

Dated 17 June 2010

**WRITTEN STATEMENT OF
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THE ROYAL BANK OF SCOTLAND N.V.**

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

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GLOSSARY OF TERMS USED IN THIS STATEMENT

Bank means the retail banking operations of The Royal Bank of Scotland N.V., Hong Kong Branch (formerly known as ABN AMRO Bank N.V., Hong Kong Branch).

Banking Ordinance means the Banking Ordinance (Cap. 155 of the Laws of Hong Kong).

BOM means a branch operation manager of the Bank.

Branch means The Royal Bank of Scotland N.V., Hong Kong Branch (formerly known as ABN AMRO Bank N.V., Hong Kong Branch).

Business Control Unit means the Bank's Business Control Unit established in 2007 sitting within the Bank's Business Management Department, which manages and controls operational risks involved in the selling processes.

CAAML Policy means the Client Acceptance and Anti-money Laundering Policy of the Branch.

Code of Conduct means the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission, issued by the SFC.

Compliance Manual means the Compliance Manual of the Branch, implemented in 2004 and updated in 2007.

CPT means the "Continuous Professional Training" as set out under the Guidelines on Continuous Professional Training.

ELN means equity-linked note.

Fit and Proper Guidelines means the guidelines so described and issued by SFC in September 2006.

Golden Age Customer means a customer over the age of 65.

Guidelines on Competence means the guidelines so described and issued by the SFC in March 2003.

Guidelines on Continuous Professional Training means the guidelines so described and issued by the SFC in March 2003.

HKD means Hong Kong Dollars.

HKMA means the Hong Kong Monetary Authority.

Hong Kong means the Hong Kong Special Administrative Region of the People's Republic of China.

Lehman Brothers means a Lehman Brothers' entity.

Lehman Products means Lehman Brothers-related structured financial products.

Minibonds means the Lehman Brothers-related 'minibonds' issued by Pacific International Finance Limited.

Personal Investment Analysis means the personal investment analysis conducted via the "Personal Investment Risk Analysis" section in the Bank's Application Form for Investment Account/Services form.

Product Team means the Wealth Management Product Team of the Bank primarily responsible for conducting product screening or due diligence exercises in order to identify and source products which may be distributed to customers in Hong Kong.

Relevant Individuals means individuals whose name is entered in the register maintained by the HKMA under section 20 of the Banking Ordinance.

Relevant Period means the period from April 2005 to September 2008.

RM means relationship manager of the Bank.

SFO means the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

SFC means the Securities and Futures Commission.

SP Manual means the Structured Products Sales & Operation Manual of the Bank.

SP Product Program means the Product Program Structured Products of the Bank.

**Written statement of
Mr CHU Ren-ye, Alexander, Country Executive, Hong Kong,
The Royal Bank of Scotland N.V.**

GENERAL REMARKS

During the Relevant Period, customers of The Royal Bank of Scotland N.V. Hong Kong Branch (formerly known as ABN AMRO Bank N.V., Hong Kong Branch) included customers of the retail banking business and those of the private banking business. The responses in this statement concern the policies and procedures of, and the facts relevant to, the retail banking business.

RESPONSE TO SPECIFIC ISSUES

Role of the Bank

1 Please provide the following information:

(a) When did ABN AMRO become a distributor of the Lehman Brothers(LB)-related structured financial products?

1.1 The Bank became a distributor of Lehman Products on 28 April 2005. The first product distributed was a Minibond (Series 19 PIF 5.5Y HKD Credit Note).

(b) When did ABN AMRO become part of RBS? Did the change have any material effect on the role of ABN/RBS as a distributor of LB-related structured financial products, and on the process of approving the products for sale? Please explain.

1.2 The relevant timeline is as follows:

1.2.1 On 17 October 2007, RFS Holdings B.V., a company jointly owned by a consortium of three financial institutions, including and controlled by The Royal Bank of Scotland Group plc, completed the acquisition of ABN AMRO Holding N.V..

1.2.2 On 6 February 2010, "ABN AMRO Bank N.V." changed its name to "The Royal Bank of Scotland N.V.". The renaming changes were implemented in Hong Kong on 27 March 2010.

1.2.3 The Bank's retail and commercial banking businesses in Hong Kong were transferred to the Hong Kong Branch of Australia and New

Zealand Banking Group Limited ("ANZ") on 20 March 2010.

1.2.4 The Royal Bank of Scotland N.V. remains committed to resolving any issues or complaints that customers may have in connection with banking services provided by the Bank in the period prior to completion of the transfer to ANZ. A dedicated point of contact has been established by the Bank to ensure that complaints or issues that customers may have continue to be dealt with in an efficient manner.

1.3 During the Relevant Period, neither the Bank's acquisition nor its change in name were a change of the legal entity that distributed the Lehman Products. These events did not have a material effect on the Bank's role in relation to Lehman Products or on the process of approving the products for sale.

Lehman Brothers-related structured financial products sold by the Bank

2 Please provide in tabular form the following information on the investment products distributed by ABN/RBS during the period between April 2003 and September 2008:

- (a) a list of the types of LB-related structured financial products sold by ABN/RBS from April 2003 to 15 September 2008 and the specific products under each type;**
- (b) the number and aggregate value (in HK\$) of LB-related structured financial products sold by ABN/RBS each year during the period from April 2003 to 15 September 2008;**

2.1 The Bank distributed Lehman Products from 28 April 2005 to 30 May 2008. During that period, the Bank sold the products shown in the table provided in Item 1.

2.2 The following table shows the number of investment accounts involved and the aggregate nominal value of Lehman Products distributed by the Bank.

Year	Number of investment accounts / Total nominal value of Lehman Products distributed
2005	40 / HKD11,759,229
2006	29 / HKD23,696,451
2007	1,364 / HKD969,491,205
2008	497 / HKD336,470,778

- (c) the first and the last series of the Retail Structured Notes issued by Pacific International Finance Limited (i.e. Minibonds) sold by ABN/RBS (together with a copy of the offer documentation (such as the prospectus, etc.) and marketing material for each of the aforesaid first and the last series);
- 2.3 The first series of Minibonds sold by the Bank was Series 19. Copies of the relevant offering documents and marketing materials for this series are provided in **Item 2**.
- 2.4 The last series of Minibonds sold by the Bank was Series 35. Copies of the relevant offering documents and marketing materials for this series are provided in **Item 3**.
- (d) apart from Minibonds, the first and the last LB-related structured financial products sold by ABN/RBS (together with a copy of the offer documentation (such as the prospectus, programme memorandum, product booklet, term sheet, etc.) and marketing material for each of the aforesaid first and the last products); and
- 2.5 The first Lehman Product distributed by the Bank (other than Minibonds) was an ELN, which was sold on 4 October 2007 (LB 2Y HKD Range Accrual Note S776 22OCT09 (07PLE776QU)). The coupon payment and redemption amount at maturity were linked to the share price of PetroChina Company Limited, China Communications Construction Company Limited and China Life Insurance Company Limited. It had a tenor of 2 years. Copies of the relevant offering documents are provided in **Item 4**. There were no marketing materials.
- 2.6 The last Lehman Product distributed by the Bank was a hybrid linked note, 100% capital protected if held until maturity (2.75 Year CNY Booster Himalaya Note (USD) due 22 March 2011), which was sold on 30 May 2008. The coupon payment was linked to the performance of the Renminbi and a basket of underlying assets including the share price of Berkshire Hathaway Inc, commodity index of Rogers International Commodity Index - Excess Return and the fund price of PIMCO Total Return Bond Fund USD Ins ACC. It had a tenor of 2.75 years. Copies of the relevant offering documents are provided in **Item 5**. There were no marketing materials.
- (e) whether there were any major differences in design and structure between the first and the last LB-related structured financial products mentioned in (d). If yes, please provide a comparison.
- 2.7 There were no major differences in the fundamental design and structure of the first and last Lehman Products described in paragraphs 2.5 and 2.6, except that

the product described in paragraph 2.6 was linked to the performance of the Renminbi, a commodity index and a fund, in addition to equity (and was therefore called a “hybrid note”). There were differences in the product features, as described above, which related mainly to the underlying stocks, coupon payments and redemption arrangements. The Lehman Product described in paragraph 2.6 was also capital protected if held until maturity.

- (f) **as at 15 September 2008 (the collapse of LB), the total value (HK\$) of the outstanding (i) Minibonds and (ii) other LB-related structured financial products distributed by ABN/RBS.**

2.8 As at the 15 September 2008, the total nominal value of outstanding Minibonds and Lehman Products other than Minibonds that were distributed by the Bank was as follows:

Product type	Total nominal value
Minibonds	HKD 213,950,889
Lehman Products other than Minibonds	HKD 784,214,776
Total	HKD 998,165,665

3 **Based on the information provided by your bank to the Subcommittee on 14 January 2009, it is noted that the following series of products recorded the highest value of sales:**

- (i) **Minibonds Series 35;**
- (ii) **Lehman Brothers 2 Year USD Airbag Range Accrual Note S888 23NOV09 (07PLE888QU); and**
- (iii) **Lehman Brothers 2 Year USD Airbag Range Accrual Note S889 23NOV09 (07PLE889QU).**

- (a) **Please complete Tables 1 and 2 and provide a copy of the offer documentation and marketing materials for each of the products;**

3.1 Please refer to Tables 1 and 2, provided in Item 6 and Item 7, respectively. Copies of the relevant offering documents are provided in Item 3, Item 8 and Item 9, respectively. There were no marketing materials used by the Bank in its sale of these products other than for Minibonds Series 35 (copies of which are provided in Item 3). These materials were provided by the relevant issuer, arranger and/or promoter.

(b) **Please explain the structure and cash flow of the Lehman Brothers 2 Year USD Airbag Range Accrual Note S888 23NOV09 (07PLE888QU); and**

3.2 As disclosed in the offer documents provided by Lehman Brothers, this product was an ELN with a tenor of 2 years linked to a basket of 3 stocks (being China Telecom Corporation Limited, PetroChina Company Limited and Bank of Communication Co., Ltd.). The main features of this ELN were as follows:

3.2.1 Potential bi-monthly interest - during the term of the ELN, investors were entitled to receive:

- (A) a fixed coupon of 7.5% for the first interest period; and
- (B) depending on the daily performance of each of the 3 underlying stocks in each subsequent interest period, a potential bi-monthly coupon for each such interest period.

3.2.2 Knock-out features - if the closing price of each of the 3 underlying stocks reached its trigger level on any of the bi-monthly valuation dates, the ELN would be redeemed early at 100% of its principal amount together with the interest accrued for the relevant interest period.

3.2.3 Non-capital protected - Return of capital of this ELN was linked to the share price of the underlying stocks. At maturity of the ELN, the investors were entitled to:

- (A) receive 100% of the principal amount, if either:
 - (1) the closing price of each of the 3 underlying stocks was at or above its strike price on the final valuation date; or
 - (2) the closing price of each of the 3 underlying stocks never dropped below its knock-in level throughout the tenor of the ELN; and
- (B) otherwise, receive delivery of a fixed number of the worst performing stock in the underlying basket as of the final valuation date calculated by reference to the principal amount of the ELN and the strike price of such worst performing stock.

- (c) **Whether there were any major differences between the first series and the particular series of the product in (ii) and (iii) in terms of the product structure and design.**

3.3 There were no major structural differences between the first series of this product distributed by the Bank (described in paragraph 2.5) and the series described in paragraphs 3(ii) and (iii). However, the underlying stocks, strike prices and coupon rates were different, and the first series did not have a knock-in feature.

Internal process for approval of offer

4 **Please advise:**

- (a) **how, when and by whom Minibonds were first introduced to ABN/RBS;**
- (b) **how, when and by whom the first LB-related non-Minibonds structured financial product mentioned in Question 2(d) was introduced to ABN/RBS; and**
- (c) **whether the same source introduced all other LB-related non-Minibonds structured financial products sold by your bank; if no, please provide the details.**

4.1 The Bank's distribution of Lehman Products generally responded to customer interest in particular products or product features, followed by discussions with Lehman Brothers, the relevant issuer, arranger or promoter (if different). The Product Team then conducted an evaluation of the product structure and the counterparty in accordance with the due diligence processes described in the response to Question 7.

5 **What were the considerations that ABN/RBS decided to act as a distributor/seller of LB-related structured financial products? To what extent was the need to increase non-interest income a factor?**

5.1 At the time Lehman Products were distributed, Lehman Brothers was a well known issuer of structured products to the retail market in Hong Kong. Lehman Brothers was rated A1 by Moody's until July 2008 (when it was rated A2) and A+ by S&P until June 2008 (when it was rated A). Lehman Brothers was approved as an approved product counterparty in 2005 following the Bank's usual internal approval process.

5.2 The Bank itself did not have a particular preference for distributing Lehman Products, and the distribution of Lehman Products was primarily driven by the

Bank's desire to provide investment choices to its customers and by customer demand. Lehman Products accounted for 4.82% of the nominal value of all structured products distributed by the Bank between 2005 and 2008.

- 5.3 The potential to increase non-interest income was only one of many factors that the Bank considered when offering for sale structured financial products such as the Lehman Products.
- 6 **On the mode of sales, banks may offer financial products to clients through public offer or through "private placement". Please advise:**
- (a) **the respective mode of sales for (i) Minibonds and (ii) other LB-related non-Minibonds structured financial products sold by ABN/RBS;**
 - (b) **whether ABN/RBS chose the mode of sales and if yes, the reasons for ABN/RBS's decision to sell certain products through private placement rather than by way of public offer (e.g. whether ABN/RBS would receive a higher rate of commission); and**
 - (c) **if it was not ABN/RBS's decision, the party that made the choice.**
- 6.1 The Bank distributed Minibonds by way of public offer, which accounted for 0.77% of the nominal value of all structured products distributed by the Bank between 2005 and 2008.
- 6.2 The Bank distributed all Lehman Products other than Minibonds by private placement, which accounted for 4.05% of the nominal value of all structured products distributed by the Bank between 2005 and 2008. Private placement in respect of each series of Lehman Products comprised either where:
- 6.2.1 the investor purchased the Lehman Product with a minimum denomination or consideration of at least HKD500,000; or
 - 6.2.2 the Lehman Product was offered to less than 50 investors.
- 6.3 The mode of distribution was chosen having regard to a number of factors. The Bank considered the amount proposed to be invested by the customer, the number of potential investors, the customer's preference for a particular product and whether the SFC had approved a particular product in question.
- 6.4 The difference in the rates of commission between the public offer and private placement routes was minimal.

7 Please advise:

(a) whether all the LB-related structured financial products (Minibonds and non-Minibonds products) sold by ABN/RBS had gone through the same approval process. If no, please provide the reasons for different approval processes being adopted and describe how different products/types of products were approved;

7.1 All Lehman Products sold by the Bank were required to follow a consistent product due diligence and approval process, involving due diligence in the following three key areas.

7.1.1 Each Lehman Product was reviewed by the Product Team. In particular, the Product Team verified that a proposed Lehman Product was linked to an approved asset class set out in the SP Product Program (Item 10). If not, the Product Team was required to follow the 10-step New Classes Application Process contained in that policy, which also involved the Market Risk Management and Group Audit teams, among others. This process was followed for Minibonds before they were sold to customers because a credit-linked product did not fall within the pre-approved asset classes.

7.1.2 The Product Team was also required to consider whether the proposed counterparties, including the issuer, fulfilled the criteria set out in the SP Product Program. New counterparties were subject to approval by the Head of Wealth Management Business, Hong Kong and Head of Wealth Management Products, Asia Pacific. Lehman Brothers was an approved counterparty from 2005 to 2008.

7.1.3 In relation to each relevant product, the Product Team was then required to prepare a Product Program covering key product features, the risk category, distribution matters and other relevant factors. This was required to be circulated with the product documentation to various departments of the Bank for approval, to ensure effective management oversight of the due diligence process, as well as input from departments that were independent from the day-to-day business.

7.2 Lehman Products with substantially the same product structure as a product previously approved in accordance with the process described in paragraph 7.1 were reviewed and approved pursuant to the policies set out in the "Proposal - Structured Products "2nd tranche" Approval" (Item 11).

- (b) if the answer to (a) is yes, please describe the approval process in the form of a flow chart, together with the name(s) and position(s) of the officers(s) responsible for the approval;
- (c) if the approval was made by a committee or department within ABN/RBS, please provide the details of the committee or department, including its membership, scope of responsibilities and internal guidelines or code of practice that it should follow;

7.3 Paragraphs 7.1, 7.2 and 11.1 describe the main policies governing the product and counterparty due diligence process and the key personnel involved in approving Lehman Products. A flow chart of the product approval and sales process for Lehman Products distributed by the Bank showing the departments involved is enclosed as **Item 12**.

- (d) if the approval was made by the Board of Directors, please provide the date(s) of its meeting(s) at which such approval was made; and

7.4 The personnel and departments described in the response to Questions 7(a) to (c) were responsible for Lehman Product approvals. The approval of a particular Lehman Product was not a direct function of ABN AMRO Bank N.V.'s Board of Directors.

- (e) please provide the record of deliberations/decisions on approving the following products for sale:

- (i) the first series of Minibonds mentioned in Question 2(c);
- (ii) the first LB-related structured financial product mentioned in Question 2(d); and
- (iii) the three LB-related structured financial products mentioned in Question 3.

7.5 These products were approved in accordance with the procedures described in paragraphs 7.1 and 7.2. In relation to:

- 7.5.1 Minibonds Series 19, please see the Product Program provided in **Item 13**;
- 7.5.2 the Lehman Product described in Question 2(d), please see the Product Program provided in **Item 14**;
- 7.5.3 Minibonds Series 35, approved as a second tranche product pursuant to the Product Program for Minibonds Series 19 provided in **Item 13**;

7.5.4 Lehman Brothers 2 Year USD Airbag Range Accrual Note S888 23NOV09 (07PLE888QU), approved as a second tranche product pursuant to the Product Program for Lehman Brothers 2 Year USD Airbag Range Accrual Note S779 (07PLE779QU), please see the Product Program provided in **Item 15**; and

7.5.5 Lehman Brothers 2 Year USD Airbag Range Accrual Note S889 23NOV09 (07PLE889QU), approved as a second tranche product pursuant to the Product Program for Lehman Brothers 2 Year USD Airbag Range Accrual Note S779 (07PLE779QU), please see the Product Program provided in **Item 15**.

8 Regarding the LB-related structured financial products that were launched in the market in a number of series, was ABN/RBS's approval of the sale of such products made in respect of each type, or individually per series or both? Please explain.

8.1 Each series of Lehman Products was reviewed and approved in accordance with the new product procedures (as described in paragraph 7.1) or as a second tranche issuance (as described in paragraph 7.2) before it was sold to customers.

9 When ABN/RBS decided to sell LB-related structured financial products, was there any decision on who should be the target clients for (i) Minibonds and (ii) other LB-related products? If yes, please provide the reasons for the decision and details of the discussion leading to such decision.

9.1 As described in the responses to Questions 44 and 45, no particular customers were targeted in relation to Lehman Products distributed by the Bank, although typically, customers who purchased Lehman Products were Van Gogh Preferred Banking customers. Those customers generally had higher assets under administration (usually over HKD1 million) and exhibited greater demand for structured financial products. The broad category of eligible customers was also identified in the relevant Product Program.

9.2 Before a customer purchased a Lehman Product, the Bank was also required to complete the know-your-customer ("KYC") and suitability checks described in the responses to Questions 33 to 41.

10 Did ABN/RBS sell any LB-related structured financial products between June and mid-September 2008 when the financial difficulties of LB were

known to be worsening? If yes, please explain why ABN/RBS had decided to continue to sell the LB-related structured financial products amidst such reports. When and why did ABN/RBS decide to stop selling LB-related structured financial products? Please describe the decision-making process, including the person(s) or authority within ABN/RBS that made the decision.

- 10.1 The Bank did not distribute any Lehman Products after 30 May 2008.
- 10.2 The Bank conducted ongoing counterparty due diligence to ensure that counterparties continued to fulfil all relevant counterparty appointment criteria. Lehman Brothers continued to satisfy the Bank's required counterparty ratings until September 2008.
- 10.3 In relation to the Lehman Brothers bankruptcy, the Bank promptly issued a letter and a list of frequently asked questions to customers holding Minibonds on 26 September 2008 and a letter to holders of Lehman Products other than Minibonds on 3 October 2008 to inform them about the situation (copies of the notices are provided in **Item 16**). The Bank also kept customers updated on developments by means of a further notice on 14 October 2008 and group customer meetings on 30 September 2008 and in October 2008, issuing a further written response to concerns and queries (copies of the relevant notices are provided in **Item 17**).

Product due diligence

- 11 **Did ABN/RBS have any written policy/internal guidelines on how product due diligence should be conducted? If yes, please provide the relevant documentation; if no, the reasons.**
- 11.1 The main policies applicable to product due diligence for Lehman Products distributed by the Bank were:
 - 11.1.1 the SP Product Program (**Item 10**);
 - 11.1.2 the SP Manual (**Item 18**); and
 - 11.1.3 the Generic Investment Sales Process (**Item 19**).
- 11.2 Please refer to paragraphs 7.1 and 7.2 for details of the Bank's due diligence processes.

- 12 Please name the person(s)/department(s) responsible for preparing the written policy/internal guidelines on how product due diligence should be conducted. Was reference made to the requirements of the regulators (e.g. the Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC)) in preparing the relevant written policy/internal guidelines? Was a copy of the written policy/internal guidelines provided to the regulators for record?
- 12.1 The various policies and guidelines of the Bank take into account the Hong Kong regulatory framework. In particular, the Compliance Manual set standards across a diverse range of product lines and made specific reference to those regulatory requirements. It was prepared by the Compliance Department and updated during the Relevant Period. A copy of the 2007 version is provided in Item 20.
- 12.2 In relation to the specific policies described in paragraph 11.1, the SP Product Program and the SP Manual were prepared by the Product Team, while the Generic Investment Sales Process was prepared by the Bank's Business Management Department. Each of these policies was signed off by other relevant departments. The Generic Investment Sales Process made reference to the requirements of the HKMA and SFC.
- 12.3 The Bank made copies of these policies available to the HKMA during the HKMA's on-site examinations during the Relevant Period.
- 13 Had any product due diligence been conducted on a LB-related structured financial product before ABN/RBS made the policy decision to sell the product to your clients? If no, please provide the reasons; if yes, please provide information on how such due diligence had been carried out and the conclusions of the exercise.
- 13.1 Please refer to the overview of the Bank's due diligence processes in the response to Question 7. These processes were conducted before the Lehman Products were sold to customers.
- 14 Was product due diligence conducted in respect of each series of a LB-related structured financial product (e.g. ELNs, Minibonds) sold by ABN/RBS? If yes, please provide information on how ABN/RBS conducted the exercise, including the dedicated team, if any, for such work; if no, the reasons.

14.1 Each series of Lehman Products was reviewed and approved in accordance with the new product procedures (as described in paragraph 7.1) or as a second tranche issuance (as described in paragraph 7.2) before it was sold to customers.

15 **Did ABN/RBS make any enquiries or obtain any information from the issuer(s) and/or other independent sources about the nature, structure and risks of each LB-related structured financial product to be sold by ABN/RBS? If no, please provide the reasons; if yes, please explain using the following products as examples: (i) the first and the last series of Minibonds mentioned in Question 2(c); (ii) the first and the last LB-related structured financial products mentioned in Question 2(d); and (iii) the three LB-related structured financial products mentioned in Question 3.**

15.1 As described in the response to Question 7, the Bank conducted due diligence on the issuer prior to product launch to ensure it fulfilled the criteria set out in the SP Product Program.

15.2 As a distributor of Lehman Products, the Bank also considered the structure and key features of the product through its review of the relevant offer documentation provided by the issuer, arranger and/or promoter.

Product risk assessment

16 **Did ABN/RBS have any written policy or guidelines on product risk assessment? If yes, please provide the relevant documentation; if no, the reasons.**

16.1 The Bank had written policies on product risk assessment, which were contained in the SP Product Program, SP Manual and Generic Investment Sales Process.

17 **Did ABN/RBS assess the risks of each series of (i) Minibonds and (ii) other LB-related non-Minibonds structured financial product sold by ABN/RBS? If yes, please give in tabular form ABN/RBS's risk ratings of each series of the products at (i) and (ii) and explain how ABN/RBS arrived at each of the risk ratings (including all factors and criteria taken into consideration in arriving at the ratings); if no, the reasons.**

17.1 The Bank assigned a risk level rating to each Lehman Product. The factors taken into account when assigning a risk level rating to a Lehman Product included its investment period, the availability of capital protection, the

underlying assets and its complexity. The risk level rating for each Lehman Product is set out in the following table.

Product type	Risk rating
Minibonds	Growth
Himalaya notes	Balanced
Other Lehman Products	Growth

18 Please provide an explanation on the scale of risks assessment adopted by ABN/RBS in respect of the LB-related structured financial products sold by ABN/RBS.

18.1 The Bank adopted a three tier approach to the risk categorisation of its products: "Conservative", "Balanced" or "Growth". All Lehman Products were assigned the highest risk rating of "Growth", other than Himalaya notes. Himalaya notes were capital protected if held to maturity, had a tenor of 2.75 years and were assigned the "Balanced" rating. This reflected the Bank's risk category mapping table in the Generic Investment Sales Process, which required structured products to be classified as "Balanced" or "Growth", because they were considered to be less liquid than traditional investments and involved embedded derivatives.

19 Did ABN/RBS conduct any after-sale risk assessment in respect of each of the LB-related structured financial products sold by ABN/RBS? If yes, please provide the details including whether the clients were informed of the latest assessment results?

19.1 It was not necessary under the Bank's policies to undertake an after-sale risk category re-evaluation process for Lehman Products distributed by the Bank.

20 It is noted that between June and July 2008, credit-rating agencies (such as Standard & Poor's, Fitch Ratings and Mood's) lowered the credit ratings of LB, and the shares of LB also dropped substantially. Did ABN/RBS conduct any assessment on the possible impact of the financial difficulties of LB on the outstanding LB-related structured financial products sold by ABN/RBS? If yes, please provide the details; if no, the reasons.

20.1 The Bank did not distribute Lehman Products after 30 May 2008, as described in the response to Question 10. In any event, while Lehman Brothers was rated A

by S&P and A2 by Moody's, it still met the Bank's issuer eligibility requirements.

- 20.2 As a general principle, the Bank conducted ongoing counterparty due diligence to ensure that counterparties continued to fulfil all relevant counterparty appointment criteria. This was conducted by the Product Team on an annual basis and in the event of any adverse market change. Please refer to the response to Question 10 for additional details in relation to steps taken by the Bank in response to Lehman Brothers' collapse.

Offer documentation and marketing materials

- 21 **Did ABN/RBS have any involvement in the preparation of the offer documentation and marketing materials of the LB-related structured financial products sold by ABN/RBS (such as the products mentioned in Question 2(d) and Question 3(ii) and (iii))? If yes, please provide the details.**

- 21.1 The offer documentation and (in the case of Minibonds) marketing materials were provided to the Bank by the issuer, arranger and/or promoter and made available to the RMs through the Bank's information system (please refer to paragraph 45.5).

- 22 **Since the offer documentation and marketing materials for LB-related structured financial products for sale by way of private placement did not require SFC's authorization, did ABN/RBS have any mechanism to vet/review the contents and presentation of such documentation and materials? If yes, please provide the details and whether ABN/RBS ever raised any queries/comments to the issuer(s). If no, how did ABN/RBS ensure that there was full disclosure of product information (such as risks) in such documentation?**

- 22.1 Lehman Products were sold by private placement only if they were first approved following the Bank's usual approval and review processes described in paragraphs 7.1 and 7.2. The Product Team examined:

22.1.1 the product structure;

22.1.2 the counterparty; and

22.1.3 the product features including applicable risk factors.

- 22.2 The Bank only acted as a distributor of Lehman Products. All offering documents used by the Bank for the sale of Lehman Products were produced by, and legal responsibility in relation to them rested with, the issuer, arranger and/or promoter. However, as part of the product review process described in paragraph 7.1 and the SP Manual, the Bank reviewed the relevant documentation and prepared a Product Program covering key product features, the risk level rating, distribution matters and other relevant factors.
- 22.3 There were no marketing materials provided by the Bank to RMs in relation to Lehman Products distributed by the Bank by way of private placement.

Training and guidance to frontline sales staff

- 23 Please describe the training arrangements for staff engaged in the sale of LB-related structured financial products, including the following particulars:
- (a) whether the training was general or product specific or both;
 - (b) if only general, please give the details of the training programme(s);
 - (c) if product specific, please give details of the training programme(s) for the following products:
 - (i) the first and the last series of Minibonds mentioned in Question 2(c);
 - (ii) the first and the last LB-related structured financial products mentioned in Question 2(d); and
 - (iii) the three LB-related structured financial products mentioned in Question 3.
 - (d) if the training was both general and product specific, please give all details specified in (b) and (c); and
 - (e) if there had been changes to the training arrangements, please describe.
- 23.1 RMs received both general and product specific training to ensure that they had the knowledge and skills necessary to provide quality services to customers and meet their CPT requirements as Relevant Individuals. The Bank took an holistic approach to achieving this goal. Firstly, training was provided when staff joined the Bank and on an ongoing basis on topics including the sales process, investment suitability, mis-selling and relevant legal and regulatory

issues. Secondly, the Bank supplemented formal training for RMs with practical on-the-job coaching and guidance.

23.2 Specifically, the Bank's training initiatives covered the following:

23.2.1 general training in the form of:

- (A) courses and tutorials on topics including the Bank's compliance principles, anti-money laundering, sales skills, technical skills and business skills;
- (B) refresher training regarding various manuals and procedures;
- (C) seminars on KYC procedures, mis-selling and client suitability (see the response to Question 37 for specific examples); and
- (D) periodic quizzes and tests to check sales staff members' knowledge on topics including the investment sales process flow, Generic Investment Sales Process, Personal Investment Analysis and the CAAML Policy;

23.2.2 product-specific training in the form of 'tailor-made' product training or a briefing session arranged, where appropriate, with issuers (among others) to ensure that frontline sales staff understood the features and mechanisms of the products and the customers eligible to buy the products. Regular training sessions were arranged for the sales staff in respect of structured products to enhance their understanding of the product features. In particular, training sessions were arranged in relation to:

- (A) the first series of Minibonds distributed by the Bank (Series 19) (a copy of the presentation is provided in **Item 21**);
- (B) the last series of Minibonds distributed by the Bank (Series 35) (a copy of the presentation is provided in **Item 22**);
- (C) the first other Lehman Product distributed by the Bank, described in paragraph 2.5 (copies of the relevant presentations are provided in **Item 23**);
- (D) the last other Lehman Product distributed by the Bank, described

in paragraph 2.6 (a copy of the presentation is provided in **Item 24**); and

- (E) the three LB-related structured financial products described in Question 3 (a copy of the Minibond Series 35 presentation materials is provided in **Item 22** and a copies of the presentation materials for the ELNs described in paragraph 3(ii) and (iii) are provided in **Item 23**); and

23.2.3 practical on-the job coaching and guidance undertaken by team heads and the dedicated portfolio consultants assigned to each branch of the Bank. This occurred during daily morning briefings before the branch opened for business, as well as on an *ad hoc* basis.

23.3 The Bank improved and enhanced staff training during the Relevant Period. For example, the Bank launched its “Gold Training” initiative in 2007 to encourage staff members to attend further self-learning and refresher courses online and to study at their own pace.

24 **Did the issuer(s) or ABN/RBS or any other party conduct any product briefings and/or provide training materials to the frontline sales staff for each of the LB-related structured financial products sold by ABN/RBS? If yes, please provide the details; if no, the reasons.**

24.1 Before launching a Lehman Product with a new structure, the Bank arranged appropriate product training (including arranging product-specific briefings by the relevant issuer, arranger and/or promoter), which was supplemented with other training, practical guidance and support, as described in the response to Question 23.

25 **Did ABN/RBS provide any further training to your frontline sales staff for each of the series of (i) Minibonds and (ii) other LB-related structured financial products distributed by ABN/RBS prior to the launch of each of the series of such products? If yes, please provide the details; if no, the reasons.**

25.1 Please refer to the responses to Questions 23 and 24.

- 26 Was it mandatory for the frontline sales staff of ABN/RBS to attend the product briefing and/or training before they could sell a LB-related structured financial product to clients? If no, please provide the reasons.**
- 26.1 All members of the Bank's sales staff were required to attend product training sessions that were conducted by the Product Team or external product provider. In particular, the Generic Investment Sales Process and SP Product Program required that product training sessions and briefings (particularly in relation to newly-launched products with particular features) be arranged for sales staff before performing sales or promotional activities and that Product Managers, Branch Managers and/or portfolio consultants prepare and file attendance records. If staff were unable to attend a certain briefing, they were responsible for arranging to attend a similar session at another branch or a make-up briefing session.
- 26.2 Frontline sales staff were also required to meet their CPT requirements as Relevant Individuals and to participate in regular internal briefing sessions, including the daily briefings conducted by team heads before branch opening, as described in the response to Question 23.
- 27 Did ABN/RBS have any procedures to assess the frontline sales staff's knowledge on a LB-related structured financial product before they were allowed to sell the product to clients? If yes, please provide the details; if no, the reasons.**
- 27.1 Portfolio consultants in each branch worked closely with the RMs to brief, assist and provide ongoing coaching. This strengthened product knowledge and helped the Bank identify any further briefings or training required.
- 28 Did ABN/RBS receive any feedback from your sales staff on the training provided to them in relation to the sale of LB-related structured financial products? If yes, please provide the details.**
- 28.1 RMs were given the opportunity to ask questions and share any concerns in relation to the distribution of Lehman Products at the interactive daily briefings conducted at the Bank's branches. The team head ensured that these questions and concerns were addressed (on the spot or as soon as possible) and if necessary, escalated to the appropriate internal teams for further follow-up.
- 29 Did ABN/RBS provide any sales scripts to your frontline sales staff on the solicitation process relating to the sale of (i) Minibonds and (ii) other**

LB-related structured financial products? If yes, please provide a copy of the script.

29.1 The Bank did not issue any product-specific sales scripts in relation to the distribution of Lehman Products by the Bank. The Bank's staff were required to follow the Bank's policies and procedures when distributing Lehman Products, as described in the response to Question 30. The Bank's staff were required to inform customers of the key risks associated with Lehman Products and to confirm their understanding of the product, as part of the suitability questionnaire process described in the response to Question 33.

30 Please provide a copy of the operational guidelines, manual, internal memoranda, instructions or any other documents prepared by ABN/RBS to the staff engaged in the sale of LB-related structured financial products to assist them in complying with the *Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission* (the Code of Conduct). If such guidelines, manual, memoranda, instructions and documents were product specific, please supply them in respect of each of the following products:

- (a) the first and the last series of Minibonds mentioned in Question 2(c);
- (b) the first and the last LB-related structured financial products mentioned in Question 2(d); and
- (c) the three LB-related structured financial products mentioned in Question 3.

30.1 The Bank prepared operational guidelines and manuals to assist its staff to comply with their regulatory obligations, including the Code of Conduct, in addition to the training, support and guidance described in the responses to Questions 23 and 37.

30.2 The Bank made available the following key policies to staff distributing Lehman Products:

30.2.1 the Compliance Manual (Item 20), which sets standards across a diverse range of product lines and makes specific reference to regulatory requirements;

30.2.2 the Generic Investment Sales Process (Item 19);

- 30.2.3 the SP Manual (**Item 18**);
 - 30.2.4 the CAAML Policy (**Item 25**);
 - 30.2.5 the Professional Investor Handling Procedure (**Item 26**);
 - 30.2.6 the Handling Procedure of Golden Age Customer (**Item 27**), implemented in 2007 (previously, the Generic Investment Sales Process contained policies and guidelines in respect of such customers, as shown in the 2004 version of that policy provided in **Item 28**); and
 - 30.2.7 the Employee Handbook (**Item 29**), which made clear that all staff were required to comply with all relevant laws, industry codes of practice and internal policies and procedures and described where to find legal and compliance policies (among other things).
- 30.3 Under the SP Manual, the Product Team was required to distribute the relevant product documents and suitability questionnaire, among other things, to frontline sales staff. Please refer to the product documents provided in the responses to Questions 2 and 3, the sample suitability questionnaire provided in the response to Question 33 and the product-related training materials described in the response to Question 23.
- 31 Did ABN/RBS have any policy/procedures to ensure that your sales staff would meet the Fit and Proper Guidelines, the Guidelines on Competence and the Guidelines on Continuous Professional Training issued by SFC? If yes, please provide the details of such policy/procedures; if no, the reasons.**
- 31.1 All RMs who distributed Lehman Products were required to be registered as Relevant Individuals with the HKMA and fulfil the competence requirements in the Guidelines on Competence, be “fit and proper” as set out in the Fit and Proper Guidelines and undertake CPT as set out in the Guidelines on Continuous Professional Training.
 - 31.2 The Compliance Department informed RMs of their CPT requirements and tracked RMs’ compliance with those requirements.
 - 31.3 The Bank had a range of policies and processes in place to enhance its staff members’ understanding of these requirements and their importance. The Compliance Manual described the Bank’s compliance approach and principles generally. In particular, it required:

- 31.3.1 all staff to be licensed to carry out any regulated activities for the Bank (the Compliance Department was responsible for determining the type of licence needed for each employee's job description);
 - 31.3.2 Relevant Individuals to remain fit and proper, bearing in mind their current and past financial status, educational or other qualifications or experience, ability to perform their functions efficiently, honestly and fairly and their overall reputation, character, financial integrity and reliability, and to notify the Bank of any changes to their personal information; and
 - 31.3.3 Relevant Individuals to fulfil their CPT requirements, providing examples of suitable training topics and requiring them to keep training records.
- 31.4 In addition to the Compliance Manual, staff distributing Lehman Products were required to comply with the Generic Investment Sales Process, which:
- 31.4.1 set out the qualification requirements to be a Relevant Individual, including academic qualifications, recognised industry qualifications and local regulatory framework papers;
 - 31.4.2 stipulated that all staff members engaging in regulated activities were required to be registered with the HKMA;
 - 31.4.3 from January 2008, described the situations in which a Relevant Individual would cease to be fit and proper and required the individual to report the occurrence of any of those situations to their supervisor, the Compliance Department or the Bank's human resources division; and
 - 31.4.4 required Relevant Individuals to comply with the Guidelines on Continuous Professional Training.
- 31.5 As described in the responses to Questions 23 and 37, the Bank took an holistic approach to training and mentoring its staff and made appropriate training available throughout the Relevant Period to assist Relevant Individuals to meet their CPT requirements.

31.6 Please also refer to the response to Question 51 in relation to the Bank's general measures to ensure that its frontline sales staff complied with their regulatory obligations in relation to product distribution.

32 Did ABN/RBS involve the legal/compliance team in vetting the relevant training materials so as to ensure that all relevant legal and regulatory requirements had been met? If yes, was any false/inaccurate/misleading information in the materials identified? If no, please provide the reasons.

32.1 The Bank's Compliance Department was involved in vetting the relevant training materials, as well as the general product review and approval process described in paragraph 7.1. No false, inaccurate or misleading information was identified in those materials.

Know your clients

33 Did ABN/RBS have any policy/procedures to ensure that your frontline sales staff did conduct risk profiling exercise with the customers to assess their risk appetite? If yes, please provide the details; if no, the reasons.

33.1 The Bank had the following KYC and suitability protocols in place during the Relevant Period to ensure that the Bank and its staff understood their customers' circumstances and investment profile, including their risk appetite:

33.1.1 RMs were required to comply with the following key policies and procedures in relation to KYC:

(A) the CAAML Policy, which described and supplemented the Bank's KYC controls, from an anti-money laundering perspective. RMs were required to complete the anti-money laundering-related Risk Assessment Form (**Item 30**), which examined the customer's background, business activities, product and service needs, and the source and nature of their funds. The assessment was conducted by the RM or customer contact person pursuant to the Generic Investment Sales Process, and countersigned by that person's superior;

(B) the Personal Investment Analysis, contained in the Application Form for Investment Account/Services (**Item 31**), which was conducted by an RM with the customer as part of the account opening process. This included questions about the customer's

risk appetite and tolerance, investment objectives and capabilities. The answers helped classify a customer's risk tolerance as "Growth", "Balanced" or "Conservative", based on the scores allocated to each question. Customers were asked to sign the completed form and confirm their responses; and

- (C) a customer declaration (in the Personal Investment Analysis), which required the customer to declare that either they would only invest in products based on their Personal Investment Analysis (by checking "Box-1") or would invest in products for which the associated risks do not match that analysis, acknowledging that certain products may be riskier than their risk tolerance levels (by checking "Box-2").

33.1.2 Customers proposing to purchase Lehman Products were also required to complete a product-specific suitability questionnaire with the RM's guidance, to help ascertain whether the product was appropriate for the customer. The suitability questionnaire was included in the application form for the specific product and was mandatory under the Generic Investment Sales Process. A sample is provided in **Item 32**. The suitability questionnaire contained questions asking whether the customer:

- (A) was restricted from buying the particular product due to applicable selling restrictions;
- (B) understood the product structure;
- (C) was prepared to hold the product for its tenor (which was specified on the form) and understood that there may not be a secondary market in the product;
- (D) had experience across a range of products, including equities, bonds, mutual funds, structured products and derivatives; and
- (E) had an appropriate risk/loss tolerance and understood the key risks of that product, which were outlined in the questionnaire. The risks generally included investment risk, credit risk, liquidity risk, early exit risk, exchange rate risk, conflicts of interest, hedging activities risk, early termination risk, capital

protection, emerging market and cancellation risk.

Importantly, the questionnaire contained a confirmation by the customer specifying, among other things, that the customer:

- (F) had received and reviewed relevant offering documents in their preferred language and understood their contents;
- (G) was making an independent and informed decision whether to invest in the products;
- (H) was capable of understanding and evaluating the risks associated with an investment in the product;
- (I) had received, read, understood and accepted the risks; and
- (J) was invited to ask questions and take independent advice if they wished.

33.1.3 As a control measure, a BOM was required to check each suitability questionnaire, to check that the risk tolerance level of the customer matches the risk level rating of the product, whether the customer is a suitable prospect for the product and whether they have completed and signed the suitability questionnaire. The SP Manual required the BOM to reject any application that had not been successfully completed and return it to the RM for further action. The BOM was also required to initial all suitability questionnaires with “positive” results (ie where customers were classified as suitable prospects). If the customer was not a “right prospect” for a particular type of product, the BOM was required to initial the “unsuccessful” Application Form for Structured Products for verification and file it.

33.2 The Bank took additional measures throughout the Relevant Period to ensure compliance with these protocols. Please refer to the responses to Questions 34 to 52 in relation to other measures relevant to KYC, suitability assessments and the sales process.

34 Did ABN/RBS require the risk profiling exercise be conducted in relation to the customers only once when they opened an investment account, or continuously at regular intervals? If continuously, how did ABN/RBS ensure compliance by each staff member?

34.1 The Bank conducted risk profiling continuously at regular intervals.

34.2 In particular, the Personal Investment Analysis remained valid for 12 months. RMs were required under the Generic Investment Sales Process at the expiry of 12 months to contact their customers and undertake the Personal Investment Analysis again before any further products were purchased by the customers. This practice was enhanced by the implementation of a designated computer system for RMs in December 2006, which prompted RMs 5 days before a Personal Investment Analysis expired and recorded whether a valid Personal Investment Analysis was in place before a client placed an investment order. The Personal Investment Analysis could also be undertaken if the customer felt that their risk profile should change - please refer to the response to Question 41.

34.3 Details of the Bank's monitoring and review processes, which included documentation reviews and internal audits, are provided in the response to Question 52.

35 Did ABN/RBS have any internal mechanism to conduct periodic review of the risk profiling questionnaire and scoring system? If yes, please provide the details; if no, the reasons.

35.1 The Bank's mechanism for customer risk profiling was the Personal Investment Analysis (and associated scoring system), which was periodically reviewed during the Relevant Period by the Bank's regional team.

36 Did ABN/RBS require your sales staff to assess the customers' specific needs and personal circumstances in addition to the risk profiling questionnaire? If no, please provide the reasons.

36.1 RMs were required to ensure the suitability of any solicitation for a customer is reasonable in all the circumstances, having regard to the customer's information gathered as part of the customer due diligence process. RMs were required to assess whether the customer understood the nature and risks of the product and had sufficient net worth to assume the risks and bear the potential losses of trading in the product, as part of the KYC assessment and suitability processes.

These processes were supplemented by special protocols for elderly customers and professional investors, as described in paragraphs 36.2 and 36.3.

- 36.2 The Bank had specific policies and guidelines in respect of Golden Age Customers throughout the Relevant Period. An earlier Generic Investment Sales Process (**Item 28**) included a requirement to obtain the approval of the portfolio consultant or Branch Manager and the Head of Wealth Management before opening an investment account for a Golden Age Customer. These policies and guidelines were further enhanced in November 2007 with the implementation of a standalone policy entitled, "Handling Procedures of Golden Age Customer" (**Item 27**). This document set out additional control measures to be followed by RMs when dealing with Golden Age Customers, in light of their comparatively shorter investment time frame and normally more conservative risk tolerance level. The procedures required sales staff to complete a "Compliance Checklist for Golden Age Customer". This checklist required staff to remind the customer of the option to invite a family member or relative to attend the sales process. Specific policies for visually-impaired and illiterate customers in the Generic Investment Sales Process applied since January 2008.
- 36.3 The Bank implemented the Professional Investor Handling Procedure (**Item 26**), which set out the Bank's policy for dealing with customers who fulfilled the criteria for, and agreed to be treated as, professional investors. The procedure required the following steps to be taken if a customer was treated as a professional investor under the SFO and the Code of Conduct:
- 36.3.1 the customer was required to provide adequate proof of assets;
 - 36.3.2 the Bank provided a written explanation to the customer about how to be designated as a professional investor, the consequences and risks of being designated as a professional investor and the right to withdraw from being treated as such in respect of some, or all, products or markets;
 - 36.3.3 the customer signed a declaration in which they agreed to be treated as a professional investor and confirmed that they had read and understood the Bank's explanation of the risks and consequences of being treated as a professional investor and of the right to withdraw from being treated as such;

- 36.3.4 the BOM was required to verify that the asset proof and declaration were in place;
- 36.3.5 the Bank's Head of Business Support, Head of Channel Support and Head of Business Management then approved the application;
- 36.3.6 the customer's record was then required to be updated in the Bank's system; and
- 36.3.7 the customer's status as professional investor was required to be reviewed annually and RMs were required to take appropriate follow-up steps with clients who no longer met the professional investor criteria.

Suitability of recommendation and solicitation

37 Were the Questions and Answers on Suitability Obligations of Investment Advisers (FAQ) published by SFC in May 2007 brought to the attention of the sales staff of ABN/RBS? Were they briefed on the FAQ?

37.1 The Bank ensured that all regulatory requirements were appropriately notified to, and implemented by, relevant departments. Please see the response to Question 63.

37.2 In particular, the Bank took the following steps in relation to suitability assessments after the SFC published the FAQs:

37.2.1 The Bank conducted training sessions to sales staff engaged in the distribution of Lehman Products, including:

(A) in September 2007, "Suitability of investment advice"; and

(B) in June 2008:

(1) "Training on Selling Process, Professional Investors & Cross Border Activities"; and

(2) "Generic Investment Sales Process".

A copy of the relevant presentation materials is provided in **Item 33**.

37.2.2 The Bank also reviewed and enhanced its suitability-related policies in the Generic Investment Sales Process in November 2007 to address the

practical implications of the guidance provided in the FAQs.

38 Did ABN/RBS have any internal controls to ensure suitability of the recommendations and solicitations for investment in LB-related structured financial products? If yes, please provide the details; if no, the reasons.

38.1 As described in the responses to Questions 7, 33 and 41 (among others), the Bank had policies and procedures during the Relevant Period that governed product due diligence, risk profiling, risk matching and suitability assessment, coupled with relevant ongoing training and practical guidance, as described in the responses to Questions 23 and 37.

38.2 The following further steps were taken by the Bank to strengthen the practical application of its protocols. Please also refer to the response to Question 52 for additional compliance controls.

38.2.1 The Bank's SP Manual required staff engaged in the distribution of Lehman Products to follow detailed procedures including the RM to have completed each of the following steps before accepting an order from a customer:

- (A) ensure that a valid Personal Investment Analysis was in place (see further the response to Questions 33 and 34);
- (B) inform the customer of the key risks associated with investment of the relevant products;
- (C) pass all necessary documents to the customer and invite the customer to read and confirm their understanding of the documents; and
- (D) arrange for the completion and signing of a suitability questionnaire by the customer in respect of the relevant product (and subsequent verification by the BOM and Business Control Unit), as described in paragraph 33.1 and the response to Question 52.

38.2.2 A suitability questionnaire was also created for each Lehman Product structure. The questionnaire contained the key risks associated with the product and was mandatory for each product application process, as described in paragraph 33.1.2. In addition to the customer's

declaration, the suitability questionnaire required the RM to declare that they had provided and explained the necessary offer documents and suitability questionnaire to the customer and had invited the customer to read them, ask questions and take independent advice if the customer wished to do so.

39 Did ABN/RBS have any system to require the sales staff to document the reasons for the recommendation given to the clients? If yes, please provide the details; if no, the reasons.

39.1 The Bank solicited sales on the basis of the Personal Investment Analysis and the Structured Products Application Form (containing the relevant suitability questionnaire), which RMs were required to provide and explain to the customer and which the customer was required to sign, as described more fully in the response to Question 33. Please also refer to the response to Question 41.

39.2 The Generic Investment Sales Process required the RMs not to provide discretionary advisory services. They were only permitted to introduce products to a customer in accordance with the customers' Personal Investment Analysis.

40 Did ABN/RBS have any measures to ascertain whether the clients were fully aware of the nature and risks of the LB-related structured financial products recommended by your sales staff? If yes, please provide the details; if no, the reasons.

40.1 The Bank had policies and procedures to inform customers of the nature and risks of Lehman Products, which included conducting the Personal Investment Analysis and product-specific suitability questionnaires, making available all relevant product documentation, following risk mismatch procedures and informing customers of the key risks involved. Please see the responses to Questions 33 to 38 and to Question 41.

40.2 The SP Manual required the RM to reconfirm the price, amount, settlement date and other information before accepting the relevant order form. In particular, the RM was required to remind the customer of the risk disclosures printed on the relevant term sheet and the product risks listed in the suitability questionnaire. The RM was required to assess whether the client understood that the product was exposed to risks including market risk and credit risk.

40.3 These policies and procedures were supported by the Bank's documentation checks, internal audits and other mechanisms described in the response to Question 52.

41 Did ABN/RBS have any internal controls to identify transactions in which there was a mismatch between the product risk rating and the customer's risk profile? If yes, please provide the details; if no, the reasons.

41.1 The RM was required under the Generic Investment Sales Process to take certain steps if a customer wished to purchase a Lehman Product with an assigned risk rating that was higher than the customer's risk tolerance level as shown in the Personal Investment Analysis which was required to be signed by the customer. Specifically, the RM was required to take one of the following approaches, depending on the circumstances.

41.1.1 If there was a risk mismatch and the customer checked "Box-1" (described in paragraph 33.1), the RM was not permitted to sell the product to them, unless the customer wished to undertake the full Personal Investment Analysis exercise again and the resultant risk tolerance level was equal to, or higher than, the product risk rating.

41.1.2 If the customer checked "Box-2" (described in paragraph 33.1) and there was a single level deviation (for example, the customer's assessed risk tolerance level was "Balanced" and the product was rated "Growth"), the customer was able to purchase the Lehman Product without requiring further approval, provided that the RM had reminded the customer of the mis-match and asked the customer if they wished to undertake the re-profiling exercise again.

41.1.3 If the customer checked "Box-2" and there was a two-level deviation (for example, the customer's assessed risk tolerance level was "Conservative" and the product was rated "Growth"), the RM was required to complete a "2-Levels Risk Deviation Approval Form" to specify that the RM had:

- (A) thoroughly explained to the customer his/her unsuitability for the relevant Lehman Product;
- (B) re-confirmed the customer's intention to proceed with the subscription regardless of their Personal Investment Analysis

results; and

(C) recorded any additional rationale for the deviation.

In addition to the general suitability oversight protocols described in the response to Question 33, the Bank's senior management was required to approve a two-level deviation.

Sale of products

- 42 Did all your frontline staff engaged in the sale of LB-related structured financial products sit and pass the relevant examinations for representatives to be licensed by SFC? If no, did ABN/RBS set any qualifications (e.g. seniority, rank, experience, education, and training courses attended) when selecting frontline staff to engage in the sale of the aforesaid products?**
- 42.1 All RMs who distributed Lehman Products were required to be registered as Relevant Individuals with the HKMA and to fulfil all related competence requirements (including those required by the SFC). The Compliance Manual and the Generic Investment Sales Process specifically required all staff to be licensed to carry out any regulated activities for the Bank. Please refer to the response to Question 31 for additional details.
- 43 Was the sale of LB-related structured financial products all conducted by staff members who were Relevant Individuals registered with HKMA?**
- 43.1 Lehman Products were only permitted to be distributed to the Bank's customers by Relevant Individuals. The Compliance Manual and the Generic Investment Sales Process required all staff to be licensed to carry out any regulated activities for the Bank.
- 44 Please describe ABN/RBS's sales strategies of Minibonds, which should include the following particulars:-**
- (a) **the target group of customers in terms of age, education level, net worth and relationship with ABN/RBS;**
- 44.1 No particular customers were targeted in relation to Minibonds, although typically, customers who purchased Minibonds were Van Gogh Preferred Banking customers. Those customers generally had higher assets under administration (usually over HKD1 million) and exhibited greater demand for structured financial products. Before a customer purchased a Minibond, the

RM completed the KYC and suitability checks described in the responses to Questions 33 to 41. In particular, the Bank used the results of the Personal Investment Analysis, the risk deviation protocols and the suitability questionnaire to ascertain whether the product could be sold to the customer.

- (b) **the sources of information used for locating individual customers of the target group;**

44.2 The Generic Investment Sales Process provided that Bank staff engaged in the distribution of Minibonds were not permitted to “cold call” new customers. Rather, RMs would respond to expressions of interest in relation to particular types of products or contact their existing customers who had previously expressed an interest in relation to a particular type of product.

- (c) **the quantitative sales targets, if any, set for specific time period for each branch of ABN/RBS and for each staff member at different levels involved in such sales;**

44.3 Each RM’s performance was measured against three major criteria: revenue, customer growth and growth of assets under administration. Each RM had different performance targets according to their respective grade. The entitlement to receive an incentive was subject to proper compliance with applicable regulatory requirements. There was no product-specific incentive scheme in respect of Minibonds or other particular Lehman Products. Please also refer to the response to Question 44(e), which describes the Bank’s staff incentive scheme.

- (d) **the features of Minibonds emphasized in ABN/RBS's marketing or promotional materials;**

44.4 The features of the Minibonds were set out in the offer documents and marketing materials prepared by the issuer, arranger and/or promoter. The RM was required to pass the necessary documents to the customer and highlight the key risks in relation to Minibonds when conducting the suitability questionnaire described in paragraph 33.1.

44.5 In respect of the marketing materials for Minibonds, by way of illustration, the following features were disclosed in the advertisement for Minibond Series 19 provided by the issuer, arranger and/or promoter (see leaflet in **Item 2**):

44.5.1 that it is credit-linked to seven well-known financial institutions;

44.5.2 that the annual coupons are as high as 5.75% p.a., with a table setting out semi-annual interest payments as follows:

(A) for Years 1-4, being 4.75% p.a. for USD Notes or 4.15% p.a. for HKD Notes; and

(B) for Years 5 to maturity, being 5.75% p.a. for USD Notes or 5.15% p.a. for HKD Notes;

44.5.3 that it is not principal protected, with supplementary notes that upon a credit event, the credit event redemption amount will likely be less, and could be significantly less, than the principal invested;

44.5.4 that it could be redeemed at the issuer's option on any interest payment date falling on or after 26 May 2006; and

44.5.5 under the disclaimer section at the end, there is a disclosure that the recourse of investors is limited to realisation of the underlying securities and to the termination amount (if any) due to Pacific International Finance Limited under the swap arrangements.

(e) **details of the incentive scheme(s) for**

(i) **staff on the basis of the amount of sales of Minibonds achieved;**

(ii) **investors on the basis of the amount of Minibonds they purchased; and**

(f) **if such incentive scheme(s) have changed over time, please give details of each stage of the scheme(s) in chronological order;**

44.6 The Bank had a yearly incentive scheme during the Relevant Period for staff, but there was no scheme for rewarding staff in respect of the number of sales of one particular type of product as distinct from any other particular type of product.

44.7 The Bank's staff incentive scheme for frontline sales staff was based on three major criteria: revenue, customer growth and growth of assets under administration. Each staff member had different performance targets according to their respective grade. The entitlement to receive an incentive was subject to proper compliance with applicable regulatory requirements. From 2006, staff were subject to a quarter-end review on their qualitative performance by their respective Branch Manager or team head in the form of a score card, which

assessed their compliance, operational, service quality and sales discipline record.

- (g) the officer(s) (name(s) and position(s)) in charge of the overall strategy of staff deployment for the sale of Minibonds;
- (h) the officer(s) (name(s) and position(s)) in charge of the overall supervision of the marketing or promotion of Minibonds; and
- (i) the officer(s) (name(s) and position(s)) responsible for ensuring the achievement of sales targets.

44.8 The head of the Bank was responsible for each of these matters. The head of the Bank during the Relevant Period was (until the end of 2006) Maripi Jalandoni and (from January 2007) Maria Leung.

45 Please describe how ABN/RBS had conducted the sale of LB-related structured financial products other than Minibonds, including the following particulars:

- (a) how ABN/RBS had identified the target clients (using the first and the last LB-related structured financial products mentioned in Question 2(d) and the two LB-related structured financial products mentioned in Question 3 (ii) and (iii) as illustration, describe the target clients (in terms of age, education level, net worth and relationship with ABN/RBS) in the sale of each of the products);

45.1 No particular customers were targeted in relation to non-Minibond Lehman Products, although typically, customers who purchased these products were Van Gogh Preferred Banking customers. Those customers generally had higher assets under administration and exhibited greater demand for structured financial products. Please also refer to our responses to Questions 9 and 45(f), which outline the key mandatory pre-investment procedures.

- (b) the criteria adopted to designate certain clients as professional investors, and whether the clients were aware that they were so classified;

45.2 The Bank adopted criteria consistent with the SFO and related rules and regulations to designate customers as professional investors, and required customers to sign a declaration confirming their consent to that classification. Please refer to paragraph 36.3 for further details.

- (c) **how ABN/RBS had approached the target clients (e.g. making telephone calls, by invitation in writing or personal visits);**

45.3 The Bank used a variety of means to communicate with its customers and the Generic Investment Sales Process (among other policies) provided guidance in relation to specific communications. For example, RMs were not permitted to “cold call” new customers in relation to investment products or to approach them during events for investment account opening or investment product promotional purposes. Sales procedures were also reinforced through training. For example, please refer to the training sessions described in the response to Question 37.

- (d) **the preparatory work undertaken before private placement could take place, e.g. what promotional materials were prepared and how the staff were trained;**

45.4 Following all internal product approvals and before a new structure was launched, either the Bank’s Product Team or representatives of the issuer, arranger and/or promoter arranged appropriate product training and internal briefings to staff. Please refer to the responses to Questions 23 and 37 for further details.

45.5 The product documentation would also be uploaded into the Bank’s information system, a central repository accessible to the RMs, and made available to customers, as appropriate. There were no advertising materials used by the Bank for the sale of such products.

- (e) **the features of the LB-related structured financial products emphasized in the relevant marketing or promotional materials used by ABN/RBS;**

45.6 There were no marketing or promotional materials provided by the issuer, arranger and/or promoter to the Bank for distribution to customers in relation to Lehman Products other than Minibonds.

45.7 The features of these Lehman Products were set out in the offer documents prepared by the issuer, arranger and/or promoter. The RM was required to pass the necessary documents to customers and highlight the key risks when conducting the suitability questionnaire described in paragraph 33.1.

- (f) **the typical process of a successful sale (from approaching a target client for the first time to the settlement of all relevant transactions);**

45.8 A sale was required to be effected only after the RMs followed the Generic Investment Sales Process and completed all necessary KYC and suitability

procedures for a customer. These included completing the Personal Investment Analysis, suitability questionnaire and the risk matching procedures described in the responses to Questions 33 and 41.

45.9 RMs were required to follow the specific procedures outlined in the "Private Placement Sales & Operation Process" contained in the SP Manual for all Lehman Products other than Minibonds. These reinforced the need for identifying the customer's risk tolerance levels (through the Personal Investment Analysis) and completing the suitability questionnaire, as well as setting out sales and other protocols in relation to private placements.

45.10 In summary, the RM was required to follow the following sales process under the SP Manual:

45.10.1 identifying the product risk level recorded in the Bank's systems and manuals and following the customer risk matching procedures under the Generic Investment Sales Process;

45.10.2 completing the suitability questionnaire for the relevant Lehman Product and associated steps, including:

- (A) explaining the questions to the customer;
- (B) informing the customer of the key risks associated with the product. If the particular product is not suitable for the customer, completing the RM declaration;
- (C) passing all necessary documents to the customer;
- (D) confirming their understanding of the product; and
- (E) signing the form. Otherwise, the sale would be incomplete and no order would be accepted (see further the response to Question 33);

45.10.3 completing the Application Form for Structured Products;

45.10.4 reconfirming the price, amount, settlement date and other information;

45.10.5 reminding the customer of the risk disclosures printed on the relevant term sheet and the product risks listed in the suitability questionnaire (see further paragraph 40.2); and

- 45.10.6 time stamping the relevant order form, inputting relevant data into the Bank's internal system and submitting the signed Application Form for Structured Products together with other related documentation (such as the suitability questionnaire) for verification by the BOM in accordance with the SP Manual.
- 45.11 Once the order was successfully placed, the SP Manual required a customer's funds to be earmarked from the order placement date until the specific settlement date of the product, which was recorded in the Bank's internal system.
- (g) **how such private placements were organized (e.g. by bank branches, by sales teams or by designated officers);**
- 45.12 Private placements involved the Product Team, branch-level staff (including RMs and portfolio consultants) and other relevant supporting departments. The "Private Placement Sales & Operation Process" in the SP Manual described the steps to be followed for each private placement of Lehman Products and allocated relevant responsibilities.
- 45.13 After the Product Team conducted the appropriate product due diligence process (as described in paragraphs 7.1 and 7.2), the SP Manual required:
- 45.13.1 the Product Team to input the product information and private placement requirements into the Bank's internal logging system;
- 45.13.2 branch-level staff (including RMs) to ensure that private placement requirements were complied with, including either:
- (A) informing customers of the HKD500,000 minimum consideration/denomination; or
- (B) maintaining internal logs to adhere to the "50-offerees" quota; and
- 45.13.3 RMs to follow the sales procedures summarised in the response to Question 45(f) and, together with other departments, attend to all necessary logging and other relevant procedures.

(h) how such private placements were monitored (e.g. at different levels, by a team leader or branch manager or department head or designated officer);

45.14 As described in the response to Question 45(g), the Product Team, branch-level staff and a number of other supporting departments were involved in the private placement process set out in the SP Manual (and other relevant policies such as the Generic Investment Sales Process).

45.15 In addition to general monitoring of these functions, the Bank monitored private placements through the Bank's internal logging system, which contained private placement criteria provided by the Product Team and client information and order details supplied by the RM before each order was processed.

45.16 For private placements involving the "50-offerees" channel, the SP Manual also required portfolio consultants and team heads to log relevant offering documents and, as a final step, the Product Team consolidated and reviewed all branches' log sheets to check adherence to the "50-offerees" quota restriction.

45.17 As a further oversight control, a BOM was required to check quotas and verify all customer and product information in the relevant documentation against the data entered into the Bank's internal logging system by the RMs.

45.18 Please also refer to the response to Question 52 in relation to general monitoring measures undertaken by the Bank, including documentation checks and internal audits.

(i) the officer(s) (name(s) and position(s)) in charge of the overall strategy of staff deployment for the sale of LB-related structured financial products;

(j) the officer(s) (name(s) and position(s)) in charge of the overall supervision of the marketing or promotion of LB-related structured financial products;

(k) the officer(s) (name(s) and position(s)) responsible for ensuring the achievement of sales targets;

45.19 The head of the Bank was responsible for each of these matters. The head of the Bank during the Relevant Period was (until the end of 2006) Maripi Jalandoni and (from January 2007) Maria Leung.

(l) how ABN/RBS ensured that the applicable law and regulations were complied with in the entire sale process;

45.20 Each stage of the sales process was governed by policies and procedures which appropriately reflected the applicable laws and regulations. These were supplemented by the internal controls and measures described in the response to Question 52.

45.21 As described in the responses to Questions 23, 31, 37, 42 and 51, all RMs who distributed Lehman Products were required to be registered as, and comply with their obligations as, Relevant Individuals. The Bank made available a variety of training and on-the-job guidance to ensure compliance with sales-related protocols.

(m) what records were made after each successful and unsuccessful transaction;

45.22 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 documentation. Further details of these documentation requirements are set out in the responses to Questions 33 and 45(f). It was possible that a transaction would not proceed at any stage of the sales process for a variety of possible reasons. The Bank maintained customer records as part of its record keeping policies, including those specified in the Compliance Manual, the Generic Investment Sales Process and the SP Manual.

(n) the quantitative sales targets, if any, set for specific time period for each branch of ABN/RBS and for each staff member at different levels involved in such sales;

(o) details of the incentive scheme(s) for:

(i) staff on the basis of the amount of sales of LB-related structured financial products achieved; and

(ii) investors on the basis of the amount of LB-related structured financial products they purchased;

(p) if such incentive scheme(s) changed over time, please give details of each stage of the scheme(s) in chronological order; and

(q) was there a different incentive scheme if the LB-related structured financial products were sold to professional investors or where the subscription amount in a single transaction was HK\$500,000 or more.

45.23 Please refer to paragraphs 44.6 and 44.7, which applied to all Lehman Products.

46 Using the first and the last series of LB-related structured financial products mentioned in Question 2(d) and the two LB-related structured financial products mentioned in Question 3 (ii) and (iii) as examples, please describe ABN/RBS's sales strategies of LB-related structured financial products.

46.1 The policies, processes and strategies described in the response to Questions 44 and 45 also applied to these products.

47 Please set out in the form of a chart the organizational structure of the staff (including all sales teams or units and the number of staff) engaged in the sale of LB-related structured financial products. If the organizational structure varied over time, please provide a chart for each of the following stage:

- (a) the sale of the first and the last series of Minibonds mentioned in Question 2(c);
- (b) the sale of the first and the last LB-related structured financial products mentioned in Question 2(d); and
- (c) the sale of the three LB-related structured financial products mentioned in Question 3.

47.1 Please refer to the organisational chart in Item 34.

48 Besides the prospectuses and advertising materials authorized by SFC, did ABN/RBS provide other marketing materials, such as posters, promotional letters and leaflets, to customers for the sale of Minibonds? If yes, please provide the details and a copy of the relevant materials.

48.1 The Bank did not provide any other marketing materials to RMs for distribution to customers in relation to the sale of Minibonds.

49 Besides the offer documentation and marketing material, did ABN/RBS provide any other materials, such as posters, promotional letters and leaflets, to customers for the sale of other LB-related non-Minibonds structured financial products? If yes, please provide the details and a copy of the relevant materials.

49.1 The Bank did not provide any marketing materials to RMs for distribution to customers in relation to the sale of Lehman Products other than Minibonds.

50 Did ABN/RBS detect any false/inaccurate/misleading information contained in the advertising materials for a particular LB-related structured financial product which had not been consistent with the information in the offer document for the product?

50.1 The Bank did not provide any advertising materials to RMs for distribution to customers in respect of Lehman Products, other than the advertising materials in relation to Minibonds, which were provided to the Bank by the relevant issuer, arranger and/or promoter. The Bank did not detect any false, inaccurate or misleading information in the advertising materials for Minibonds.

51 Please advise:

- (a) when selling (i) Minibonds and (ii) other LB-related structured financial products, whether the sales staff were allowed to provide investment advice or merely to provide investment information;**
- (b) whether the approach mentioned in (a) will be different when the product is sold on public offer or by way of private placement; and**
- (c) whether the bank has any written guidelines/manuals and training materials about the approach mentioned in (a); if yes, please provide a copy of such document.**

51.1 RMs who distributed Lehman Products were licensed for Type 1 regulated activities. RMs were not permitted to provide investment advisory services, except on an incidental basis as permitted under the terms of their licence.

51.2 As described in the response to Question 31, the Compliance Manual and Generic Investment Sales Process each made clear that staff were only permitted to engage in regulated activities for which they were appropriately licensed. The Generic Investment Sales Process provided that no discretionary advisory services were to be offered to clients and that all investment instructions should be placed only upon a customer's own decision. This applied to the distribution of all Lehman Products, irrespective of the offering channel.

51.3 In addition to the Generic Investment Sales Process and the Compliance Manual, staff members were reminded at training sessions of the need to have appropriate qualifications.

52 Did ABN/RBS have any supervision or management measures to ensure that the frontline sales staff would follow the proper procedures stipulated in the

Code of Conduct, as well as relevant manuals/guidelines, if any, during the selling process? If yes, please provide the details; if no, the reasons.

- 52.1 Among other things, the Code of Conduct required the Bank to:
- 52.1.1 take all reasonable steps to establish the true and full identity of each of its customers, and of each customer's financial situation, investment experience, and investment objectives;
 - 52.1.2 ensure the suitability of its solicitations for each customer was reasonable in all the circumstances;
 - 52.1.3 in relation to derivatives products, assure itself that customers understood the nature and risks of the product and had sufficient net worth to be able to assume the risks and bear the potential losses of trading in them; and
 - 52.1.4 follow all appropriate procedures in relation to dealings with professional investors.
- 52.2 These principles were reflected in the Bank's policies and procedures, including the Generic Investment Sales Process, CAAML Policy, Compliance Manual, SP Manual and Professional Investor Handling Procedure, as well as account opening and product-specific documentation including the Personal Investment Analysis and suitability questionnaires. Please see the responses to Questions 30, 33, 36, 38 and 41 for further details.
- 52.3 The Bank undertook a number of supervisory and management measures throughout the Relevant Period to ensure staff compliance with the Code of Conduct, other regulatory requirements and the Bank's internal compliance protocols. These were enhanced periodically during the Relevant Period. In particular, the Bank took the following steps, in addition to measures taken by the Bank in response to HKMA examinations.
- 52.3.1 The BOM checked the documentation prepared by RMs (eg application form for investment accounts, review checklists for the opening of new investment accounts, Personal Investment Analysis and suitability questionnaires etc) for every executed transaction. This was further enhanced in September 2007 with monthly random sample checking by the Business Control Unit to ensure that account opening forms had been properly completed and reviewed and risk deviation procedures

(described in the response to Question 41) had been complied with.

52.3.2 Since April 2005, the Business Control Unit conducted sample reviews for new client files, which included reviewing whether the account documents had been properly and/or thoroughly completed. The report detailed the areas in which discrepancies existed and corrective actions required.

52.3.3 The Bank's Group Audit team performed regular reviews. Any findings identified by Group Audit required prompt follow-up actions to be undertaken by management in accordance with the Bank's internal audit framework.

52.3.4 During the Relevant Period, the Bank conducted self-assessments in relation to its compliance with key regulatory requirements including the Code of Conduct, the Code of Banking Practice, the Management, Supervision and Internal Control Guidelines for Persons Licensed by and Registered with the SFC and other relevant requirements (including fitness and propriety, record-keeping, staff CPT and reporting, among other things).

52.4 These measures were complemented by training for RMs about suitability protocols (as described in the response to Question 37) and ongoing on-the-job coaching and guidance, including daily briefing sessions (as described in the response to Question 23), which covered issues relating to the sales process and the implementation of risk assessment procedures.

53 Under the existing regulatory regime, regardless of how financial products are offered (such as through private placement or public offer), the conduct of sale by intermediaries has to comply with the Code of Conduct. How did ABN/RBS ensure that your sales staff were aware of their obligations and complied with the requirements under the Code of Conduct, including FAQ, when selling LB-related structured financial products?

53.1 As described in the responses to Questions 31, 37, 38 and 52, the Bank had policies and procedures in place to ensure staff compliance with regulatory requirements including the Code of Conduct and FAQ.

Handling of complaints

- 54 Before the collapse of LB in mid-September 2008, did ABN/RBS receive any complaints in relation to alleged mis-selling of LB-related structured financial products? If yes, please provide the details, including the number of cases and particular series involved.
- 54.1 As shown in Table 3 (Item 35), no complaints were logged by the Bank in relation to Lehman Products before the collapse of Lehman Brothers in mid-September 2008.
- 55 Please provide the number of customers who had purchased (i) Minibonds and (ii) other LB-related structured financial products from ABN/RBS and who were affected by the collapse of LB.
- 55.1 At the time of Lehman Brothers' collapse, 291 customers had outstanding Minibonds and 871 customers had outstanding Lehman Products other than Minibonds.
- 56 Please provide the information in the enclosed Table 3.
- 56.1 Please refer to Table 3, provided in Item 35.
- 57 It is noted that ABN/RBS is one of the distributing banks that signed the agreement with HKMA and SFC in relation to the repurchase of Minibonds in July 2009. Please provide further information as follows:
- (a) of the unresolved complaints relating to Minibonds in item (2)(d) of Table 3, a breakdown of the number of complaints (i) under mediation, (ii) under arbitration, (iii) under negotiation, and (iv) rejected; and
- (b) the expected time-frame to resolve these outstanding complaints.
- 57.1 All of the outstanding complaints relating to Minibonds distributed by the Bank are undergoing review pursuant to the Bank's complaint handling procedures. The Bank is continuing to deal with these outstanding complaints efficiently and fairly. Please refer to the response to Question 59 for additional details of the Bank's procedures.
- 58 Regarding the complaints involving LB-related non-Minibonds structured financial products, please provide further information as follows:
- (a) of the unresolved complaints in item (2)(d) of Table 3, a breakdown of the

number of complaints (i) under mediation, (ii) under arbitration, (iii) under negotiation, and (iv) rejected;

- (b) the expected time-frame to resolve the outstanding complaints;
- (c) whether a broad-based settlement similar to the repurchase of Minibonds would be reached. If yes, please provide the details; if no, the reasons; and
- (d) whether a broad-based settlement in relation to a particular type of LB-related structured financial products or a particular series of such a product sold by ABN/RBS has been/would be reached. If yes, please provide the details; if no, the reasons.

58.1 All of the outstanding complaints relating to Lehman Products distributed by the Bank are undergoing review pursuant to the Bank's complaint handling procedures. A substantial majority of Lehman Product-related complaints have been reviewed by the Bank and the Bank's decisions have been communicated to customers accordingly. The Bank is continuing to deal with these outstanding complaints efficiently and fairly.

58.2 The Bank's approach in relation to all outstanding complaints concerning Lehman Products distributed by the Bank is to assess the merits of each case and the customer's circumstances in accordance with the procedures set out in the response to Question 59. Accordingly, the Bank does not believe that a broad-based settlement is appropriate.

59 Please advise:

- (a) has ABN/RBS put in place any written policy/procedures on handling and investigating complaints lodged by clients who have purchased investment products from ABN/RBS?
- (b) if yes, please provide a copy of such policy/procedures and a flow chart on ABN/RBS's complaint handling and investigative process in relation to LB-related structured financial products sold by ABN/RBS;
- (c) are such policy/procedures required to be endorsed by the regulators (such as HKMA)? If no, is a copy of such policy/procedures provided to the regulator(s) for record?
- (d) the details of the enhanced complaint handling procedures as required under the Minibonds repurchase agreement between 16 banks and HKMA and SFC to resolve complaints in relation to the sale of Minibonds; and
- (e) whether the enhanced complaint handling procedures in (d) above also

applied in resolving complaints in relation to the sale of other LB-related non-Minibonds structured financial products.

- 59.1 The Bank has implemented an enhanced complaint handling process in relation to all Lehman Product-related complaints. A copy of the Bank's complaint handling procedure (which includes a flow chart) is provided in **Item 36**.
- 59.2 The procedure involves:
- 59.2.1 initial and ongoing contact with the customer by the Bank's client engagement team, including initial receipt of the complaint, interim progress replies or responses to queries (if applicable) and notification of the Bank's final determination. This team is also responsible for logging complaints and other complaint-related administrative functions;
 - 59.2.2 an investigation by the Bank into the matters raised by the customer and the additional facts available to the Bank, including account opening and sales-related documentation; and
 - 59.2.3 an holistic review of the supporting documents by an approval panel comprised of senior management staff of the Bank who are independent from the frontline sales team.
- 59.3 The Bank communicated key features of its enhanced complaint handling procedures to the HKMA in August and September 2009.

60 Did ABN/RBS detect any substantiated non-compliance cases in relation to the sale of LB-related structured financial products during its internal investigations into the complaints filed by investors of such products? If yes, please provide the number and key particulars of such cases.

- 60.1 The decisions to approve settlement in each case involved a careful consideration of a broad range of factors, including any deviation from the Bank's internal procedures that may have had a material impact upon the customer's investment in the Lehman Product and the customer's personal circumstances.

Regulatory oversight and compliance

- 61 It is noted that since 2000, HKMA has adopted the practice of holding prudential meetings with the boards of directors of local banks once a year to the extent possible. Please advise:**

- (a) From 2000 to September 2008, how many such prudential meetings were held with ABN/RBS?
- (b) The date (month/year) of these meetings and whether HKMA held these meetings with the board of directors or any committee of ABN/RBS; and
- (c) at these prudential meetings, did HKMA express concerns or raise suggestions about boosting the bank's non-interest income? Please explain.

61.1 Prudential meetings were held between the Bank and the HKMA during the Relevant Period. The Bank is not aware of any concerns or suggestions made by the HKMA during those meetings about boosting the Bank's non-interest income.

62 Prior to the collapse of LB in September 2008, did HKMA, in the course of its on-site and off-site examinations, relay to ABN/RBS any concerns in the following areas in relation to the sale of structured financial products (such as LB-related products) sold by ABN/RBS:

- (a) product due diligence;
- (b) training and guidance to staff;
- (c) handling customers;
- (d) information about customers;
- (e) suitability of recommendation and solicitation; and
- (f) supervision of sales process.

If yes, please explain.

62.1 The HKMA conducted regular on-site examinations of the Bank's regulated activities during the Relevant Period. Following these examinations, the HKMA made observations and suggested enhancements that the Bank considered carefully and implemented appropriately. The Bank tracked the HKMA's findings internally as audit points to be updated, reviewed and signed off on an ongoing basis by the Bank's Group Audit team.

62.2 For example, two relevant findings by the HKMA suggested that the Bank:

- 62.2.1 provide additional categories when assessing customers' net worth as part of the account opening process. In response, the Bank assessed and modified the investment account opening form to include additional

categories; and

62.2.2 review the Personal Investment Analysis questionnaire. In response, the Bank reviewed the relevant questions to enhance the clarity of the information to be collected for risk assessment purposes.

62.3 Overall, the results indicated that the HKMA was generally satisfied with the management systems and controls of the Bank, as well as the selling practices of the Bank.

63 **It is noted that HKMA issues from time to time advice and circular letters to all Registered Institutions (for example, the circular letter dated 1 March 2005 on "The Securities and Futures Commission's Report (the Report) on Selling Practices of Licensed Investment Advisers" and the circular letter dated 3 March 2006 on "Retail Wealth Management (RWM) Business"). Does ABN/RBS have any arrangements in place to take heed of and/or follow up the regulatory concerns raised by HKMA? If yes, please provide the details; if no, the reasons.**

63.1 The Bank took steps to ensure that all regulatory requirements were appropriately notified to, and implemented by, relevant departments of the Bank.

63.2 The Bank's senior management collectively, and the Compliance Department in particular, oversaw the core processes, policies and procedures designed to ensure that the Bank conformed with applicable laws, regulations and standards and implemented adequate and appropriate compliance controls.

63.3 The Compliance Department was primarily responsible for notifying relevant departments of new regulatory requirements. That department was involved in assessing the enhancements that may be required to the Bank's existing policies and procedures and agreed appropriate implementation plans.