

Agreements made by SFC and MA with banks in respect of LB-related Minibonds and structured financial products
(As at 8 July 2011)

	Minibonds Repurchase Scheme	Repurchase for Equity Index-linked Fixed Coupon Principal Protected Notes	Resolution Scheme for Constellation Notes	Equity Linked Notes Repurchase Scheme	Repurchase Scheme for Market Linked Notes and Equity Linked Notes
Parties to the agreement pursuant to section 201 of Securities and Futures Ordinance (Cap. 571)	SFC, MA and 16 distributing banks ¹	SFC, MA, Dah Sing Bank Ltd (DSB) and Mevas Bank Ltd (Mevas)	SFC, MA and DBS Bank (Hong Kong) Limited (DBSHK)	SFC, MA and Standard Chartered Bank (Hong Kong) Limited (SCBHK)	SFC, MA and Citibank (Hong Kong) Limited (CHKL)
Date on which the agreement was announced	22 July 2009	23 December 2009	14 July 2010	1 March 2011	8 July 2011
LB-related structured financial product to which the agreement applies	Outstanding LB-related Minibonds ²	Certain Equity Index-linked Fixed Coupon Principal Protected Notes issued by LB (LB-PPNs) sold by DSB and Mevas on or after 5 August 2008	Certain LB-related Constellation Notes ³ (LB-CLNs)	All Equity Linked Notes issued by LB (LB-ELNs) that were outstanding, at the time of the LB bankruptcy filing on 15 September 2008.	All market-linked notes (LB-MLNs) and equity-linked notes (LB-ELNs) issued by LB and distributed by CHKL ⁴ between March 2007 and June 2008 that were outstanding, at the time of the LB bankruptcy filing on 15 September 2008.
Distributable collateral, if any, securing the product to which the agreement applies	Yes. Each outstanding series is secured. Each distributing bank made available an amount equivalent to the amount of commission income received by it as a	No	No	No	No

¹ 16 distributing banks are ABN AMRO Bank N.V.; Bank of China (Hong Kong) Ltd; Bank of Communications Co Ltd; The Bank of East Asia, Ltd; Chiyu Banking Corporation Ltd; Chong Hing Bank Ltd; CITIC Ka Wah Bank Ltd; Dah Sing Bank Ltd; Fubon Bank (Hong Kong) Ltd; Industrial and Commercial Bank of China (Asia) Ltd; Mevas Bank Ltd; Nanyang Commercial Bank, Ltd; Public Bank (Hong Kong) Ltd; Shanghai Commercial Bank Ltd; Wing Hang Bank Ltd and Wing Lung Bank Ltd.

² Minibond Series 5-7, 9-12, 15-23 and 25-36.

³ Only the series of the Constellation Notes of which Lehman Brothers Holdings Inc. was one of the reference entities. They were series 34-37, 43-46, 55-58, 59-62, 63-66, 67-70, 71-74 and 78-81.

⁴ LB-MLNs and LB-ELNs were distributed by CHKL on a private placement basis with a minimum subscription amount of HK\$500,000.

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	<p>distributor of the outstanding Minibonds to the trustee of the Minibonds to assist in the recovery of the underlying collateral.</p> <p>Once the collateral was recovered and paid to the distributing banks, each of the distributing banks would make a further payment to eligible customers.</p> <p>Please refer to the Appendix 6(b) for details.</p>				
Eligibility for the repurchase / resolution offer	<p>Customers were eligible to receive a repurchase offer if they purchased the outstanding series of the Minibonds through any of the 16 distributing banks as part of a primary offering, with open positions in such outstanding series of Minibonds, and were not professional investors⁵, corporate / non-individual investors (with specified exceptions⁶) and experienced investors⁷.</p> <p>Customers who meet the above requirements and have previously reached settlements with distributing banks in relation to the Minibonds would not qualify for the repurchase offer but would receive an ex gratia payment to make up the difference if their settlement amounts were less</p>	<p>Customers who purchased the LB-PPNs from DSB/Mevas on or after 5 August 2008.</p> <p>Customers who purchased the LB-PPNs from DSB/Mevas on or after 5 August 2008 and settled their claims in relation to the product with DSB/Mevas previously would not qualify for the repurchase offer but would receive an ex gratia payment to make up the difference if their settlement amounts were less than the repurchase offer.</p>	<p>Customers were eligible to a resolution offer if they acquired the LB-CLNs through DBSHK, held the LB-CLNs as of 19 September 2008 (the date on which the credit event notice in relation to the bankruptcy of LB Holdings Inc. was issued) and were classified by DBSHK at the time of purchase as either level 1(conservative), 2(moderate) or 3(balanced) investors under DBSHK's investment profiling system (i.e., low risk customers).</p> <p>Customers who meet the above requirements and have previously reached settlements with DBSHK would receive a top up payment to make up the difference if their settlement amounts were less than the resolution offer.</p> <p>No resolution offer was extended to customers who were given a risk profile of either level 4</p>	<p>Customers were eligible to a repurchase offer if they owned (i) the outstanding not principal protected LB-ELNs purchased from SCBHK in amounts exceeding 5% of the customer's available assets⁸ or (ii) the outstanding principal protected LB-ELNs purchased from SCBHK in amounts exceeding 10% of their available assets; and were not corporations (other than charities, not for profit organizations, and corporations where the suitability assessment was based on an individual's circumstances rather than the corporation's), professional investors and clients of the private banking division of SCBHK.</p> <p>Customers who meet the above requirements and have previously reached settlements</p>	<p>Customers were eligible to a repurchase offer if they had open positions in the outstanding LB-MLNs and/or LB-ELNs purchased through CHKL; and were not professional investors, corporate / non-individual investors and experienced investors⁹.</p> <p>Customers who meet the above requirements and have previously reached settlements with CHKL in relation to LB-MLNs / LB-ELNs would not qualify for the repurchase offer but would receive a top up payment to make up the difference if their settlement amounts were less than the repurchase offer.</p>

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	than the repurchase offer.		(growth) or 5(aggressive) investors (i.e. high risk customers).	with SCBHK would receive a top up payment to make up the difference if their settlement amounts were less than the repurchase offer.	
Terms of the repurchase/resolution offers by the bank(s) without admission of any liability	<p>Offers to repurchase from eligible customers all outstanding series of the Minibonds at a price equal to 60% of the nominal value of the original investment for customers below the age of 65 as at 1 July 2009, or 70% of the nominal value of the original investment for customers aged 65 or above as at 1 July 2009. Customers would be entitled to retain any coupon payments received.</p> <p>If the collateral of the relevant series can be recovered, further payment of a specific amount (depending on the recoveries) to eligible customers below the age of 65 as at 1 July 2009 and, if recoveries exceed 70% of the total principal amount of that series, then further payment of a specific amount (depending on the recoveries) to eligible customers aged 65 or above as at 1 July 2009.</p> <p>If an eligible customer accepts the offer, he/she is required to transfer the Minibonds to the distributing bank; release the distributing bank and its staff from any claims arising from</p>	<p>Payment at 80% of the principal amount invested by an eligible customer.</p>	<p>Resolution payment at a price equal to an eligible customer's investment principal, plus interest earned on their investment principal from a fixed term deposit less coupon payments from the LB-CLNs.</p> <p>Customers accepting the offer of the resolution payment or the top up payment will have to give up all civil claims against DBSHK (including its employees); withdraw complaints lodged with DBSHK, SFC, HKMA and the Consumer Council; and discontinue legal proceedings in relation to the LB-CLNs.</p> <p>Any acceptance of the offer in respect of some but not all LB-CLNs will be treated as a rejection.</p>	<p>Payment at a price equal to the total value of an eligible customer's investment:</p> <ul style="list-style-type: none"> - less 5% of his/her available assets (for customers who own outstanding not principal protected LB-ELNs) or less 10% of his/her available assets (for customers who own outstanding principal protected LB-ELNs); - less the amount of coupon payment already made to him/her as a result of holding the product; and - plus interest calculated according to a specified formula. <p>In the unlikely event that it is determined at a later date that a customer accepting a repurchase offer would have received a greater amount as an unsecured creditor in the LB bankruptcy, SCBHK will pay the difference to that customer.</p> <p>On accepting a repurchase offer or top up payment offer, customers will be asked to give up all civil claims against SCBHK (including its present and past officers and</p>	<p>Payment at 80% of the total amount invested by an eligible customer, less the amount of coupon payment already made to him/her as a result of holding LB-MLNs / LB-ELNs; and plus interest calculated according to a specified formula.</p> <p>In the unlikely event that it is determined at a later date that a customer accepting a repurchase offer would have received a greater amount as an unsecured creditor in the LB bankruptcy proceedings, CHKL will pay the difference to that customer.</p> <p>On accepting a repurchase offer, customers will be asked to give up all civil claims against CHKL (including its present and past officers and employees) in relation to LB-MLNs / LB-ELNs; withdraw complaints about LB-MLNs / LB-ELNs lodged with CHKL, SFC, HKMA, the Consumer Council and other relevant authorities (excluding the Police); and</p>

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	<p>the sale of Minibonds; withdraw his/her complaints arising from the sale of the Minibonds; and discontinue any legal proceedings or mediation in relation to the Minibonds.</p> <p>Any acceptance of the offer in respect of some but not all of the relevant series of the Minibonds will be treated as rejection of the offer.</p>			<p>employees) in relation to LB-ELNs; withdraw complaints about LB-ELNs lodged with SCBHK, SFC, HKMA and the Consumer Council; and discontinue legal proceedings against SCBHK (including its present and past officers and employees) in relation to LB-ELNs.</p> <p>Any acceptance of the repurchase offer or top up payment offer in respect of some but not all LB-ELNs will be treated as a rejection of the offer.</p>	<p>discontinue legal proceedings against CHKL (including its present and past officers and employees) in relation to LB-MLNs / LB-ELNs.</p> <p>Any acceptance of the repurchase offer or top up payment offer in respect of some but not all of the relevant series of LB-MLNs/LB-ELNs will be treated as rejection of the offer.</p>
Number of investors covered by the repurchase/resolution offers and the amounts involved	More than HK\$5.2 billion would be paid to about 24 400 eligible customers and 4 800 customers who had previously settled with the distributing banks.	<p>About 529 customers (for the repurchase offers or the ex gratia payments) with a total investment of HK\$264 million.</p> <p>Assuming all eligible customers accept the offers, the total amount payable by DSB and Mevas under the repurchase offers and ex gratia payments is approximately HK\$72 million.</p>	<p>About 2 160 accounts of the eligible customers.</p> <p>DBSHK distributed the LB-CLNs to a total of approximately 3 400 customer accounts in approximately 4 380 transactions involving about HK\$1,316 million.</p> <p>DBSHK offered to pay approximately HK\$651 million to the eligible customers.</p>	<p>Over 95% of the outstanding transactions in LB-ELNs by customers of SCBHK.</p> <p>SCBHK sold over HK\$5 billion worth of LB-ELNs between August 2006 and June 2008 of which HK\$2.19 billion worth remained outstanding. The 2 515 outstanding LB-ELNs were held by 2 234 customers.</p> <p>The total value of the repurchase offer was estimated to be approximately HK\$1.48 billion.</p>	<p>About 92% of CHKL's customers holding outstanding LB-MLNs / LB-ELNs.</p> <p>Between March 2007 and June 2008, CHKL distributed 19 series of LB-MLNs and 52 series of LB-ELNs of which HK\$1.6 billion worth remained outstanding. The outstanding LB-MLNs / LB-ELNs were held by more than 1 400 customers.</p> <p>The total value of the repurchase offer was estimated to be approximately HK\$1.06 billion.</p>

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Enhanced complaint handling procedures	<p>As part of the Minibonds repurchase agreement, each of the 16 distributing banks agreed to engage a qualified third party to review and enhance complaint handling procedures and to commit to the implementation of all recommendations by such third party.</p> <p>Each distributing bank would immediately implement special enhanced complaint handling procedures to resolve, in a fair and reasonable manner, all complaints in relation to the sale of other structured products.</p> <p>Investors who do not accept the repurchase offers or who are not eligible for the repurchase offers can ask the distributing banks to review their cases under the enhanced complaint handling procedures.</p>	<p>As part of the Minibonds repurchase agreement, distributing banks including DSB and Mevas were required to review and enhance their complaint handling procedures to receive and resolve complaints concerning LB-related structured financial products.</p> <p>The repurchase scheme arose from the enhanced complaint handling procedures under the Minibonds repurchase agreement.</p>	<p>DBSHK was required to review complaints regarding high risk customers under the enhanced complaint handling procedures which is the same as that implemented by the distributing banks under the Minibonds repurchase agreement.</p> <p>Customers who consider that the resolution offer is not acceptable may file complaints under the enhanced complaint handling procedures.</p>	No reference is made to any enhanced complaint handling procedures.	No reference is made to any enhanced complaint handling procedures.
Investigation or enforcement action by SFC and HKMA	<p>SFC will discontinue its investigations into the sale of Minibonds by the distributing banks.</p> <p>Unless dishonesty, fraud or other criminal elements are involved, HKMA does not intend to continue its investigation into the case of any eligible customer who accepts the repurchase offer, but will investigate or continue</p>	<p>SFC will not take any enforcement action against DSB or Mevas, or any of their directors, officers or employees under SFC's Code of Conduct in relation to the sale of the LB-PPNs.</p> <p>HKMA does not intend to take any enforcement action against the executive officers and relevant individuals in connection with the sale of</p>	<p>SFC will not take further enforcement action against DBSHK and its employees in relation to the distribution of the LB-CLNs, save for any acts of dishonesty, fraud, deception or conduct that is criminal in nature.</p> <p>Unless dishonesty, fraud or other criminal elements are involved, the HKMA does not intend to continue its investigation into the case of any eligible customer who</p>	<p>Except for any acts of dishonesty, fraud, deception or conduct that is criminal in nature:</p> <ul style="list-style-type: none"> - SFC will not take disciplinary action against SCBHK and its current or former officers or employees in relation to the distribution of LB-ELNs; and - HKMA does not intend to take any enforcement action against their executive 	<p>Except for any acts of dishonesty, fraud, deception or conduct that is criminal in nature:</p> <ul style="list-style-type: none"> - SFC will not impose disciplinary sanctions against CHKL and its current or former officers or employees in relation to the distribution of LB-MLNs / LB-ELNs; and - HKMA does not intend to

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	its investigation into those cases involving customers who do not accept, or are not eligible for, the repurchase offer and whose complaints can not be resolved by the enhanced complaint handling procedures introduced by the distributing banks.	LB-PPNs by them to customers who have accepted the offers. Notwithstanding the above, the resolution does not limit action against any person where there is dishonesty, fraud, deceit or other criminal conduct in connection with the sale of LB-PPNs.	accepts the offer. The HKMA will, however, continue its investigation into those cases involving customers who do not accept, or are not eligible for, the offer.	officers and relevant individuals in connection with the sale of LB-ELNs to customers who have accepted the repurchase offers or the top up payment offers, but will continue to investigate complaints made by customers who reject the offers or who are not eligible for the offers.	take any enforcement action against CHKL's executive officers and relevant individuals in connection with the sale of LB-MLNs / LB-ELNs to customers who have accepted the repurchase offers or the top up payment offers, but will continue to handle complaints made by customers who reject the repurchase offers or who are not eligible for the offers.
Considerations taken into account and concerns raised by the regulators in connection with the repurchase offers	<ul style="list-style-type: none"> -The repurchase offer by the distributing banks is a reasonable one and is in the public interest. -Customers who accept the repurchase offer will, subject to the recovery and distribution of the underlying collateral, receive a total amount that is equal to or greater than what they would otherwise recover if they were simply paid the current market value of the collateral. -The recoverable value of the collateral was not certain. -The Minibonds repurchase agreement includes a commitment by the distributing banks, as note-holders, to take reasonable steps to expedite the return of the collateral. 	<ul style="list-style-type: none"> - Unlike Minibonds, there is no collateral for the LB-PPNs. The holder of a LB-PPN is an unsecured creditor in LB bankruptcy. Accordingly, there is very little likelihood of any dividend payment to DSB and Mevas. - The repurchase offer enables all individual customers concerned to receive an amount equivalent to 80% of their investment without protracted legal proceedings. - The resolution is a reasonable and practical one and is in the interest of investors and in the public interest. 	<ul style="list-style-type: none"> - There were concerns that DBSHK rated the LB-CLNs as a low to medium risk product and sold them to both high and low risk customers. A different division in DBSHK had assessed the LB-CLNs as having a higher risk level. - The LB-CLNs may not have been suitable for low to medium risk customers whose risk profile favoured the conservative, moderate and balanced end of the investment spectrum. The LB-CLNs were a sound product likely to have been suitable for customers with a higher risk tolerance level and experience in derivatives. - The relevant prospectuses had stated that the prospective investors may lose all or substantially all of their 	<ul style="list-style-type: none"> - There were concerns that SCBHK might have exposed investors of the LB-ELNs to higher levels of risk than were suitable for them by not adequately considering concentration risk¹⁰ when assessing the suitability of the products for the investors. - Unlike Minibonds, there is no distributable collateral for the LB-ELNs. As unsecured creditors, there is little chance LB-ELN holders will receive any substantial payment or dividend in the LB bankruptcy. - Although LB-ELNs were high risk products, they were less complex than Minibonds and likely to have been 	<ul style="list-style-type: none"> - CHKL has comparatively sound and detailed written guidelines and procedures in respect of risk disclosure and suitability assessment; but SFC has concerns regarding the implementation, supervision and controls of those guidelines and procedures. - There were concerns in the adequacy of disclosure of credit risk of LB to customers; the sufficiency of the assessment of customers' experience and some customers' level of tolerance to risk for LB-MLNs / LB-ELNs, including risk profiling procedures before the

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	<p>-The Minibonds repurchase agreement includes special measures in which the 16 distributing banks will investigate and resolve in a fair and reasonable manner all complaints involving the sale and distribution of other structured products.</p> <p>-The Minibonds repurchase agreement also remediates the distributing banks' systems and processes to meet the highest standards that will provide enhanced protection to the investing public in the future and give the investing public an assurance that the parties are determined to ensure these events are not repeated.</p>		<p>investment in LB-CLNs.</p> <ul style="list-style-type: none"> - Unlike Minibonds, there is no distributable collateral for the LB-CLNs. There is no chance that holders of the LB-CLNs will receive any additional or top up payment or dividend so the payments from DBSHK will be the only possible return payable to the eligible customers. - The present outcome could not have been achieved through disciplinary action by the SFC against DBSHK and/or its officers and employees, if such action was successful. - The resolution offer will guide other distributors of LB-CLNs in resolving complaints with their customers who purchased such notes. 	<p>suitable products for most customers as part of a diversified portfolio.</p> <ul style="list-style-type: none"> - The offer will enable the majority of the LB-ELN investors of SCBHK to obtain a reasonable recovery without the costs and associated risks of separate litigation. - The present outcome could not have been achieved through disciplinary action by the SFC against SCBHK and/or its officers and employees. 	<p>purchase of the products; and the overall monitoring of the sale process of the products.</p> <ul style="list-style-type: none"> - The repurchase scheme enables the great majority of CHKL's customers for LB-MLNs / LB-ELNs to receive a reasonable portion of what they invested without the costs and risks of separate legal proceedings. - LB-MLNs / LB-ELNs were less complex than credit-linked notes. - Unlike Minibonds, there is no distributable collateral for LB-MLNs / LB-ELNs. There is less chance for customers to receive any substantial payment or dividend in the LB's bankruptcy proceedings. - The present outcome could not have been achieved through disciplinary action by SFC against CHKL and/or its staff, even if such action was successful.

Source: Press releases and relevant Questions and Answers published by SFC and HKMA regarding the various agreements.