially inflated, and may form part of a broader arrangement extending into manipulative post-listing trading activities. They may also result in false, misleading or incomplete disclosures concerning material developments after the track record period or the latest practicable date stated in the listing document, raise questions about the genuineness of investor demand and compliance with public float requirements, and undermine price discovery and post-listing market integrity.

To assist market participants (including Sponsors) in identifying such dubious arrangements, the October Circular highlights the following non-exhaustive red flags:

- ***Pre-listing payments to investors:*** Substantial payments, prepayments, loans or investments made by the listing applicant directly or indirectly in favour of investors or parties connected or associated with investors, particularly shortly before listing (e.g., after the latest practicable date in the listing document).

- ***Investors that appear to be related to the listing applicant:*** Investors introduced or procured by the applicant, its directors, existing shareholders or their close associates, or by service providers, suppliers or business partners whose commitments appear tied to business cooperation or continued engagement.
- ***Listing applicant influence over investor selection and allocation:*** Active involvement by the listing applicant in investor selection, bookbuilding or allocation beyond its ordinary role, including directing CMLs to approach or allocate shares to particular investors, or resulting in an investor composition and spread inconsistent with the agreed marketing, investor targeting or allocation strategy.
- ***Unusual subscription orders:*** For instance, substantial orders shortly before the close of the order book despite limited prior engagement during the bookbuilding process, or order sizes incommensurate with the investors' financial profile.
- ***Concealed ultimate investor identities:*** Arrangements that may conceal the identities of the ultimate investors, including derivatives arrangements that provide exposure to the IPO shares with returns guaranteed by the listing applicant, its controlling shareholders or other related parties, as well as multiple investors with accounts operated by the same person/entity or that share the same correspondence address.
- ***Pre-agreed commitments masking weak demand:*** Pre-agreed commitments with pre-IPO investors or other undisclosed arrangements leading to insufficient adjustments to the offer size and timetable despite weak genuine investor demand.

The SFC has reminded Sponsors, OCs and CMLs, key gatekeepers of the integrity of Hong Kong's IPO market, to assess these red flags individually and collectively, having regard to the circumstances of the listing applicant, the investors, the offering and all other available information. Where red flags are identified, they should conduct further enquiries, critically assess the responses and supporting evidence provided, and properly document their enquiries, assessments and conclusions.

Sponsors, OCs and CMLs should report any dubious IPO or post-listing arrangements to the SFC and SEHK and should not disregard red flags simply because an IPO or placing is otherwise capable of proceeding. For OCs and CMLs, this means that suspicious orders must be rejected where concerns remain unresolved. These expectations reinforce the existing obligations, including the Sponsor requirements under paragraph 17 of the SFC Code of Conduct, the requirements applicable to OCs and CMLs in bookbuilding and placing activities under paragraph 21 of the SFC Code of Conduct, and the public float requirements under the Listing Rules.

The October Circular also sets out a specific disclosure expectation for listing applicants and Sponsors. They should ensure that the allotment results announcement includes a statement confirming that, except as disclosed in the listing documents, no side agreements or arrangements relating to the subscription, purchase, disposal, valuation or turnover of the shares have been entered into between the listing applicant group, any of its directors, controlling, substantial or existing shareholders, or any of their respective close associates, and any other parties.

Licensing Risks Arising from Group-Level Involvement in Sponsor Activities

The SFC has observed increased involvement by overseas head office and group-level senior management in the oversight of Hong Kong sponsor activities. While such involvement may strengthen accountability and oversight, Sponsors should assess the substance of the functions performed by these individuals and address any resulting licensing implications. The SFC has emphasised that individuals whose functions amount, in substance, to carrying on Type 6 regulated activity (**RA6**) in Hong Kong must obtain the appropriate licence or approval before carrying on those activities. By way of example, in our view, a regional head of equity capital markets based outside Hong Kong who approves engagement acceptance or signs off on key due diligence conclusions for Hong Kong mandates may, depending on the facts, require licensing or approval.

III. Regulatory Consequences

A Sponsor's failure to meet the above supervisory expectations may call into question the effectiveness of its systems and controls, resources and management oversight, as well as its fitness and properness to conduct sponsor work. The SFC has made clear that it will continue to scrutinise Sponsor conduct and the effectiveness of remedial measures through a range of supervisory tools, including thematic inspections and written communications on specific concerns identified in listing applications. The SFC may also escalate concerns to the Sponsor's group-level senior management and the SFC's regulatory counterparts. Importantly, accountability does not stop at the firm level. As demonstrated in prior enforcement actions, the SFC is prepared to pursue individuals where it considers that supervisory or management failings have contributed to misconduct. Principals, Managers-in-Charge and other members of senior management may therefore face personal regulatory consequences where deficiencies are attributable to failures in supervision, oversight or the discharge of their management responsibilities.

While the SFC has expedited the processing of new Principal submissions overall, it has also indicated that it will prioritise Principal submissions from Sponsors with a strong track record of nominating qualified Principals and submitting complete, credible and well-supported applications. Sponsors that repeatedly fall short of supervisory expectations may therefore experience longer processing times, potentially affecting listing timelines.

Further, Sponsors, OCs and CMIs involved in IPOs that give rise to concerns regarding dubious arrangements may face enhanced regulatory scrutiny, including more intensive inspections focused on compliance with applicable legal and regulatory requirements. Where repeated deficiencies are identified, the SFC may further intensify its supervisory engagement with the relevant intermediaries and their group-level management, and increase coordination with its regulatory counterparts.

IV. Practical Takeaways for Sponsors, OCs and CMLs

In light of the SFC's observations on listing standards and Sponsor conduct, Sponsors (and to the extent appropriate, OCs and CMLs) should consider taking the following steps:

- ***Review and update policies and procedures:*** Check internal policies and procedures against the supervisory standards outlined in the October Circular. Specifically, Sponsors should ensure that their internal due diligence processes take into account the SFC's non-exhaustive red flags on dubious IPO arrangements.
- ***Group-level Sponsors:*** Assess the actual responsibilities undertaken by head office and group-level personnel and promptly address any resulting RA6 licensing implications.
- ***Oversight of experts and third parties:*** Adopt protocols for selecting experts and third parties, assessing their competence and resources, and evaluating whether their work provides a proper basis for the Sponsor's own due diligence conclusions.
- ***Training:*** Provide appropriate staff training on the applicable regulatory requirements, the red flags raised in the October Circular and the firm's internal escalation procedures.
- ***Recordkeeping:*** Maintain contemporaneous records of due diligence enquiries, the responses received, and the basis for key decisions. Given the SFC's heightened supervisory scrutiny, Sponsors should ensure that their records are sufficiently comprehensive to demonstrate compliance with regulatory expectations and support the rationale for their conclusions.
- ***Information sharing between the Sponsor, syndicate and bookbuilding teams:*** Given the distinct roles of Sponsors, OCs and CMLs throughout the IPO process, firms should establish clear channels, consistent with their information barrier policies, for escalating and sharing concerns relating to potentially dubious IPO or post-IPO arrangements across sponsor, syndicate and bookbuilding teams. Firms should put in place clear escalation processes so that concerns are properly documented, addressed and, where appropriate, reported promptly to the SFC and SEHK during the listing vetting process rather than after listing. OCs and CMLs should also ensure that their order-handling procedures provide for the rejection of suspicious orders where concerns remain unresolved.
- ***Allotment results announcement:*** Update IPO execution checklists and announcement templates to include the confirmation on side agreements and arrangements expected by the SFC, and ensure that there is a proper basis, supported by due diligence, for that confirmation before it is given.

V. Conclusion

While the SFC's response to deficiencies in listing applications to date has been mainly through supervisory channels, supervisory findings of this kind have historically shaped the SFC's enforcement priorities. If the deficiencies identified in the January and October Circulars persist, an increase in Sponsor misconduct cases seems likely. The SFC's focus on dubious IPO and post-IPO arrangements, which it has warned may extend into manipulative post-listing trading and false or misleading disclosure, may also signal increased enforcement action for IPO-related market misconduct.

This is consistent with recent remarks by the SFC's Executive Director of Enforcement, Michael Duignan, who, in a keynote speech delivered on September 24, 2026, described the January Circular as an example of the SFC acting "upstream" to address misconduct. Noting that overstretched principals and thin diligence generally produce weak listing documents, which often become enforcement cases in time, he observed that "[w]aiting for that cycle to run its course before acting is neither fast nor efficient. It is slower and less fair to the market because real harm may already be done by the time we act. That is the whole logic of a circular: fix the structural drivers of misconduct — capacity, competency, and incentives — before they produce a case at all. And put the expectations in writing well in advance, so that nobody is surprised when we do take action. We are simply enforcing what we have already said we would."^[7] Having now set out its expectations in both the January and October Circulars, the SFC is unlikely to be receptive to claims that Sponsors, OCs or CMLs were unaware of the standards expected of them.

Sponsors, OCs and CMLs should therefore conduct a gap analysis of their policies, procedures and controls against the SFC's supervisory expectations and promptly remediate any deficiencies identified.

^[1] *"Circular to licensed corporations carrying out sponsor work and engaging in bookbuilding and placing activities"*, published by the Securities and Futures Commission on October 13, 2026, available [here](#). See also the accompanying press release, *"SFC recognises progress in sponsors' work and urges sustained vigilance"*, published on the same date, available [here](#).

^[2] *"Circular to licensed corporations carrying out sponsor work"*, published by the Securities and Futures Commission on January 30, 2026, available [here](#). See also the accompanying press release, available [here](#).

^[3] *"SFC takes action against suspected IPO-rigging syndicates and suspends dealings in Baicha shares"*, published by the Securities and Futures Commission on October 13, 2026, available [here](#).

^[4] *"Annual Report 2018-2019"*, published by the Securities and Futures Commission, available [here](#).

^[5] *"2019 Annual Report"*, published by Hong Kong Exchanges and Clearing Limited, available [here](#).

^[6] *"2023 Annual Report"*, published by Hong Kong Exchanges and Clearing Limited, available [here](#).

^[7] *"A New Enforcement Philosophy: Less Trodden Pathways to Better Outcomes"*, Keynote Address at the 10th Annual Institute on Corporate & Securities Law in Asia, September 24, 2026, available [here](#).

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