



# REFINITIV ENHANCED DUE DILIGENCE (EDD)

Pre-IPO due diligence

A stringent regulatory backdrop and tighter due diligence requirements mean that IPO sponsors in Hong Kong must ensure that they develop deep business intelligence and form a holistic view of risk around each potential IPO candidate.

## The pre-IPO landscape

An initial public offering (IPO) by a company should always be preceded by thorough and rigorous due diligence that assesses overall market maturity and thoroughly examines all aspects – including financial, tax, legal, commercial, IT, operational, environmental and human resource – of the IPO candidate.

Such due diligence should deliver insights into the sustainability of the business model, provide commentary on the competitive landscape, delve into the opportunities available within the candidate's industry and fully assess the potential risks that could impact the company.

This last point is of particular importance, since not fully understanding the nature and extent of potential risk can result in regulatory, financial and reputational risks that can have far-reaching consequences for sponsors. As a case in point, in March 2019, the Hong Kong Securities and Futures Commission (SFC) fined UBS HK\$375 million (\$48 million), Morgan Stanley HK\$224 million and Merrill Lynch HK\$128 million for “failures when sponsoring, or leading, IPOs.”<sup>1</sup>

## Changing expectations

In mid-2013, the SFC introduced the most sweeping changes to sponsor regulation in a generation, effectively raising the bar in terms of what is expected as part of pre-IPO preparation in Hong Kong.

The changes, aimed at promoting significantly higher standards of IPO due diligence for Hong Kong equity listings, have impacted all IPO applications submitted on or after October 1, 2013. As of this date, draft listing documents are expected to be far more in-depth, and sponsors are required to demonstrate a high degree of certainty that important and relevant price-sensitive information has not been excluded from prospectuses through negligence or lack of due diligence.

In addition to these stricter regulatory requirements, the amendments also include criminal liability for IPO sponsors who do not take sufficient care when preparing for a new listing.

## The nuts and bolts

The Stock Exchange of Hong Kong Limited Practice Note 21 outlines the updated requirements for due diligence by sponsors in respect of initial listing applications as follows:

For new applicants, sponsors should:

- Search the company registry at its place of incorporation
- Review financial information
- Assess performance and finances, including interviewing its major suppliers and customers
- Undertake physical inspection of material assets and review certificates of title and rights of land use
- Assess and verify proprietary interests, intellectual property rights, licensing arrangements and other intangible rights
- Review legal proceedings and other material disputes

For directors, sponsors should:

- Assess experience, qualifications, competence and integrity (including financial literacy and corporate governance experience)
- Review the financial and regulatory track records of publicly listed companies of which the new applicant's directors are or were executive or nonexecutive directors

<sup>1</sup> [reuters.com/article/us-hongkong-regulator-ubs-group/hk-suspends-ubs-sponsor-license-fines-it-and-others-100-million-for-ipo-failures-idUSKCN1QV12F](https://www.reuters.com/article/us-hongkong-regulator-ubs-group/hk-suspends-ubs-sponsor-license-fines-it-and-others-100-million-for-ipo-failures-idUSKCN1QV12F)

## Pre-IPO EDD from Refinitiv

Alongside these stricter regulatory requirements, and more stringent enforcement, the IPO market in the APAC region in general and in Hong Kong in particular, has continued to flourish – and Refinitiv has been instrumental in supporting this growth by delivering robust and in-depth due diligence that meets regulatory requirements and paints a holistic picture of risk. Our in-depth research provides a comprehensive view on each subject to satisfy the requirements of the regulators. Moreover, our research methodology is up to the regulators' required standard.

Refinitiv's pre-IPO due diligence focuses on both the compliance and reputational track record of the subject, and seeks to uncover any potential links to financial crime – including, for example, unfair labor practices, breaches of environmental ethics, bribery and corruption, money laundering or cybercrime. Our reports also provide detailed background market analysis and examine the sustainability of the subject's business model.

We have worked on more than 180 pre-IPO projects for our clients since 2018. Securities firms have been our main clients within Hong Kong for conducting pre-IPO enhanced due diligence, but large banks have also engaged us to perform these detailed background checks. Our pre-IPO reports have been conducted across many sectors, including transportation, manufacturing – chemicals, IT software, real estate, manufacturing – clothing, software mobile apps, construction, electrical goods to name just a few.

We have over two decades of experience within emerging and frontier markets and can boast one of the largest in-house EDD analyst teams in the market. Our global network comprises trusted professionals able to offer on-the-ground intelligence that takes into account the implications of differing local environments and customs. We ensure that we produce complete, consistent, high-quality output to fully meet our client's requirements. As a guide, our average turnaround times for complex and large IPO projects are between 20-25 working days, and for those where a client has requested selective checks, approximately 10-15 working days.

## Tailored reports

From high-volume, low-complexity projects to highly bespoke, deep-dive due diligence, we offer customized reports that can be tailored to exact requirements. We do not follow a one-size-fits-all approach.

For example, for lower levels of perceived risk, sponsors may opt for a Standard Report, but in other instances, deep background checks are essential and our Premium Reports offer more detailed intelligence.

Standard Reports screen subjects for major derogatory information and identify company owners and directors. They include foreign language content and local checks for litigation, bankruptcy and other red-flag issues.

Premium Reports offer detailed information and should be used where standard due diligence is not enough. Our Premium Report includes all components of the Standard Report, but also adds additional elements.

This report type is ideal for higher-risk IPOs and includes:

### Group companies, subsidiaries and affiliates

- Retrieval of corporate registry documents, including financial statements
- An analysis of the company's historical development and current business operation, including any manufacturing facilities
- Information on ownership of assets and intellectual property, through retrieval of land/property ownership records and patents/trademarks registration records
- Litigation and bankruptcy searches, as well as regulatory checks for noncompliance with laws and regulations
- Comprehensive media and Internet searches

### **Directors and senior management**

- Directorship and shareholding searches
- Marriage searches
- Verification of education, professional qualifications and work experience
- Litigation and bankruptcy searches, as well as regulatory checks for noncompliance with laws and regulations
- Comprehensive media and Internet searches

### **Key customers and suppliers**

- Retrieval of corporate registry documents, including financial statements, to ascertain independence from the new applicant
- Operational analysis relating to the nature and scale of the business

### **Seamless integration**

Our EDD ordering portal integrates seamlessly with existing applications and offers secure ordering and case tracking, with 24/7 access. The portal is also available via our dedicated API, which offers direct connection for a simplified and streamlined experience. Our API functionality includes risk tables to summarize EDD findings.

### **Subscription plans**

Instead of ordering due diligence reports on an ad hoc basis, you can purchase a points package and select an invoicing plan that best suits your budget. The points included in each package provide for a set number of due diligence reports which can be ordered when needed. Each package also includes bonus points and any points not used are carried over to the next subscription without penalty. Users, therefore, benefit from a significant volume discount as well as a streamlined ordering and invoicing process.

### **Benefits**

Refinitiv's EDD reports are designed to enhance and simplify your processes, deliver a holistic picture of risk and help you protect your organization. Our overarching focus is on quality, and all our research is conducted to strict service levels and subject to stringent quality control.

Some tangible benefits include:

#### **Satisfy regulators**

Our in-depth research provides a comprehensive view on each subject in line with the regulators specific requirements. Our research methodology meets the regulators required standard.

#### **Superior knowledge coupled with deep experience**

We have 350+ highly trained, certified researchers speaking 60+ languages across our globally situated offices. Key staff are industry certified anti-money laundering and antifraud specialists.

#### **PWC ISAE 3000 security certification**

Our secure online portal makes it easy to order and track your reports, and our API facility allows integration with 3PR management systems. Our technology and processes are certified by an external auditor.

#### **Quality reports with quick turnaround times**

AI-powered tools enable more precise and faster processes, meaning that we can offer quality reports with rapid turnaround times that are clear, predictable and consistent.

**Comprehensive coverage in all jurisdictions**

We offer global coverage, enhanced by local knowledge. Our team uses best-in-class proprietary tools such as World-Check® Risk Intelligence along with subscriptions to leading content aggregators and specialist research tools.

**Lower costs**

We provide highly skilled researchers in low-cost jurisdictions. Our pricing is transparent and our subscription model offers volume discounts.

**Simplicity and security**

Our online ordering and delivery options via user interface and API offer simplicity and enhanced security.

**A proven and trusted supplier**

We average 120+ reports per day across the global financial and corporate sectors. We use only ethical and nonintrusive research methods and are committed to the principles of integrity and accountability.

Refinitiv is one of the world's largest providers of financial markets data and infrastructure, serving over 40,000 institutions in over 190 countries. It provides leading data and insights, trading platforms, and open data and technology platforms that connect a thriving global financial markets community – driving performance in trading, investment, wealth management, regulatory compliance, market data management, enterprise risk and fighting financial crime.

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