

~~STRICTLY PRIVATE AND CONFIDENTIAL~~

Dated 26 May 2010

To the Subcommittee to Study Issues Arising from
Lehman Brothers-related Minibonds and
Structured Financial Products of the Legislative Council

**SUPPLEMENTAL RESPONSE TO THE SUBCOMMITTEE'S LETTER DATED 12 MAY 2010
FROM MR HUNG PI-CHENG, BENJAMIN, EXECUTIVE DIRECTOR AND
CHIEF EXECUTIVE OFFICER,
STANDARD CHARTERED BANK (HONG KONG) LIMITED (SCBHK)**

FOLLOW-UP TO THE HEARING ON 11 MAY 2010

1. **As stated in paragraph 21.1 of W30(C), SCBHK decided to put on hold the sales of Lehman Brothers (LB) equity linked notes (ELNs) on 5 June 2008. Please provide relevant document(s) that recorded this decision.**

[The response to this Question 1 previously submitted by the Bank on 19 May 2010 is superseded by the following response.]

- 1.1 On 2 June 2008 when LB's credit rating was downgraded by Standard & Poor's from A+ to A, the Bank sought further information from LB on 3 June 2008, in line with its normal business practice. LB replied on 4 June 2008, essentially stating that the impact of Standard & Poor's downgrade on Lehman Brothers' funding and liquidity was limited. As part of the Bank's ongoing review process, if an issuer's credit rating was downgraded, HKWM team would internally assess the impact and, where necessary, decide on an appropriate action plan to take. In view of market uncertainty, HKWM decided to temporarily put on hold the distribution of LB ELNs, being one of the twenty approved suppliers of structured products, pending further developments. The decision to select and distribute other structured notes instead of LB ELNs was made as part of an ongoing and routine product selection process and, as such, was not formally documented.

8. **As stated by Mr Benjamin HUNG at the hearing on 11 May 2010, out of the 2 234 customers who purchased LB ELN from SCBHK and affected by the collapse of LB, about 11% of them had a risk tolerance level which did not match with the risk rating of LB ELN. In respect of this 11% of customers, please provide:**

(a) **a breakdown of the purchases transacted by bank branches;**

- 8.1 Out of the 2,234 customers who purchased LB ELN, 11% of them were assessed by the suitability assessment ("SA") tool as unsuitable for LB ELN, i.e. 246 customers with 264 transactions. Customers were required to make a declaration to acknowledge the SA result and then sign the SA report prior to proceeding with the order. Below is the distribution by branches:

Branch	No. of Transaction(s)
68 Nathan Road	2
88 Des Voeux Road	6
88 Des Voeux Road PrB Centre	6
Aberdeen	14
Admiralty	1
Canton Rd	3
Causeway Bay	17
Central	7
Chatham Road	3
Cheung Sha Wan	6
Cheung Sha Wan PrB Centre	2
Chung On St	9
Cityplaza	15
Des Voeux Road	9
Festival Walk PrB Centre	6
Happy Valley	3
Hennessy Road	3
Hung Hom Comm. Centre	1
Hung Hom Comm. Centre PrB Centre	1

Kwun Tong	4
Leighton Centre	26
Lok Fu Shop Ctr	1
Ma On Shan	2
Maritime Sq	5
Mei Foo Manhattan	3
Mei Foo Stage I	3
Metroplaza	5
Mongkok	7
New Jade Garden	1
North Point Ctr	4
North Point Island Place	1
Prince Edward Road	1
Quarry Bay	2
Sai Kung	4
Shatin Centre	1
Shatin Plaza PrB Centre	3
Shek Tong Tsui	1
Tai On Building	7
Tai Po	5
Tai Wai	2
Tin Shui Wai	3
Tsimshatsui	4
Tsimshatsui East	1
Tsuen Wan	4
Tuen Mun Town Plaza	4
Wanchai	16
Wanchai Great Eagle	4
Waterloo Road	4
Whampoa Estate	14
Yaumati	1
Yuen Long	6
Yuen Long Fung Nin Road Branch	1
Total	264

(b) a breakdown of the transactions by year;

Year	No. of Transaction(s)
2006	2
2007	21
2008	241
Total	264

(c) **a breakdown and analysis of the customer profile, including their age, education, years of patronage and investment experience in SCBHK;**

Age	No. of customers
65 or above	46
Below 65	200
Total	246

Education Level	No. of customers
Primary	14
Primary & Secondary	58
University	56
Professional or MBA	1
Others*	94
Missing*	23
Total	246

* Remarks:

Education level is recorded in different systems used by the Bank. The information above represents the customers' latest education level data on record as at August 2008. There is a 'primary and secondary' category in addition to a 'primary' category because the Bank's credit card account system on the one hand and its account system on the other used these different fields. Many application forms had an 'Others' field. Finally, 'Missing' denotes cases where customers did not provide any information on their education levels in cases where this information was not mandatory.

Years of Patronage*	No. of customers
< 3 years	21
3 to <5 years	10
5 to <7 years	7
7 to <10 years	24
10 to <15 years	36
15 to <20 years	72
>=20 years	76
Total	246

* Years of Patronage refers to the number of years the customer first established banking relationship with SCBHK (investment or non-investment account).

8.2 240 out of a total of 246 customers declared they had investment experience in their SA (i.e. they had selected at least one kind of investment experience in the suitability assessment report). Their investment experience in SCBHK is as follows:

Investment Experience in SCBHK (no. of transaction in investment products prior to the outstanding LB ELN)	No. of customers
0	72
1 - 4	98
5 - 9	32
>=10	44
Total	246

(d) the number of settled cases and an analysis of the reasons that led to the settlement; and

8.3 22 cases have been settled and 2 cases are in the course of settlement. The Bank assesses complaints and considers settlement on a case by case basis and the reason for settling or not settling in each case is subject to legal advice and hence a claim of legal professional privilege. It is inappropriate for the Bank to comment further.

(e) the number of cases that had not yet been settled and the reasons why settlement could not yet be reached.

8.4 There are 222 cases which have not yet been settled. The Bank assesses complaints and considers settlement on a case by case basis and the reason for settling or not settling in each case is subject to legal advice and hence a claim of legal professional privilege. It is inappropriate for the Bank to comment further.