

Follow up to the hearing on 5 October 2010
Information (including relevant documents and records, if any)
on the following issues

1. As stated by Mr HE Guangbei at the hearing held on 5 October 2010, Bank of China (Hong Kong) Limited (BOCHK) did not participate in the distribution of Minibonds Series 36 after considering the uncertain market conditions at that time. Please provide the documented records (such as minutes of meetings), if any, for the decision.
 - 1.1 BOCHK product team was from time to time approached and invited by arrangers or coordinating dealers to participate in distributing their various products. In many cases, when any proposed product or product series was found not to satisfy the bank's product due diligence criteria of acceptability, the product team would reject the proposal, in which case the matter was not required to be tabled to the Retail Banking management or the Investment Product Steering Committee for deliberation. The case of Minibond Series 36 was one of the cases during the period in which a product was rejected without written decision made by Retail Banking management or the Investment Product Steering Committee under such circumstances.
 - 1.2 In late March 2008, Sun Hung Kai Investment Services Ltd. as the coordinating dealer, invited BOCHK to distribute Minibond Series 36. Having considered the uncertain market conditions in the aftermath of Bear Stearns' takeover by JP Morgan Chase at the time, the product team decided not to propose Series 36 to the Steering Committee for approval. As there was no product proposal for approval, no written record was required, and hence there was no documentary record of the Investment Product Steering Committee on Minibond Series 36.
2. The table under paragraph 2.2 of W40(C) (Mr HE written statement) has listed out the aggregate value of LB-related products sold by BOCHK each year during the period from April 2003 to 15 September 2008. Please provide additional information and express the aggregate value for each of the years from 2003 to 2008 as a percentage of the aggregate value of all retail structured financial products sold by BOCHK for that year in tabular form as follows:

Year	No. LB-related products during Relevant Period	Aggregate value (in HK\$) of LB related products	Aggregate sales value of retail investment products (ie structured deposits, structured notes, premium deposits (期權寶), equity linked deposits (股權寶), funds and bonds) (HK\$ Billion)	Percentage accounted for aggregate value of LB-related product out of retail investment products (ie structured deposits, structured notes, premium deposits (期權寶), equity linked deposits (股權寶), funds and bonds)
2003 (starting from Apr 2003)	Nil	Nil	28.64	0
2004	6	1,123,493,800	45.80	2.45%
2005	11	1,223,666,200	46.39	2.64%
2006	16	1,510,579,800	61.82	2.44%
2007	7	826,621,400	77.07	1.07%
2008 (ending on Sep 2008)	1	1,110,190,000	72.92	1.52%
Total		5,794,551,200	332.64	1.74%

3. Apart from Item 7d of W40(C), please provide the documented records, if any, containing the details of product due diligence conducted by BOCHK in respect of Minibonds Series 8.

3.1 Item 7d of W40(C) is the only documentary record kept in relation to the approval of Minibond Series 8. The product team maintained a practice to study and evaluate each investment product (including Minibonds Series 8) before distribution. The product team was composed of qualified and experienced staff. Most of them had a designation of CFA/CFP or equivalent, with the senior members having 10-20 years of experience in investment business. They took into consideration all relevant factors, including those key factors reflected in the bank's product due diligence guidelines (Item 7c of W40(C)) during the product selection process.

- 3.2 When the product team evaluated the product risks in their product due diligence process, they were essentially evaluating such risks from the perspective of investors, because it was the investors of retail investment products such as Minibond Series 8 who would assume the product risks.
- 3.3 Before the product team submitted their proposals to the Retail Banking management or the Investment Product Steering Committee for approval, the team would thoroughly consider and discuss all relevant risks in detail. The written proposal and the minutes, however, might not set out each and every relevant risk that had been considered, because they were prepared for qualified and experienced professional staff who were familiar with common structures and risks of investment products. Unlike disclosure documents for investors, the product proposals and minutes were prepared with a view to highlight the key points for consideration and were not meant to be detailed disclosure of product risks.
4. Apart from Items 7d to 7h of W40(C), please provide a copy of the record of decisions on approval (including all “請示方案”) of each of all other series of outstanding Lehman Brothers-related products (including Minibonds and non-Minibonds).
- 4.1 Copies of the approvals will be provided shortly.
5. Please provide a copy of the compact disc of Minibonds Series 8 as mentioned in page 2 of Item 7d of W40(C) prepared by the Training Centre of BOCHK for frontline sales staff (由培訓中心製作光碟作培訓材料).
- 5.1 Attached please find the training material handout in relation to Minibond Series 8 that was supplied before the training workshops and that was studied by frontline sales staff as they viewed the VCD. The VCD was designed as a tool to facilitate the frontline sales staff's understanding of the training material handout and offer documents, which they had to study in detail.
6. The attached written questions raised by Mr LEUNG Kwok-hung at the hearing on 5 October 2010.

回應梁國雄議員提問

1 根據陳述書 18.1，你解釋為何「袖珍股票掛鈎票據系列 20 及 21」(Pyxis Equity-Linked Notes Series 20 & 21)被評為低風險有兩個原因：

a. 原因(一)是：「if the notes were held to maturity, the aggregate amount of the cash payout throughout the life of the notes was at least 100% of the principal value of the notes」，這段話的意思是表示購買上述系列的投資者，現在只要持有至到期，便可獲得起碼百分之百的本金額，而不是回購協議的本金額百分之六十。對否？

If Pyxis ELN Series 20 and 21 were held to maturity in normal market conditions, the aggregate amount of the cash payout throughout the life of the notes was at least 100% of the principal value of the notes. However, if the counterparty or guarantor suffered default event, the customer would lose all further payments from the product. Nevertheless, such risk was considered acceptable at the time because the counterparty and the guarantor, i.e., Lehman Brothers, was rated A+ (this is outlined in paragraph 18.1 of W40(C), Mr HE's written statement), and hence the products were given a grade-1 risk rating.

The Minibonds Repurchase Scheme as agreed between the 16 banks and HKMA and SFC dated July 2009 did not cover Pyxis ELN Series 20 and 21. The Scheme only applied to Minibonds.

b. 原因(二)是：「Lehman Brothers Holdings Inc. , acting as the swap guarantor of the notes and the issuers of the underlying collateral, had a S&P credit rating of A+。」從這句說話可看貴行根本就不明白迷債的風險結構。雷曼(Lehman Brothers Holding Inc.)只是保證掉期對手承擔支付 CDS 的保費，但迷債發行人則要用其資產抵押，以確保有違約事故發生時，向 CDS 購買人支付其全數損失。這是一個非常高的風險，為何你說是低風險。這是否可足以說明貴行在售賣這種產品時就根本不明其所以？

Pyxis ELN Series 20 and 21 were equity-linked notes. Unlike Mindbonds, Pyxis ELN were not linked to the credit of reference entities, and the underlying swap was not credit default swap (CDS). The collateral of these notes were debt securities issued by Lehman Brothers Treasury Co. B.V.. Lehman Brothers Holdings Inc.'s good credit rating at the time was relevant because it was the collateral guarantor as well as the swap guarantor of the notes.

2 從你提交的文件，包括 17a「關於投資產品相對風險分類通知」或是 7d, 7c「代售請示方案」均沒有提到抵押品風險及掉期對手風險，請問你們是不知道或是忽視這風險，如在盡職審查中有相關文件分析該等風險的狀況及可能後果，請出示。

"Circular re relative risk classification of investment products" (關於投資產品相對風險分類的通知) attached as Appendix Item 17a sets out the guidelines for determining the risk rating for all retail investment product categories distributed by BOCHK. When conducting product due diligence in relation to a specific product series, the product team would, apart from assessing the product risk rating, also consider all relevant factors, including those key factors set out in the bank's product due diligence guidelines (Item 7c of W40(C)) as pertained to that product series during the product selection process. As explained in paragraph 3.3 above, the written proposal and the minutes might not set out each and every relevant risk that had been considered, because they were prepared for qualified and experienced professional staff who were familiar with common structures and risks of investment products. Unlike disclosure documents for investors, the product proposals and minutes were prepared with a view to highlight the keys points for consideration and were not meant to be detailed disclosure of product risks.

3 根據陳述書 14.1，每一系列由中銀銷售的雷曼相關的結構性金融產品，你們均有做盡職審查(Product due diligence)，包括審查該產品所涉及的風險。要了解一個產品的風險必須分析該產品所包含的資產及承擔。

a. 請你以最受歡迎的雷曼迷債系列 35 為例，填寫以下的表，以表明貴行是曾經對該產品作過風險分析：

雷曼迷債系列 35 的承擔

信貸失責掉期安排協議，即 CDS。(請逐一系列出)		相關主體 (請列明)	當相關主體違約時，雷曼迷債系列 35 要該違約償付的最高金額	上列金額佔雷曼迷債系列 35 的總資產的%	現時若要提早取消該 CDS 的承擔要向對手交付多少錢？
Reference Entities	1	HSBC Bank plc	If any of the reference entities suffers a credit event first time among the	No credit event has occurred.	Pending confirmation from
	2	Hutchison Whampoa Ltd.			PricewaterhouseCoopers, the Receiver appointed by the Trustee, HSBC

	3	MTR Coporation Ltd.	reference entities (“first-to-default”), the note will be redeemed at the value of the reference debt obligation of the entity that suffers the credit event (net costs and expenses).	Bank USA, National Association (formerly HSBC Bank USA)
	4	The People’s Republic of China		
	5	Standard Chartered Bank		
	6	Sun Hung Kai Properties Ltd.		
	7	Swire Pacific Ltd.		
其他如期權等的承擔(若有請逐一列出)				

雷曼迷債系列 35 的資產

	名稱	現時價值是購入價的百分之多少
抵押債券證券(CDO)及其他資產	Synthetic CDO which had a credit rating of AAA on its purchase date	Pending confirmation from PricewaterhouseCoopers. , the Receiver appointed by the Trustee, HSBC Bank USA, National Association (formerly HSBC Bank USA)

- b. 如果你沒有上述的資料，你作為經銷商需要做產品盡職審責，你有沒有權知道呢？如果有，你為何不知道？如果沒有，你認為為了保障投資者，提高抵押品風險及對手風險的透明度，是否應作披露呢？

During the due diligence process, the product team had considered, among other things, the factor that the collateral of Minibond Series 35 would be AAA-rated collateralized debt obligation securities (CDO), which was disclosed to the investors in the issue prospectus and marketing materials.

According to the issue prospectus of Minibond Series 35, while any of the notes was outstanding, the investors could read copies of the contracts which set up the note programme, including, among other things, information about the collateral by going to the offices of the arranger, Lehman Brothers Asia Limited, during normal business hours.

Regarding the current status of the collateral, we understand that PricewaterhouseCoopers, as Receivers of the collateral securing Minibond Series 10 to 12, 15 to 23 and 25 to 36, publishes frequently asked questions from time to time in their website: <http://www.pwchk.com/home/eng/minibonds.html>. We understand that specific queries to the Receivers can be made by email to [REDACTED] or by telephone at their hotline +852 2289 [REDACTED]. BOCHK has informed its Minibond customers of the availability of this information and will continue to keep them updated when the bank is informed of any progress on the recovery of the collateral.

- c. 投資者在購入迷債/票據時仍未知道確實的抵押品內容，發行人只保證購買當日為 AAA 評級，但是，抵押品信貸評級有可能下降。所以抵押品內容至為重要，裏面涉及高風險及結構複雜的抵押債務證券(CDO)及相等於發出風險承保單的 CDS。你認為為了保障投資者，當發行人購買了抵押品後，貴行是應該向經銷商或購買者披露的。實行若不清楚，請向相關機構追問，以表示貴行是會向客戶負責到底的。你會否負責？

Please refer to our response to 3b above.

- 4 可否告之本委員會，在中銀銷售雷曼有關結構性金融產品時期(2003 年 4 月至 2008 年 9 月)，中銀在金管局「有關人仕紀錄冊」內的有關人仕的名字及職位？

HKMA Register of Relevant Individuals, which is a database of current and former relevant individuals (including Executive Officers), is a public record searchable by any member of the public (please see <http://www.info.gov.hk/hkma/eng/ereg/index.htm>).