

## China's National Auditing Office Notes Compliance Concerns with Sponsorship of Academic Conferences in the Healthcare Sector

In China, it is common industry practice for pharmaceutical companies to sponsor academic conferences. As long as such events are aimed at enhancing the practice of medicine and patient welfare, the practice has been allowed. However, the National Auditing Office of China (the "NAO"), responsible for auditing fiscal revenue and expenditure compliance of Chinese governments and departments, recently pointed out in its annual audit report for 2013 (the "2013 Report") that such sponsorships may be problematic.

On June 24, 2014, the NAO submitted its 2013 Report to the Standing Committee of China's National People's Congress, the highest legislative body in China, for review. In this report, the NAO found that several central ministries and their subordinate organizations had financial irregularities. It specifically identified the subordinate organization of China's health authority, the National Health and Family Planning Commission (the "NHFPC"), as having engaged in improper conduct with respect to its administrative resources and inappropriately benefited from the following:

- accepting sponsorships from pharmaceutical companies in organizing academic conferences;
- charging unauthorized administrative fees and training fees for qualification exams;
- organizing unapproved rankings, competitions and awards and charging participation fees; and
- trading medical information obtained during public administration of hospitals, including, e.g., selling hospitals' prescription data to market research companies.

In particular, the Chinese Medical Association (the "CMA"), the official association of Chinese healthcare professionals ("HCPs") under the NHFPC, was said to have hosted 160 medical conferences during 2012 and 2013, and to have accepted RMB 820 million in sponsorships from pharmaceutical companies during that time period. In return, the CMA provided the sponsoring companies with space for advertisement booths and contact details of conference attendees. These findings made headlines in China immediately after the NAO released its 2013 Report.

Although the NAO generally deems the foregoing behaviors inappropriate and has called on the NHFPC to address these problems, illegality is determined case by case. Typically, it is the more serious offenses that are transferred to the Chinese government authorities for criminal prosecution or disciplinary actions. The 2013 Report did not disclose any anticipated follow-up actions.

Given that pharmaceutical companies' sponsorships of academic conferences had not previously been challenged as illegal or not compliant with laws and regulations, the public criticism of such activities in an official audit report has generated widespread concerns in the industry. This also indicates that the Chinese government continues to be interested in the activities of players in the pharmaceutical industry.

Pharmaceutical companies operating in China should therefore be alert to further compliance challenges in the coming years, as they navigate the sometimes inconsistent requirements and expectations from different Chinese regulatory authorities.

If you would like to discuss the foregoing or any other related matter, please contact [Kim Nemirow](#), [Mimi Yang](#), [Katherine Wang](#) or your usual Ropes & Gray advisor.