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SFC and HKMA welcome Minibond collateral recovery agreement

The Securities and Futures Commission (SFC) and the Hong Kong Monetary Authority (HKMA) are pleased to note the announcements by the 16 Lehman Brothers' Minibond distributing banks (the Banks) and PricewaterhouseCoopers (PwC), the Receivers of the Minibond collateral, concerning the recovery and proposed distributions of the net value of the underlying collateral assets of Minibond series 10 to 12, 15 to 23 and 25 to 36 (the relevant series) (Notes 1 and 2).

The proposed distributions, if approved, will provide substantial recoveries for all customers who held Minibonds issued in the relevant series including those who were ineligible to receive repurchase offers under the resolution between the SFC, HKMA and the Banks on 22 July 2009 (the Minibond Agreement) (Note 3).

This outcome is the result of the Minibond Agreement between the SFC, HKMA and the Banks which was announced on 22 July 2009 (Note 4). In the Minibond Agreement, the Banks were required to take reasonable steps to expedite the return of the collateral including creating a fund using the commission income earned from the sale of Minibonds. In compliance with this obligation, the Banks provided a fund of up to HK\$291 million which enabled PwC, appointed as Receivers by HSBC Bank USA, N.A., the Trustee for the Minibonds, to take all necessary actions to recover the underlying Minibond collateral.

"The SFC is pleased that, subject to the necessary approvals, the strategy we set in motion back in July 2009 in the Minibond Agreement has worked and that all Minibond customers in the relevant series, including those who were ineligible to receive the initial repurchase offer, will recover much higher amounts of their initial investments than would have been possible without this strategy in place," the SFC's Chief Executive Officer, Mr Martin Wheatley said.

In addition, the regulators note that the 16 Banks have agreed to make additional ex gratia payments to customers who were classified as eligible customers in the Minibond Agreement and the Banks will continue to support the Trustee (Note 5). The additional ex-gratia payment will increase the level of recovery of eligible customers to 85% to 96.5% of their initial investment.

"This outcome would have been seen as impossible in the months following the collapse of Lehman and demonstrates the value of good regulators responding efficiently and robustly when things go wrong. It is unlikely these recoveries could have been achieved by any other means. The SFC acknowledges the additional voluntary payments by the Banks and their continuing support for the Trustee which will further bolster the market's confidence in Hong Kong's financial institutions following the global financial crisis," Mr Wheatley added.

"This is an important development which not only allows investors to avoid lengthy litigation and potentially costly fees and legal uncertainty, but also represents the concerted efforts among regulators, the participating banks and the relevant investors to recover the invested amount as far as practicable. We are pleased to note that investors of the relevant Minibond series will benefit from the high level of recovery," said Mr Arthur Yuen, Deputy Chief Executive of HKMA.

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Notes:

1. The Receivers' announcement is available on PwC's website at www.pwchk.com/minibonds. The conditional recovery and proposed distribution does not cover customers who bought Minibond series 5 to 7 and 9 because the collateral for these series were securities issued by Lehman Brothers and all collateral claims are unsecured debts in the bankruptcy of Lehman Brothers. PricewaterhouseCoopers has also been appointed as receivers for the collateral for Minibond series 5 to 7 and 9 and will continue to pursue claims on behalf of the Trustee in the

interests of holders of these Minibonds (for further information on Minibond series 5 to 7 and 9, please refer to the FAQs dated 3 January 2011 posted on PwC's website).

2. The 16 Minibond distributing banks are: (1) The Royal Bank of Scotland N.V. (formerly known as 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 Bank International (formerly known as 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.

3. The Receivers' agreement with Lehman Brothers is subject to the approval by at least 75% of the Minibond noteholders for each and every series who cast votes at the Noteholder meetings, which are expected to be held in May 2011. The agreement is also subject to Lehman Brothers obtaining US Bankruptcy Court confirmation that an order made on 16 December 2008 (known as the Derivatives Procedures Order) applies to Hong Kong Minibond programme. For details, please visit PwC's website.

4. Please refer to the SFC press release dated [22 July 2009](#).

5. Please refer to the Minibond distributing banks' websites for further information.

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