

SFC  
Securities and Futures Commission

24 October 2008

**Comments made by the SFC's Chief Executive Officer Mr Martin Wheatley  
on risks and exposures of structured products**

We have just received a number of complaints from investors in structured products – these products were related to Lehman Brothers but were not Minibonds. We will carefully review these complaints and respond to each complainant as soon as possible.

There has been considerable public discussion about Minibonds following the collapse of Lehman Brothers. However, investors in all structured products should be aware that the risks and exposures of these products can change quickly in today's difficult credit environment.

I would therefore like to take this opportunity to point out some possible risks facing investors in credit-linked notes. In particular, credit-linked notes backed by collateralised debt obligations, or CDOs for short.

Investors should be aware that with some of these notes they have credit exposure not just to the primary reference entities but also to reference entities underlying the CDO. The collapse of the reference entities underlying these CDOs may result in a significant reduction in the value of the CDOs, which in turn, could have a significant impact on the value of their investment.

We therefore, urge these investors to contact the distributors who sold them the notes, to ensure that they are fully informed about all possible risk factors affecting their investment. This will include in particular, all underlying credit exposures of the product and the impact, to date, of any credit downgrades of underlying reference entities on the collateral.

Investors should also be aware of the options available to them. Those who wish to sell back the notes before maturity can contact distributors about market prices.

To assist investors we have advised all note issuers to pass on to distributors all information that may materially affect the issuers' ability to perform their obligations, including any credit downgrade of the underlying reference entities of the collateral.

To ensure that complaints are resolved as quickly as possible, we have also advised banks and brokerages involved in selling structured products that they should accelerate their own internal reviews of their selling practices. If they establish that deficiencies exist, then they should come forward to discuss the matter with us and not wait for the completion of our investigation.

I would like to reassure all investors that we are taking all allegations of mis-selling very seriously. We have been working very closely with the HKMA and our investigations are progressing as quickly as possible. However, given the continuing deterioration of the credit environment, I would also urge all investors, particularly investors in credit linked notes, to obtain up-to-date information about the risk factors impacting their investment.

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