

**EMBARGOED UNTIL DELIVERY**

**Opening Remarks by Martin Wheatley,  
Chief Executive Officer, Securities and Futures Commission**

**LegCo FA Panel Meeting at 9:05 am on 2 February 2009**

**In the Chamber of the Legislative Council Building**

Chairman Chan Kam Lam, Honourable Members.

As a regulator charged with overseeing the institutions which sold Minibonds, we understand and sympathise with the feelings of investors who have suffered losses and we are committed to establishing the underlying reasons for this. However, as I am sure honourable members will recognise, we have been impacted by unprecedented events in global financial market, the so called Financial Tsunami, which has resulted in investors all over the world suffering significant losses.

The challenge for us all, in the face of the personal suffering of so many small investors, is to try and form a balanced view of all of the inter-related factors which have contributed to the situation we now face. How much is attributable to a global collapse of confidence in financial markets; how much to the failure of the sub-prime mortgage market and the credit squeeze; and how much to subsequent institutional failings. And how much is due to the particular rules and regulations we have in place and the degree of compliance with these regulations by market participants. It is these latter issues which we as regulators must and will address.

The report we have prepared, at the request of the Financial Secretary, attempts to identify weaknesses in our regulatory structure, which may have contributed to the Minibonds crisis or that have otherwise been exposed by the financial crisis. However, our report does not attempt to determine whether any individual or institution should bear any direct responsibility for the losses of Minibond holders. That job will be done through our ongoing investigations into the institutions that sold Minibonds.

While we are very pleased to have completed and publicly announced the outcome of our first investigation into a distributor of Minibonds, members will be aware that we still have a large number of ongoing investigations. I can fully understand the desire of Minibond investors, the public and honourable members to have more details about these investigations but I must ask for your patience. We are working as fast as we can to complete our work but we must ensure that we follow due process, that we work in a way which cannot be subsequently challenged and that we are fair to all parties involved. This requires that we maintain confidentiality until such time as an investigation is complete. While it may be frustrating, I would ask for your understanding and trust in allowing us time to complete these remaining investigations.

I would now like to highlight some of the key recommendations contained in our report. I will do this briefly since I am aware that members already have copies of the full report and will then be happy to respond to members detailed questions.

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Talk through key points in slides

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The recommendations we have made reflect concerns we have about both our regulatory structure and also the level of compliance with that structure. Some of the recommendations represent significant changes and have widespread implications for how intermediaries would conduct their business. In considering these I would urge everybody to recognise that while our current structure may not be perfect it also has its strengths. Many so called advanced economies have experienced serious problems in their financial sector over the past year including the collapse of financial institutions and the need to introduce emergency regulations at very short notice. By comparison with those economies we could be said to have done reasonably well. In recognition of this we are recommending a measured approach to the introduction of changes, so that we retain what is good while appropriately addressing the issues that have been identified. This will also, as far as possible, involve full consultation with the market before the introduction of regulatory changes. We are confident in the recommendations that we have made but we are also open to dialogue about how we achieve our objectives.

Thank you.