

Market Sounding in Hong Kong under SFC Regulations



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The Securities and Futures Commission (hereinafter “SFC”) has introduced Market Sounding Guidelines (hereinafter the “Guideline”), effective from 2 May 2025. Market sounding, which is the process of gauging investor interest in a potential transaction (e.g., IPOs, private placements, or fund launches), is a critical activity for financial institutions in Hong Kong. However, under the SFC’s regulatory framework, market sounding must be conducted with strict adherence to rules governing confidentiality, fair disclosure, and the prevention of market abuse. This guide outlines the SFC’s expectations, key compliance considerations, and best practices for conducting market soundings in Hong Kong.

Understanding Market Sounding

Market sounding involves sharing potentially price-sensitive information with investors to gauge interest and optimise terms for transactions such as private placements and block trades, with the SFC’s guidelines setting standards to prevent market abuse, such as insider trading, by licensed intermediaries. The Guidelines regulate SFC-licensed intermediaries handling confidential Market Sounding Information (hereinafter “MSI”) for transactions such as block trades involving listed shares or related securities, excluding speculative trades, daily executions, or public offerings.

The guidelines are anchored in four core principles to ensure robust management of market soundings:

Handling of information: intermediaries must protect MSI’s confidentiality, implementing effective barriers to prevent unauthorised disclosure, misuse, or leakage. This includes operating honestly and fairly, acting diligently when handling sensitive information, operating on a “need-to-know” basis and segregating duties.

Governance: senior management must understand and assume overall reasonability for overseeing market sounding activities, with a designated committee or individual monitoring compliance. Oversight arrangements should match the firm’s size and complexity.

Policies and procedures: firms must maintain documented, regularly reviewed policies covering market sounding protocols, roles, personal dealing restrictions, escalation procedures, consequence management framework and record-keeping. In addition, it is also suggested to consider the “three lines of defence” while allocating roles and responsibilities amongst staff.

Review and monitoring controls: intermediaries should monitor for suspicious behaviours and conduct periodic reviews of trading activities and communications to detect non-compliance. This includes, but is not limited to, periodic reviews of Personal Account Dealing (hereinafter “PAD”) and other trade surveillance controls, voice and electronic communications and unauthorised access to MSI.

Requirements for Intermediaries

Disclosing Persons¹ must secure beneficiary consent before initial contact with Recipient Persons², use standardised scripts, choose an appropriate timing for releasing MSI, record communications, utilise authorised communication channels and retain records for two years, while conducting market soundings close to transaction launches with carefully selected recipients. Recipient Persons are required to designate a handler, communicate consent for receiving market soundings, and verify whether communications involve market sounding information.

Practical Steps for Compliance

To align with the SFC’s Guidelines for Market Soundings, intermediaries should:

Update policies: both Disclosing Persons and Recipient Persons should revise compliance manuals to outline applicable market sounding protocols.

Staff training: mandatory training should be provided on handling Market Sounding Information and insider trading risks.

Maintain records: a market sounding register should be implemented to log interactions for transparency and audit readiness.

Enhance PAD controls: applicable PAD controls should be established, including pre-trade approval processes, where applicable, categorise MSI as MNPI³ and carry out an update of restricted lists for affected securities.

Coordinate with counterparties: ensure that Disclosing Persons and Recipient Persons follow structured and confidential market sounding processes.

How can Waystone help?

Waystone offers a full suite of corporate compliance solutions tailored to the needs of businesses expanding into or operating within Hong Kong. We are committed to enhancing your corporate compliance, so you can concentrate on growing your business with confidence. To learn more about our corporate compliance solutions, please reach out to our [APAC Compliance Solutions](#) team today.

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¹A Disclosing Person is generally a sell-side broker that is sounding out potential investors, on behalf of a Market Sounding Beneficiary, about a possible transaction.

²A Recipient Persons is generally a buy-side firm who receives MSI during the course of a market sounding.

³MNPI refers to Material Non-Public Information.