

Dated 23 April 2010

**RESPONSE TO LEGISLATIVE COUNCIL SUBCOMMITTEE LETTER
DATED 19 APRIL 2010**

**To the Subcommittee to Study Issues Arising from
Lehman Brothers-related Minibonds
and Structured Financial Products of the Legislative Council**

Unless otherwise stated, capitalised terms in this response have the meanings ascribed in the Written Submissions of Ms Amy Yip, Chief Executive Officer of DBS Bank (Hong Kong) Ltd. dated 26 March 2010 (the "Submissions").

- 1** Please advise whether DBSHK has conducted any review to ascertain whether the customers who had actually purchased the CLN Notes met the attributes of the primary target customers as set out in paragraphs 6.1(a) to (d) of W26(C).
- 1.1** As stated in paragraphs 42.3(a) and (b) of the Submissions, CLN Notes orders placed by customers were reviewed by the relevant branch officer on a daily basis and by IPG on a monthly basis to ensure that relevant sales processes were appropriately followed.
- 2** Regarding the monthly meetings held between CB and GFM to consider whether the sale of the relevant series should be approved, it is stated that a decision to distribute the relevant series of the CLN Notes would only be made collectively by the participants after all concerns raised were fully addressed to the satisfaction of participants (paragraphs 11.3, 11.4 and 11.5 of W26(C)). Please advise whether divergent views had been expressed by participants over the information included in the marketing materials for the products under consideration, the giving away of coupons as a means to promote sale and the target clientele for the products; if yes, please provide the relevant discussion records.
- 2.1** As stated in paragraph 37.7 of the Submissions, customer incentives such as supermarket coupons were offered by the issuer. The marketing materials of the CLN Notes were prepared by the arranger. DBSHK does not have any records of any discussions in which divergent views in relation to the matters referred to above were expressed. DBSHK does not have any recollection of such divergent views being expressed.
- 2.2** However, distribution decisions were debated at the product due diligence stage before the relevant series of CLN Notes were accepted for distribution (see, for example, paragraph 10.4 of the response dated 22 April 2010).
- 3** It is noted that certain series of the Constellation Notes had been withdrawn due to under-subscription (paragraph 14.2 of W26(C)). Please explain the details of the so-called "under-subscription" and how this had led to withdrawal of the launch of the product.
- 3.1** Series 54 was withdrawn due to under-subscription. The number of orders received did not meet the minimum threshold DBSHK needed to achieve in order that the Arranger could fund the cost of structuring the underlying collateral. Therefore, the series was withdrawn.
- 4** Please provide the relevant records, if any, of the Market Risk Committee under the Board of DBSHK documenting the discussion on the risks of the CLN Notes.
- 4.1** We are unable to locate any such document recording deliberations of the Market Risk Committee. However, please see paragraphs 8 to 16 (inclusive) of the Submissions.
- 5** Please advise on the amount (in HK\$) of LB-related CLN Notes sold to customers over 65 years of age; and as a percentage of the LB-related CLN Notes sold.
- 5.1** HK\$189 million worth of LB-related CLN Notes were sold to customers over 65 years of age. Such customers constituted approximately 9 per cent. of customers who purchased LB-related CLN Notes and 15 per cent. of the notional value of the LB-related CLN Notes sold.