

**Major issues relating to Lehman Brothers' Minibonds
and the sale of structured investment products**

1. Regulatory framework

- Respective roles of the Government, Hong Kong Monetary Authority (HKMA) and Securities and Futures Commission (SFC) in the sale and regulation of structured investment products
- HKMA's regulatory powers over authorized institutions (AIs)
- Application of SFC rules and codes/guidelines to AIs and their securities staff for performing securities-related business
- Approval for the launch of investment products by banks as AIs and securities firms
- Responsibilities by HKMA and SFC in the day-to-day front-line supervision of AIs and securities firms
- Disparity of regulatory standards and requirements for AIs and securities firms in providing securities/investment services

2. Sale of minibonds by authorized institutions

- Types of minibonds sold to investors through retail banks and brokers and the extent of risks associated with these products, in particular derivatives such as synthetic collateralized debts obligations (CDOs) and credit default swaps (CDS) contracts guaranteed by Lehman Brothers
- Procedure and mechanism adopted by AIs/brokers for selling financial products to clients
- Relationship between Lehman Brother Inc. and AIs/brokers in selling its investment products
- Procedure for assessing the estimated value of the underlying collaterals of the Lehman Brother minibonds
- Authority for the issue of advertisements and documents
- Disclosure of risk and full information to investors
- Role of HKMA and SFC over the packaging of these products and the marketing methodologies

3. *Protection for investors and mechanism to investigate complaints and provide assistance to investors*

- Policy on protection for investors
- Current mechanism for investigating complaints in relation to substantial or total loss to mini-bond investors arising from the collapse of Lehman Brothers Inc.
- Progress made so far and time schedule
- Whether prosecution will be instituted
- Measures to assist investors and current position regarding the Government's proposal for AIs to buy back minibonds and views of banks/brokers on the Government's proposal
- Plans to devise mediation and settlement to compensate the complainants

4. *Measures to restore confidence in Hong Kong's banking system*

- Impact of the Lehman Brothers' minibond incident on public confidence in Hong Kong's banking system
- Measures to assist banks/brokers to address concerns of affected investors and win confidence of their customers
- Whether the Exchange Fund will be used to assist banks/brokers to restore confidence and whether the Fund will be used to finance the banks/brokers in buying back the minibonds, and whether it is appropriate to do so under the law
- Any other measures or contingency plans