

Dated 23 July 2010

**SECOND WRITTEN RESPONSE OF
MR CHU REN-YEE, ALEXANDER, COUNTRY EXECUTIVE, HONG KONG,
THE ROYAL BANK OF SCOTLAND N.V. TO ISSUES ARISING FROM THE
SUBCOMMITTEE'S HEARING ON 9 JULY 2010**

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

GENERAL REMARKS

I refer to the summons issued by the Subcommittee to me on 26 May 2010 under the Legislative Council (Powers and Privileges) Ordinance (Cap 382) ("**Summons**") and to my written statement dated 17 June 2010 ("**Written Statement**"), given in response to the Summons. This statement supplements my Written Statement.

Unless otherwise defined, capitalised terms used in this submission have the meanings given to them in my Written Statement.

RESPONSE TO REQUESTS FOR ADDITIONAL INFORMATION

3 Please advise:

- (a) before the collapse of LB in September 2008, the total number of requests from investors for early redemption of Minibonds and the number of successful early redemption;**
- (b) in respect of the successful early redemption of Minibonds in (a) above, the month/year in which each of such early redemption was made and the exit prices of each transaction as a percentage of the original investment amount;**

3.1 There were no early redemptions of Minibonds effected through the Bank before the collapse of Lehman Brothers. Requests may have been received during this time through a number of channels, including during face-to-face meetings, by fax or by telephone. If an RM received a request for early redemption, they were required to follow the procedures set out in the SP Manual. The Bank only maintained a centralised log of redemption requests that were successful.

3.2 Following the collapse of Lehman Brothers, the Bank participated in the Minibond repurchase scheme with 15 other distributing banks in August and September 2009. This resulted in the successful repurchase by the Bank of Minibonds from 229 customer accounts.

- (c) before the collapse of LB in September 2008, the total number of requests from investors for early redemption of LB-related non-Minibonds structured financial products and the number of successful early redemption; and**
- (d) in respect of the successful early redemption of LB-related non-Minibonds structured financial products in (c) above, the month/year in which each of such early redemption was made and the exit prices of each transaction as a percentage of the original investment amount.**

3.3 The table in **Item 1** sets out the details of the 14 successful redemptions of Lehman Products other than Minibonds that were facilitated by the Bank before

the collapse of Lehman Brothers. As for Minibonds, requests may have been received during this time through a number of channels, including during face-to-face meetings, by fax or by telephone. If an RM received a request for early redemption, they were required to follow the procedures set out in the SP Manual. The Bank only maintained a centralised log of redemption requests that were successful.

4 It is noted that the sales staff engaged in the distribution of investment products received product-specific training in the form of tailor-made product training or a briefing session arranged with issuers (paragraph 23.2.2 of W37(C)). With reference to the presentation materials on Series 19 and Series 35 (Items 21 and 22 of W37(C)), please advise:

- (a) were the training sessions for Series 19 and Series 35 held in-house or at the office of Sun Hung Kai Investment Services Limited?
- (b) by whom were these training sessions conducted? Please provide the names and positions of these individuals.

4.1 The training sessions for these products were held in-house. The Bank's records indicate that:

4.1.1 the training sessions for Series 19 Minibonds were conducted by Sally Leung of Sun Hung Kai Financial or one of its affiliates. The Bank is not aware of Ms Leung's precise title; and

4.1.2 the training sessions for Series 35 Minibonds were conducted by Zoe Leung, Head of Retail Distribution Hong Kong of Sun Hung Kai Financial.

4.2 The Bank offered a range of other product-specific and general training to ensure that RMs had the knowledge and skills necessary to provide quality services to customers and meet their CPT requirements. In particular, the Minibond training sessions were complemented by structured product training and seminars on KYC procedures, mis-selling and client suitability, as described in the responses to Questions 23 and 37 in the Written Statement. Secondly, the Bank supplemented formal training for RMs with practical on-the-job coaching and guidance.

5 Please advise:

- (a) the requirements that a staff member must fulfil in order to obtain a license from SFC to conduct Type 1 regulated activities; and
- (b) whether the name(s) of any Relevant Individuals of your bank had been removed from the register of HKMA during April 2005 to May 2008 for failure to meet the requirements for conducting Type 1 regulated activities.

- 5.1 It was a statutory condition of the Bank's registration with the SFC that its Relevant Individuals were fit and proper. The Fit and Proper Guidelines set out the relevant standards, covering the following key areas:
 - 5.1.1 financial status;
 - 5.1.2 educational and other qualifications and experience;
 - 5.1.3 the ability to carry on the regulated activity competently, honestly and fairly; and
 - 5.1.4 reputation, character, reliability and financial integrity.
- 5.2 Relevant Individuals were also required to meet the same competence requirements as licensed representatives registered with the SFC. In particular, a person applying to be a Relevant Individual was required to establish that:
 - 5.2.1 they had the requisite basic understanding of the market in which they worked as well as the laws and regulatory requirements applicable to the industry;
 - 5.2.2 they had met the educational and industry qualifications and regulatory knowledge requirements set out in the Guidelines on Competence issued by the SFC.
- 5.3 Following registration, Relevant Individuals of the Bank were required to meet their ongoing regulatory obligations. This included continuing to be fit and proper and completing at least 5 hours of professional training each year pursuant to the Guidelines on Continuous Professional Training.
- 5.4 There were additional requirements imposed on Relevant Individuals who were responsible for supervising the regulated activities of the Bank (known as "**Executive Officers**"). For example, Executive Officers were required to complete at least 10 hours of professional training each year.
- 5.5 The Bank reminded Relevant Individuals of key registration requirements in the Generic Investment Sales Process and the Compliance Manual, as well as through ongoing training and supervision. Please refer to the responses to Questions 23 and 31 in the Written Statement for further details.
- 5.6 The Bank is not aware of any Relevant Individual of the Bank having been removed from the register maintained by the HKMA where:
 - 5.6.1 the individual was employed by the Bank;
 - 5.6.2 the removal took place during the Relevant Period; and
 - 5.6.3 the removal resulted from a failure to meet the requirements for

conducting Type 1 regulated activities.

6 According to Mr Alexander CHU, the Branch Operation Manager (BOM) would check each completed Suitability Questionnaire and Risk Confirmation and where circumstances so required, would reject and refer questionnaires back to the relevant sales staff for follow-up or rectification. Please advise:

(a) the number of cases in respect of the sale of LB-related structured financial products during April 2005 and May 2008 in which the questionnaire had been rejected by the BOM; and

(b) a breakdown of the reasons for BOM's rejection.

6.1 As described in paragraph 33.1.3 of the Written Statement, the BOM was required to check that each suitability questionnaire had been completed appropriately, including ensuring that all relevant questions had been responded to and that the customer and relevant RM had signed the document.

6.2 Under the SP Manual, the BOM was required to reject any suitability questionnaire that had not been successfully completed (for example, if a particular question had not been answered) and return it to the relevant RM. The RM was then required to contact their customer to complete the process.

6.3 As described in paragraph 45.22 of the Written Statement, all transactions involving Lehman Products required appropriate documentation, including a valid Personal Investment Analysis, a completed suitability questionnaire, an Application Form for Structured Products and the necessary offering documents. Where a suitability questionnaire was updated with the customer following a check by the BOM, the customer's file would include the final set of documentation. The Bank does not have a centralised log showing the specific number of cases in which the suitability questionnaire for a Lehman Product had been rejected by the BOM, nor the precise reasons involved in each case.

7 In respect of the 145 complainants who had purchased Minibonds and 384 complainants who had purchased LB-related non-Minibonds products from ABN/RBS between April 2005 and May 2008 (Item 35 of W37(C)), please provide copies of the Suitability Questionnaire and Risk Confirmation completed by these 529 customers (identity of individual customers and other personal data can be masked).

7.1 Please refer to Item 2, which provides copies of the relevant suitability questionnaires completed by these 529 customers, with personal data appropriately redacted.