

SFC, HKMA and 16 banks reach agreement on Minibonds

The Securities and Futures Commission (SFC), the Hong Kong Monetary Authority (HKMA) and 16 distributing banks (the Banks) (Note 1) today jointly announce that they have reached an agreement in relation to the repurchase of Lehman Brothers Minibonds from eligible customers (Note 2).

The Banks have agreed with the SFC and the HKMA without admission of liability that (Note 3):

- each of the Banks will make an offer to repurchase from each eligible customer all outstanding Minibonds (Note 4) at a price equal to 60% of the nominal value of the original investment for customers below the age of 65 or at 70% of the nominal value for customers aged 65 or above as at 1 July 2009. Customers will be entitled to retain any coupon payments received to date;
- once the underlying collateral is recovered and paid to the Banks, each of them will make a further payment of initially up to 10% (depending on recoveries) of the nominal value of the Minibonds to eligible customers below the age of 65 and, if recoveries exceed 70%, the Banks will pay the entire excess amount to eligible customers who have accepted the repurchase offer (Notes 5 and 6);
- each Bank will make available an amount equivalent to the amount of commission income received by it as a distributor of the outstanding Minibonds to the trustee of the Minibonds to assist in the recovery of the underlying collateral for each outstanding series of Minibonds;
- each of the Banks will immediately implement special enhanced complaints handling procedures to resolve, in a fair and reasonable manner, all complaints in relation to the sale and distribution of other structured products (Note 7); and
- to demonstrate their commitment in serving the investing public with the highest standards of conduct, each of the Banks: (i) will engage an independent reviewer, to be approved by the SFC and the HKMA, to review its systems and processes relating to the sale of structured products, to report to the SFC and the HKMA and will commit to the implementation of all recommendations by the independent reviewer; and (ii) will engage a qualified third party, as approved by the SFC and the HKMA, to review and enhance complaints handling procedures, and will commit to the implementation of all recommendations by such third party.

People who have previously reached settlement with the Banks in relation to Minibonds will not qualify for the repurchase offer. However, the Banks have undertaken to the HKMA to make ex gratia payments to those customers that have already entered into settlements with the Banks and who would have been eligible to receive the repurchase offer where those customers have received settlement amounts less than they would have received under this agreement. The intention is to bring those customers in line with eligible customers under this agreement.

In consideration of the agreement, the SFC will discontinue its investigations into the sale and distribution of Minibonds by the Banks. The HKMA has also informed the

Banks that as the agreement contains detailed arrangements for the settlement of claims and the implementation of robust systems for selling unlisted structured products and dealing with related customer complaints in future, it is not its intention to take any enforcement action against the Banks in relation to Minibond cases that involve eligible customers who accept the offer.

The SFC considers that this agreement meets the SFC's criteria for resolution under section 201 of the Securities and Futures Ordinance for the following reasons:

- The repurchase scheme should ensure that eligible 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 agreement takes into account that the recoverable value of the collateral is not certain. Even if the recoverable value of the collateral is below the values estimated by experts engaged by the Hong Kong Association of Banks in late 2008, the proposal will still deliver a return for the eligible customers that is equal to or exceeds 60% of their investment (or 70% for customers aged 65 or above).
- The agreement includes a commitment by the Banks, as noteholders, to take reasonable steps to expedite the return of the collateral. It is important that any claim on the collateral that might reduce its recoverable value is negotiated robustly.
- The agreement represents an opportunity to resolve outstanding investigations involving 16 banks in a way that will bring benefits to nearly all holders of outstanding Minibonds.
- The agreement includes special measures in which the Banks will investigate and resolve in a fair and reasonable manner all complaints involving the sale and distribution of other structured products.
- The agreement also remediates the 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.
- The SFC and the HKMA believe that the repurchase offer by the Banks is a reasonable one and is in the public interest.

"Strong markets, like Hong Kong's, need strong regulations. This agreement will provide substantial benefits for the vast majority of customers holding Minibonds that would not otherwise be received by them and, given the number of Banks and customers involved, the agreement is a watershed in the regulation of financial services in Hong Kong," said the SFC's Chief Executive Officer, Mr Martin Wheatley.

"Specifically, the agreement paves the way for customers who hold Minibonds to receive a substantial return of their capital. Secondly, the financial support of the Banks, using the commission income received in the sale of Minibonds, will expedite the return of the underlying collateral to Hong Kong Minibond holders. This aligns the interests of the Banks and customers holding Minibonds. Thirdly the agreement

provides the framework for the Banks to develop higher standards of practice in the future and to resolve complaints in relation to other structured products. For these reasons, the SFC firmly believes it is an appropriate resolution of the Minibond issue with these banks," remarked Mr Wheatley.

Mr YK Choi, Deputy Chief Executive of the HKMA, said: "The HKMA welcomes and supports the repurchase scheme and considers it to be practical, reasonable and in the interests of the great majority of Minibond investors. The HKMA encourages eligible customers to consider the repurchase offer by the Banks."

Dr The Hon Sir David Li Kwok-po, Chairman and Chief Executive of The Bank of East Asia, Ltd, said on behalf of the Banks: "The Banks are pleased to have reached this agreement with the SFC and the HKMA which we believe will benefit Hong Kong as an international financial centre. It evidences our joint effort to assist the Minibond investors in Hong Kong who have been impacted by the sudden collapse of the Lehman Brothers Group, and to reinforce public confidence in Hong Kong's banking, financial and regulatory systems. This agreement demonstrates our unwavering commitment to the good of Hong Kong and the welfare of our customers. We will continue to work with the SFC and the HKMA to maximise the confidence of our customers in Hong Kong's banks, and to ensure that the standards maintained by Hong Kong's banks will be in line with international best practice."

The SFC acknowledges the substantial assistance of the HKMA in the investigation of these cases.

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Notes to Editor:

1. The Banks are: (1) ABN AMRO Bank N.V.; (2) Bank of China (Hong Kong) Ltd; (3) Bank of Communications Co Ltd; (4) The Bank of East Asia, Ltd; (5) Chiyu Banking Corporation Ltd; (6) Chong Hing Bank Ltd; (7) CITIC Ka Wah Bank Ltd; (8) Dah Sing Bank Ltd; (9) Fubon Bank (Hong Kong) Ltd; (10) Industrial and Commercial Bank of China (Asia) Ltd; (11) Mevas Bank Ltd; (12) Nanyang Commercial Bank, Ltd; (13) Public Bank (Hong Kong) Ltd; (14) Shanghai Commercial Bank Ltd; (15) Wing Hang Bank Ltd; and (16) Wing Lung Bank Ltd.

2. Eligible customers will not include professional investors, corporate/non-individual investors (with specified exceptions) or experienced investors (meaning investors who in the three years preceding their first purchase of Minibonds, executed five or more transactions in Leveraged Products, Structured Products or a combination of these products. The definition also excludes those customers who have previously settled claims in relation to Minibonds with the Banks.

3. Please follow this link for the Questions and answers about Lehman Brothers Minibonds Repurchase Scheme by Distributing Banks.

4. Outstanding Minibonds refers to the following series of Minibonds: series 5 – 7 inclusive, series 9 - 12 inclusive, series 15 – 23 inclusive, series 25 - 36 inclusive.

5. Table setting out the projected recovery (%) by eligible customers below the age of 65 as at 1 July 2009:

Collateral amount recovered	0%	5%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
Total recovery by eligible customers	60%	65%	70%	70%	70%	70%	70%	70%	70%	80%	90%	100%

6. Table setting out the projected recovery (%) by eligible customers aged 65 or above as at 1 July 2009:

Collateral amount recovered	0%	5%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
Total recovery by eligible customers	70%	70%	70%	70%	70%	70%	70%	70%	70%	80%	90%	100%

7. The Code of Conduct for Persons Licensed by or Registered with the SFC provides that licensees and registered institutions should ensure customer complaints are handled in a timely and appropriate manner, steps are taken to investigate and respond promptly to complaints and, where a complaint is not remedied promptly, the client is advised of further steps available under the regulatory system.



**Questions and answers about Lehman Brothers Minibonds
Repurchase Scheme by Distributing Banks**

1. Which are the distributing banks that participate in the Repurchase Scheme?

The 16 Distributing Banks that participate in the Repurchase Scheme are:

- (1) ABN AMRO Bank N.V.
- (2) Bank of China (Hong Kong) Ltd
- (3) Bank of Communications Co Ltd
- (4) The Bank of East Asia, Ltd
- (5) Chiyu Banking Corporation Ltd
- (6) Chong Hing Bank Ltd
- (7) CITIC Ka Wah Bank Ltd
- (8) Dah Sing Bank Ltd
- (9) Fubon Bank (Hong Kong) Ltd
- (10) Industrial and Commercial Bank of China (Asia) Ltd
- (11) Mevas Bank Ltd
- (12) Nanyang Commercial Bank, Ltd
- (13) Public Bank (Hong Kong) Ltd
- (14) Shanghai Commercial Bank Ltd
- (15) Wing Hang Bank Ltd
- (16) Wing Lung Bank Ltd

2. Who is eligible to receive a repurchase offer from a Distributing Bank?

A customer who fits the following description is eligible to receive a repurchase offer:

- (i) purchased through any of the above 16 Distributing Bank Outstanding Minibonds¹ as part of a primary offering; and
- (ii) are holding open positions in such Outstanding Minibonds,

but does not fall into any one of the following categories:

¹ Minibond Series 5, 6, 7, 9, 10, 11, 12, 15, 16, 17, 18, 19, 20, 21, 22, 23, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35 and 36.



- (aa) a customer who has, in the three years preceding their first purchase of Minibonds, executed five or more transactions in Leveraged Products², Structured Products³ or a combination of these products;
- (bb) a non-individual⁴ who hold an account with the Distributing Bank in the name of an entity incorporated or formed in Hong Kong or elsewhere;
- (cc) a professional investor falling under paragraph (a) to (i) of the definition of "professional investor" in Part 1 of Schedule 1 to the Securities and Futures Ordinance;
- (dd) a professional investor under section 3 of the Securities and Futures (Professional Investor) Rules (Cap. 571D) and classified by a Distributing Bank and agreed by the customer to be treated as such in accordance with paragraphs 15.3 and 15.4 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission at the time he/she purchased the Minibonds; or
- (ee) a customer who has previously settled their claims in relation to the distribution of Minibonds with the Distributing Bank.

3. What are the terms of the repurchase offer and what will the eligible customer get if he/she accepts the offer?

A customer who is eligible to receive a repurchase offer ("Eligible Customer") will be offered and, if he/she accepts the repurchase offer, will receive from the Distributing Bank the following:

Initial Payment

- (a) a sum equivalent to 60% of the nominal value of the principal invested for Eligible Customer below the age of 65 as at 1 July 2009; or

² For the purpose of the Repurchase Scheme, a "Leveraged Product" means any unlisted securities product which involves leverage (i.e., any method by which an investor increases his or her exposure to a particular market, risk or asset class, whether through borrowing of cash, through the use of derivatives or by any other means);

³ For the purpose of the Repurchase Scheme, a "Structured Product" means a derivative or other product which is structured in the form of a debenture, other security or deposit and which contains, references, or is based on, a derivative or a derivative strategy. It comprises exclusively: (i) credit-linked notes, (ii) equity-linked notes, (iii) equity-linked deposits, and (iv) private placement notes, but does not include any principal-protected product or listed securities.

⁴ "Non-individual" does not include any sole proprietorship, exempt charitable body (under section 88 of the Inland Revenue Ordinance) or not-for-profit organisation whose assets are not managed by an SFC licensed fund manager.



- (b) a sum equivalent to **70%** of the nominal value of the principal invested for Eligible Customer aged **65 or above as at 1 July 2009** (irrespective of whether they hold the Minibonds jointly with customers under the age of 65);

AND

Further Payment

After the value of the collateral of a series of Minibonds is recovered and paid to the Distributing Bank, the Distributing Bank will make a further payment to Eligible Customers who held Minibonds in that series in accordance with the following:

- (i) Eligible Customers below the age of 65 as at 1 July 2009 will receive a further payment pro rata to their initial investment of (as illustrated in the table below):
- the actual amount recovered, if the percentage of the recovery for that series is less than 10% of the total principal amount of that series;
 - 10% of the principal amount, if the percentage of recovery for that series is between 10% and 70% of the total principal amount of that series; or
 - the amount in excess of 60% of the principal amount, if the percentage of recovery for that series exceeds 70% of the total principal amount of that series.

Collateral amount	0%	5%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
Total amount of Initial and Further Payments	60%	65%	70%	70%	70%	70%	70%	70%	70%	80%	90%	100%

- (ii) Eligible Customers aged 65 or above as at 1 July 2009 (irrespective of whether they hold the Minibonds jointly with customers under the age of 65) will receive a further payment of the amount in excess of 70%, if the percentage of recovery for that series exceeds 70% of the total principal amount of that series (as illustrated in the table below):

Collateral amount	0%	5%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
Total amount of Initial and Further Payments	70%	70%	70%	70%	70%	70%	70%	70%	70%	80%	90%	100%

4. Will an Eligible Customer who previously reached Minibonds settlement with a Distributing Bank get any offer?

The Distributing Bank will make a voluntary offer to pay an amount to a customer who: (i) has previously settled with the Distributing Bank in relation to any claim concerning the

0007



Distributing Bank's distribution of Minibonds; and (ii) would, but for the previous settlement, have qualified for a payment under the Repurchase Scheme in an amount exceeding the total amount received or will be received under the previous settlement ("**Settled Eligible Customer**"). (For those who settled with the Distributing Bank without selling his Minibonds to the Distributing Bank, he will be given an offer to repurchase at the relevant amounts below.)

The amount that will be offered to the Settled Eligible Customer will be:

- (a) *if the Settled Eligible Customer was below the age of 65 as at 1 July 2009 and the settlement amount is below 60% of the principal invested:*
 - the difference between 60% of the principal invested and the total settlement amount, plus
 - any Further Payment in accordance with Answer (i) to Question 3 above after realisation of collateral.
- (b) *if the Settled Eligible Customer aged 65 or above as at 1 July 2009 and the settlement amount is below 70% of the principal invested:*
 - the difference between the 70% of the principal invested and the total settlement amount, plus
 - any Further Payment in accordance with Answer (ii) to Question 3 above after realisation of collateral.
- (c) *if the Settled Eligible Customer: (i) was below the age of 65 as at 1 July 2009 and the settlement amount was 60% of the principal invested or above; or (ii) aged 65 or above as at 1 July 2009 and the total settlement amount was 70% of the principal invested or above:*
 - any amount realised from the collateral in accordance with Answers (i) and (ii) to Question 3 above (as applicable) in excess of the total amount received or will be received under the previous settlement.

5. Should an Eligible Customer accept the repurchase offer?

An Eligible Customer should carefully consider the terms of the offer and his/her personal circumstances before deciding whether to accept the offer. If necessary, he/she should consider seeking independent legal and financial advice.

6. What is the procedure for accepting the offer?

The Distributing Bank will issue an Offer Letter to each Eligible Customer in the week of 3 - 10 August 2009 on a date to be announced shortly.

If the Eligible Customer decides to accept the offer, he/she is required to sign and return the Form of Acceptance attached to the Offer Letter to the Distributing Bank agreeing to, in summary:

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- (a) transfer the Minibonds to the Distributing Bank;
- (b) release the Distributing Bank and its present and former staff from any claims arising from the sale of Minibonds;
- (c) withdraw and permanently discontinue any ongoing legal proceedings or mediation arising from or in connection with Minibonds; and
- (d) withdraw any complaints arising from the sale of Minibonds.

For those Settled Eligible Customers, the Distributing Bank will similarly issue a letter in the week of 3 - 10 August 2009 (on a date to be announced shortly) notifying them of the voluntary payments or repurchase offer as specified in the answer to Question 4 above.

7. *What is the deadline for an Eligible Customer to accept the offer?*

If the Eligible Customer decides to accept the offer, he/she must do so by returning the signed Form of Acceptance attached to the Offer Letter to the Distributing Bank within 60 days from the date of the Offer Letter.

8. *What if the Eligible Customer does not see the Offer Letter in time?*

If the Eligible Customer gives a valid reason for not accepting the offer within the original 60-day deadline, the Distributing Bank must treat the offer as still being valid and give the client a further 30 days to accept the offer. If the Eligible Customer does not accept the offer within the further 30 days, the offer will lapse automatically.

9. *Is an Eligible Customer obliged to accept the offer?*

An Eligible Customer is not obliged to accept the offer. Any rejection of the offer will not affect his/her legal rights (if any) to pursue any claim in relation to the sale of Minibonds.

10. *What should an Eligible Customer do if he/she does not want to accept the offer?*

If an Eligible Customer decides not to accept the offer, he/she may send the Rejection Form attached to the Offer Letter to the Distributing Bank. Alternatively, the offer will be deemed to have been rejected automatically if not accepted within the time limit.

11. *If an Eligible Customer accepts the offer, when will payment be made?*

Initial Payment

Within 30 days after the Distributing Bank receives a completed Form of Acceptance from the Eligible Customer, the Distributing Bank will make the Initial Payment (see the answer to Question 3 above) to the Eligible Customer.



For Settled Eligible Customers, the Initial Payment (if any) will be paid to them by 22 September 2009.

Further Payment

Within 30 days after the Distributing Bank receives the collateral amount for a series of Minibonds, the Distributing Bank will make the Further Payment (see Question 3 above), if any, to the Eligible Customers/Settled Eligible Customers who held Minibonds in that series.

12. *What is the currency of payment?*

The Initial Payment and any Further Payment will be made in Hong Kong dollars except that for those series of Minibonds denominated in US dollars, the Distributing Bank will make the payments in US dollars.

13. *What are the contact details of the Distributing Banks for the repurchase scheme?*

If a customer who purchased Minibonds from one of the Distributing Banks has any queries about this Repurchase Scheme (including their eligibility for a repurchase offer) or any complaint about the way the Repurchase Scheme is administered, he/she should contact the relevant Distributing Bank directly.

The contact details of the Distributing Banks are set out below:

ABN AMRO Bank N.V.		
Hotline:	2176 8822	24 hours, Monday to Sunday
Fax:	2176 8110	
Email:	hk.customerservices.retail@rbs.com	
Website:	www.rbs.com.hk	
Bank of China (Hong Kong) Ltd		
Hotline:	2105 8212	0900 to 2100 hours Hong Kong time, Monday to Friday 0900 to 1800 hours Hong Kong time, Saturday
Fax:	2530 3598	
Email:	enquiry_csc@bochk.com	
Website:	www.bochk.com	
Bank of Communications Co Ltd		
Hotline:	2269 9611	0900 to 1730 hours Hong Kong time, Monday to Friday
Fax:	2833 5613	
Email:	opinion@bankcomm.com.hk	



Website:	www.bankcomm.com.hk
The Bank of East Asia, Ltd	
Hotline:	2211 1311 0900 to 1700 hours Hong Kong time, Monday to Friday 0900 to 1300 hours Hong Kong time, Saturday
Fax:	3608 6078
Email:	lebddcobr@hkbea.com
Website:	www.hkbea.com
Chiyu Banking Corporation Ltd	
Hotline:	2105 8239 0900 to 2100 Hong Kong time, Monday to Friday 0900 to 1300 Hong Kong time, Saturday
Fax:	2810 4207
Email:	chiyu@chiyubank.com
Website:	www.chiyubank.com
Chong Hing Bank Ltd	
Hotline:	3768 6834 0900 to 1730 hours Hong Kong time, Monday to Friday
Fax:	3768 1881
Email:	customerservice@chbank.com
Website:	www.chbank.com/tc/index.shtml
CITIC Ka Wah Bank Ltd	
Hotline:	2287 6070 0900 to 1730 hours Hong Kong time, Monday to Friday
Fax:	3603 4770
Email:	minibonds@citickawahbank.com
Website:	www.ckw-ibanking.com
Dah Sing Bank Ltd	
Hotline:	2507 8997 0900 to 1730 hours Hong Kong time, Monday to Friday
Fax:	2828 8060
Email:	ops@dahsing.com.hk
Website:	www.dahsing.com
Fubon Bank (Hong Kong) Ltd	
Hotline:	2806 5080 0900 to 1730 hours Hong Kong time, Monday to Friday
Fax:	2508 9613
Email:	corpcomm.fbhk@fubon.com
Website:	www.fubonbank.com.hk

**Industrial and Commercial Bank of China (Asia) Ltd**

Hotline: 2533 8418 0900 to 1800 hours Hong Kong time, Monday to Friday
0900 to 1300 hours Hong Kong time, Saturday
Fax: 2233 9996
Email: minibonds@icbcasia.com
Website: www.icbcasia.com

Mevas Bank Ltd

Hotline: 2507 8821 0900 to 1730 hours Hong Kong time, Monday to Friday
Fax: 3101 3700
Email: contactus@mevas.com
Website: www.mevas.com

Nanyang Commercial Bank, Ltd

Hotline: 2105 8243 0900 to 1730 hours Hong Kong time, Monday to Friday
Fax: 2815 3333
Email: nanyang@ncb.com.hk
Website: www.ncb.com.hk

Public Bank (Hong Kong) Ltd

Hotline: 2851 9293 0900 to 1730 hours Hong Kong time, Monday to Friday
Fax: 2851 8780
Email: lehmanenquiry@publicbank.com.hk
Website: www.publicbank.com.hk

Shanghai Commercial Bank Ltd

Hotline: 2841 5268 0900 to 1730 hours Hong Kong time, Monday to Friday
Fax: 2904 9686
Email: contact@shacombank.com.hk
Website: www.shacombank.com.hk

Wing Hang Bank Ltd

Hotline: 3120 5519 0900 to 1730 hours Hong Kong time, Monday to Friday
Fax: 2541 7459
Email: enquiry@whbhk.com
Website: www.whbhk.com

Wing Lung Bank Ltd

Hotline: 2526 5555 0900 to 1730 hours Hong Kong time, Monday to Friday
Fax: 2523 5053



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