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來函檔號 YOUR REF.:

12 May 2009

Miss Polly YEUNG
Clerk to Subcommittee to Study Issues Arising from
Lehman Brothers-related Minibonds and Structured Financial Products
Legislative Council
8 Jackson Road
Hong Kong

Dear Miss YEUNG,

**Subcommittee to Study Issues Arising from Lehman Brothers-related
Minibonds and Structured Financial Products (“Subcommittee”)**

Thank you for your letter dated 30 April 2009 seeking an explanation on the query raised by one of the members of the Subcommittee as to whether there is any discrepancy between page 16 of the written statement which I formally produced to the Subcommittee at the hearing on 20 February 2009, and paragraph 13.4 of the written statement produced by the Monetary Authority (“MA”) at the Subcommittee hearing on 14 April 2009. I apologize for not having been able to revert by your deadline of 6 May 2009 as I was on duty visit overseas last week. W1(C)
W6(C)

On page 16 of the written statement which I formally produced to the Subcommittee at the hearing on 20 February 2009, I mention that during the period from June to mid-September 2008, the Administration did not receive any reports or alerts on the “possible impact of the financial difficulties of Lehman Brothers on the financial market and investors of Lehman Brothers-related structured financial products in Hong Kong”.

I note that paragraph 13.4 of MA's said written statement mentioned that the Hong Kong Monetary Authority sent an email to the Financial Secretary on 12 September 2008 ("the Email") to provide a summary record of a meeting between the Chairman of the Hong Kong Association of Banks ("the HKAB") and MA held on that day, which discussed banks' exposure to investment banks such as Lehman Brothers in terms of both credit risk and their dealings with Lehman Brothers in the over-the-counter markets.

As acknowledged by MA in his oral evidence at the hearing on 17 April 2009, his discussion with the Chairman of the HKAB on 12 September 2008 focused on the potential impact on individual banks and the stability of the banking system. The Administration notes that the Email records the Chairman of the HKAB's assessment that the impact on banks might not be large because banks' main dealings with Lehman Brothers were mostly to distribute the structured or credit products originated by Lehman Brothers. In response, MA suggested that it was important to keep a close watch on the vulnerabilities of the banking system. The Email, however, contains no alert or explicit reference to any possible problem arising from the financial difficulties of Lehman Brothers on the financial market as a whole, nor is there any specific discussion about how Lehman Brothers' financial difficulties might potentially affect investors of Lehman Brothers-related structured financial products in Hong Kong.

In view of the above, I do not consider that page 16 (A12) of my written statement contradicts paragraph 13.4 of the MA's written statement. W1(C)

Yours sincerely,



(Professor KC Chan)
Secretary for Financial Services and the Treasury