

Dated 5 August 2010

**WRITTEN RESPONSE OF  
MR CHU REN-YEE, ALEXANDER, COUNTRY EXECUTIVE, HONG KONG,  
THE ROYAL BANK OF SCOTLAND N.V. TO ISSUES ARISING FROM THE  
SUBCOMMITTEE'S HEARING ON 13 JULY 2010**

To the Subcommittee to Study Issues Arising from Lehman Brothers-related Minibonds and  
Structured Financial Products of the Hong Kong Legislative Council

## GENERAL REMARKS

I refer to the summons issued by the Subcommittee to me on 26 May 2010 under the Legislative Council (Powers and Privileges) Ordinance (Cap 382) (“**Summons**”) and to my written statement dated 17 June 2010 (“**Written Statement**”), given in response to the Summons. This statement supplements my Written Statement.

Unless otherwise defined, capitalised terms used in this submission have the meanings given to them in my Written Statement.

## RESPONSE TO REQUESTS FOR ADDITIONAL INFORMATION

- 1 As mentioned in paragraph 1.2 of F(RBS)3, ABN/RBS had sold 19 LB 2.75-year CNY Booster Himalaya Notes which, as stated by Mr Alexander CHU at the hearing on 13 July 2010, consisted of two tranches. Please inform the Subcommittee of the number of 2.75-year CNY Booster Himalaya Notes (USD) (as described in Item 5a of W37(C)) that had been sold by ABN/RBS.**
  - 1.1 Of the 19 LB 2.75-year CNY Booster Himalaya Notes sold by the Bank during the Relevant Period, 18 were USD-denominated and one was HKD-denominated.
- 2 In respect of the sale of Lehman Brothers-related structured financial products, please advise:**
  - (a) the number of complaint cases in which the customers had requested ABN/RBS to provide the relevant audio recording of the selling process and/or other related written record(s) which contained information on the complainants; and;**
    - 2.1 In respect of the complaints described in Item 35 in the Written Statement, 62 customers have lodged personal data access requests (each a “**PDPO Request**”) with the Bank. This reflects 66 complaint files and 124 PDPO Requests in aggregate. The reason that the number of customers is smaller than the number of complaint files is that some customers held both Minibonds and Lehman Products other than Minibonds and are therefore counted twice.
  - (b) out of the cases in (a), the number of cases in which the request was not acceded to by ABN/RBS.**
    - 2.2 Of the 124 PDPO Requests described in paragraph 2.1, 113 were fulfilled by the Bank. The Bank did not accede to 11 PDPO Requests for the following reasons:
      - 2.2.1 in four cases, there was insufficient information available to fulfill the PDPO Requests;

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2.2.2 in six cases, the particular information requested did not exist; and

2.2.3 in one case, the PDPO Request was not in the form required by law.

**3 In respect of the customers who had purchased Lehman Brothers-related structured financial products from ABN/RBS through private placement, please advise:**

**(a) the number of complaint cases, if any, in which the customers alleged that they had not been informed that the Lehman Brothers-related structured financial products were sold to them through private placement; and**

3.1 Of the 384 complaint cases lodged with the Bank in relation to Lehman Products sold through private placement, there were six cases in respect of which the customer alleged that they were not informed that the relevant Lehman Product was sold to them through private placement. A small number of additional cases involved less specific allegations concerning the absence of regulatory approval of those Lehman Products.

3.2 As described in the response to Question 5 in my submission dated 12 July 2010 ("F(RBS)2"), private placement was a recognised channel for the distribution of Lehman Products in Hong Kong during the Relevant Period. It was not a necessary part of the Bank's sales process to draw customers' attention specifically to all of the private placement requirements.

3.3 However, as described in the response to Question 5(a) of F(RBS)(2), each RM was required to make available all necessary documents to the customer before accepting an application for the customer to purchase Lehman Products. In the case of Lehman Products distributed through private placement, this included the term sheet. The term sheet contained the key features of private placement - namely, it stated that its contents had not been reviewed by any regulatory authority in Hong Kong, and it also set out the relevant private placement restrictions.

**(b) out of the complaint cases in (a), the number of cases that had audio recording of the selling process.**

3.4 Of the six cases described in the response to Question 3(a), four had audio recordings of some aspect of the selling process for a Lehman Product.

**4 As stated in paragraph 44.7 of W37(C), the staff incentive scheme for frontline sales staff was based on three major criteria: revenue, customer growth and growth of assets under administration. Please advise:**

**(a) the respective weighting of each of the three major criteria in the staff incentive scheme;**

4.1 As described in paragraph 44.7 of the Written Statement, during the Relevant

Period, each staff member had different performance targets according to their respective grade and role. RMs were required to meet their targets under each of the three major criteria (revenue, customer growth and growth of assets under administration) in order to be eligible for an incentive. Each of these criteria carried an equal weighting of one third.

- (b) **whether any weighting was given to "proper compliance with applicable regulatory requirements"; if yes, please provide details; if no, the reasons; and**

4.2 An RM's entitlement to receive an incentive was subject to proper compliance with applicable regulatory requirements and internal guidelines. That is, proper compliance was a prerequisite to receiving an incentive and, where deemed appropriate, non-compliance could operate as a discounting factor. In an extreme case, the incentive could be withheld in its entirety.

- (c) **whether the respective weighting of each of the criteria mentioned in (a) and (b) was subject to annual review; if yes, please provide details.**

4.3 The Bank reviewed its incentive scheme during the Relevant Period annually, as well as on an ongoing basis, to ensure it was appropriate to meet the Bank's business needs and complied with all applicable regulatory requirements. The respective weighting of each of the criteria described in Question 4(a) did not change as a result of those reviews. The approach to regulatory compliance was strengthened in 2006 through the introduction of the qualitative score card described in paragraph 44.7 of the Written Statement and in the response to Question 5 below.

5 **It is noted that from 2006, staff of the bank were subject to a quarter-end review on their qualitative performance in the form of a score card for assessing their compliance, operational, service quality and sales discipline record (paragraph 44.7 of W37(C)). Please advise/provide:**

- (a) **a sample copy of this score card;**

5.1 Please refer to **Item 1**, which provides a sample score card. This shows the sales control matrix adopted by the Bank to test staff members' qualitative performance. In particular, this evaluated areas including adherence to Bank guidelines, KYC and other account opening procedures, sales and regulated activities, compliance, operations and service standards, to ensure high standards of compliance and operations.

- (b) **the respective weighting of each of the four different aspects of assessment in the score card for the quarter-end review; and**

5.2 The weighting assigned to the three sections of the score card that involved a points-based assessment (being "KYC or Account Opening", "Sales / Regulated Activities" and "Compliance / Operations / Service Standard")

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varied during the Relevant Period. This is because the criteria under each section evolved over time to meet the business needs and regulatory requirements of the Bank. Any change to the criteria within a section would affect the weighting of that section, because each criterion was allocated a certain number of points that reflected the Bank's assessment of the risks to which it could be exposed if it was not met.

5.3 In relation to the other section of the score card (being "Adherence to Bank Guidelines"), a failure to meet any of the criteria was treated as a serious non-compliance action and, depending on its nature and severity, could be considered as an act of gross misconduct and lead to the dismissal of an employee.

**(c) whether the respective weighting of each of the four different aspects of assessment in the score card was subject to annual review; if yes, please provide details.**

5.4 Please refer to our response to Question 4(a), which outlines the Bank's regular review of its staff incentive scheme during the Relevant Period. The approach described in the response to Question 5(b) was introduced as a result of those Bank's review processes. As described in paragraph 5.2, the weighting assigned to the three sections of the score card that involved a points-based assessment varied during the Relevant Period, as a result of changes made to the score card as part of the annual or ongoing review processes.