

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 STRUCTURING FINANCIAL PRODUCTS DATED 1 JUNE 2010**

1. In respect of the risk profiling questionnaires completed by 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 customers' investment experience in terms of the following descriptions:
- (i) Limited;
 - (ii) Moderate; and
 - (iii) Extensive;
- (b) a breakdown of the customers' investment experience in terms of the following products:
- (i) Mutual Funds;
 - (ii) Bonds;
 - (iii) Equities;
 - (iv) FX Margin;
 - (v) FX Trading;
 - (vi) Options;
 - (vii) Structured Products; and
 - (viii) Others.
- (c) a breakdown of the customers' investment objective and risk tolerance in terms of the following descriptions:
- (i) Risk Averse;
 - (ii) Income/Conservative;
 - (iii) Moderate; and
 - (iv) Aggressive.

1.1 Please kindly find enclosed Tables 1 - 3 containing the information requested in 1(a) to (c).

Table 1: Self-Description of Investment Experience

Description	%
Limited	0%
Moderate	22%
Extensive	78%

Table 2: Declared Experience in Investment Products

Description	%
Mutual Fund	
Yes	93%
Nil	7%
Bonds	
Yes	65%
Nil	35%
Structured Products	
Yes	64%
Nil	36%
FX Trading/ Foreign Currency Deposits/ Currency Linked Deposits	
Yes	77%
Nil	23%
Stocks	
Yes	91%
Nil	9%
Options/Futures	
Yes	6%
Nil	94%

Gold/ Commodities	
Yes	13%
Nil	87%
Investment Linked Insurance	
Yes	26%
Nil	74%
Margin Trading/ Leveraged Investment	
Yes	6%
Nil	94%

Table 3: Investment Objectives

Description	%
Risk Averse	0%
Income/ Conservative	5%
Moderate	12%
Aggressive	83%

2. As stated by Mr Weber LO at the hearing held on 1 June 2010 and in item 6c of W34(C), additional approval from supervisors two ranks above that of the sales staff would be required for deviation in customer risk profile in relation to ELNs, i.e. customers with risk profile 5 who intended to purchase ELNs risk-rated at 6. In respect of the customers who had purchased LB-related ELNs from CHKL between March 2007 and June 2008, please advise:

- (a) the number of application for such additional approval for deviation; and
- (b) the number of approved cases and rejected cases.

2.1 CHKL does not have a record of the number of application for such additional approval for risk deviation approval to allow customers with risk tolerance level 5 to purchase LB-related ELNs which were risk rated 6, the highest risk rating.

- 2.2 There were 6 approved cases during the relevant period. For the reasons stated in paragraph 2.1 above, CHKL does not have record of the rejected cases.
3. **It is noted that HKMA conducted two on-site examinations in respect of CHKL's wealth management business in 2006 and 2007 respectively (paragraphs 57.1 to 57.3 of W34(C)). Please advise on the number of branches visited and the number of frontline sales staff of CHKL interviewed by HKMA during each of the two inspections.**
- 3.1 During the two on-site examinations (referred to in paragraphs 57.1 to 57.3 of W34(C)), the HKMA did not visit any branch or interview any front line sales staff of CHKL but the HKMA did interview CHKL's senior management and compliance team.
4. **It is noted from paragraph 39.4 of W34(C) that CHKL conducted an independent mystery shopping exercise annually. In respect of the mystery shopping exercise conducted during the period between March 2007 and June 2008, please provide in tabular form the branches that the mystery shoppers had visited and the date of each visit.**
- 4.1 Please kindly find enclosed Table 4 containing the branches and the dates of the mystery shopping referred to in paragraph 39.4 of W34(C).

Table 4: Branches visited and date of visit of the mystery shopping exercise during the period between March 2007 and June 2008:

Date	Branches
Nov-07	Central, Wheelock Branch
Nov-07	Mongkok
Nov-07	Exchange Square
Nov-07	Pacific Place
Nov-07	Tsuen Wan
Nov-07	Kwun Tong
Nov-07	Whampoa Garden
Nov-07	Tuen Mun
Nov-07	Yuen Long
Nov-07	Dorset House

5. **Regarding the performance appraisal of the sales staff of CHKL, please advise on the respective weighting of the key components (namely customer service, compliance and control, and financial performance) mentioned in paragraph 45.11 of W34(C) in evaluating staff performance.**
- 5.1 The performance evaluation of sales staff was conducted in a balanced manner, taking into account factors such as compliance and control, customer experience, financial achievements and other intangible considerations such as leadership skills.
- 5.2 All the mentioned factors are of equal importance in a sale staff's performance evaluation. There is no specific percentage assigned to each particular factor.

6. **Please provide a copy of the following documents:**

- (a) **bilingual version of the risk profiling questionnaire used by CHKL in the know your clients process;**
- (b) **relevant training materials that set out the requirements/guidelines on disclosure of nature and risks of LB MLNs and LB ELNs to prospective customers; and**
- (c) **the distribution agreement between Lehman Brothers and CHKL in relation to the distribution of LB MLNs and LB ELNs.**

6.1 The risk profiling questionnaire used by CHKL in the "*know your client*" process is printed in both English and Chinese. A sample copy is enclosed.

6.2 Please kindly find enclosed the training materials which set out the requirements/guidelines on disclosure of nature and risks of LB-related MLNs and LB-related ELNs to prospective customers.

6.3 Please kindly find enclosed a copy of the Distribution Agreement made between Lehman Brothers Commercial Corporation Asia Limited and CHKL dated 31 October, 2007 in relation to the distribution of LB-related MLNs or LB-related ELNs by CHKL.

7. **Please provide a copy of the Final Terms of the following products:**

- (a) **(a MLN) Lehman Brothers 2.5 years USD Market Leader, Monthly Auto-call Principal Protected Note; and**
- (b) **(an ELN) Lehman Brothers 1 Year USD Daily Accrual All Season Coupon Auto-call Note with Daily Knock-In Series 23.**

7.1 Please kindly find enclosed copies of the Final Terms of the LB-related MLN known as "*Lehman Brothers 2.5 years USD Market Leader, Monthly Auto-call Principal Protected Note*" and the LB-related ELN known as "*Lehman Brothers 1 Year USD Daily Accrual All Season Coupon Auto-call Note with Daily Knock-In Series 23*" (both English and Chinese versions).

7.2 Please also kindly find enclosed copies of the Final Terms and Conditions of the LB-related MLN and LB-related ELN referred to in paragraph 7.1 above.