

## Early release by the SFC from a suspension from acting as IPO sponsor: Reminder on the regulator's policy focus on intermediaries' conduct

January 2020

As mentioned in our previous client briefing in October 2019,<sup>1</sup> a number of sponsor firms in Hong Kong had been subject to penalties imposed by the Securities and Futures Commission (the **Commission**) for deficiencies in their work. That included the disciplinary penalty imposed against UBS Securities Hong Kong Limited (**UBS**) on 14 March 2019, which suspended UBS's license to act as a sponsor for listing applications on the Stock Exchange of Hong Kong Limited for one year.

On 14 January 2020, the Commission announced that it has lifted the suspension of UBS, at the end of a 10-month review by an independent reviewer of UBS's policies, procedures and practices in relation to the conduct of its sponsorship business.

In the announcement, the Commission noted that UBS's internal governance and control processes carry the below features and "*are generally well-designed*". Since the Commission has also made clear that these standards would be "*equivalent to those that are expected to be adopted by all licensed sponsors*", they would clearly be of interest to all licensed sponsor firms operating in Hong Kong.

1. As the first line of defence, a framework of processes, reviews, governance and oversight to support the transaction team's compliance under effective management oversight;

2. Policies setting out specific responsibilities for dedicated first line of defence control functions, regarding quality assurance, control monitoring and testing, as well as internal issue reporting and escalation;
3. Adequate and appropriate forums for escalation of material issues identified across the entire deal cycle for discussion with senior management (including sponsor principals and managers-in-charge);
4. Compliance and operational risk functions adequately involved as the independent second line of defence;
5. An internal audit programme as the third line of defence, which performs annual assessments to ensure the effectiveness and compliance of UBS's systems and controls.

Further to the above, the Commission also added that regulatory compliance ultimately depends on the ability of the sponsor to effectively apply and operate the systems of control in practice, which requires close management attention and supervision.

The latest announcement not only sets out some features of an internal governance framework that would be expected by the Commission in licensed sponsors, but also serves as a reminder of the Commission's focus on ensuring that

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<sup>1</sup> "Continued focus of the SFC on the conduct of intermediaries involved in IPOs"

sponsors operate up to standard as a safeguard to the IPO market.

In addition, the early release of UBS from its suspension followed its engagement of and

cooperation of the independent reviewer. In many cases where disciplinary penalties are concerned, cooperation during the remedial process may sometimes result in a reduction in the penalties.

Should you wish to discuss the above, please contact any of those listed below or your usual Slaughter and May contact.



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