

STATEMENT OF DISCIPLINARY ACTION

The Disciplinary Action

1. The Securities and Futures Commission (**SFC**) has publicly reprimanded and fined The Hongkong and Shanghai Banking Corporation Limited (**HSBC**)¹ \$4.2 million pursuant to section 196 of the Securities and Futures Ordinance (**SFO**).
2. The disciplinary action is taken in relation to HSBC's failure to disclose and/or correctly disclose its investment banking relationships with various Hong Kong-listed issuers and new listing applicants in research reports published between 2013 and 2021 (**Relevant Period**), in breach of:
 - (a) paragraph 16.5(d) (Disclosure by firms of relevant business relationships) of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (**Code of Conduct**); and
 - (b) General Principle (**GP**) 2 (Diligence), GP 3 (Capabilities), GP 7 (Compliance) and paragraph 12.1 (Compliance: in general) of the Code of Conduct.

Summary of Facts

Background

3. Paragraph 16.5(d) of the Code of Conduct (**16.5(d) Requirement**) provides that a registered person that has an investment banking relationship with the issuer or the new listing applicant should disclose that fact in the research report. Any compensation or mandate for investment banking services received within the preceding 12 months would constitute an investment banking relationship.
4. In March 2023, HSBC self-reported to the Hong Kong Monetary Authority (**HKMA**) and the SFC respectively that certain research reports it published on Hong Kong securities contained omissions (**Omission**)² and/or incorrect disclosures (**Incorrect Disclosure**)³ regarding its investment banking relationships with the issuers or the new listing applicants, in breach of the 16.5(d) Requirement (**Disclosure Issues**).
5. Following the self-report, the HKMA has, in collaboration with the SFC, conducted an investigation into the Disclosure Issues.

Investigation findings

6. The investigation revealed that:

¹ HSBC is registered to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO.

² "Omission" refers to cases where HSBC failed to disclose its investment banking relationship with the issuer or the new listing applicant in its research report, as required under the 16.5(d) Requirement.

³ "Incorrect Disclosure" refers to cases where HSBC issued a disclosure statement in its research report claiming an investment banking relationship with the issuer or the new listing applicant within the preceding 12 months, when this was not required (i.e. an over-disclosure), and therefore not correct.

- (a) To comply with the 16.5(d) Requirement, HSBC included a disclosure statement in its research reports, where applicable, confirming that the company(ies) covered in the report had been a client of HSBC and/or had paid compensation to HSBC for investment banking services within the past 12 months (**Disclosure Statement**).
 - (b) Upon discovery of the Disclosure Issues, HSBC conducted sampling reviews and extrapolated 7,705 instances of Omission or Incorrect Disclosure from the samples, affecting an estimated 4,252 research reports on Hong Kong securities during the Relevant Period.
 - (c) The affected research reports were made available on HSBC's Global Research website⁴, the HSBC Private Bank platform, and to after-market service providers such as Bloomberg and Refinitiv during the Relevant Period.
7. The investigation further revealed that the Disclosure Issues were attributable to various deficiencies in HSBC's data recording and mapping across systems, as summarised below:
- (a) HSBC used "Mastergroups" to group clients within the same group of companies, such that data for entities within the same corporate group was aggregated. A qualifying transaction involving a subsidiary could thus trigger a Disclosure Statement in a research report on the parent company, even if the parent company itself had no qualifying transactions with HSBC in the preceding 12 months. This led to instances of Incorrect Disclosure.
 - (b) Qualifying transactions involving subsidiaries were aggregated in the Mastergroup data feeds for disclosures related to the parent company. Due to mapping errors, such qualifying transactions were, in some instances, omitted from disclosures in research reports on the subsidiaries themselves, resulting in instances of Omission.
 - (c) Inconsistent recording of client names across systems prevented qualifying transactions from being recognised, leading to instances of Omission.
 - (d) Inconsistent use of internal systems to record client activities caused delays in transaction recording, which resulted in instances of Omission.
 - (e) Due to incorrect logic applied by one system, transaction data outside the 12-month period specified by the 16.5(d) Requirement was captured, resulting in instances of Incorrect Disclosure.

Conclusion

8. Based on the matters set out above, the SFC found that during the Relevant Period, HSBC failed to:
- (a) comply with the 16.5(d) Requirement by failing to disclose its investment banking relationships with the issuers or the new listing applicants in some of its research reports; and
 - (b) act with due skill and care and implement adequate and effective systems and controls to ensure compliance with the 16.5(d) Requirement and the accuracy of

⁴ Global Research has been renamed as Global Investment Research in May 2025.

disclosures in its research reports, in breach of GP 2⁵, GP 3⁶, GP 7 and paragraph 12.1⁷ of the Code of Conduct.

9. The SFC is of the opinion that HSBC is guilty of misconduct.
10. In deciding the disciplinary sanction set out in paragraph 1 above, the SFC has taken into account all relevant circumstances, including:
 - (a) there have been no evidence of client losses resulting from the Disclosure Issues;
 - (b) HSBC has conducted reviews to identify the root causes and extent of the breaches;
 - (c) HSBC has taken steps to enhance its systems and controls to prevent future breaches; and
 - (d) HSBC's co-operation with the HKMA and the SFC in resolving the concerns identified in the investigation.

⁵ GP 2 of the Code of Conduct requires a registered person to act with due skill, care and diligence, in the best interests of its clients and the integrity of the market when conducting business activities.

⁶ GP 3 of the Code of Conduct requires a registered person to have and employ effectively the resources and procedures which are needed for the proper performance of its business activities.

⁷ GP 7 and paragraph 12.1 of the Code of Conduct require a registered person to comply with, and to implement and maintain measures appropriate to ensuring compliance with, relevant regulatory requirements.