

**CITIBANK (HONG KONG) LIMITED**

**SUBMISSIONS IN RESPONSE TO THE LETTER OF THE LEGISLATIVE  
COUNCIL SUBCOMMITTEE TO STUDY ISSUES ARISING FROM LEHMAN  
BROTHERS-RELATED MINIBONDS AND STRUCTURED FINANCIAL  
PRODUCTS DATED 28 MAY 2010**

1. In respect of the 1,421 customers who had purchased Lehman Brothers(LB)-related market-linked notes (MLNs) and LB-related equity-linked notes (ELNs) from Citibank (Hong Kong) Limited (CHKL) between March 2007 and June 2008, please provide:
  - (a) a breakdown of the customer profile, including their age, education level, occupation and years of patronage in CHKL;
  - (b) copies of the risk profiling questionnaires completed by these 1,421 customers (identity of individual customers can be masked);
  - (c) the number of customers who had time deposits in CHKL;
  - (d) out of the customers in (c), the number of customers who had purchased LB-related MLNs and LB-related ELNs with proceeds from their time deposits upon maturity; and
  - (e) out of the customers in (d), the number of customers who had never purchased structured financial products from CHKL before their purchase of the LB-related MLNs and LB-related ELNs.
- 1.1 Please kindly find enclosed Tables 1 to 4 containing the customer profile (including age, education level, occupation and years of patronage in CHKL) of the 1,421 customers who had purchased LB-related MLNs and LB-related ELNs from CHKL between March 2007 and June 2008.

Table 1: Education

<b>Education</b>	<b>%</b>
Post-Graduate/ College/ University	62%
Secondary School	28%
Primary School	1%
Not provided	9%
<b>Grand Total</b>	<b>100%</b>

Table 2: Age

<b>Age</b>	<b>%</b>
65 or Above	8%
Below 65	92%
<b>Grand Total</b>	<b>100%</b>

Table 3: Occupation

<b>Occupation</b>	<b>%</b>
Manager/Executive	41%
Professional	13%
Trader/Proprietor	11%
Housewife	11%
Retired	10%
Administrative/Sales/White Collar	10%
Others	4%
<b>Grand Total</b>	<b>100%</b>

Table 4: Years of patronage in CHKL (At the time the relevant customers subscribed LB-related MLNs/ELNs from CHKL)

<b>Years of Patronage</b>	<b>%</b>
Over 10 Years	41%
Over 5 Years to 10 Years	30%
Over 1 Year to 5 Years	18%
1 Year or Below	11%
<b>Grand Total</b>	<b>100%</b>

- 1.2 The Subcommittee will appreciate that retrieving and collating the risk profiling questionnaires completed by these 1,421 customers is a time consuming exercise. CHKL's designated team are in the process of retrieving and collating the relevant risk profiling questionnaires as a matter of priority and aim to provide copies of the questionnaires to the Subcommittee by 4 June 2010.
- 1.3 Out of the 1,421 customers, 592 customers had time deposits in CHKL immediately prior to their subscription of LB-related MLNs and/or LB-related ELNs from CHKL.
- 1.4 366 out of the said 592 customers had purchased LB-related MLNs and LB-related ELNs with the proceeds from their time deposits upon maturity.
- 1.5 76 out of the said 366 customers had never purchased structured financial products from CHKL before their purchase of LB-related MLNs and/or LB-related ELNs during the relevant period.

2. **Some of the complainants against CHKL alleged that they had been asked to sign on either a blank risk profiling questionnaire that would be completed by the sales staff, or on a risk profiling questionnaire that had already been completed by sales staff. Please confirm whether there was any case among the 1,421 customers that the sales staff of CHKL had completed the risk profiling questionnaires for the customers in the manner described.**

2.1 In terms of the 1,421 customers, the answers on the relevant risk profiling questionnaires were either filled in by the customers themselves or by front-line sales staff of CHKL according to customers' instructions and the answers were acknowledged and confirmed by the customers signing on the relevant risk profiling questionnaires.

2.2 CHKL has found no evidence suggesting that any of the 1,421 customers was asked to sign on a blank risk profiling questionnaire that would be subsequently completed by front-line sales staff.

3. **Please provide a sample copy of the following documents:**

**(a) "investment and insurance product – additional client demographic form" to be completed by vulnerable customers and new customers;**

**(b) the specified form(s) for handling client risk profile deviation; and**

**(c) subscription form(s) for LB-related MLNs and LB-related ELNs to be signed by the customer.**

3.1 Please kindly find enclosed a sample copy of the "*Investment and Insurance Products – Additional Client Demographic Form*" to be completed by vulnerable customers.

F(CHKL)3  
Annex 1

3.2 Risk profile deviations were approved by supervisor endorsement on the relevant risk profile questionnaire.

3.3 Please kindly find enclosed sample copies of the subscription forms for LB-related MLNs and LB-related ELNs.

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Annex 2  
Annex 3

4. It is noted from paragraph 53.2 of W34(C) that as at 31 March 2010, CHKL has settled 56 customer complaints out of the 594 complaints received in relation to LB-related MLNs and ELNs. Please provide:

- (a) a breakdown of the 594 complaints by (i) LB MLN and (ii) LB ELN;
- (b) a breakdown of the 56 cases by (i) LB MLN and (ii) LB ELN;
- (c) out of the 56 settled cases, the number of cases settled with payment of 100% of investment amount involving (i) LB MLNs and (ii) LB ELNs respectively;
- (d) apart from (c), a breakdown of the remaining cases out of the 56 settled cases involving (i) LB MLNs and (ii) LB ELNs showing the settlement amount as percentages of the investment amount; and
- (e) a breakdown of the reasons that led to CHKL's approval for settlement of these 56 cases.

4.1 Out of the 594 complaints, 87 cases are in relation to LB-related MLNs and 507 cases are in relation to LB-related ELNs.

4.2 As at 31 March 2010, CHKL had settled 52 customer complaints<sup>1</sup>. Out of the 52 settled complaints, 10 cases were in relation to LB-related MLNs and 42 cases were in relation to LB-related ELNs.

4.3 Out of the 52 settled complaints, 2 cases were settled with payment of 100% of the investment amount in relation to LB-related ELN.

4.4 Please kindly find enclosed Table 5 containing a breakdown of the remaining cases out of the 52 settled complaints involving (i) LB-related MLNs and (ii) LB-related ELNs showing the settlement amount as percentages of the investment amount.

Table 5: Average Settlement % of Non-100% Settlement Cases

	LB-MLNs	LB-ELNs
Av. Settlement % of Non-100% Settlement Cases	66%	56%

<sup>1</sup> CHKL had approved settlement in respect of 56 customer complaints as at 31 March 2010.

4.5 The reasons that led to CHKL's settlement of the 52 complaints include a combination of one or more of the following factors:

- 4.5.1 Compassionate grounds.
- 4.5.2 Relationship reasons.
- 4.5.3 Minor documentation lapses.
- 4.5.4 Non material breach of CHKL's internal policies.

**5. Please provide the date when CHKL put in place and implement the investigation process set out in the flow chart under Item 17b of W34(C) for handling complaint cases in relation to the sale of LB-related products.**

5.1 28 October 2008.

**6. Please provide a copy of the audio recording of an actual selling process of LB-related ELNs that demonstrated how the sales staff disclosed the risks and nature of the products to the customer.**

6.1 CHKL's designated staff are in the process of retrieving the audio recording of an actual selling process of LB-related ELNs as a matter of priority and aim to provide a copy of the audio recording to the Subcommittee by 4 June 2010.

**7. Please inform the Subcommittee of the following:**

**(a) the number of staff involved in the sale of LB-related MLNs and LB-related ELNs**

- (i) who had resigned from CHKL; and**
  - (ii) who had been terminated by CHKL**
- after the collapse of LB in September 2008;**

**(b) out of the former staff in (a), the number of these staff who were involved in complaint cases in relation to the sale of LB-related MLNs and LB-related ELNs, and the number of such complaint cases; and**

**(c)out of the complaint cases in (b), the number of cases in which CHKL was unable to contact the responsible staff members in the investigation process.**

7.1 Between mid September 2008 to mid September 2009, 33 sales staff who were involved in the distribution of LB-related MLNs and LB-related ELNs had resigned from CHKL for other career opportunities and 3 sales staff were terminated for reasons other than LB-related products.

7.2 Out of the former staff in 7(a), 27 staff are involved in complaint cases in relation to the sale of LB-related MLNs and LB-related ELNs. There are 66 of such complaint cases.

7.3 Out of the complaint cases in 7(b), CHKL has been able to contact all the responsible staff members in the investigation process.