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# SFC CONSULTATION CONCLUSIONS

Conduct requirements for  
Hong Kong bookbuilding  
and placing activities and  
"sponsor coupling"



# CONSULTATION PAPER

## SFC'S PROPOSALS

**01** New SFC Code of Conduct requirements for intermediaries conducting bookbuilding and placing activities in equity and debt capital market transactions in Hong Kong

**02** "Sponsor Coupling" — requirement of at least one head of the underwriting syndicate or a company within the same group to also act as an independent sponsor



# CONSULTATION PAPER

## SFC'S THEMATIC REVIEW



PRICE DISCOVERY PROCESS  
HAMPERED BY VARIOUS  
FACTORS



INSTANCES OF "UNDESIRABLE  
INTERMEDIARY CONDUCT



SPONSORS' FEES ARE OFTEN  
MISALIGNED WITH SPONSORS'  
COSTS AND LIABILITIES

Unclear roles and functions of intermediaries

Late determination of syndicate membership and fee arrangements

Inflated orders and overstated IPO demand

Lack of transparency of the order book

Conflict of interests

Preferential treatment or rebates paid to investors

Inadequate record-keeping by heads of syndicates

# CONSULTATION PAPER

## SFC'S CONCERNS ABOUT CURRENT MARKET PRACTICES

# KEY FEATURES OF THE NEW BOOKBUILDING CONDUCT REQUIREMENTS

## (1) Conduct requirements for Hong Kong bookbuilding and placing activities

- introduction of a new paragraph 21 of the SFC's Code of Conduct for Persons Licensed by or Registered with the SFC ("SFC Code of Conduct")
- updates to the SFC guideline to sponsors, underwriters and placing agents involved in the listing and placing of GEM stocks issued in January 2017

## (2) "Sponsor coupling" for Main Board IPOs

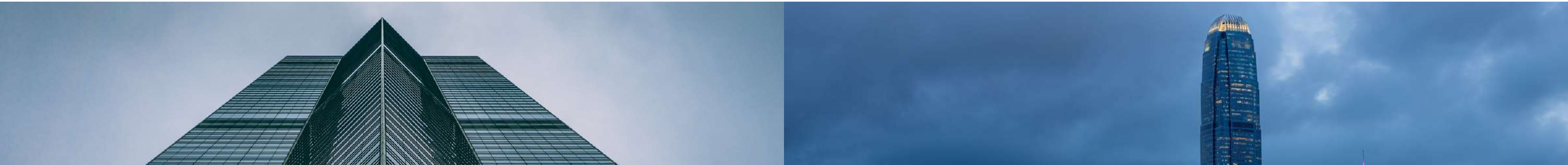
- for Main Board IPOs, requirement that at least one overall coordinator ("OC") must be appointed as a sponsor and this sponsor must be independent of the issuer

**Effective 5 August 2022**



# BOOKBUILDING CONDUCT REQUIREMENTS

## SCOPE OF COVERAGE (new para. 21.1.1)



### BOOKBUILDING ACTIVITIES

Collating investors' orders (including indications of interest) in an offering in order to facilitate:

- (i) the price determination and the allocation of shares or debt securities to investors; or
- (ii) the process of assessing demand and making allocations

### PLACING ACTIVITIES

Marketing or distributing shares or debt securities to investors pursuant to those bookbuilding activities

### ADVISING, GUIDING AND ASSISTING THE ISSUER CLIENT IN THOSE BOOKBUILDING AND PLACING ACTIVITIES

# BOOKBUILDING CONDUCT REQUIREMENTS

## TYPES OF OFFERINGS (new para. 21.1.2)

EQUITY CAPITAL MARKET — share offerings	<ul style="list-style-type: none"><li>• covers offerings of shares listed or to be listed on The Stock Exchange of Hong Kong Limited (“HKEx”)</li></ul>
DEBT CAPITAL MARKET — debt offerings	<ul style="list-style-type: none"><li>• covers offerings of debt securities listed or unlisted, and offered in Hong Kong or otherwise</li></ul>
OUTSIDE OF SCOPE	<ul style="list-style-type: none"><li>• bilateral agreements or arrangements between the issuer and the investors, sometimes referred to as “club deals”</li><li>• transactions involving only one or several investors where the terms of the offering are negotiated and agreed directly between the issuer and the investors, sometimes referred to as “private placements”</li><li>• transactions where shares or debt securities are allocated to investors on a pre-determined basis at a pre-determined price</li></ul>

# BOOKBUILDING CONDUCT REQUIREMENTS

## TYPES OF CMIS

(new paras. 21.2.1 and 21.2.2)

### SYNDICATE CMIS AND NON-SYNDICATE CMIS:

- A capital market intermediary ("CMI") will be classified as either a syndicate CMI or a non-syndicate CMI, depending on whether it has a mandate and a direct relationship with the issuer
  - **Syndicate CMI** — a CMI which is engaged by the issuer of a share or debt offering
  - **Non-Syndicate CMI** — a CMI which is not engaged by the issuer of a share or debt offering



# BOOKBUILDING CONDUCT REQUIREMENTS

## TYPES OF CMIS (new paras. 21.2.3 and 21.2.4)

Overall Coordinator ("OC")

**Share offering** — an OC of the offering is a syndicate CMI which, solely or jointly, conducts any of the following activities:

- (1) overall management of the offering, coordinating the bookbuilding or placing activities conducted by other CMIs, exercising control over bookbuilding activities and making allocation recommendations to the issuer client;
- (2) advising the issuer client of the offer price and being a party to the price determination agreement with the issuer client; or
- (3) exercising the discretion to reallocate shares between the placing tranche and public subscription tranche, reduce the number of offer shares, or exercise an upsize option or over-allotment option

**Debt offering** — an OC of the offering is a syndicate CMI which, solely or jointly, conducts the overall management of the offering, coordinates the bookbuilding or placing activities conducted by other CMIs, exercises control over bookbuilding activities and makes pricing or allocation recommendations to the issuer client

# BOOKBUILDING CONDUCT REQUIREMENTS

## STANDARDS OF CONDUCT

### Assessment of the issuer and the offering (new para. 21.3.1)

- CMIs will be required to conduct an adequate assessment of an issuer client before engaging in an offering for that issuer client. This will include:
  - taking reasonable steps to obtain an accurate understanding of the issuer client's history, background, business and performance, financial conditions and prospects, operations and structure;
    - where the CMI for a debt offering had been the CMI for a previous debt offering made by the same issuer, the CMI will instead be required to ascertain whether there have been any material changes in the issuer client's circumstances of relevance to its role as CMI; and
  - establishing a formal governance process for the review and assessment of the offering, including any (actual or potential) conflicts of interest between the CMI and the issuer client and the associated risks

# BOOKBUILDING CONDUCT REQUIREMENTS

## STANDARDS OF CONDUCT

### Appointment of CMIs and OCs (new paras. 21.3.2 and 21.4.1)

- Before a CMI conducts any bookbuilding or placing activities, it should ensure that it has been formally appointed under a written agreement to conduct such activities by an issuer client in the case of a syndicate CMI or another CMI in the case of a non-syndicate CMI
  - the written agreement should clearly specify the roles and responsibilities of a CMI, the fee arrangements (including fixed fees as a percentage of the total fees to be paid to all syndicate CMIs participating in the offering) and the fee payment schedule
- Before an OC conducts any activities specified in para 21.2.3 for a share offering or participates in any bookbuilding or placing activities for a debt offering, it should ensure that it has been formally appointed by the issuer under a written agreement to conduct such activities
  - the written agreement should include the same information as required for all CMIs
- For Main Board IPOs, an OC should ensure that it is appointed as OC:
  - if it (or one of its group companies) is also an independent sponsor, at the same time as the sponsor appointment and at least two months before the listing application submission; or
  - if it (or one of its group companies) is not also an independent sponsor, no later than two weeks after the listing application submission
- For GEM IPOs, an OC should ensure that it is appointed as an OC no later than two weeks after the listing application submission
- For an IPO, an OC will be required to provide certain information to the SFC at least four clear business days prior to the Listing Committee Hearing, including the name of each OC participating in the offering



# BOOKBUILDING CONDUCT REQUIREMENTS

## STANDARDS OF CONDUCT

### Advice to the issuer (new para. 21.4.2)

- OCs should act with due skill, care and diligence when providing advice, recommendations and guidance to the issuer client, and should:
  - ensure that its advice and recommendations are balanced and based on thorough analysis and are compliant with all legal and regulatory requirements;
  - engage the issuer client to understand its preferences and objectives on price and the desired shareholder or investor base so that the OC is in a position to advise, develop or revise a marketing and investor targeting strategy with a view to attaining these objectives in light of prevailing market conditions and sentiment;
  - explain the basis of its advice and recommendations to the issuer client, including any advantages and disadvantages;
  - provide advice to the issuer client in a timely fashion of key factors for consideration and how these factors could influence the pricing outcome, allocation and future shareholder or investor base; and
  - advise the issuer client on the information that should be provided to syndicate CMI's to enable them to satisfy their obligations and responsibilities under the SFC Code of Conduct
- For a share offering, OCs should provide guidance to the issuer client on the market's practice on the ratio of fixed and discretionary fees to be paid to syndicate CMI's participating in an IPO
  - the ratio should be reported to the SFC no later than four clear business days before the Listing Committee Hearing



# BOOKBUILDING CONDUCT REQUIREMENTS

## STANDARDS OF CONDUCT

### Advice to the issuer (new para. 21.4.2)

- OCs which participate in share offerings will be required to advise and guide the issuer client and its directors as to their responsibilities under the HKEx Listing Rules and other regulatory requirements or guidance issued by the HKEx ("HKEx Requirements") which apply to placing activities and take reasonable steps to ensure that they understand and meet these responsibilities
- OCs will be required to timely report various information to the SFC, including:
  - any instances of material non-compliance with the HKEx Requirements related to, for example, the placing activities conducted by itself or the issuer client; and
  - any material changes to the information it previously provided to the SFC and the HKEx
- OCs will be required to explain the potential concerns and advise the issuer client against making decisions where:
  - the issuer client decides not to adopt an OC's advice or recommendations in respect of pricing or allocation of shares or debt securities; or
  - for a share offering, its decisions may lead to a lack of open market, an inadequate spread of investors or may negatively affect the orderly and fair trading of such shares in the secondary market
- The OC should document any final decisions of the issuer client which deviate materially from the advice or recommendations provided by the OC, including the OC's explanation to the issuer client of any concerns associated with the decisions and advice provided



# BOOKBUILDING CONDUCT REQUIREMENTS

## STANDARDS OF CONDUCT

### Marketing (new paras. 21.3.4, 21.4.3 and 21.4.6(a))

- CMIs will be required to only market the shares or debt securities to its investor clients which are targeted investors
- For a share offering, where the shares are only marketed to selected investor clients, the CMI should be satisfied that the shares have been marketed to a sufficient number of clients and the likelihood of undue concentration of holdings is reasonably low
- "Targeted investors": investors that fall within the types of investors targeted in the marketing and investor targeting strategy
- OCs will be required to, in consultation with the issuer client, formulate a marketing and investor targeting strategy for order generation, taking into consideration the issuer client's objectives and preferences
- OCs will be required to advise the issuer to adjust the strategy as appropriate in response to changing market conditions and sentiment
  - OCs should inform other syndicate CMIs of the marketing and investor targeting strategy



# BOOKBUILDING CONDUCT REQUIREMENTS

## STANDARDS OF CONDUCT

### Rebates and preferential treatment (new paras. 21.3.7, 21.4.3(c) and 21.4.4(b)(ii))

- CMI will be prohibited from offering any rebates to investor clients or from enabling any investor clients to pay at a price lower than that offered to other investors
- For IPOs, CMI should not enable investor clients to pay, for each of the shares allocated, less than the total consideration as disclosed in the listing document
- For debt offerings, CMI should not enter into any arrangements which may result in investor clients paying different prices for the debt securities allocated
- CMI will be required to disclose to the issuer client, the OC, all of its targeted investors and the non-syndicate CMI it appoints, any rebates offered to CMI and any other preferential treatment of any CMI or targeted investors
- For a share offering, CMI should make this disclosure upon becoming aware of any rebate or preferential treatment
- For a debt offering, disclosure should be made no later than at the dissemination of the deal “launch message” to targeted investors
- OC will be required to advise the issuer client against providing any arrangements whereby:
  - in the case of an IPO, the investor clients would pay less than the total consideration as disclosed in the listing documents
  - for a debt offering, the investor clients would pay different prices for the debt securities allocated
- OC will be required to advise the issuer of the disclosure of any rebates and preferential treatment
- In accordance with the general requirement to disseminate material information related to the offering to all syndicate CMI, OC will be required to disseminate information on rebates and preferential treatment to all syndicate CMI



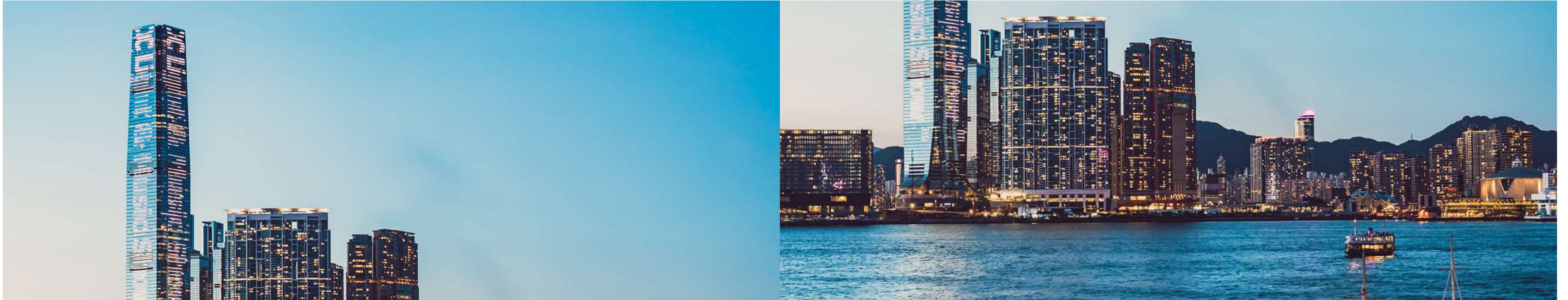
# BOOKBUILDING CONDUCT REQUIREMENTS

## STANDARDS OF CONDUCT

### Assessment of investor clients (new paras. 21.3.3 and 21.4.5)

- CMIs will be required to take reasonable steps to assess whether its investor clients, based on their profiles, are targeted investors:
- For share offerings, CMIs will be required to take all reasonable steps to identify the investor clients to whom the allocation of shares will be subject to restrictions or require the prior consent of the HKEx under the HKEx Requirements (“Restricted Investors”) and inform the OC prior to placing an order on behalf of such clients
- For debt offerings, CMIs will be required to take all reasonable steps to identify whether its investor clients may have any associations with the issuer client, the CMI or a company in the same group of companies as the CMI, as well as provide sufficient information to an OC to enable it to assess whether any orders may negatively impact the price discovery process
- CMIs must comply with the existing know-your-client (“KYC”) requirements under the SFC Code of Conduct
- For IPOs, OCs will be required to:
  - advise the issuer client to provide to all syndicate CMIs a list of its directors, existing shareholders and their respective close associates, and any of their respective nominees appointed for the subscription or purchase of IPO shares; and
  - take all reasonable steps to identify investors on such list and ensure that they will only be allocated shares in accordance with the HKEx Requirements
- For debt offerings, OCs will be required to:
  - advise the issuer client to provide adequate information to all syndicate CMIs to allow them to reasonably identify whether investor clients have any associations with the issuer client; and
  - take all reasonable steps to identify whether investors clients have any associations with the issuer client, CMIs or their group companies

# BOOKBUILDING



The bookbuilding process comprises the collation of client orders and the determination of pricing and allocation



# BOOKBUILDING CONDUCT REQUIREMENTS

## STANDARDS OF CONDUCT

### Bookbuilding — Order book (new paras. 21.3.5 and 21.4.4(a))

- "X-orders" will be prohibited
- CMI's will be required to ensure transparency in the bookbuilding process and disclose the identities of all investor clients in an order book
  - exception for orders placed on an omnibus basis, and in such cases CMI's will only be required to provide information about the underlying investors (i.e. the investor client's name and unique identification number) to the OC and the issuer client when placing orders
  - CMI's who receive information about investor clients for orders placed on an omnibus basis will only be permitted to use the information for placing orders in that specific offering transaction
- CMI's should take reasonable steps to ensure that all orders (including indications of interest) in the order book represent *bona fide* demand on behalf of its investor clients, itself and its group companies. They should make enquiries with investor clients about orders which appear unusual prior to placing the order
- OC's will be required to take reasonable steps to properly manage an order book and ensure the book's transparency, including:
  - ensuring that the identities of all investor clients are disclosed in the order book, apart from orders placed on an omnibus basis;
  - properly consolidating orders in the order book by taking reasonable steps to identify and eliminate duplicated orders, inconsistencies or errors;
  - segregating and clearly identifying in the order book and book messages any proprietary orders of CMI's and their group companies; and
  - making enquiries with CMI's which have placed orders on behalf of their investor clients, themselves or their group companies which appear unusual or irregular, such as orders which appear to be related to the issuer client

# BOOKBUILDING CONDUCT REQUIREMENTS

## STANDARDS OF CONDUCT

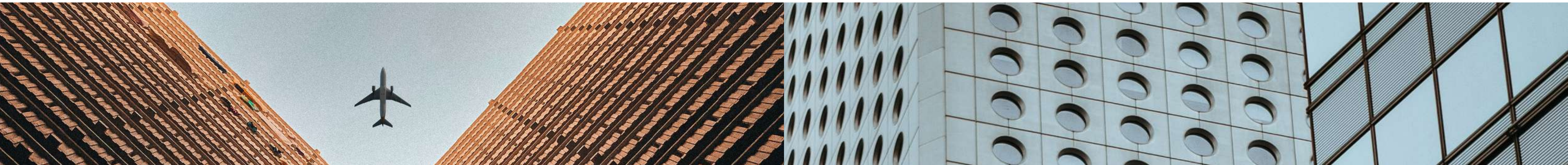
### Bookbuilding — Pricing and allocation (new paras. 21.3.6, 21.4.2(a)(iii) and 21.4.4)

- CMI will be required to establish and implement an allocation policy to ensure a fair allocation of shares or debt securities to its investor clients
- The CMI allocation policy should take into account the principles and requirements of the new paragraph 21 provisions on conflicts of interest and proprietary orders (paragraph 21.3.10), as well as the following factors:
  - the marketing and investor targeting strategy;
  - the order sizes and circumstances of the investor client;
  - the price limits for the investor clients' orders;
  - any minimum allocation amounts indicated by investor clients; and
  - any applicable legal and regulatory requirements
- OCs will be required to:
  - take all reasonable steps to ensure that the price discovery process is credible and transparent and that the allocation recommendations made to the issuer client as well as the final allocation have a proper basis;
  - advise the issuer client on the pricing with reference to, for example, the results of the bookbuilding activities, the issuer client's characteristics, prevailing market conditions and the relevant authorities' sentiment and requirements;
  - ensure that the proprietary orders of CMIs or their group companies (and for debt offerings, the orders placed by investor clients which have associations with the issuer client, CMIs or their group companies) will not negatively impact the price discovery process;
  - develop and maintain an allocation policy which specifies the criteria for making allocation recommendations to the issuer client;
  - make allocation recommendations in accordance with its allocation policy and ensure that recommendations regarding the allocation of securities to the OC's investor clients take into account the CMI allocation policy;



# BOOKBUILDING CONDUCT REQUIREMENTS

## STANDARDS OF CONDUCT



### Bookbuilding — Pricing and allocation (new paras. 21.3.6, 21.4.2(a)(iii) and 21.4.4)

- OCs will be required to (cont'd):
  - for an IPO, ensure that allocation recommendations:
    - are made with a view to achieving an open market, an adequate spread of shareholders and the orderly and fair trading of the shares in the secondary market
    - should ensure that any allocations to Restricted Investors comply with the HKEx Requirements
  - if the allocation recommendations materially deviate from the OC or the CMI allocation policy, explain to the issuer client the reasons for the deviation; and
  - explain to the issuer client the basis of its advice and recommendations, including any advantages and disadvantages

# BOOKBUILDING CONDUCT REQUIREMENTS

## STANDARDS OF CONDUCT

### Conflicts of interest and proprietary orders of CMI and their group companies (new para. 21.3.10)

- CMI will be required to establish, implement and maintain policies and procedures to identify, manage and disclose actual and potential conflicts of interest which may, for instance, arise when a CMI:
  - serves the interests of both its issuer client and investor clients;
  - serves the interests of its investor clients when having a proprietary interest (including a proprietary interest of its group companies) in an offering; or
  - has full discretion over allocations to investor clients or a proprietary order
- CMI's policies and procedures should govern the process for generating proprietary orders and making allocations to such orders
- CMI will also be required to:
  - always give priority to fulfilling investor clients' orders over its own proprietary orders (and proprietary orders of its group companies);
  - only be the price taker in respect of its proprietary orders (and proprietary orders of its group companies) and ensure that these orders would not negatively impact the price discovery process; and
  - segregate and clearly identify its own proprietary orders (and proprietary orders of its group companies), whether directly or indirectly, in the order book and book messages
- For a debt offering, CMI will be required to take reasonable steps to disclose to the issuer client how any risk management transactions it intends to conduct for itself, the issuer client or its investor clients will not impact the debt securities' pricing



## Review and approval of orders and allocations (new para. 21.3.11(b))

Senior management of CMI's will be required to review and approve certain types of orders and allocations, including:

- proprietary orders of the CMI and any of its group companies;
- orders from its investor clients which may appear unusual (e.g., orders which might appear to be related to the issuer client); and
- allocations to Restricted Investors in the case of share offerings

# BOOKBUILDING CONDUCT REQUIREMENTS

## STANDARDS OF CONDUCT

### Communications with issuers, other CMLs and targeted investors (new paras. 21.3.8 and 21.4.6)

- CMLs will be required to disclose complete and accurate information in a timely fashion on the status of the order book and other relevant information it receives to:
  - the OC (whether directly or indirectly) and non-syndicate CMLs it appoints so that they can perform their duties; and
  - its targeted investors so that they can make an informed decision
- OCs will be required to:
  - inform other syndicate CMLs of the issuer client's marketing and investor targeting strategy; and
  - disseminate material information related to the offering as included in, for example, the launch term sheet and book messages, in a timely fashion to all syndicate CMLs and ensure that the disseminated information is complete and accurate and has a proper basis



# BOOKBUILDING CONDUCT REQUIREMENTS

## STANDARDS OF CONDUCT

### Keeping of records (new paras. 21.3.9 and 21.4.7)

- CMI's will be required to maintain books and records sufficient to demonstrate compliance with all applicable requirements of the new paragraph 21, including among others:
  - assessments of the issuer client, the offering and investor clients;
  - audit trails;
  - all key communications with the issuer client, investor clients and other CMI's; and
  - where a CMI's order is placed on an omnibus basis, the intended basis of allocation for all orders with justifications and any material deviations from the CMI's allocation policy
- CMI's must maintain records of the documented information for at least seven years (this requirement will be reduced to only two years for audit trails)
- OCs will be required to document various matters, including, among others, all changes in the order book throughout the bookbuilding process and all key discussions with, and key advice or recommendations provided to, the issuer client
- OCs must maintain records of the documented information for at least seven years



# Resources, systems and controls (new para. 21.3.11)

CMI should maintain sufficient resources and effective systems and controls to ensure that it can discharge its obligations and responsibilities

## Chinese walls

- CMI will be required to take adequate measures to prevent the flow of information which may be confidential or price sensitive amongst staff performing different activities relating to an offering and to prevent and manage any conflicts of interest
  - CMI should establish and maintain effective Chinese walls and wall-crossing policies and procedures

## Appointment of non-syndicate CMI

- CMI will be required to exercise due skill, care and diligence in the selection and appointment of any non-syndicate CMI to assist it in distributing shares or debt securities

## Surveillance and monitoring

- CMI will be required to regularly carry out independent surveillance and monitoring to detect any irregularities, conflicts of interest, leakage of price sensitive or confidential information, and potential non-compliance with regulatory requirements or its own internal policies and procedures



# BOOKBUILDING CONDUCT REQUIREMENTS

## STANDARDS OF CONDUCT

### Fee arrangements (new paras. 21.3.2, 21.4.1(a)(ii), 21.4.2(b)(i) and 21.4.8(b))

- Each written agreement to be entered into by a CMI or OC will be required to specify the fee arrangements (including the allocation of fixed fees to the particular CMI as a percentage of the total fees to be paid to all syndicate CMIs) and the fee payment schedule
- OCs which participate in a share offering should provide guidance to the issuer client in relation to the market's practice on the ratio of fixed and discretionary fees to be paid to syndicate CMIs participating in an IPO, i.e. the fee split ratio
  - the market practice for the fee split ratio is currently approximately 75% fixed fees and 25% discretionary fees
- Post-IPO price performance should not be a consideration in determining the allocation of discretionary fees
- OCs will be required to provide the following information to the SFC by no later than four clear business days prior to the Listing Committee Hearing for an IPO:
  - the name of each OC participating in the IPO;
  - the allocation of the fixed portion of the fees paid by the issuer to each OC;
  - the total fees (as a percentage of the gross amount of funds raised) of both the public offer and the international tranche to be paid to all syndicate CMIs; and
  - the fee split ratio – the ratio between the fixed and discretionary portions of the total fees to be paid to all syndicate CMIs (in percentage terms)
- OCs should notify the SFC as soon as practicable of any material changes to any of this information



## Findings of SFC's pre-consultation discussion:

- where an IPO transaction is led by a large group of syndicate CMI's with a variety of titles and the heads of syndicate are not clearly identified, buy-side participants may be faced with a confusing situation. Market participants preferred IPO transactions to be led by one or a small group of clearly identified senior syndicate members
- increased interest by CMI's to be appointed as heads of syndicate for IPOs
- misalignment between fees and sponsor costs and responsibilities, particularly in larger IPOs
- where sponsors also act as the head of syndicate, the total fees may properly compensate the additional sponsor resource commitments and responsibilities. Sponsors may compromise due diligence to secure appointment as head of syndicate
- market participants were resistant to proposals requiring all OCs to be sponsors based on concerns that it would limit the issuer's flexibility in appointing OCs with strong marketing abilities and may prejudice standalone boutique sponsor firms with no marketing capabilities

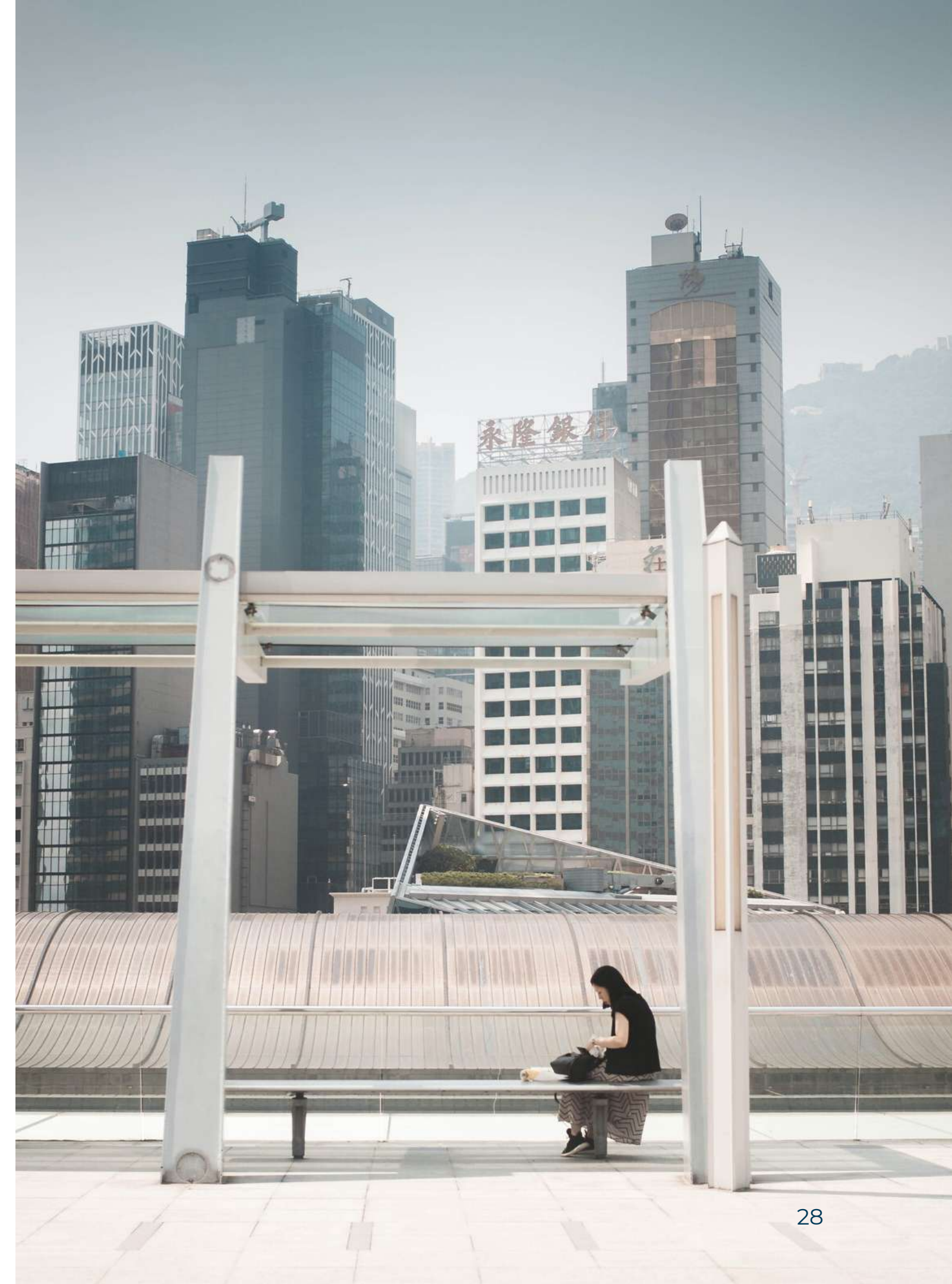
**"SPONSOR  
COUPLING"**



# "SPONSOR COUPLING"

## Purpose

- “Sponsor coupling” was developed to address the SFC’s concerns that sponsors may compromise their standard of due diligence to secure an OC appointment
- By acting as both OC and sponsor, the intermediary should be in a better position to provide quality advice to the issuer
- The SFC considers that “sponsor coupling” will ensure that at least one sponsor will be free of potential incentives to carry out limited due diligence in order to secure an OC role
- The sponsor OC will be in a position to give comprehensive advice to the listing applicant throughout the transaction, and buy-side participants will be able to look to the sponsor OC to provide well-informed and authoritative answers to their questions



# "SPONSOR COUPLING"

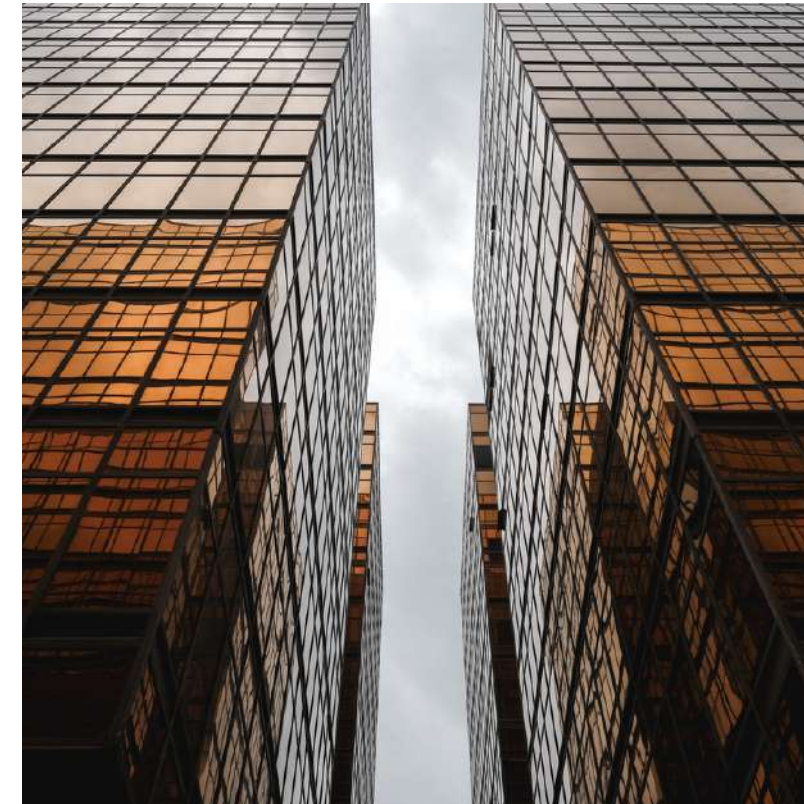
## Requirements under the SFC Code of Conduct

- Pursuant to the new paragraph 21.4.1(b) of the SFC Code of Conduct, in the case of an IPO on the Main Board of the HKEx, an OC should, before accepting an appointment, either:
  - ensure that it (or one of its group companies) is also appointed as a sponsor, which is independent of the issuer client (the "Sponsor OC"), and that both appointments are made at the same time and at least two months prior to the issuer client's listing application submission; or
  - obtain a written confirmation from the issuer client that at least one sponsor, which is independent of the issuer client (or a group company of that sponsor) has been appointed as an OC for that IPO, in which case its appointment as an OC should be made no later than two weeks after the issuer client's listing application submission
- Pursuant to the new paragraph 17.1A of the SFC Code of Conduct, before accepting an appointment by a listing applicant as a sponsor in relation to a listing application on the Main Board of the HKEx, a sponsor should either:
  - be independent of the listing applicant and ensure that it (or one of its group companies) is also appointed at the same time as an OC in connection with that listing application; or
  - obtain written confirmation from the listing applicant that at least one sponsor, which is independent of the listing applicant (or a group company of that sponsor) has been appointed as an OC in connection with that listing application
- "Sponsor coupling" will only be required for IPOs on the Main Board of the HKEx

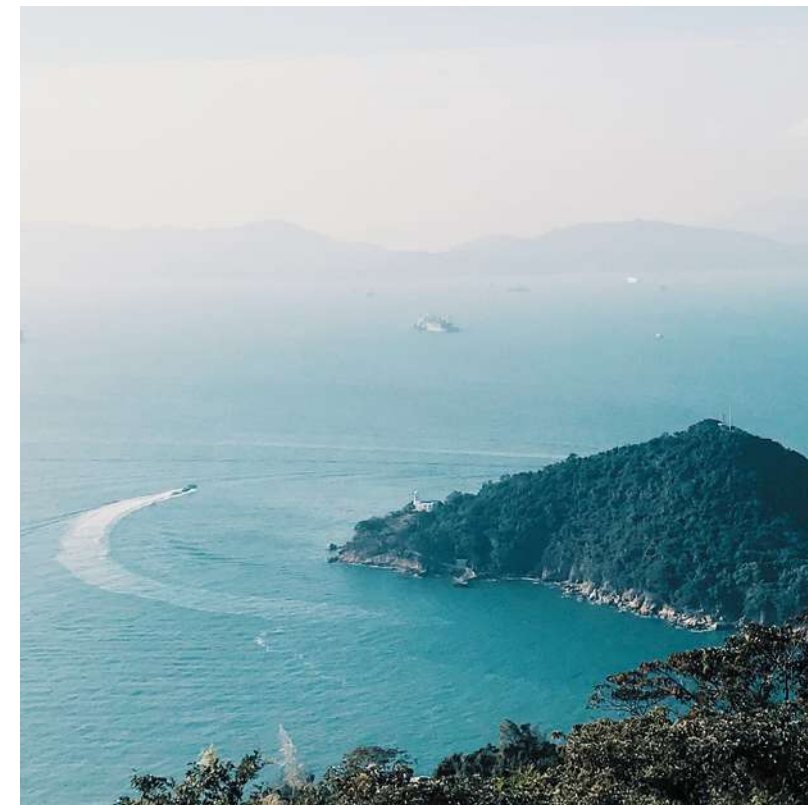


# IMPACT OF "SPONSOR COUPLING"

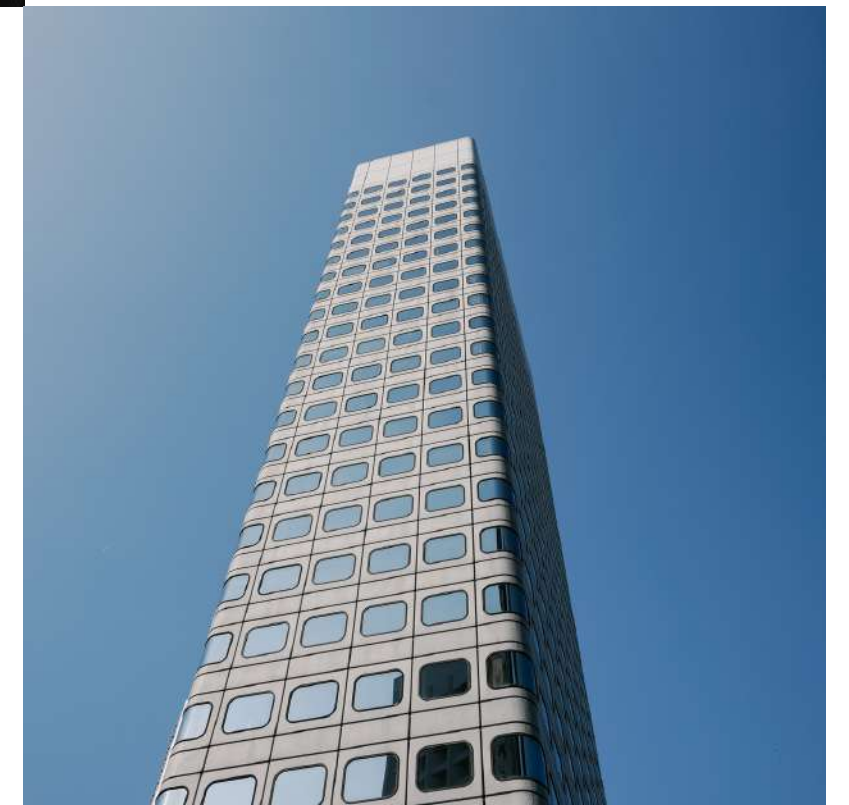
Potential conflict of interest between the OC as the lead underwriter and the issuer



Means to address the concern that sponsors may "compromise" their due diligence enquiries to win the lucrative role of syndicate head



Disadvantage to boutique sponsor firms which do not have underwriting capabilities

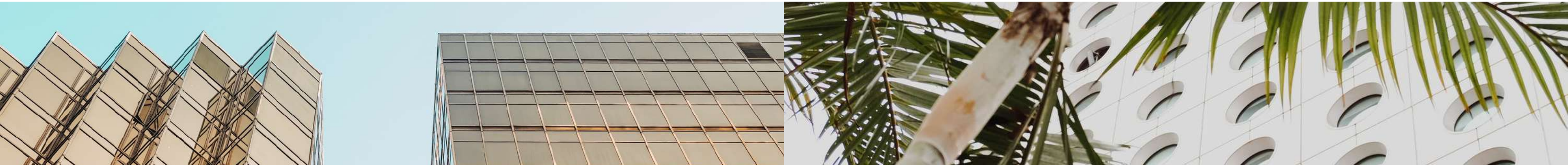




# MCQs



# QUESTION 1



**WHICH OF THESE ACTIVITIES  
WILL BE COVERED BY THE NEW  
BOOKBUILDING  
REQUIREMENTS?**

- A. Bookbuilding activities
- B. Placing activities
- C. Advising, guiding and assisting the issuer in bookbuilding and placing activities
- ✓ D. All of the above

# QUESTION 2



**WHICH OF THE FOLLOWING ACTIVITIES IS NOT A CENTRAL FUNCTION OF AN OC?**

- A. Exercising discretion to reallocate shares between the placing tranche and public subscription tranche
- ✓ B. Acting as a stabilising manager
- C. Advising the issuer of the offer price
- D. Overall management of the offering



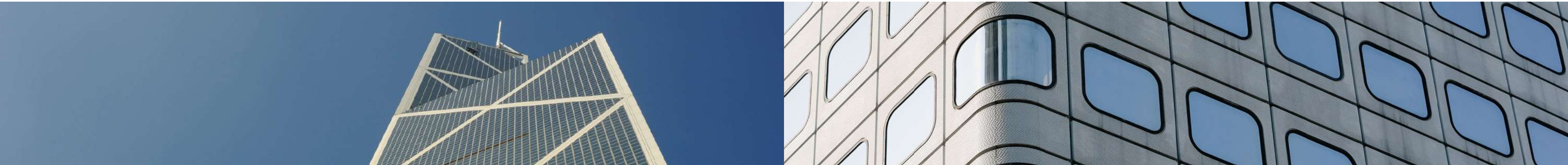
# QUESTION 3



**FOR ORDERS PLACED ON AN OMNIBUS BASIS, WHAT TYPES OF INFORMATION ARE CMIS REQUIRED TO PROVIDE TO THE OC AND THE ISSUER ABOUT THE UNDERLYING INVESTORS?**

- ✓ A. Name and unique identification number
- B. Address
- C. Contact information
- D. All of the above

# QUESTION 4



**WHICH TYPES OF ORDERS AND ALLOCATIONS ARE SENIOR MANAGEMENT OF CMIS REQUIRED TO REVIEW AND APPROVE?**

- A. Proprietary orders of the CMI and any of its group companies
- B. Orders from investor clients which may appear unusual
- C. Allocations to restricted investors in the case of share offerings
- ✓ D. All of the above



# QUESTION 5



**WHICH OF THE FOLLOWING IS NOT A REQUIREMENT FOR "SPONSOR COUPLING"?**

- A. At least one OC must also act as a Sponsor
- ✓ B. The Sponsor and OC appointments must not be made concurrently
- C. The Sponsor OC must be independent of the issuer
- D. Other OCs must not be appointed later than two weeks after submission of the listing application

A scenic landscape featuring a bright sun in a clear blue sky, reflecting on a calm body of water. The sun is positioned in the upper center, creating a strong vertical reflection on the water's surface. The background consists of dark, silhouetted mountains under a sky with light, wispy clouds. The overall color palette is dominated by deep blues and greys, with the bright white of the sun and its reflection providing a focal point.

# Q&A





<https://cutt.ly/AYF16Xa>