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Hong Kong's IPO fraud clampdown sends shock waves across financial sector

The tougher scrutiny is forcing the capital market to recalibrate, as sponsors become more cautious and some firms cancel listings

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Hong Kong's securities regulator has tightened scrutiny over initial public offerings in recent months. Photo: Nora Tam

Hong Kong regulators' tough action to crack down on fraudulent activity in the initial public offering market is sending ripples across the city's financial industry, with insiders predicting short-term turbulence as some listings are scaled back or even cancelled.

Financial intermediaries and IPO sponsors in particular find themselves in a "difficult position", as they are now expected to conduct deeper due diligence to ensure deals are free from distortions, sources told the South China Morning Post.

The Securities and Futures Commission (SFC) has been tightening scrutiny over the IPO market for months, and on Tuesday the regulator took the dramatic step of [freezing assets worth HK\\$4.6 billion \(US\\$586 million\)](#) as part of an operation against two syndicates suspected of rigging three recent IPOs.

The securities regulator has also ordered trading suspensions for two companies allegedly involved in the schemes, while a third firm was suspended due to its failure to publish financial results since April 2025. Meanwhile, the body reminded financial market participants to reject suspicious orders and report any dubious activity to regulators.

The tougher stance means that sponsors and capital market intermediaries can no longer turn a blind eye to suspicious orders during the issuance and placement process, and must commit substantial resources to execute more thorough due diligence, according to industry players.

"This will certainly put intermediaries in a difficult position when dealing with 'big investors' or IPO applicants," a banker at a Chinese investment bank said on condition of anonymity, adding that they hoped to get more clarity from regulators on issues such as what constitutes a "suspicious" order.

The SFC has issued a list of six types of suspicious practices, including applicants making significant payments to investors, introducing connected buyers, over-participating in book building allocation, the sudden appearance of abnormally large orders near the closing deadline, and concealing the identity of ultimate investors.

"We will strengthen due diligence on uncommon investors," the banker said. "If a project has too many uncommon investors who appear suspicious, we may not agree to launch the share offer."

While hundreds of companies are currently waiting for their Hong Kong listing applications to be approved, several mainland Chinese firms recently said in their exchange filings that they would halt their share issuance plans in the city.



Hong Kong's capital market has fully shifted to a 'regulation-first' model

Roy Lo, SW Hong Kong

Kenny How Sze-ming, a council member of the Hong Kong Securities and Futures Professionals Association, said the regulator's stance on suspicious activity "removes any discretion to look the other way".

In practice, however, intermediaries will find it hard to meet the SFC's requirements during book building and share placement, because the most sensitive evidence sits outside the order book, including beneficial ownership and the flows between the issuer and investors, according to How.

He suggested that the practical solution was not to confront large investors late in the book building process, but rather to establish explicit compliance standards early – even during non-deal roadshows – and allow bankers more time to conduct the required additional due diligence.

"This will undoubtedly require intermediaries to gain more cost to carry out intensive additional due diligence to ascertain the facts," he said.

Last year, bourse operator Hong Kong Exchanges and Clearing [implemented a new IPO pricing and allocation mechanism](#) requiring at least 40 per cent of total offer shares to be allocated to the book building placement tranche, giving institutional investors greater participation and improving pricing and allocation efficiency.

"Hong Kong's capital market has fully shifted to a 'regulation-first' [model]," said Roy Lo, managing partner of accounting and consulting firm SW Hong Kong. "In the past, some companies pushed through offerings using illegal arrangements, causing post-listing valuations and stock prices to become severely distorted."

Despite the city's IPO fundraising reaching US\$48 billion in the first nine months of 2026 – [a record high for the period](#) – more than 60 per cent of IPOs launched during the third quarter fell below their offer prices.

With artificial demand strictly banned, lower-quality or less attractive projects might face scaled-back issuance sizes, reduced offer prices or even cancelled listings in the short term, Lo said.

"However, offer prices and corporate valuations will eventually return to a reasonable and realistic market foundation."