

**HKMA's inputs - Answers to Questions Raised by  
Subcommittee to Study Issues Arising from Lehman Brothers-related Minibonds  
and Structured Financial Products**

*(as requested in letter of 22 December 2008)*

5. *What are the policy considerations underlying the decision of allowing retail banks to sell products such as the Lehman Brothers-related Minibonds and structured financial products? How far have the Administration and regulators made reference to overseas practice, i.e. whether such structured financial products are sold to investors through retail banks in overseas jurisdictions.*

The current regulatory regime applies equally to brokers and retail banks, and seeks to balance market development (which includes giving consumers a wide range of investment options) with the provision of a reasonable measure of protection to investors. This latter objective is achieved in the regime for offering investment products through a disclosure-based approach, in common with many other jurisdictions (for example, the UK, other European Union countries, the US, Australia and Singapore). This essentially means that issuers are free to launch investment products so long as adequate disclosure is made to enable potential investors to make an informed investment decision. "Dealing in securities" is a regulated activity under the Securities and Futures Ordinance (SFO) and, where products are sold through brokers or retail banks, the disclosure-based approach is underpinned by requirements at the point of sale for brokers and retail banks to act honestly, fairly, with due skill, care and diligence and in their clients' best interests. Where brokers or retail banks make a recommendation or solicitation in respect of a product, they must assess the suitability of the product for individual purchasers. When providing services to a client in derivative products, including futures contracts or options, or any leveraged transaction, brokers or retail banks should assure themselves that the client understands the nature and risks of the products and has sufficient net worth to be able to assume the risks and bear the potential losses of trading in the products.

There do not appear to be absolute restrictions on the sale of structured products to the retail public in any of the jurisdictions the HKMA reviewed. Generally, it appears that jurisdictions such as the UK, the US, Australia, Singapore, the Netherlands and Germany adopt an approach broadly similar to that of Hong Kong based upon (a) disclosure by product issuers in public offers; (b) licensing of intermediaries; and (c) requirements on intermediaries to treat customers fairly, assess their suitability for products recommended to them, and disclose adequate information about these products to enable the customers to make informed investment decisions.

6. *With reference to the Annex of LC Paper No. CB(2)169/08-09(02) provided by*

the SFC/ HKMA:

- (a) Please provide information on the structure of each "relevant product series" listed in the footnote of the Annex (namely, Minibonds series, ProFund Notes series, Equity Linked Notes series, Structured Retail Notes series, Retail-Aimed Callable Investment Notes Global series and Octave Notes series).

Minibonds are credit-linked notes, arranged by Lehman Brothers Asia Limited (LBAL), with payment of interest and redemption payout at maturity linked to the credit of specified reference entities (which are generally well-known companies) for each series of Minibonds. Minibonds are subject to certain types of early redemption event.

ProFund Notes are fund-linked notes, arranged by LBAL, with payment of interest and redemption payout at maturity linked to the performance of an underlying fund, namely the Templeton Asian Growth Fund or the Templeton China Fund.

Pyxis Notes are equity-linked notes, arranged by LBAL, with payment of interest and redemption payout at maturity linked to the performance of equities underlying each series of Notes.

Constellation Structured Retail Notes, Retail-Aimed Callable Investment Notes and Octave Notes are all credit-linked notes, arranged by DBS Bank, UBS Securities Asia Limited and Morgan Stanley & Co International Limited respectively. The payment of interest and redemption payout at maturity is linked to the credit of specified reference entities. In some series of these notes, Lehman Brothers Holdings Inc. (LBHI) is one of these reference entities.

A summary is given in the following table:

Category	Issuer and Arranger	Issue dates (Note 1)	Remarks
Credit-linked notes where LBHI is <u>not</u> a reference entity  (Minibonds)	Issuer : Pacific International Finance Ltd  Arranger : LBAL	Between Jul 03 and May 08	For those series involving swap arrangements, the swap counterparties are wholly owned subsidiaries of LBHI and LBHI is the swap guarantor.  The failure of LBHI is a termination event under the swap arrangements that could trigger early redemption.  For some early series, LBHI is the guarantor of the collateral.
Equity-linked notes  (Pyxis Notes)	Issuer : Pyxis Finance Ltd  Arranger : LBAL	Between Aug 04 and May 07	LBHI is the swap guarantor and is the guarantor of the collateral for the notes.  The swap counterparties are wholly owned subsidiaries of LBHI.  The failure of LBHI is a termination

Category	Issuer and Arranger	Issue dates (Note 1)	Remarks
			<p>event under the swap arrangements that could trigger early redemption.</p> <p>The collateral (except that for Series 10) consists of debt obligations of Lehman Brothers Treasury Co. B.V.</p>
Fund-linked notes <b>(ProFund Notes)</b>	Issuer : Atlantic International Finance Ltd  Arranger : LBAL	Aug 06 and Apr 07	<p>LBHI is the swap guarantor and is the guarantor of the collateral for the notes.</p> <p>The swap counterparty is a wholly owned subsidiary of LBHI.</p> <p>The failure of LBHI is a termination event under the swap arrangements that could trigger early redemption.</p> <p>The collateral consists of debt obligations of Lehman Brothers Treasury Co. B.V.</p>
Credit-linked notes where LBHI is a reference entity  <b>(Constellation Structured Retail Notes)</b>	Issuer : Constellation Investment Ltd  Arranger : DBS Bank Limited	Between Mar 06 and Jul 07	<p>LBHI is one of the reference entities for some series of these notes.</p> <p>The failure of LBHI triggers credit event and early redemption of the notes.</p>
<b>(Retail-Aimed Callable Investment Notes)</b>	Issuer : SPARC Ltd  Arranger : UBS Securities Asia Limited	May 07	
<b>(Octave Notes)</b>	Issuer : Victoria Peak International Finance Ltd  Arranger : Morgan Stanley & Co International Limited	Between Sep 06 and Nov 06	

Note 1: Matured issues not included

The detailed structure of each “relevant product series” can be found in the programme prospectus and issue prospectus. Please refer to such prospectuses and any further details to be provided by the SFC.

- (b) *Please explain the implications of the collapse of Lehman Brothers on each of the aforesaid "relevant product series".*

The issue proceeds from the sale of Minibonds, Pyxis Notes and ProFund Notes were used by the issuer, in each case, to purchase collateral upon which the Minibonds or Notes are "secured". The collateral is held by a trustee and is segregated for each series.

In the case of Minibonds, the form of collateral varies between each series, with some of the earlier extant series (Series 5 to 9) being collateralised by debt obligations of Lehman Brothers Treasury Co. B.V.<sup>1</sup> The latter series have tended to be collateralised by synthetic collateralised debt obligations, which are in turn backed by money market funds or by bonds of third party financial institutions and corporates.

The collateral for the Pyxis Notes (with the exception of Series 10) is securities issued by Lehman Brothers Treasury Co. B.V. and guaranteed by LBHI. The same is true for all series of the ProFund Notes.

In most series of these products, the issuer also entered into swap arrangements with a swap counterparty (being a Lehman entity), whose obligations were guaranteed by LBHI. Under these swap arrangements, amounts received in respect of the collateral are swapped for amounts payable by the issuer under the Minibonds/Notes. In the later series of Minibonds, the issuer also entered into a credit default swap with the swap counterparty under which the swap counterparty paid a premium in return for the issuer's agreement to deliver the collateral to the swap counterparty upon the occurrence of a credit event.

For those series of Minibonds, Pyxis Notes and ProFund Notes involving swap arrangements, the Chapter 11 filing of the Lehman entities will generally constitute a termination event under the swap arrangements entitling the issuer to terminate the swaps and triggering early redemption of the Minibonds/Notes. In the event of an early redemption of the Minibonds/Notes, the recourse of the investors will be limited to the proceeds of realisation of the collateral (net of costs and expenses) plus or minus a swap termination amount.<sup>2</sup> Because of the current adverse market situation, the market values of the collateral are likely to have declined (this will certainly be the case for collateral consisting of securities issued and guaranteed by Lehman entities).

For those credit-linked notes with LBHI as a reference entity (i.e. the Constellation Structured Retail Notes, Retail-Aimed Callable Investment Notes and Octave Notes), the failure of LBHI means that a credit event has occurred. Taking the Constellation Notes as an example, the Notes will have to be redeemed at their credit-event redemption amount. This is calculated by reference to, among other factors, the price of a specified reference obligation of the reference entity that has suffered the credit event. Considering the results of

---

<sup>1</sup> In bankruptcy proceedings in The Netherlands.

<sup>2</sup> Any termination of the swap arrangements and the application of the proceeds of realisation of the collateral may potentially be affected by US bankruptcy law.

the Lehman Credit-Swap Auction in October, which indicated a value in the region of eight to ten cents on the dollar for LBHI debt, the value of any such reference obligations will likely be substantially less than the principal amount of the Notes.

For further details, please refer to the FAQs issued by Lehman Brothers Asia Limited in respect of the Minibonds, the ProFund Notes and the Pyxis Notes on 17 and 18 September 2008, and the programme prospectus and issue prospectus for each “relevant product series” to be provided by the SFC.

**M7-Appendix 1**

[Attachments:

FAQs issued by Lehman Brothers Asia Limited, the arranger of the Minibonds, to distributors and noteholders dated 17 September 2008

FAQs issued by Lehman Brothers Asia Limited, the arranger of the ProFund Notes, to distributors and noteholders dated 18 September 2008

FAQs issued by Lehman Brothers Asia Limited, the arranger of the Pyxis Notes, to distributors and noteholders dated 18 September 2008]

- (c) *Please provide more information on the Lehman Brothers-related structured notes sold through private placement, including whether they were sold to institutional investors and professional investors.*

Lehman Brothers-related products which were offered by banks through private placement are mainly structured notes (linked to equity, stock index, interest rate, commodity, credit or a hybrid thereof) issued by Lehman Brothers related-entities. Most of these products are equity-linked notes arranged by Lehman. These private placement products have been sold to professional investors, institutional investors and retail clients.

7. *It is provided in section 119 of the Securities and Futures Ordinance (Cap. 571) (SFO), that SFC may, upon application by an authorised institution (AI), register the applicant for carrying on one or more “regulated activities”. Please explain the detailed process of how and by whom an application for such registration by an AI is processed, including the criteria/ factors for consideration. Please also specify the Officer(s)/ Division(s) responsible for processing such applications.*

To apply for registration, an AI needs to complete specified forms of the SFC and submit them, together with the required supporting documents, to the SFC. For details, please refer to Licensing Information Booklet and the SFC forms, i.e. Application for Registration – AI (Form 2) for new registration or Miscellaneous Applications (Form 4) for addition of regulated activities.

For each regulated activity that is the subject of its registration, an AI also needs to appoint at least two executive officers (EOs) to be responsible for directly supervising the conduct of the regulated activity. As the EOs must obtain the Monetary Authority’s written consent, their applications should be submitted

directly to the HKMA. For details, please refer to the form for Application for Approval to Become an Executive Officer of a Registered Institution under section 71C of the Banking Ordinance (Form C) and the form for Application for Change of Regulated Activities for an Executive Officer of a Registered Institution under section 71C of the Banking Ordinance (Form C(i)).

Upon receipt of an application package from an AI to be a registered institution (RI), the SFC will refer the application to the HKMA for consideration pursuant to section 119(2) and (3) of the SFO.

According to the procedures within the HKMA, upon receipt of the application package from the SFC, the Banking Supervision Department case officer<sup>3</sup> assesses the fitness and properness of the RI applicant and the sufficiency of authority of the EO applicants, while the Securities Supervision Team (which specialises in supervising the regulated activities of RIs) assesses the fitness and properness of the EO applicants. These assessments are made in accordance with the requirements set out in section 119(3) and section 129 of the SFO, section 71C(2)(a) of the Banking Ordinance, the SFC's Fit and Proper Guidelines, the SFC's Guidelines on Competence and the HKMA Supervisory Policy Manual module SB-1. Factors relating to fitness and properness include the applicant's financial status or solvency; educational or other qualifications or experience relevant to the proposed capacity; ability to carry on the regulated activity competently, honestly and fairly; and reputation, character, reliability and financial integrity. After obtaining approval from the designated senior levels of the Banking Supervision Department, the Securities Supervision Team advises the SFC on (i) whether the Monetary Authority is satisfied that the RI applicant is a fit and proper person to be registered as an RI for the regulated activities concerned; and (ii) the decision of the Monetary Authority on the EO applications.

[Attachments:

- M7-Appendix 2 • SFC's Licensing Information Booklet
- M7-Appendix 3 • SFC's application forms for new registration and addition of regulated activities and the related supplements
- M7-Appendix 4 • HKMA's application forms for approval to become an EO and change of regulated activities for an EO and the related supplements
- M7-Appendix 5 • Relevant extracts of the Banking Ordinance and the SFO
- M7-Appendix 6 • SFC's Fit and Proper Guidelines
- M7-Appendix 7 • SFC's Guidelines on Competence and the revised Appendix C]

*10. It has been noted that banks and their staff selling Lehman Brothers-related Minibonds and structured financial products are required to follow, among other things, the relevant statutory provisions, the SFO's Code of Conduct for Persons Licensed by or Registered with the SFC (the Code of Conduct) and the Supervisory Policy Manual and circulars issued by the HKMA. Please explain:*

---

<sup>3</sup> Within the Banking Supervision Department of the HKMA, each AI is assigned to the overall supervision of one case officer (or a team of officers for large institutions).

- (a) *details of the specific requirements (including qualifications and training) that bank staff have to fulfil if they are engaged in the sale of structured financial products;*

The regulatory requirements over the conduct of regulated activities are generally applicable to all bank staff engaged in regulated activities in respect of all types of securities or futures products.

Section 114 of the SFO requires that any individual engaged by an RI in the performance of any regulated function<sup>4</sup> of a regulated activity carried on as a business (including the sale of structured financial products that are securities or futures contracts) must be registered with the HKMA under section 20 of the Banking Ordinance as a “relevant individual”. Pursuant to section 119(8) of the SFO, RIs are subject to a statutory condition that their relevant individuals are fit and proper. Therefore, RIs should ensure that their relevant individuals meet the relevant legal and regulatory requirements in relation to the conduct of regulated activities including meeting the requirements of section 129 of the SFO when read in conjunction with the SFC’s Fit and Proper Guidelines, and the HKMA’s Supervisory Policy Manual Module SB-1 mentioned under 7 above. Regarding the entry qualifications, relevant individuals have to satisfy the SFC’s Guidelines on Competence. Regarding on-going training, relevant individuals have to satisfy the SFC’s Guidelines on Continuous Professional Training. These requirements are equally applicable to relevant individuals of RIs and licensed representatives of licensed corporations.

**M7-Appendix 8** [Attachment: SFC’s Guidelines on Continuous Professional Training]

- (b) *the requirements on the specific steps that the bank staff must take in the sale of structured financial products to new/existing customers in order to comply with all statutory and non-statutory provisions;*

Regulatory requirements on the sale of securities and futures products are primarily set out in SFC’s Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the Code) and the frequently asked questions and answers on suitability obligations issued by the SFC in May 2007(the FAQs):

- The Code lays down the requirements to be observed by intermediaries and their marketing staff in carrying out regulated activities under the SFO, including the promotion of investment products to customers. Generally, the Code requires licensed or registered persons to act honestly, fairly, with due skill, care and diligence and in the best interests of their clients (General Principles 1 and 2).

---

<sup>4</sup> “regulated function”, in relation to a regulated activity carried on as a business by a registered institution, means any function performed for or on behalf or by arrangement with the registered institution relating to the regulated activity, other than work ordinarily performed by an accountant, clerk or cashier.

- More specifically, section 5.1 of the Code requires licensed or registered persons to establish their clients' financial situation, investment experience and investment objectives. Thereafter, section 5.2 of the Code provides that having regard to information about the client of which the licensed or registered person is or should be aware through the exercise of due diligence, the licensed or registered person should, when making a recommendation or solicitation, ensure the suitability of the recommendation or solicitation for that client is reasonable in all the circumstances.
- Section 5.3 of the Code further provides that, a licensed or registered person providing services to a client in derivative products, including futures contracts or options, or any leveraged transaction should assure itself that the client understands the nature and risks of the products and has sufficient net worth to be able to assume the risks and bear the potential losses of trading in the products.
- The FAQs provide practical guidance to intermediaries engaged in financial planning and wealth management business activities on how they may fulfill the suitability obligations required of them under the Code. The steps include:
  - know their clients;
  - understand the investment products they recommend to clients (Product due diligence);
  - provide reasonably suitable recommendations by matching the risk return profile of each investment product with the personal circumstances of each client to whom it is recommended;
  - provide all relevant material information to clients and help them make informed investment decisions;
  - employ competent staff and provide appropriate training; and
  - document and retain the reasons for each product recommendation made to each client.
- The Code (section 4.1) and the FAQs require intermediaries to ensure that their staff are competent, fit and proper to undertake investment sales, and to provide appropriate training.

In addition to the Code and the FAQs, the HKMA have issued guideline / circulars to provide practical guidance on the expected standards and good practices in relation to sale of investment products. The guideline and circulars have been provided to the Subcommittee in our submission in response to the letter of 24 November 2008. The relevant reference numbers of the guideline and circulars are:

- M1 A-01(01)-HKMA(04)-E(O), A-01(01)-HKMA(05)-C(O),
- M2 A-01(01)-HKMA(06)-E(O), A-01(01)-HKMA(07)-E(O),
- M3 A-01(01)-HKMA(08)-E(O), A-01(01)-HKMA(09)-C(O),
- M4 A-01(01)-HKMA(10)-E(O), A-01(01)-HKMA(11)-E(O),
- M5 A-01(01)-HKMA(12)-E(O), A-01(01)-HKMA(13)-E(O), and
- M6 A-01(01)-HKMA(14)-E(O)



- (c) *if the requirements in (a) and (b) differ in respect of the sale of different structured financial products, please provide a few examples for illustrative purpose;*

The requirements are generally applicable in respect of the sale of all securities or futures products. As set out in (b) above, section 5.3 of the Code applies specifically to the provision of services to clients in derivative products and leveraged transactions.

- (d) *details of various actions taken by the regulators to monitor compliance by banks and securities firms (such as the number of visits, inspection of relevant documents, issuance of circular-letters etc.); and*

The HKMA's approach to the supervision of RIs' securities businesses involves issuing guidelines and circulars, conducting regular on-site examinations (including thematic examinations, i.e. reviewing a particular activity or function across a selection of RIs), and undertaking off-site surveillance.

#### Guideline and circulars

The HKMA have issued guideline / circulars to provide practical guidance on the expected standards and good practices in relation to sale of investment products. The guideline and circulars have been provided to the Subcommittee in our submission in response to the letter of 24 November 2008.

#### On-site examinations

- The HKMA conducts regular on-site examinations of RIs. The objectives of these examinations are to enable the HKMA to understand the way in which regulated activities of RIs are being conducted and to determine whether RIs have established appropriate and effective policies, procedures and controls to ensure compliance with the relevant legislation, rules, codes and guidelines issued by the SFC and the HKMA.
- When conducting examinations, the HKMA's examiners conduct checks (including reviewing a sample of transactions) to test regulatory compliance, assess the effectiveness of control systems and identify possible control deficiencies and misconduct.
- Between the commencement of the SFO in April 2003 and October 2008, the HKMA conducted a total of 158 on-site examinations of RIs that included in whole or in part a review of aspects of their securities business. Of the 158 on-site examinations, 100 were conducted on the 23 retail banks with branch networks in Hong Kong. On average, these retail banks undergo a detailed or thematic examination every year, although the

frequency of examination for individual institutions is determined under a risk-based approach.

- The examinations also found instances of suspected non-compliance. Where cases involved a possible material breach of the SFC's or the HKMA's regulatory requirements, they were referred to the Securities Enforcement Teams within the Banking Development Department of the HKMA. The Securities Enforcement Teams will open cases for investigation if prima facie cases can be established.

#### Off-site surveillance

- The HKMA's on-site examination activities are supplemented by the off-site surveillance work of individual case teams. Each AI is assigned to the overall supervision of one case officer (or a team of officers for large institutions). Case officers are responsible for following up any deficiencies in the systems of the RIs under their supervision which are discovered in on-site examinations.
- All RIs are required to submit semi-annually to the HKMA a "Return of Securities Related Activities". This return provides a general overview of the regulated activities being carried out by each RI as well as the trends in the industry to enable trend analysis to be conducted. The information collected is used for determining the scope and focus of on-site examinations.
- Commencing from 2005 an increasing number (50 for 2008) of large, complex or active RIs (including all the active retail banks) have been required to commission annually an independent unit (for example, their compliance department) to review the institution's compliance with the regulatory requirements of the SFC and the HKMA. The units' reports are reviewed jointly by the institutions' case officers and the Securities Supervision Team. Material breaches of regulatory requirements identified in this process were reported to the Securities Enforcement Teams.

#### *(e) details of sanctions against non-compliance.*

Under the existing regime, RIs and their EOs and relevant individuals are subject to the same range of sanctions as applicable to licensed corporations and their responsible officers and licensed representatives, including revocation or suspension of registration, prohibition order, public or private reprimand and fine. The Monetary Authority is vested with statutory powers under the Banking Ordinance to impose disciplinary sanctions on EOs and relevant individuals of RIs, including withdrawal or suspension of consent to an EO and removal or suspension of the registration of a relevant individual. The Monetary Authority does not, however, have statutory powers to impose disciplinary sanctions on the RIs themselves in respect of their conduct of regulated activities under the SFO. This power is reserved to the SFC, which is vested with statutory powers under the SFO to discipline RIs, their EOs, relevant individuals and any persons

involved in the management of regulated activity (all referred to as “regulated persons”). The SFC is empowered under the SFO to revoke or suspend the registration of a RI and to issue a prohibition order on, to reprimand publicly or privately, and/or to fine, any regulated person.

11. *Under sections 71C and 71D of the Banking Ordinance (Cap. 155) (BO), every bank shall appoint not less than two executive officers to be responsible for directly supervising the conduct of each regulated activity. Please explain:*

(a) *With reference to the Minibonds incident, was a bank’s sale of Lehman Brothers-related Minibonds and structured financial products under the direct supervision of not less than two executive officers? If yes, what supervisory roles and duties should these executive officers perform? If not, the reasons.*

Yes. Every RI shall appoint not less than two EOs to be responsible for directly supervising the conduct of each regulated activity under the SFO. The supervisory roles and duties of EOs are not defined under the SFO and the Banking Ordinance. Nevertheless, according to the SFC’s FAQs, responsible officers of licensed corporations are expected to participate in or be involved in the day-to-day management of the regulated activity concerned. The same principle also applies to EOs of RIs. In addition, under section 71C(13) of the Banking Ordinance and section 193(2) of the SFO, where an RI is guilty of misconduct as a result of the commission of any conduct occurring with the consent or connivance of, or attributable to any neglect on the part of, an EO of the RI, the conduct will also be regarded as misconduct on the part of the EO and “guilty of misconduct” will be construed accordingly.

Under General Principle 9 of the Code, the senior management of a licensed or registered person should bear primary responsibility for ensuring the maintenance of appropriate standards of conduct and adherence to proper procedures by the firm. In determining where responsibility lies, and the degree of responsibility of a particular individual, regard shall be had to that individual’s apparent or actual authority in relation to the particular business operations, and the factors referred to in paragraph 1.3 of the Code, i.e. their levels of responsibility within the firm, any supervisory duties they may perform, and the levels of control or knowledge they may have concerning any failure by their firms or persons under their supervision to follow the Code. In addition, section 4.2 of the Code also requires that a licensed or registered person should ensure that it has adequate resources to supervise diligently and does supervise diligently persons employed or appointed by it to conduct business on its behalf.

[Attachments:

- SFC’s FAQs on responsible officers
- Section 193 of the SFO]

M7-Appendix 9

M7-Appendix 10

(b) *Is the suitability of an executive officer subject to review by HKMA? If yes, please provide details of such a review. If no, please give reasons.*

No person shall become an EO of an RI without the Monetary Authority's consent in writing. In considering whether to grant consent to an individual applying to become an EO of an RI, the HKMA will evaluate –

- (i) whether the applicant is a fit and proper person to be an EO of the institution concerned, and
- (ii) whether the applicant has sufficient authority within the institution concerned to be such EO.

The HKMA will take into account the factors set out in the SFC's Fit and Proper Guidelines, the SFC's Guidelines on Competence, section 71C(2)(a) of the Banking Ordinance, section 129 of the SFO and the HKMA Supervisory Policy Manual module SB-1. The HKMA applies the same stringent standards as the SFC does in relation to responsible officers of licensed corporations. The HKMA issued a circular "Executive officers of registered institutions" on 24 March 2003 to provide more guidance to RIs on the requirements on EOs.

In the day-to-day supervisory process, when the HKMA comes across any incident with possible material adverse bearing on the fitness and properness of an EO, the incident will be referred to the Securities Enforcement Teams within the Banking Development Department of the HKMA. When sufficient evidence is found to cast doubt on whether an EO continues to be a fit and proper person, the HKMA will consider appropriate actions such as withdrawal or suspension of the consent granted under section 71C(1) of the Banking Ordinance.

**M7-Appendix 11**

[Attachment - HKMA circular – "Executive officers of registered institutions" issued on 24 March 2003]