

The SFC's enforcement priorities for 2018

March 2018

In late February, the SFC published its *Enforcement Reporter* setting out its enforcement priorities and approaches for 2018.

The SFC emphasized its enhanced cross-divisional collaborative approach with more targeted intervention and increased front-loading regulation for a "real-time" regulatory approach. It stated its priorities for 2018 to be:

- **Corporate fraud** – targeting groups that collude to defraud investors. The SFC also has its eye on companies issuing false or misleading financial statements, IPO and related sponsor failures, and failures to manage conflicts of interest by senior management of listed companies.
While corporate fraud remains a broad top enforcement priority, a reminder that the 2017 Enforcement Reporter focused in on liability of directors and senior executives, with the key issue being dereliction of duties, insufficient exercise of independent judgment to question proposals and decisions, and lack of proper control at a board level. Though not specifically named as a priority for 2018, individual accountability is clearly a recurring theme not to be forgotten.
- **Insider dealing and market manipulation** – targeting sophisticated market misconduct perpetrated by syndicates.
- **Intermediary misconduct** – focusing on failings which pose systemic risks, in particular breaches by multiple entities within the same group.
- **Sponsor misconduct** – continued investigation of sponsors failing to scrutinize and verify key information in a prospectus and exercise appropriate professional scepticism.
- **Money laundering** – a persistent global risk requiring robust internal control systems.

Other highlights of the report include:

- **Guidance Note on Cooperation with the SFC** published in December 2017, setting out the types of conduct that will be recognised as cooperation by the SFC, the factors the SFC will use to assess the value of cooperation and the ways in which the SFC may reward cooperation. Read our note on the *Guidance Note*.
- **Manager-In-Charge** regime, in force since April 2017, which now requires firms to identify individuals with oversight of core functions and map out their responsibilities and reporting lines. This new regime is key to assisting the SFC to identify responsible individuals and hold

them accountable.

- **Mis-selling of financial products:** firms are reminded to regularly review their compliance and control systems to guard against mis-selling and strictly adhere to laws and regulations governing the sale and marketing of financial products.
- **Closer ties with mainland regulators** in particular market surveillance developments in cooperation with the China Securities Regulatory Commission.

The report also reviewed a number of its successful enforcement actions over the past year, with a view to emphasizing the key takeaway points of cooperation with the regulators, individual accountability, aggressive enforcement and cross-boundary cooperation.

Please do not hesitate to contact us to discuss any of the above.

Contacts



Chris Dobby

Partner



Mark Lin

Partner

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