

**Panel on Financial Affairs**

**Special meeting on 18 December 2008**

**List of follow-up actions**

**Issues relating to the Government's "buy-back" proposal for Lehman Brothers-related minibonds**

1. To address members' concern about the process of the "buy-back", *the distributor banks and/or parties concerned* are requested to provide the following information in respect of each and every series of Lehman Brothers-related minibonds distributed to investors in Hong Kong (the requested information should be presented in tabular form for each series of minibonds to facilitate members' perusal):
  - (a) details of the underlying collaterals for and the structures of the minibonds;
  - (b) procedures and methods of calculation in establishing the market value of the minibonds for the "buy-back" (including the setting out of the formula for each series);
  - (c) the estimated market value of the underlying collaterals ascertained before the receipt of the letter from Lehman's legal counsel;
  - (d) uncertainties now surrounding the determination of the market value of the minibonds,
  - (e) impact of the uncertainties in (d) above on the valuation of the minibonds;
  - (f) the grounds (legal and factual) of the claim of the Lehman's legal counsel in the United States in respect of the right of priority over the realized proceeds of the underlying collaterals for the minibonds; and
  - (g) the estimated residual value of the minibonds, based on the market value established before the receipt of the letter from the Lehman's legal counsel on 27 November 2008, and such value after taking into account the impact of the uncertainties in (d) above.

2. In relation to the announcement by the distributor banks on 17 December 2008 that they are prepared to provide finance to the trustee of up to HK\$100 million to assist it in the performance of its duty to protect the interests of the notes holders, members are concerned about the details and propriety of such financing. To address members' concern, *the Administration/distributors banks/the trustee* are requested to advise on the following:
- (a) the party ultimately responsible for paying the sum of HK\$100 million, i.e. whether the amount will be deducted from the proceeds of sale of the underlying collaterals for the minibonds, and consequently reducing the amount available for payments to notes holders;
  - (b) the possible course(s) of action which the trustee may take for the redemption of the minibonds that require the provision of such financing by the distributor banks; and
  - (c) the Administration's view on the propriety of the provision of the finance to the trustee without the prior consent or knowledge of the notes holders.

Council Business Division 1  
Legislative Council Secretariat  
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