Appendix 7(b)
(Paragraph 7.8)

Some instances of Mr Joseph YAM's general forewarnings

1. As informed by Mr Joseph YAM, then Monetary Authority, during the period June 2006 to August 2008, he had issued general forewarnings to alert the investing public with regard to developments in the global and local economies, in particular the impacts of the sub-prime problems and the ensuing credit crisis through different channels. Some examples of these general forewarnings are described below.

<u>Briefings at the LegCo Panel on Financial Affairs</u>

2. At the meeting of the Panel on Financial Affairs held on 8 November 2007, Mr YAM said that it was not easy for investors to understand the market risks when making investment in innovative credit and debt instruments, given the complexity of the underlying structure and operations of the assets involved.

3. At another meeting of the Panel held on 29 January 2008, Mr YAM pointed out that all relevant parties including individuals, institutional investors and financial regulators needed to stay alert under the prevailing volatile market environment. He advised that the prices of derivatives were subject to greater fluctuations than equity prices in a volatile market.

<u>Articles in Viewpoint column</u>

4. In his article published on 15 June 2006, Mr YAM wrote that it was not unusual for investors to put their money into investment instruments that promised high rates of return, only to find out later that the risks involved were well beyond their appetite or there was no market for the instruments when they wanted to sell out. He alerted investors to pay attention to the risks and liquidity associated with prospective investments.

5. Mr YAM warned in his article dated 16 August 2007 that financial innovation was so efficient that it had become rather difficult to identify what risks were involved and where they lay, and whether those assuming the risks were aware of them or were in a position to manage them. He advised that there was a need for a lot of vigilance by everyone involved in the financial system.

6. In another article dated 28 February 2008, Mr YAM highlighted that financial innovation created complex risks that might be beyond the capacity of market participants and the regulatory authorities to understand and manage. He warned that investors could find themselves holding assets whose risk-return profile turned out to be different from what they believed.

7. Mr YAM wrote in his article dated 27 March 2008 that inadequate investor due diligence was a common phenomenon that grew along with the intensification of euphoria in the financial markets. He emphasized the importance for investors to exercise due diligence over their investments, particularly when the structures of the financial instruments and the dynamics of the markets were highly complex.

Interviews with the media and media briefings

8. In an interview with the media on 8 August 2007, Mr YAM said that the economy might be adversely affected by subprime jitters. He pointed out that the risks under a globalized financial system would be contagious and more problems might surface in the coming months.

9. On 21 January 2008, Mr YAM said at a media briefing that he would use the word "difficult" to describe the investment outlook for the year and the market sentiment could deteriorate even further due to the deepening concern over subprime woes. He urged investors to be prudent.

Source: Evidence of Mr Joseph YAM