



**SECURITIES AND FUTURES COMMISSION**  
證券及期貨事務監察委員會

小組委員會文件編號 SC(1)-S50  
SC Ref.No.SC(1)-S50

8th Floor, Chater House, 8 Connaught Road Central, Hong Kong  
香港中環干諾道中八號遮打大廈八樓

Martin Wheatley, JP 韋奕禮  
Chief Executive Officer 行政總裁

17 August 2009

Your Ref: CB1/HS/1/08

**CONFIDENTIAL**

By Hand

Miss Polly Yeung  
Clerk to Subcommittee  
Legislative Council  
3/F Citibank Tower, Citibank Plaza  
3 Garden Road  
Central, Hong Kong

Dear Polly,

**Re: Subcommittee to Study Issues Arising from Lehman Brothers-related  
Minibonds and Structured Financial Products**

S49 Further to my letter to you on 12 August 2009, please find attached a copy of letter issued by HSBC Bank USA, National Association to us on 13 August 2009 for your further handling. **Appendix 1**

Yours sincerely,

Martin Wheatley  
Chief Executive Officer

Enclosure

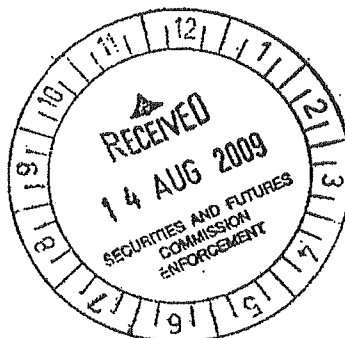
c.c. Mr Kenneth Chan, PAS(FS)/FSTB



13 August 2009

Via Hand Delivery

Securities and Futures Commission  
8th Floor, Chater House  
8 Connaught Road Central  
Hong Kong



Attention: Eugène Goyne, Senior Director, Enforcement

Dear Sirs:

**Re: Collateral for Lehman Bros minibonds series 5-7, 9-12, 15-23 and 25-36 (Outstanding Minibonds)**

We refer to your letter dated 6 August 2009 in which you have asked for our assistance in relation to the request which has been made by the relevant Legislative Council Subcommittee (LegCo) for information on the value of the collateral for the Outstanding Minibonds. We wish to make it clear at the outset that we intend to cooperate to the extent reasonably possible, having regard to our duties as trustee and applicable law.

You refer in your letter to powers of compulsion. Without in any way wishing to detract from our intention to be helpful, we hope that you will understand that we must reserve our position in relation to any exercise of such powers.

As you are aware, the structure of the Minibonds is complex. We assume that the LegCo request is motivated by a desire to establish the amounts which may be available to the holders of the Outstanding Minibonds. Because this will be affected by a number of factors relating to the Minibonds structure, we believe that it would be helpful to set out a brief summary of the structure before responding in relation to the request for assistance.

**1. The structure of the Outstanding Minibonds**

The Outstanding Minibonds were issued by Pacific International Finance Limited (Pacific). The collateral for the purposes of the Outstanding Minibonds (other than in the case of Series 5-7 and 9) comprises notes issued by special purpose vehicles (the **Underlying Notes**) and derivative contracts (the **Top Swaps**) with Lehman Brothers Special Financing Inc. (LBSF). HSBC Bank USA, National Association (HSBC USA) is merely the trustee with respect to the Minibonds. The terms of the Minibonds provided that as between LBSF and the holders of the Minibonds, LBSF would have priority of payment in respect of any realisations from the Underlying Notes.

The Underlying Notes are themselves secured by a variety of assets (collectively referred to as **Underlying Collateral**) in respect of each series, including, notes issued by Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., MBIA Global Funding LLC, cash and US treasury bonds. HSBC USA is not trustee in respect of the Underlying Notes and derivative contracts with LBSF (the **Underlying Swaps**). The priority of payment for the Underlying Notes provides that LBSF has priority unless an event of default in respect of LBSF had occurred under the Underlying Swap (this is referred to as the **Flip Clause**). The question of whether a clause similar to the Flip Clause is enforceable is currently before the US Bankruptcy Courts in the United States (Civil Action No. 08-13555-JMP) and in England (Case No: HC09C011612 and HC09C01931). The London High Court has on 28 July 2009 given judgment that the Flip Clause is enforceable as a matter of English law although LBSF has been given leave to appeal.

HSBC Bank USA, National Association  
452 Fifth Avenue, New York, NY 10018

Securities and Futures Commission  
Attention: Eugène Goyne, Senior Director, Enforcement  
Re: Collateral for Lehman Bros minibonds  
13 August 2009  
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**2. Value of the Collateral**

You have asked us to provide information in relation to the value of the collateral for the Outstanding Minibonds. We would take this to mean the combination of the value of the Underlying Notes and the Top Swaps. We respond to this request as follows:

- (a) The Trustee has on 17 and 21 November 2008 provided notification to each of the holders of the Outstanding Minibonds of details of the Underlying Collateral. The notification is publically available forming Schedule 1 to the Ernst & Young "Submission to Legco Panel on Financial Affairs" dated 29 December 2009, which is posted on your website. Subsequent to 29 December 2009, the Underlying Collateral has changed and the Trustee has on 18 March 2009 and 27 May 2009 provided notifications to each of the holders of the Outstanding Minibonds of such changes. Copies of these notifications are attached.
- (b) The value of the Underlying Notes depends upon both of the value of the Underlying Collateral and the value of the Underlying Swap.
- (c) The Underlying Collateral which is not held as cash has not recently been valued. The value of some of the Underlying Collateral may readily be ascertained from market sources (for example, in relation to the treasury bonds). Such values would, of course, be no more than current estimates - the actual realisable value would depend on the market conditions at the time of sale. In addition, some of the series have Underlying Collateral that is not liquid and is very thinly traded making it difficult to value at this time.
- (d) The receivers for the Minibonds (other than Series 5-7 and 9) have appointed an agent to value the Top Swaps and this is in progress although it will be some time before the valuations are available. From our experience of the valuation of swaps relating to Lehman entities, the value of the Top Swaps as calculated by the agent is likely to be challenged by LBSF.
- (e) We are not aware that the trustee of the Underlying Notes has started any valuation process in respect of the Underlying Swaps. The value of the Underlying Swaps will be irrelevant if the validity of the Flip Clause (which is being challenged in both the US and English courts see above) is upheld. The fact that there remains legal uncertainty over the priority in which the Underlying Collateral would be applied in respect of the Underlying Notes is a significant source of uncertainty in relation to the ultimate realisation for the holders of the Outstanding Minibonds.
- (f) If and when swap valuations are obtained, it will be necessary to exercise considerable caution in respect of such information because, in the context of any settlement discussions or litigation to determine the amount (if any) payable in respect of the Underlying Swaps (or possibly also the Top Swaps), disclosure of valuations could have a material adverse impact on the prospects of obtaining a beneficial outcome for the holders of the Outstanding Minibonds. The disclosing party may be exposed to severe criticism or even liability for damaging such prospects.

For the reasons we set out above, at this stage we are unable to provide the value of the collateral for the Outstanding Minibonds (being the aggregate value of the Underlying Notes and the Overlying Swap). Even if and when such information may become available, it may be neither useful nor relevant in assisting the holders of the Outstanding Minibonds to assess the amounts which they may recover and in fact may be detrimental in achieving a settlement agreement and harm the interests of the holders of the Outstanding Minibonds.

Securities and Futures Commission  
Attention: Eugène Goyne, Senior Director, Enforcement  
Re: Collateral for Lehman Bros minibonds  
13 August 2009  
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We hope that the above is useful. We will be happy to discuss any aspect of this response with you should that be of assistance.

Yours faithfully,

HSBC BANK USA,  
NATIONAL ASSOCIATION

By: Kevin T. O'Brien  
Kevin T. O'Brien  
Senior Vice President

Enclosures

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HSBC Bank USA, National Association, as Trustee  
(the "Trustee")

**NOTICE OF REINVESTMENT OF COLLATERAL FOR UNDERLYING SECURITIES**

**NOTICE IS HEREBY GIVEN** to the holders (the "Noteholders") of the Notes (the "Notes") issued by Pacific International Finance Limited (the "Issuer") listed on Schedule A hereto.

The underlying securities constituting collateral for the Notes are secured in part by shares in the Lehman Brothers US Dollar Liquidity Fund (the "Fund"). A suspension was placed on dealings in the Fund. Such suspension on dealings in the Fund was temporarily lifted to permit the partial redemption of the shares in the Fund.

Requests for redemptions in full were submitted by The Bank of New York Mellon or its affiliates, as custodian and/or trustee with respect to the underlying securities ("BoNY"). The Trustee has been informed that (i) an initial twenty percent (20%) gate was applied to all redemptions for the Fund and (ii) the Fund subsequently released an additional twenty percent (20%) of the redemption amount. All redemption proceeds will be reinvested by BoNY in 4-week United States treasury bills as such proceeds are made available by the Fund managers. BoNY is reinvesting such proceeds pending resolution of legal issues arising under United States bankruptcy law with respect to the distribution of such proceeds.

Noteholders who have any questions for the Trustee are invited to contact the representative of the Trustee by email at [lbnyinquiries@us.hsbc.com](mailto:lbnyinquiries@us.hsbc.com).

This Notice is given by  
HSBC Bank USA, National Association,  
as Trustee  
Dated: 18 March, 2009

Schedule A

Issuer	Series	ISIN
Pacific International Finance Limited	Series 27 A	XS0266951804
Pacific International Finance Limited	Series 27 B	XS0266952281
Pacific International Finance Limited	Series 27 C	XS0266952794
Pacific International Finance Limited	Series 27 D	XS0266953255
Pacific International Finance Limited	Series 29A	XS0279846223
Pacific International Finance Limited	Series 29B	XS0279848609
Pacific International Finance Limited	Series 29C	XS0279848195
Pacific International Finance Limited	Series 29D	XS0279848948
Pacific International Finance Limited	Series 26 A	XS0258956738
Pacific International Finance Limited	Series 26 B	XS0258956902
Pacific International Finance Limited	Series 26 C	XS0258957207
Pacific International Finance Limited	Series 34 A	XS0338557704
Pacific International Finance Limited	Series 34 B	XS0338558181
Pacific International Finance Limited	Series 32 A	XS0311435787
Pacific International Finance Limited	Series 32 B	XS0311438377
Pacific International Finance Limited	Series 32 C	XS0311436082
Pacific International Finance Limited	Series 32 D	XS0311438708
Pacific International Finance Limited	Series 31 A	XS0296675605
Pacific International Finance Limited	Series 31 B	XS0296677056
Pacific International Finance Limited	Series 31 C	XS0296675944
Pacific International Finance Limited	Series 31 D	XS0296677486
Pacific International Finance Limited	Series 25 A	XS0252325005
Pacific International Finance Limited	Series 25 B	XS0252325690
Pacific International Finance Limited	Series 25 C	XS0252326318
Pacific International Finance Limited	Series 25 D	XS0252327399
Pacific International Finance Limited	Series 28 A	XS0272928879
Pacific International Finance Limited	Series 28 B	XS0272929091
Pacific International Finance Limited	Series 28 C	XS0272929414
Pacific International Finance Limited	Series 28 D	XS0272929687

Issuer	Series	ISIN
Pacific International Finance Limited	Series 30 A	XS0285418215
Pacific International Finance Limited	Series 30 B	XS0285419023
Pacific International Finance Limited	Series 30 C	XS0285419619
Pacific International Finance Limited	Series 30 D	XS0285420468
Pacific International Finance Limited	Series 23 A	XS0243200143
Pacific International Finance Limited	Series 23 B	XS0243200812
Pacific International Finance Limited	Series 23 C	XS0243201463
Pacific International Finance Limited	Series 23 D	XS0243201620
Pacific International Finance Limited	Series 36 A	XS0363491829
Pacific International Finance Limited	Series 36 B	XS0363492124
Pacific International Finance Limited	Series 35 A	XS0348459131
Pacific International Finance Limited	Series 35 B	XS0348459487
Pacific International Finance Limited	Series 22 A	XS0236382585
Pacific International Finance Limited	Series 22 B	XS0236382742
Pacific International Finance Limited	Series 22 C	XS0236382825
Pacific International Finance Limited	Series 19 A	XS0220695604
Pacific International Finance Limited	Series 19 B	XS0220695943
Pacific International Finance Limited	Series 33 A	XS0318915823
Pacific International Finance Limited	Series 33 B	XS0318916631
Pacific International Finance Limited	Series 33 C	XS0318916128
Pacific International Finance Limited	Series 33 D	XS0318916987

HSBC Bank USA, National Association, as Trustee  
(the "Trustee")

**NOTICE OF COMPLETION OF REINVESTMENT OF COLLATERAL  
FOR UNDERLYING SECURITIES**

**NOTICE IS HEREBY GIVEN** to the holders (the "Noteholders") of the Notes (the "Notes") issued by Pacific International Finance Limited (the "Issuer") listed on Schedule A hereto.

The Trustee notified the Noteholders on 18 March, 2009 (the "**18 March Notice**") that requests for redemptions in full for the underlying securities constituting collateral for the Notes secured in part by shares in the Lehman Brothers US Dollar Liquidity Fund (the "**Fund**") were submitted by The Bank of New York Mellon or its affiliates, as custodian and/or trustee with respect to the underlying securities ("**BoNY**").

The Trustee has been informed that the Fund has been liquidated in full and the redemption proceeds have been reinvested by BoNY in 4-week United States treasury bills. BoNY has reinvested such proceeds pending resolution of legal issues arising under United States bankruptcy law with respect to the distribution of such proceeds.

Noteholders who have any questions for the Trustee are invited to contact the representative of the Trustee by email at [lbnyinquiries@us.hsbc.com](mailto:lbnyinquiries@us.hsbc.com).

This Notice is given by  
HSBC Bank USA, National Association,  
as Trustee  
Dated: 27 May, 2009



Schedule A

Issuer	Series	ISIN
Pacific International Finance Limited	Series 27 A	XS0266951804
Pacific International Finance Limited	Series 27 B	XS0266952281
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Pacific International Finance Limited	Series 27 D	XS0266953255
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