

**Written statement of  
Mr HE Guangbei, Vice Chairman and Chief Executive  
Bank of China (Hong Kong) Limited (BOCHK)**

**Role of BOCHK**

1. Please provide the following information:

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

1.1 In July 2002 BOCHK acted as a distributor for the second tranche of Lehman Minibond Series 1.

(b) Apart from being a seller/distributor of LB-related structured financial products, did BOCHK act as the sole or joint Arranger of any or all of such products sold by BOCHK? Please explain the roles and responsibilities of BOCHK as the Arranger of such products and its relationship with the issuer(s);

1.2 At all times, BOCHK acted only as a distributor of LB-related structured financial products, and did not act as the sole or joint Arranger of any LB-related structured financial products.

(c) Did BOCHK acquire the LB-related structured financial products from the issuer(s) before further selling them to clients? If yes, please provide the details; and

1.3 BOCHK did not acquire the LB-related structured financial products from the issuers before selling them to clients.

(d) Did BOCHK have any involvement in the design of the LB-related structured financial products sold by BOCHK?

1.4 BOCHK was not involved in the design of the LB-related structured financial products sold by BOCHK.

**Lehman Brothers-related structured financial products sold by BOCHK**

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

(a) a list of the different types of LB-related structured financial products sold by BOCHK from April 2003 to 15 September 2008 and the specific products under each type (e.g. all the Series of Minibonds distributed by BOCHK);

2.1 See Item 2a. For ease of reference, the expression “Relevant Period” used in this statement means the period from April 2003 to 15 September 2008.

- (b) the number and aggregate value (in HK\$) of LB-related structured financial products sold by BOCHK each year during the period from April 2003 to 15 September 2008;

2.2

Year	No. of LB-related products during Relevant Period	Aggregate value (in HK\$) of LB-related products
2003 (starting from April 2003)	Nil	Nil
2004	6	1,123,493,800
2005	11	1,223,666,200
2006	16	1,510,579,800
2007	7	826,621,400
2008 (ending on 15 September 2008)	1	1,110,190,000

- (c) the first and the last series of the Retail Structured Notes issued by Pacific International Finance Limited (i.e. Minibonds) sold by BOCHK (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 Minibond sold by BOCHK during the Relevant Period was Series 8 and the last series of Minibond sold by BOCHK during the Relevant Period was Series 35.

See Items 2b (Minibond Series 8) and 2c (Minibond Series 35).

- (d) apart from Minibonds, the first and the last LB-related structured financial products sold by BOCHK (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

2.4 Apart from Minibonds, the first LB-related structured financial product sold by BOCHK during the Relevant Period was Pyxis Equity Linked Notes Series 12 and the last LB-related financial product sold by BOCHK was Pyxis Equity Linked Notes Series 21.

See Items 2d (Pyxis Series 12), 2e (Pyxis Series 21).

- (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.

2.5 Pyxis Series 12 and 21 were both Equity Linked Notes, linked to the performance of a basket of shares listed in Hong Kong. There were no major structural differences between Series 12 and 21. However, the underlying stocks, coupon rates and payout at maturity were different.

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

2.6 As at 15 September 2008,

the total value of the outstanding Minibonds distributed by BOCHK was HK\$4,846,162,000; and

the total value of the other LB-related non-Minibonds structured financial products distributed by BOCHK and outstanding was HK\$452,511,400.

3. Based on the information provided by your bank to the Subcommittee on 15 January 2009, it is noted that the following series of Minibonds recorded the highest value of sales and the highest numbers of investors:

(i) Minibonds Series 35;

(ii) Minibonds Series 34; and

(iii) Minibonds Series 27.

(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 See Item 3a for Tables 1 and 2. For copies of the offer documentation and marketing materials for Minibond Series 34 and Minibond Series 27, please see Items 3b and 3c respectively. For copies of the offer documentation and marketing materials for Minibond Series 35, please see Item 2c.

(b) Please explain the structure and cash flow of Minibonds Series 35; and

3.2 As disclosed by the offering documents provided by Lehman Brothers, the structure and cash flow of Minibond Series 35 were as follows:

i) Credit-linked notes linked to a basket of 7 reference entities: the PRC government and six companies (HSBC Bank plc, Hutchison, MTR, Standard Chartered Bank, Sun Hung Kai Properties and Swire). Their credit rating ranged from A- to AA.

ii) The note was not principal protected.

iii) Tenor: 3 years.

iv) Coupon rate: 6% per annum for tranche A, and 5.6% per annum for tranche B.

v) Throughout the life of the note, they would receive the coupon payment on a quarterly basis.

vi) On the issue date of 22 February 2008, investors would invest in the note based on the then subscription price. If there were no credit events or any other early redemption events as defined in the issue prospectus, upon maturity investors would receive 100% of principal value of the notes back.

(c) Whether there were any major differences between Series 35 and the first series of Minibonds distributed by BOCHK in product structure and design.

3.3 During the Relevant Period, the first series of Minibond distributed by BOCHK was Minibond Series 8.

Both of Minibond Series 8 and 35 were Credit Linked Notes, linked to a basket of underlying reference entities. There were differences between Series 8 and Series 35 in, for example, tenor, coupon, underlying reference entities, collaterals, and payout at maturity. Series 8, when it matured, depending on the closing price of the TraHK Fund Units, might be redeemed by physical delivery of the TraHK Fund Units or by cash payment at the principal amount of investment, while Series 35 was redeemable at maturity only by cash payment.

#### Internal process for approval of offer

4. Regarding the offer of LB-related structured financial products for sale, please advise:

(a) how and when Minibonds were first introduced to BOCHK;

(b) who/which party introduced Minibonds to BOCHK;

4.1 Lehman Brothers Asia Ltd, the arranger, introduced Minibonds to BOCHK and invited BOCHK to be a distributor of the product in March 2002.

(c) how and when the first LB-related non-Minibonds structured financial product mentioned in Question 2(d) was introduced to BOCHK;

(d) who/which party introduced the first LB-related non-Minibonds structured financial product mentioned in Question 2(d) to BOCHK; and

4.2 Lehman Brothers Asia Ltd., the arranger, introduced in March 2005 the first LB-related non-Minibonds structured financial product mentioned in Question 2(d), which is Pyxis Equity Linked Notes Series 12, to BOCHK, and invited BOCHK to be a distributor of the product.

(e) whether the same source introduced all other LB-related non-Minibonds structured financial products sold by your bank; if no, please provide the details.

- 4.3 Atlantic Fund Linked Notes (Profund Notes) issued by Atlantic International Finance Ltd. were introduced to BOCHK by Sun Hung Kai Investment Services Ltd.

Octave Credit Linked Notes Series 10-12 issued by Victoria Peak International Finance Ltd. were introduced to BOCHK by Morgan Stanley & Co. International Limited.

Constellation Credit Linked Notes Series 55-58 issued by Constellation Investment Ltd. were introduced to BOCHK by DBS Bank Ltd.

5. What were BOCHK's considerations in deciding 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 BOCHK's main consideration in deciding to act as one of the distributors of LB-related structured financial products was to provide more investment choices to its customers and to meet customers' demands for higher yield products in the low interest rate environment prevailing at the time. Although BOCHK had no preference for LB-related products, it did take into consideration the fact that Lehman Brothers Holdings Inc. was highly rated (rating was upgraded to A+ from A by S&P in October 2005 and remained A+ until June 2008) and that Lehman Brothers Asia Limited was a well-known and active arranger of structured products. Potential increase to non-interest income was but one of many factors that BOCHK considered at the time.

6. On the mode of sale, 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 BOCHK;

- 6.1 Minibonds and LB-related non-Minibonds sold by BOCHK were only offered to customers through "public offer."

- (b) whether it was BOCHK or any other party (e.g. the issuer) that decided on the mode of sale; and the reasons for such a decision.

- 6.2 The mode of sale was decided by the issuer or arranger.

7. Regarding the approval process, please advise:

- (a) whether all the LB-related structured financial products (Minibonds and non-Minibonds products) sold by BOCHK 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 LB-related structured financial products went through the same product due diligence and approval process, regardless of whether they were Minibonds or non-Minibonds products. Throughout the Relevant Period, the approval process involved essentially the same key stages by applying the same principles, although the relevant departments and units were renamed or reorganized at different times and the process had evolved to enhance the quality of deliberation. BOCHK had throughout the Relevant Period adhered to the principle that proper product due diligence must be conducted before a decision was made as to whether a product was suitable for distribution to its customers.

(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 officer(s) responsible for the approval;

7.2 See Item 7a for the flow chart. The names and positions of the officers responsible for the approval were as follows:

From 2004 to October 2006:

Mr. Chiu Man Ming, Mr. Wong Wai Sang Herman, or Mr. Lam Kam Sai, all of them Deputy General Managers of Retail Banking Department

In October 2006 the Product Steering Committee was established to approve products including LB-related structured financial products. At the beginning, the Committee was composed of:

(1) Mr. Law Hong Ping Lawrence, General Manager of Retail Banking Department, who chaired the Committee;

(2) Mr. Chiu Man Ming, Deputy General Manager of Retail Banking Department;

(3) Mr. Wong Wai Sang Herman, Deputy General Manager of Retail Banking Department;

(4) Mr. Wong Chung Yiu Edmond, Head of Wealth Management Division, Retail Banking Department;

(5) Ms. Wong Hang Mei, Area Manager of Retail Banking Department in 2006, and Head of Mass Retail, Retail Banking Department in March 2007; and

(6) Mr. Hsu Ton Min Michael, Deputy Head of Wealth Management Division, Retail Banking Department.

(c) if the approval was made by one or more committee(s) or department(s) within BOCHK, please provide the details of the committee(s) or department(s), including its/their membership, scope of responsibilities and internal guidelines or code of practice that it/they should follow;

7.3 Before October 2006, the approval was made by a Deputy General Manager of the Retail Banking Department after due diligence was conducted by the product team comprising qualified individuals with extensive relevant market experience. Since October 2006, the approval was made by Investment Product Steering Committee (零售銀行部投資產品策略委員會). This committee was under Retail Banking Department and was responsible for overseeing product due diligence and product selection. The Committee was

chaired by the General Manager of the Retail Banking Department and its members included the Deputy General Manager of Retail Banking Department, Head of Wealth Management Division and others (all with extensive relevant market experience). Details of the Committee's membership and scope of responsibilities were set out in Item 7c below. The relevant guidelines were:

- (1) the "*Product Issuer Due Diligence Guidelines for Investment Product Steering Committee*"(零售銀行部新投資產品提供者盡職審查規定) (see Item 7b) dated October 2006 which contained the approval procedure of the Steering Committee; and
- (2) the "*Product Due Diligence Guidelines for Investment Product Steering Committee*" (零售銀行部投資產品策略委員會產品盡職審查規定) (see Item 7c) dated October 2006 which contained additional guidance on the operation of the Steering Committee, such as scope of responsibilities, membership, quorum, frequency of meetings and the approval procedure.

(d) 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)**;

7.4 See Item 7d.

- (ii) the first LB-related non-Minibonds structured financial product mentioned in **Question 2(d)**;

7.5 See Item 7e.

- (ii) the three series of Minibonds mentioned in **Question 3**; and

7.6 See Items 7f (Minibond Series 35), 7g (Minibond Series 34) and 7h (Minibond Series 27).

- (e) 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.

7.7 No products were approved by the Board of Directors, nor were they required to be approved by the Board of Directors.

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

8.1 BOCHK's approval of the sale was made individually per series of the product.

9. When BOCHK 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 BOCHK did not have target customers for Minibonds and other LB-related products.

10. In view of the worsening financial difficulties of LB in 2008, please advise:

(a) whether BOCHK had sold any LB-related structured financial products between June and mid-September. If yes, please explain why BOCHK had decided to continue to sell the LB-related structured financial products; and

10.1 BOCHK did not sell any LB-related structured financial products between June and mid-September 2008.

(b) when and why did BOCHK decide to stop selling LB-related structured financial products? Please describe the decision-making process, including the person(s) or authority within BOCHK that made the decision.

10.2 In late March 2008, Sun Hung Kai Investment Services Ltd. as the co-ordinating dealer invited BOCHK to distribute Minibond Series 36. Having considered the uncertain market conditions at the time, BOCHK did not participate in the distribution of Series 36.

11. On early redemption, please advise:

(a) before the collapse of LB in September 2008, the total number of requests from investors for early redemption of Minibonds and the number of successful early redemption;

11.1 Total number of requests for early redemption of Minibonds: 604;  
Number of successful early redemption: 595.

As to the 9 cases in which requests for early redemption could not be processed, all of these requests were made on 12 September 2008 with the value date as at 18 September 2008, and by then because of Lehman Brother's default, early redemption could not be done.

(b) in respect of the successful early redemption of Minibonds in (a) above, the month/year in which each of such early redemption was made and the exit prices of each transaction as a percentage of the original investment amount;

11.2 See Item 11a.

(c) before the collapse of LB in September 2008, the total number of requests from investors for early redemption of LB-related non-Minibonds



structured financial products and the number of successful early redemption;

- 11.3 Total number of requests for early redemption of LB-related non-Minibonds structured financial products: 73.  
All of these early redemptions were successful.

(d) in respect of the successful early redemption of LB-related non-Minibonds structured financial products in (c) above, the month/year in which each of such early redemption was made and the exit prices of each transaction as a percentage of the original investment amount; and

- 11.4 See Item 11b.

(e) whether there were any cases in which the requests for early redemption could not be processed; if yes, please provide the number and the reasons.

- 11.5 Please see paragraph 11.1 above.

#### **Product due diligence**

12. Did BOCHK 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.

- 12.1 Please see paragraph 7.3 above and Items 7b and 7c.

13. 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?

- 13.1 All of the guidelines referred to in paragraph 7.3 above were prepared by Retail Banking Department and were prepared with reference to the prevailing regulatory requirements.

There were at the time no legal or regulatory requirements for these guidelines to be provided to the regulators for record, but the guidelines were always made available to them upon request.

14. Had any product due diligence been conducted on a LB-related structured financial product before BOCHK made the policy decision to distribute the product? If no, please provide the reasons; if yes, please provide information on how such due diligence had been carried out.

- 14.1 Yes. Due diligence was conducted for each series of LB-related structured financial product in line with the then prevailing regulatory requirements and

industry practice by teams or committees comprising qualified individuals with extensive relevant market experience, and decisions were made prudently before deciding whether or not to distribute any particular series of products. Please also refer to paragraphs 7.1 and 7.2 above.

15. Was product due diligence conducted in respect of each series of a LB-related structured financial product (e.g. Minibonds, ELNs) sold by BOCHK? If yes, please provide information on how BOCHK conducted the exercise, including the dedicated team, if any, for such work; if no, the reasons.

15.1 Yes. Due diligence for Lehman Minibonds and LB-related non-Minibonds structured financial product was conducted on a series-by-series basis in accordance with the process described in paragraph 7.1 above and Item 7a.

16. Did BOCHK 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 BOCHK? 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 non-Minibonds structured financial products mentioned in Question 2(d); and (iii) the three series of Minibonds mentioned in Question 3.

16.1 Yes. The product team had made enquiries with product issuer/arranger/co-ordinating dealer to obtain information before a product was approved. It would communicate with product issuer/arranger/co-ordinating dealer to understand the product structure and features and clarify with them any queries that it might have. The product team would also use other data or information researched by market research team obtained from outside independent sources (such as Reuters and Bloomberg) to help evaluate the product in the product due diligence process.

As all products were subjected to the same approval process, all three examples mentioned above would be handled the same way. Please refer to the flowchart attached as Item 7a for more details.

### Product risk assessment

17. Did BOCHK have any written policy or guidelines on product risk assessment? If yes, please provide the relevant documentation; if no, the reasons.

17.1 Yes. Since August 2004, BOCHK assigned high risk rating (out of low/medium/high 3-tiered risk rating) to all structured products including Minibonds and other LB-related structured financial products. Since February 2006, product risk assessment (including assessment of LB-related structured financial products) was conducted in accordance with "Circular re relative risk classification of investment products" (關於投資產品相對風險分類的通知) (see Item 17a), which introduced a 4-tiered risk rating scale of 1/2/3/4 (in increasing order of risk).

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

18.1

LB-related structured financial products sold by BOCHK	Risk Rating *
Minibonds Series 8 - 11	N/A
Minibonds Series 12 - 23	High
Minibonds Series 25 – 35	4
Pyxis Equity Linked Notes Series 12-15	High
Pyxis Equity Linked Notes Series 17-18	4
Pyxis Equity Linked Notes Series 20-21	1
Atlantic Fund Linked Notes Series 1-2	1
Constellation Series 55-58	4
Octave Series 10-12	4

\* Risk Rating:

Out of low /medium/high 3-tiered risk rating; or

Out of 1/2/3/4 (in increasing order of risk) risk rating.

Although there was no formal risk rating on structured products prior to August 2004, BOCHK required that all the risks factors relating to these products were fully and clearly explained to, and discussed with, customers so that they could make an informed investment decision.

All notes set out in the table above (with the exception of Pyxis 20 and 21 and Atlantic Profund 1 and 2) were given a “high” or grade-4 risk rating because (1) they were not principal-protected, and (2) they were exposed either to risks of a Credit Linked Note which include first-to-default credit risk, the swap counterparty’s default and collateral assets (i.e. CDO) risks, etc., or to the risk of an Equity Linked Note which include uncertainty of the payout value resulting from a redemption in shares.

Pyxis 20 and 21 were given a grade-1 risk rating because (1) if the notes were held to maturity, the aggregate amount of the cash payout throughout the life of the notes was at least 100% of the principal value of the notes and (2) Lehman

Brothers Holdings Inc., acting as the swap guarantor of the notes and the issuer of the underlying collateral, had a S&P credit rating of A+.

Atlantic Profund Notes 1 and 2 were given a grade-1 risk rating because (1) the notes had 100% principal protection and (2) Lehman Brothers Holdings Inc., acting as the swap guarantor of the notes and the issuer of the underlying collateral, had a S&P credit rating of A+.

19. Please provide an explanation on the scale of risks assessment adopted by BOCHK in respect of the LB-related structured financial products sold by BOCHK.

19.1 Prior to February 2006, BOCHK adopted a 3-tiered risk rating scale of low/medium/high. Since February 2006, BOCHK adopted a 4-tiered risk rating scale of 1/2/3/4 (in increasing order of risk).

20. In view of the worsening financial position of LB, the downgrading of its credit rating and the drop in LB's share prices by June/July 2008,

(a) did BOCHK conduct any assessment on the possible impact of the financial difficulties of LB on the outstanding LB-related structured financial products sold by BOCHK? If yes, please provide the details; if no, the reasons;

20.1 In accordance with "*Product Due Diligence Guidelines for Investment Product Steering Committee*" (零售銀行部投資產品策略委員會產品盡職審查規定), BOCHK reviewed the status of investment products that it had sold (including LB-related structured products). From time to time, the product team (and, after October 2006, the Investment Product Steering Committee) held meetings to discuss the prevailing economic and market situation and assess whether the development had any impact on BOCHK's outstanding investment products. When needed and in particular around mid-2008, the product team organized seminar for and sent out internal circular to its front line staff so that they would be given updated market and product information to prepare them for answering customers' queries.

After the credit rating of LB was downgraded the first time throughout the Relevant Period by one notch from A+ to A by S&P in June 2008, it remained substantially above investment grade until LB collapsed on 15 September 2008.

(b) did BOCHK revise the risk-ratings of LB structured products? If yes, please provide details; if no, the reasons;

20.2 BOCHK had already rated most of the LB-related structured products at the highest risk level and no revision was therefore required. For the four product series not rated highest level (please see paragraph 18.1 above), as the party responsible for the final repayment was Lehman Brothers Holdings Inc. and its credit rating remained substantially above investment grade from early June 2008 to LB's collapse, so no revision was made at the time.

- (c) were customers who had purchased LB products informed of BOCHK's action, if any, in (b).

20.3 The secondary market prices of all the LB-related products were shown in the customers' monthly statements, which allowed the customers to track the performance of these products. In addition, the secondary market prices of most LB-related products were updated once a week (only exceptions were Constellation, which were updated every two weeks, and Atlantic, which were updated twice every month). Customers could call the front-line staff for the updated prices and understand the market situation better by querying the staff. The same information was also available via the internet banking or from the Call Centre via the Customer Hotline.

#### **Offer documentation and marketing materials**

21. Did BOCHK have any involvement in the preparation of the offer documentation and marketing materials of the LB-related structured financial products sold by BOCHK? If yes, please provide the details.

21.1 As a distributor, BOCHK was not involved in the preparation of the offer documentation and marketing materials of the LB-related structured financial products sold by BOCHK.

22. Did BOCHK have any mechanism to vet/review the contents and presentation of the marketing materials vis à vis the offer documentation such as the prospectus? If yes, please provide the details and whether BOCHK ever raised any queries/comments to the issuer(s). If no, how did BOCHK ensure that there was no misrepresentation of product information and adequate disclosure of risks in such materials?

22.1 BOCHK did not vet or review the contents and presentation of the marketing materials vis-à-vis the offer documentation. It was the responsibility of Lehman Brothers Asia Ltd as the arranger and Sun Hung Kai Investment Services Limited as the co-ordinating dealer to prepare the marketing materials and submit them to the SFC for approval.

#### **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;

23.1 The training for staff engaged in the sale of LB-related structured financial products conducted by BOCHK was both general and specific.

- (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 non-Minibonds structured financial products mentioned in **Question 2(d)**; and
  - (iii) the three series of Minibonds mentioned in **Question 3**.
- (d) if the training was both general and product specific, please give all details specified in (b) and (c); and

23.2 As mentioned in paragraph 23.1 above, the staff training was both general and specific. BOCHK has a strong culture in training and compliance. BOCHK's training for all Relevant Individuals (ie staff members registered with the HKMA for carrying on the regulated activities under the Securities and Futures Ordinance) selling investment products can generally be divided into the following key categories:

- (1) general training: which focused on generic market and product knowledge, regulatory requirements and compliance issues (such as anti-money laundering, KYC process, etc.)
- (2) product-specific training: which provides knowledge of the nature, features and risks of investment products and related market information that BOCHK's Relevant Individuals should equip themselves with before they sell each series of investment products; and
- (3) selling process and sales compliance training: which focuses on how BOCHK's Relevant Individuals should handle customers' enquiries, assess customers' suitability, explain and sell investment products to customers and execute the transactions and all the compliance issues associated with the above aspects of the selling process.

#### General training

23.3 Before a staff member was registered with the HKMA, he/she had to satisfy the SFC's "fit and proper" requirements; thus Preparatory Courses were organized for the staff member taking the Licensing Examination for Securities and Futures Intermediaries organised by the Hong Kong Securities Institute. This Licensing Examination was approved by the SFC as the recognized industry qualifications.

23.4 All new recruits or internal transfers for positions that qualified as Relevant Individuals were to receive relevant consolidated induction training (上崗綜合培訓). The objective of the program was to provide Relevant Individuals with knowledge about market and financial products generally and their associated compliance requirements at the start of their career at BOCHK or internal transfers.

23.5 As a refresher course, in 2003 Retail Banking Department, jointly with Training Centre, commissioned Vocational Training Council (職業訓練局) to conduct for BOCHK's Relevant Individuals a professional competence test which included a test on their investment product knowledge. All Relevant Individuals were required to pass the test before they could accept their assignments.

23.6 BOCHK's Relevant Individuals would also receive Continuous Professional Training (中介人持續培訓班) on an annual basis. This was required under the Securities and Futures Ordinance and hence, attendance was mandatory.

In November 2007, BOCHK Wealth Management Academy Training was taught by outside professionals to reinforce and deepen the staff's product knowledge and expertise.

23.7 To ensure that our staff kept up to date with market development, there were also ad hoc or "event-triggered" product training in the form of group discussions organised by individual branch managers or area managers or by the product team to respond to market conditions.

#### Product-specific training

23.8 Apart from general training described in paragraphs 23.3 to 23.7 above, for each series of LB-related financial structured products, there was product specific training in the form of workshops organised by BOCHK's product team prior to the product launch. These workshops were mandatory for all Relevant Individuals responsible for selling the relevant products. All training materials were prepared and provided by the arranger or co-ordinating dealer and was reviewed by BOCHK product team. Copies of series-specific training materials were provided to the Relevant Individuals in preparation for the launch of each series of product. BOCHK also conducted series-specific post-training tests for the frontline sales staff.

#### Training on Selling Process and Compliance

23.9 In addition to the general training and product training described above, the training programmes on selling process and compliance were conducted by way of workshops covering a wide range of topics including but not limited to: (a) corporate governance; (b) legal and compliance, in particular the relevant regulatory requirements under the Code; (c) topics covered under Continuous Professional Training; and (d) selling process.

(e) if there had been changes to the training arrangements, please describe.

23.10 While the contents of the training evolved over the years to adapt to the development in products and the bank's on-going enhancements in its selling process, there had been no material changes to the basic training arrangements.

BOCHK always provided general training, product specific training, and training on selling process and compliance.

24. Did the issuer(s) or BOCHK 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 (e.g. Minibonds, Constellation Notes, ELNs etc.) sold by BOCHK? If yes, please provide the details; if no, the reasons.

24.1 Please refer to paragraph 25.1 below.

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

25.1 Yes. BOCHK provided product training to frontline sales staff for each of the series of Minibonds and other LB-related structured financial products prior to the launch of each of the series of such products. For details, please see discussion in paragraph 23.8 above.

26. Was it mandatory for the frontline sales staff of BOCHK 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 Yes. Apart from attending general training and training on selling process and sales compliance, it was mandatory for BOCHK's Relevant Individuals to attend product-specific training for each product series before they could start selling LB-related structured financial products.

27. Did BOCHK 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 BOCHK assessed the frontline sales staff's knowledge on a LB-related structured financial product by way of post-training tests and role-playing.

28. Please advise/provide:

(a) whether BOCHK conducted any post-training quizzes and tests before the frontline sales staff were allowed to sell LB-related structured financial product; and

(b) a specimen copy of the test and quiz, and advise on the respective passing score.

28.1 To help deepen the staff's understanding of the products, BOCHK conducted post-training tests for the frontline sales staff (please see paragraph 27.1 above). The test contained around 10 questions. Participants were required to answer all



questions correctly before they were allowed to sell products. A specimen copy of the test is attached as Item 28a.

29. Did BOCHK 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.

29.1 In the daily and weekly branch briefings, sales staff could give their feedback about the training to the branch management. The feedback would be discussed at the branches or relayed to Training Centre or the product team if necessary.

30. Did BOCHK provide any sales scripts to your frontline sales staff for the sale of (i) Minibonds and (ii) other LB-related structured financial products? If yes, please provide a copy of the script. If no, the reasons.

30.1 BOCHK did not provide any sales scripts to its frontline sales staff. Instead, BOCHK's Relevant Individuals were given a set of checklists (銷售人員的自檢清單-銷售投資產品時需注意的事項 and 票據/債券認購交易檢查表) which they had to fill out for each transaction. The set of checklists was designed to ensure that all Relevant Individuals would comply with the bank's selling process requirements, such as explaining to customers the product features (including tenor and whether the product was principal-protected), risks and fees, providing the customers with the prospectus and marketing leaflets, and requesting the customers to read the prospectus before they subscribe. A copy of the set of checklists (銷售人員的自檢清單-銷售投資產品時需注意的事項 and 票據/債券認購交易檢查表) is attached as Item 30a.

31. Please provide a copy of the operational guidelines, manual, internal memoranda, instructions or any other documents prepared by BOCHK 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 non-Minibonds structured financial products mentioned in Question 2(d); and
- (c) the three series of Minibonds mentioned in Question 3.

31.1 The operational guideline on securities business compliance (證券業務合規工作細則) was prepared by BOCHK to assist Relevant Individuals engaged in the sale of securities, which included LB-related structured financial products, to comply with the Code of Conduct. In addition, BOCHK also provided a checklist (銷售人員的自檢清單-銷售投資產品時需注意的事項 and 票據/債

券認購交易檢查表) to Relevant Individuals to help them follow all the required steps in the selling process. For details about the checklist and copies of these documents, please see paragraph 30.1 above. A copy of an extract of the operational guideline on securities business compliance (證券業務合規工作細則) dated March 2007 (the latest version) relevant to the selling of LB-related structured financial products is attached as Item 31a.

32. Did BOCHK 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.

32.1 The operational guideline on securities business compliance (證券業務合規工作細則) and the guidelines on the registration and training for intermediaries (中介人資格登記及持續性培訓管理辦法 and 中介人資格登記及持續性培訓規定) were formulated to ensure that all Relevant Individuals meet the Fit and Proper Guidelines, and the Guidelines on Competence and the Guidelines on Continuous Professional Training. For a copy of the former, please see paragraph 31.1 above. A copy of each of 中介人資格登記及持續性培訓管理辦法 and 中介人資格登記及持續性培訓規定 is attached as Item 32a and Item 32b respectively.

33. Did BOCHK involve the legal/compliance team in vetting the product training materials (including those provided by the issuer(s))? If no, please provide the reasons. If yes, did BOCHK detect any false/inaccurate/misleading information contained in the training materials for a particular LB-related structured financial product which was not consistent with the information in the offer document for the product?

33.1 The Legal & Compliance Department would be involved as it responded to any queries that product team might raise during its review of the product training materials provided by the arranger or co-ordinating dealer. The product team was responsible for reviewing the training materials as they were most knowledgeable about the products features and, as they identified any legal or compliance issues or they were in doubt, they would consult the Legal & Compliance Department. BOCHK did not detect any false/inaccurate/misleading information contained in the training materials for a particular LB-related structured financial product which was not consistent with the information in the offer document for the product.

### Know your clients

34. Did BOCHK 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.

34.1 During the Relevant Period, BOCHK had put in place policy and procedures to require its Relevant Individuals to conduct risk profiling exercise with customers. BOCHK's operational guidelines on securities business compliance (證券業務合規工作細則), codifying BOCHK's existing practice, required its Relevant Individuals to fulfil their "know your client" obligations and seek information from customers regarding their financial situation, investment experience and investment objective. In particular the Guidelines required that:

- (1) customers' risk tolerance should be assessed based on objective benchmarks such as the customers' net assets, age, investment needs and investment experience;
- (2) customers' risk tolerance should be updated periodically;
- (3) customers' acknowledgement to the results of the risk tolerance assessment should be filed for record;
- (4) relevant factors, including the tenor, product risk, customers' risk tolerance, age, investment objective, investment experience and financial need should be taken into consideration when Relevant Individuals introduced products to customers; and
- (5) due regard should be paid to the liquidity needs of customers, e.g., elderly customers, for whom products of long tenor were not suitable. (Provisions 5.1-5.4 of Section 2, Chapter 6 of the Guidelines).

To meet the above requirements, customers were required to fill out the Questionnaire on Investment Preference (投資取向問卷) (QIP), which sought information from customers about their financial situation, investment experience, investment objectives and risk tolerance. Customers were required to complete the QIP under any of the following conditions:

- 1) when they opened a new investment account; or
- 2) when the validity of their last completed QIP expired.

To further ensure that Relevant Individuals followed the requirements set out in the Guidelines, a set of checklists (銷售人員的自檢清單-銷售投資產品時需注意的事項 which was supplemented with a 票據／債券認購交易檢查表 to be filled out for each transaction) was provided to all frontline sales staff to remind them to go through all the steps (including the risk profiling exercise and checking the validity of the QIP) that they were required to take in accordance with BOCHK's policies as they executed each investment transaction. The transaction documents, including the QIP and the checklist (票據／債券認購交易檢查表), would also be inspected independently by checkers (who were operational staff at the branch) to ensure compliance with the internal procedures.

35. Did BOCHK 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 BOCHK ensure compliance by each staff member?

35.1 BOCHK required the QIP to be completed not only when the customers opened a new investment account, but also when the validity of their last completed QIP expired. In April 2007, the validity period of QIP was extended from 6 months to 1 year in line with industry practice. As mentioned in paragraph 34.1 above, Relevant Individuals were required to fill out a checklist for each transaction to ensure compliance with the internal requirements. The QIP, together with other transaction documents, were inspected by the checkers at the branch for completeness and compliance. Further, the frontline staff could check the validity period of each QIP from the bank's database.

36. Please provide a sample copy of the questionnaire used in the risk profiling exercise and explain the scoring methodology of the questionnaire.

36.1 See Item 36a. Each score-carrying question on the QIP is a multiple choice question. There are 9 (for earlier versions), or 10 (for later versions) multiple choice questions in the QIP. Different answers to each of the question carry different scores. The total score of all the score-carrying answers on the QIP will be matched to one of the three-tiered (pre-April 2006) or four-tiered (post-April 2006) grades set out on the QIP. This grade determines the customer's risk tolerance level for the purpose of the risk profiling assessment. A high total score will be matched to a grade indicating an aggressive investor's propensity, and a low score to a grade indicating a conservative investor's propensity.

37. Did BOCHK 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.

37.1 Yes, BOCHK required annual review of the contents and application of the QIP pursuant to the bank's internal guidelines.

38. Did BOCHK 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.

38.1 Yes, in addition to the QIP requirements described in paragraphs 34.1 and 35.1 above, BOCHK required its Relevant Individuals to understand customers' needs and be mindful of the "Know Your Client" obligation under the SFC Code of Conduct. Such obligation was covered in the bank's selling process and sales compliance training to staff.

39. What were the measures, if any, adopted by BOCHK in selling LB-related structured financial products such as Minibonds to vulnerable customers (e.g. elderly persons, illiterate customers etc.)?

- 39.1 BOCHK enhanced its vulnerable customer handling procedures by implementing additional safeguards to protect elderly customers who intended to subscribe investment products (including Lehman Minibonds). Elderly persons aged 65 or above were divided into bands of (i) age 65 to 69; (ii) age 70 to 79; (iii) age 80 or above or customers whose age and proposed investment tenure combined was or exceeded 80.
- 39.2 For customers at least 65 years old but below 70 years old, the precautionary measures included:
- (1) requiring another Relevant Individual to confirm with the customer whether he/she understood the product;
  - (2) encouraging the customer to bring along a close friend or relative aged between 18 and 64 to witness the selling process (including product and risk explanation) and the transaction; and
  - (3) requiring the branch manager to review the transaction.
- 39.3 For customers aged 70 years old but below 80, the measures were same as those for the 65-69 age band but with one additional requirement, viz., if there was a mismatch between the product risk rating and the customer's risk tolerance, the second Relevant Individual who was required to confirm with the customer whether he/she understood the product must be a senior staff, i.e., customer services manager or above.
- 39.4 For customers aged 80 years old or above (or customers whose age and proposed investment tenure combined was or exceeded 80), then:
- (1) the customer must (instead of merely strongly encouraged) have the company of a 18-64 years old witness;
  - (2) the second Relevant Individual to confirm customer's understanding must be a branch manager or sales manager;
  - (3) both the area manager and the branch manager must review the transaction; and
  - (4) customers who had investment experience of less than 3 years were required to confirm their understanding of the risks of the product.
- 39.5 There was also a separate set of confirmation procedures for elderly customers. Relevant Individuals must record on a confirmation form the elderly customer's age, investment experience (for customers whose age and proposed investment tenure combined was or exceeded 80), product and its tenor. This confirmation form was required to be signed by the handling Relevant Individual, the second Relevant Individual and to be acknowledged by the customer and the witnessing friend or relative as required. Upon the review

of the branch manager and area manager as required, the confirmation was then signed by the branch manager and area manager.

- 39.6 When a customer who was identified to be visually impaired or illiterate wished to buy LB-related structured financial products, a Relevant Individual as well as a second Relevant Individual must separately (1) understand the customer's investment objectives, investment preference, and risk tolerance, (2) explain to the customer the product nature, features, risks and fees, (3) ask the customer to seek advice from friends and relatives or investment adviser, and (4) recommend that the customer should proceed with the transaction jointly with family member. The transaction could proceed only if both Relevant Individuals were satisfied that the customer understood the explanation and recommendation given.

#### **Suitability of recommendation and solicitation**

40. 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 BOCHK? Were they briefed on the FAQ?

40.1 Yes, the Legal & Compliance Department circulated the FAQ to all relevant departments of the bank. Subsequently, BOCHK organized seminars to brief the sales staff on the requirements covered in the FAQ.

41. Did BOCHK 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.

41.1 It was BOCHK's policy (as provided in the guidelines 《代客申請認購票據、債券工作細則》) not to give investment recommendations or advice to customers. During the Relevant Period, BOCHK had internal controls to ensure that Relevant Individuals would conduct suitability assessment with the customers as described in paragraph 34.1 above for understanding their needs and assessing their suitability for investment in LB-related structured financial products and the results of such assessment would be documented in the subscription form and the QIP and acknowledged by the customer. The validity of the QIP was also documented in the checklist and inspected by the checkers for each transaction. If the customer's risk tolerance level, as determined by the suitability assessment, was lower than the product risk rating, then Relevant Individuals were required to inform the customer the mismatch, make the customer aware of the risk of the product, and remind the customer that he/she was suitable for investing in a product that had a risk rating lower than, or equal to the customer's risk tolerance level.

42. Did BOCHK 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.

42.1 Please refer to paragraph 41.1 above.

43. Did BOCHK 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.

43.1 Yes. Although it was BOCHK's policy not to give investment recommendations or advice to customers, BOCHK did put in place system and procedure to ensure that customers were fully aware of the nature and risks of the products they chose, and required Relevant Individuals to explain product features and risks to customers when the customers wished to learn about the products or buy the products. Relevant Individuals were also required to provide customers with the relevant prospectus and marketing materials as required by BOCHK policies and procedures. In addition, Relevant Individuals were required to document in the checklist the completion of QIP, the provision of prospectus and marketing materials to customers, whether clear explanation had been given to customers about product features, tenor, fees and risks, whether customers had been invited to raise questions about the products and whether such questions had been answered. An investment order would only be placed for execution if customers countersigned on the subscription form to confirm that they understood the product features, risks and their risk tolerance level. Transactions documents including the subscription form were inspected by the checkers at the branch to ensure compliance with the internal procedures. For the special measures adopted to ensure that the vulnerable customers understood the nature and risks of the products, please refer to paragraphs 39.1 to 39.6 above.

44. Did BOCHK 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.

44.1 When any customer expressed an interest to purchase a LB-related financial structured product but, after completing the QIP, revealed that his/her risk tolerance level was lower than the risk rating of LB-related structured financial product, the Relevant Individual was required to warn the customer of the meaning and existence of a risk-mismatch and then remind the customer that he/she was suitable for investing in a product that had a risk rating lower than, or equal to, the customer's risk tolerance level. If the customer nevertheless wished to purchase a risk-mismatch product, the Relevant Individual must (as in any investment product transaction) explain the nature, features and risks of the product in detail and provide the relevant prospectus and marketing materials to the customer and ask the customer to read the prospectus and marketing materials before making the investment decision. If the customer decided to purchase the product, he/she was required to acknowledge the mismatch on the subscription form, which would be inspected by the checkers as described in paragraph 34.1 above.

44.2 In addition, BOCHK adopted post-transaction monthly sampling to monitor whether risk mis-match transactions were in compliance with the bank's internal

procedures. Document samples selected from investment transactions, including sales of LB-related structured financial products, would be inspected for compliance with the internal procedures. Errors identified would be conveyed to the handling Relevant Individuals and their branch managers for rectification and reported to management.

45. Were customers whose risk tolerance level did not match the risk ratings of the LB-related structured financial products able to purchase such products? If yes, please provide details, including whether any special approval was required.

45.1 Please refer to paragraphs 44.1 and 44.2 above.

### **Sale of products**

46. 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 BOCHK 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?

46.1 All frontline staff engaged in the sale of LB-related structured financial products were required to be registered with the HKMA as Relevant Individuals and to fulfil all relevant competence requirements.

47. Was the sale of LB-related structured financial products all conducted by staff members who were Relevant Individuals (RIs) registered with HKMA?

47.1 It has been the policy of BOCHK at all times that only Relevant Individuals registered with the HKMA are allowed to sell investment products including LB-related structured financial products.

48. Please provide the information in the enclosed Tables 3 and 4.

48.1 See Item 48a for Tables 3 and 4.

49. Please describe BOCHK'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 BOCHK;

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

49.1 BOCHK did not have target customers or target customer groups for Minibonds.

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



49.2 BOCHK did not impose any sales quota or sales targets for each branch of BOCHK or for each staff member at different levels involved in the sales of Minibonds. BOCHK had overall measurement for its branches for their performance in a broad range of different product types, including investment products, mortgage, deposits, and insurance, etc. and for the branch's compliance with applicable internal and regulatory requirements.

(d) the features of Minibonds emphasized in BOCHK's marketing or promotional materials;

49.3 As mentioned in paragraph 21.1 above, all marketing materials were prepared by the issuer, arranger or co-ordinating dealer and were authorized under the provisions of the Securities and Futures Ordinance.

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

49.4 As mentioned in paragraph 49.1 above, BOCHK did not have target customers or target customer groups for any LB products. There were 4 aspects in the selling process applicable to all customers interested in buying investment products: (1) customer contact; (2) understanding the customer's needs; (3) explaining the product; and (4) processing the transaction.

(1) Customer contact:

BOCHK forbade its Relevant Individuals from making cold calls. However, if customers expressed an interest in Minibonds or other LB related structured financial products, the Relevant Individuals would proceed to take the steps described below.

(2) Understanding customer's needs:

Relevant Individuals were given training on and reminded of the obligation to "Know Your Client" under the Code of Conduct. With the help of tools such as the QIP, Relevant Individuals must obtain information on customers' financial position, investment experience, investment objectives and risk tolerance when customers asked for information about LB products. Please refer to paragraph 34.1 above for details.

(3) Explaining the product:

Upon completion of the QIP, Relevant Individuals would be able to assess if the risk rating of LB products that any customer asked for matched the customer's risk tolerance level and investment needs. If:-

(i) any customer's risk tolerance level was higher than the product risk rating; or (ii) any customer's risk tolerance level was lower than the product risk but the customer nevertheless insisted on learning about the LB product or buying it despite the Relevant Individual's warning about the mis-match and reminder

that the customer was suitable for investing in a product that had a risk rating lower than, or equal to, the customer's risk tolerance level; then Relevant Individuals were required to provide adequate product information and allow customers to make an informed decision with the help of the sales leaflets and prospectus. In particular, Relevant Individuals were required to explain to customers the product nature, features, tenor, risks and the related fees to customers in accordance with the authorized marketing materials and prospectus.

(4) Processing the transaction:

Relevant Individuals could assist customers fill in the subscription forms and had to fill in the internal checklist (票據／債券認購交易檢查表) themselves to ensure all procedures of the selling process were duly followed. For vulnerable customers, Relevant Individuals were required to take extra measures. For details of these extra measures, please refer to paragraphs 39.1 to 39.6 above. The transaction documents would also be inspected independently by the checkers at the branch as described in paragraph 34.1 above.

(f) 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;

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

49.5 BOCHK did not impose any sales quota or sales targets for each branch or for each staff member in respect of LB related structured financial products. The staff incentive scheme covered a variety of product categories that included funds, structured notes, insurance, mortgage, credit cards, deposits, etc.

49.6 BOCHK did not have any incentive scheme for investors on the basis of the amount of Minibonds or LB-related products they purchased. Special gifts for the purchase of Minibonds were provided by the arranger or co-ordinating dealer.

(h) the officer(s) (name(s) and position(s)) in charge of the overall strategy of staff deployment for the sale of Minibonds;

49.7 BOCHK did not designate any officer specifically in charge of the strategy of staff deployment for the sale of Minibonds. Instead, BOCHK had officers in charge of the strategy of staff deployment for the overall sales of banking products and services during the Relevant Period as follows:-

- (1) Mr Kai Chi On, Deputy General Manager of Retail Banking Department, in charge of all sales staff (from January 2003 to January 2007);

- (2) Mr Lo Ping Wa, Deputy General Manager of Retail Banking Department and Head of Branch Network, in charge of all sales staff (from January 2007 to March 2007);
  - (3) Mr Lo Ping Wa, Deputy General Manager of Channel Management and Head of Branch Network, in charge of the Customer Services Representatives (from March 2007 to July 2009);
  - (4) Mr. Chiu Man Ming, Deputy General Manager of Personal Banking & Product Management, in charge of the Relationship Managers (from March 2007 to July 2007); and
  - (5) Mr. Chow Chak Chee, Deputy General Manager of Personal Banking & Product Management, in charge of the Relationship Managers (from July 2007 to June 2008).
- (i) the officer(s) (name(s) and position(s)) in charge of the overall supervision of the marketing or promotion of Minibonds;

49.8 BOCHK was not involved in the marketing or promotion of Minibonds.

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

49.9 BOCHK did not impose any sales quota or sales targets for each branch or for each staff member in respect of LB related structured financial products. BOCHK had officers overseeing the overall sales performance for the entire retail banking operation during the Relevant Period as follows:-

- (1) Mr Chiu Man Ming, Deputy General Manager of Retail Banking Department (Jan 2003 to Mar 2007); and
- (2) Mr Chow Chak Chee, Deputy General Manager of Personal Banking & Product Management (From Mar 2007).

- (k) how BOCHK ensured that the applicable law and regulations were complied with in the entire sale process; and

49.10 Each aspect of the sales process was governed by policies and procedures which reflected the applicable law and regulations. These were supplemented by the internal controls and measures described in paragraphs 58.1 to 58.3 below, including measures to ensure the compliance of the "fit and proper" requirements for Relevant Individuals, compliance in selling process, suitability assessment, protection of vulnerable customers, post-transaction checks, training, and supervision and management measures. BOCHK also required that the Relevant Individuals should receive appropriate training as set out in paragraphs 23.2 to 23.9 above to ensure compliance in the selling process.

- (l) what records were made after each successful and unsuccessful transaction.
- 49.11 Records were kept only for the successful transactions. The records included subscription forms, QIP, staff checklist. Successful transactions were reflected in the monthly statement of the customer account.
50. Please confirm whether BOCHK had conducted the sale of any LB-related structured financial products by way of private placement.
- 50.1 BOCHK had not conducted the sale of any LB-related structured financial products by way of private placement.
51. Please describe BOCHK's sale strategies of LB-related non-Minibonds structured financial products, which should include the following particulars:
- (a) the target group of customers in terms of age, education level, net worth and relationship with BOCHK;
  - (b) the sources of information used for locating individual customers of the target group;
  - (c) the quantitative sales targets, if any, set for a specific time period for each branch of BOCHK and for each staff member at different levels involved in such sales;
  - (d) the features of LB-related non-Minibonds structured financial products emphasized in BOCHK's marketing or promotional materials;
  - (e) the typical process of a successful sale (from approaching a target client for the first time to the settlement of all relevant transactions);
  - (f) details of the incentive scheme(s) for
    - (i) staff on the basis of the amount of sales of LB-related non-Minibonds structured financial products achieved;
    - (ii) investors on the basis of the amount of LB-related non-Minibonds structured financial products they purchased;
  - (g) if such incentive scheme(s) have changed over time, please give details of each stage of the scheme(s) in chronological order;
  - (h) the officer(s) (name(s) and position(s)) in charge of the overall strategy of staff deployment for the sale of LB-related non-Minibonds structured financial products;
  - (i) the officer(s) (name(s) and position(s)) in charge of the overall supervision of the marketing or promotion of LB-related non-Minibonds structured financial products;

- (j) the officer(s) (name(s) and position(s)) responsible for ensuring the achievement of sales targets;
- (k) how BOCHK ensured that the applicable law and regulations were complied with in the entire sale process; and
- (l) what records were made after each successful and unsuccessful transaction.

51.1 Please refer to paragraphs 49.1 to 49.11 above which are applicable for Minibonds as well as LB-related non-Minibond structured financial products. BOCHK did not have separate sale strategies or process for LB-related non-Minibonds structured financial products.

52. 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 non-Minibonds structured financial products mentioned in **Question 2(d)**; and
- (c) the sale of the three series of Minibonds mentioned in **Question 3**.

52.1 See Item 52a for the organization chart. BOCHK did not designate any of its Relevant Individuals specifically in charge for the sale of LB-related structured financial products.

53. Besides the prospectuses and advertising materials authorized by SFC, did BOCHK 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.

53.1 No. For all LB-related structured financial products, BOCHK only used, and provided customers with, the prospectuses and marketing materials authorized by the SFC and supplied by the issuer, arranger or co-ordinating dealer.

54. Besides the offer documentation and marketing material, did BOCHK 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.

54.1 Please refer to paragraph 53.1 above.

55. Please provide a sample copy of the following documents:

- (a) subscription form(s) for LB-related Minibonds to be signed by the customer; and
- (b) subscription form(s) for LB-related non-Minibonds structured financial products to be signed by the customer.

55.1 See Item 55a and Item 55b.

56. On the time spent by the sales staff of BOCHK in explaining LB-related structured financial products to customers, please advise:

- (a) whether BOCHK had set any minimum duration of time that a sales staff had to spend to explain to their customers the nature and risks of LB-related structured financial products. If yes, please provide the details; if no, the reasons;
- (b) whether BOCHK had ever made an estimation on the minimum time required to make an adequate explanation of the nature and risks of such products; if yes, please provide the estimation; and
- (c) whether BOCHK had ever checked, or collected any information on, the time normally taken by a sales staff to explain to a client the nature and risks of a LB-related structured financial products in the sales process; if yes, please provide the information gathered by such checking or collection.

56.1 BOCHK had not set any minimum duration of time that Relevant Individuals had to spend to explain to customers the nature and risks of LB-related structured financial products, and BOCHK had not made an estimation on the minimum time. BOCHK had not checked or collected any information on the time normally taken by Relevant Individuals to explain to customers the nature and risks of a LB-related structured financial products in the sales process. While Relevant Individuals were required to explain the product in detail and to provide the offering documents and marketing materials to customers as mentioned in paragraph 49.4 above, the actual time spent on explaining a product would vary depending on factors such as the background and experience of the customers, questions asked by the customers, and whether any explanation of the product or similar products had been given to the customers on previous occasions. Some customers visited and discussed the product with the Relevant Individuals more than one time before they decided to buy the product.

57. In the sale process of LB-related structured financial products, 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;

- 57.1 When selling Minibonds and other LB-related structured financial products, BOCHK did not allow its Relevant Individuals to provide investment advice. Relevant Individuals were only allowed to provide investment information. Please refer to paragraph 49.4 above.
- (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
- 57.2 BOCHK sold all LB-related structured financial products on public offer and none by way of private placement.
- (c) whether the bank has issued any written guidelines/manuals and training materials about the approach mentioned in (a); if yes, please provide a copy of such document.
- 57.3 The guidelines 《代客申請認購票據、債券工作細則》，stated clearly—in Chapter 3, clause 8—that BOCHK should not give any investment or product subscription advice to its customers or undertake to be an advisor to the customers (“客戶認購產品主要為客戶的決定。銀行不會向客戶提供任何投資／認購產品的意見或擔任客戶的顧問。”). An extract of the guidelines is attached as Item 57a. Please refer to paragraph 23.9 above for the training on other compliance issues in the selling process.
58. Did BOCHK 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.
- 58.1 As set out paragraphs 31.1, 32.1, 34.1 39.1 to 39.6 above, BOCHK had policies and procedures that reflected the provisions of the Code of Conduct and other regulatory requirements for all Relevant Individuals to follow as they sell investment products to customers.
- 58.2 As mentioned in paragraphs 23.2 to 23.9 and 40.1 above, BOCHK organized extensive training by way of workshops, ad hoc meetings, branch daily briefings, periodic internal circulars and updates for Relevant Individuals to enhance and deepen their understanding of regulatory requirements and BOCHK’s internal policies and procedures, on top of the on-the-job training and guidance given by the senior staff.
- 58.3 In addition, BOCHK had a variety of supervision and management measures to ensure that Relevant Individuals would follow the proper procedures stipulated in the Code of Conduct, other regulatory requirements and the internal policies during the selling process. These measures included:

- (a) The set of self-assessment checklists (銷售人員的自檢清單-銷售投資產品時需注意的事項 and 票據/債券認購檢查表) as described in detail in paragraphs 30.1, 31.1 and 34.1 above that Relevant Individuals were required to follow and complete as they went through the selling process with the customers. As described in paragraph 39.5 above, for elderly customers, Relevant Individuals must also fill in a confirmation form, which ensured that Relevant Individuals had followed the steps provided under the vulnerable customer policies, to be signed off by the branch manager or area manager as required.
- (b) As described in paragraph 34.1 above, pre-execution independent checkers were posted at all branches to conduct inspection for all transactions of the transaction documents including the subscription forms, QIP and the checklists mentioned above. The transaction could only be executed when the checker confirmed satisfaction with the documentation.
- (c) As described in paragraph 44.2 above, post-transaction monthly sampling was conducted to monitor compliance with internal procedures in transactions relating to sales of notes and bonds in which the customers' risk tolerance did not match the product risk rating. Errors found in the sampling were rectified and the findings were reported to the senior management and the Legal and Compliance Department.
- (d) Internal Audit Department conducted audit on the different aspects of the selling process of investment products at various times. All issues identified by Internal Audit were revisited by Internal Audit in the next audit to ensure that they were duly addressed.
- (e) Legal and Compliance Department conducted annual self-assessment to ensure BOCHK's compliance with rules and regulations relating to regulated activities. Please refer to paragraph 60.1 below for details.
- (f) Legal and Compliance Department also undertook an on-site compliance inspection on the branch level by testing Relevant Individuals' understanding of compliance procedures and sampling the transaction documents. Please refer to paragraph 60.1 below for details

59. Please advise:

- (a) whether the department within BOCHK responsible for internal audit had conducted any audit on the selling process of investment products, in



particular LB-related structured financial products, during the period between April 2003 to September 2008; and

(b) if the answer to (a) is affirmative, please provide a copy of the relevant audit report(s).

59.1 BOCHK's Internal Audit did at various times conduct audit on the different aspects of the selling process of investment products during the Relevant Period. No high priority issues were identified in these audit exercises. The issues identified were all addressed. For the relevant excerpts of the audit reports, please see Item 59a.

60. Please advise:

(a) whether the department within BOCHK responsible for compliance had conducted any compliance review on the selling process of investment products, in particular LB-related structured financial products, during the period between April 2003 to September 2008; and

(b) if the answer to (a) is affirmative, please provide a copy of the relevant review report(s).

60.1 BOCHK's Legal and Compliance Department was responsible for conducting self-assessment for the following periods:

- (1) 1 April 2005 to 30 June 2005,
- (2) 1 April 2006 to 30 June 2006,
- (3) 1 April 2007 to 30 June 2007, and
- (4) 1 April 2008 to 30 June 2008

in accordance with "*Module SB-1 Supervision of Regulated Activities of SFC-Registered Authorized Institutions*" of the HKMA's Supervisory Policy Manual to ensure BOCHK's compliance with rules and regulations relating to regulated activities. Copies of the self-assessment reports dated 31 October 2005, 31 October 2006, 31 October 2007 and 16 January 2009 respectively are attached as Items 60a, 60b, 60c and 60d respectively. No major findings were noted.

In addition, in July 2006 the Legal and Compliance Department undertook an on-site compliance inspection at the branch level by (1) testing Relevant Individuals' understanding of compliance procedures in relation to selling investment products, and (2) sampling and inspecting the transaction documents for the sale of investment products. The inspection report is attached as Item 60e, and the result was generally satisfactory.

61. Please advise:

(a) whether BOCHK had conducted any independent mystery shopper exercise in respect of the sale of investment products, in particular LB-related

structured financial products, during the period between April 2003 to September 2008; and

(b) if the answer to (a) is affirmative, please provide a copy of the relevant review report(s).

61.1 BOCHK conducted independent mystery shopper exercises in 2005 and 2006. In the several mystery shopper exercises conducted, none of the investment products sampled was LB related structured financial products.

62. How did BOCHK assess the performance of sales staff? What key aspects of performance (e.g. revenue, customer growth) were assessed? Please explain the respective weighting of the various key aspects for assessing staff performance, and provide the relevant score card/performance appraisal form, if any, for such assessment.

62.1 BOCHK assessed Relevant Individuals based on several factors, including their business performance, customer service quality, skills and expertise, compliance and integrity. Two specimen performance appraisal forms are attached as Item 62a and Item 62b. Item 62a is an appraisal form for Customer Services staff, and Item 62b is one for Relationship Managers.

63. 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 BOCHK 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?

63.1 Please refer to paragraphs 58.1 to 58.3 above.

### **Handling of complaints**

64. Please advise:

- (a) has BOCHK put in place any written policy/procedures on handling and investigating complaints lodged by clients who have purchased investment products from BOCHK?
- (b) if yes, please provide a copy of such policy/procedures and a flow chart on BOCHK's complaint handling and investigative process in relation to LB-related structured financial products sold by BOCHK;
- (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

- 64.1 Yes, BOCHK has long put in place a set of policies and procedures on complaint handling and investigation which has been revised from time to time in accordance with the requirements of the HKMA Supervisory Guideline SPM IC-4. The Investment Products Customer Complaints Handling Procedural Guidelines (投資產品相關客戶投訴處理工作細則) is attached as Item 64a and the flow chart is attached as Item 64b.
- 64.2 Such policy and procedures are not required to be endorsed by the regulators, but BOCHK has provided a copy to the HKMA.
- 64.3 The main details of the enhanced complaint handling procedures as required under the Minibonds repurchase agreement are as follows:
- “(i) there are sufficient channels for customers to lodge their complaints;*
  - (ii) written responses are sent to the customers promptly to acknowledge receipt of the complaints and to inform the customers about the launch of investigations;*
  - (iii) customer complaints are handled in a timely and appropriate manner;*
  - (iv) customer complaints are investigated and assessed thoroughly, fairly and objectively, taking into account all the relevant matters including all relevant information relating to the customers, the investment product(s)/service(s) in question and the subject matter of the complaint;*
  - (v) each investigation of customer complaints involves an interview with the relevant customer and other relevant witnesses;*
  - (vi) each investigation of customer complaints includes an assessment of the conduct of the relevant staff involved in dealing with the customer and whether the conduct of the relevant staff and that of the Distributing Bank was in compliance with the Code of Conduct, the Management Supervision Guidelines and all other applicable legal and regulatory requirements;*
  - (vii) if an investigation identifies any non-compliance with the applicable legal and regulatory requirements, the Complaints Handling Staff promptly reports such non-compliance to senior management;*
  - (viii) the Distributing Bank promptly informs the customers of the preliminary results of the investigations and provides a reasonable opportunity to be heard to the customers before issuing the final results;*
  - (ix) the Distributing Bank examines thoroughly any representations and additional documents provided by the customers after the customers are advised of the preliminary results;*
  - (x) customers are duly advised of the final results and any appropriate remedial actions are taken promptly upon the completion of each investigation;*

- (xi) *in relation to complaints which are upheld by the Distributing Bank or where the investigations reveal any non-compliance with any applicable legal and/or regulatory requirement, the Distributing Bank has a fair and reasonable process (which takes account of the Distributing Bank's obligations under General Principle 1 of the Code of Conduct) for determining whether, and on what terms, the customer should be offered financial redress in respect of loss of damage the customer has suffered as a result of any breach by the Distributing Bank of applicable laws or regulatory requirements;*
- (xii) *if a complaint is not resolved to the customer's satisfaction: (i) the relevant Complaints Handling Staff would, if reasonably considered necessary in the circumstances, report the case to senior management for appropriate follow-up actions; and (ii) the Distributing Bank would advise the customer of any further steps or action that may be available to the customer under the existing regulatory regime;*
- (xiii) *each customer complaint is the subject of a written report explaining the findings of the investigation and such reports are submitted to senior management as well as the relevant business functions after the investigation; and*
- (xiv) *senior management and the relevant business functions implement appropriate follow-up actions after each investigation to prevent recurrence of similar errors or omissions (if any)."*
- (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.

64.4 Yes, the enhanced complaint handling procedures also applied to all customer complaints in relation to the sale of other LB-related non-Minibonds structured financial products.

65. Before the collapse of LB in mid-September 2008, did BOCHK 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.

65.1 During the Relevant Period, BOCHK received a total of 5 complaint cases in relation to alleged mis-selling of LB-related structured financial products. The series involved were Pyxis Equity Linked Notes Series 13, Octave Credit Linked Notes Series 12, Minibond Series 34 and 35. The complaints were all resolved either by early redemption (in the case of Pyxis Equity Linked Notes Series 13), or by settlement (for the other 4 cases).

66. Please provide the number of customers who had purchased (i) Minibonds and (ii) other LB-related non-Minibonds structured financial products from BOCHK, and who were affected by the collapse of LB.

66.1 There were

- (1) 14,038 customers who had purchased Minibonds and who were affected by the collapse of LB, and
- (2) 1,794 customers who had purchased other LB-related non-Minibonds structured financial products and who were affected by the collapse of LB.

67. Please provide the information in the enclosed Table 5.

67.1 See Item 67a for Table 5.

68. It is noted that BOCHK 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 5, a breakdown of the number of complaints (i) under mediation, (ii) under arbitration, (iii) under negotiation, and (iv) rejected;

68.1 As of 31 August 2010, 282 complaints involving Minibonds remained unresolved,

- (i) none under mediation,
- (ii) none under arbitration,
- (iii) 71 complaints are under negotiation,
- (iv) 207 complaints have been rejected, and
- (v) 4 complaints are still under investigation.

- (b) the expected time-frame to resolve these outstanding complaints; and

68.2 BOCHK handled all the complaints under its enhanced complaint handling procedures expeditiously within the time frame required by the regulatory bodies, which is 30 days for normal cases or 60 days for complicated cases.

- (c) whether BOCHK had followed up the progress of the work of the trustee and the estimated timeframe for recovering the underlying collateral. If yes, please provide details; if no, the reasons.

68.3 As one of the distributing banks, BOCHK had followed up on the progress of the work of the trustee. BOCHK will continue to keep the regulators and investors updated when it is informed of any progress on the recovery of the underlying collateral. There is no estimated timeframe for recovering the underlying collateral.

69. 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 5**, a breakdown of the number of complaints (i) under mediation, (ii) under arbitration, (iii) under negotiation, and (iv) rejected;
- 69.1 As of 31 August 2010, 599 complaints involving LB-related non-Minibonds structured financial products remained unresolved,
  - (i) none under mediation,
  - (ii) none under arbitration,
  - (iii) 150 complaints are still under negotiation,
  - (iv) 420 complaints have been rejected by BOCHK, and
  - (v) 29 complaints are still under investigation.
- (b) the expected time-frame to resolve the outstanding complaints;
- 69.2 Please see paragraph 68.2 above.
  - (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 BOCHK has been/would be reached. If yes, please provide the details; if no, the reasons.
- 69.3 No broad-based settlement for LB-related non-Minibond financial structured products, by type or by series, is currently under consideration. The features of each product and the surrounding circumstances are different from each other and from those of Minibonds. Each complaint is being reviewed on its own merits under the bank's enhanced complaint handling procedures and an appropriate solution will be determined carefully and fairly by the bank for each complaint. Please see paragraph 64.3 above for details of the bank's enhanced complaint handling procedures.
- 70. Did BOCHK 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.
- 70.1 In respect of the complaints made by investors of LB-related structured financial products, BOCHK did not detect any substantiated non-compliance cases in relation to the sale of such products during its internal investigation.
- 71. It is noted that HKMA launched a LB-related products mediation and arbitration scheme in November 2008 for investors whose complaints have been referred by HKMA to SFC. Please inform the Subcommittee of the following:
  - (a) under what circumstances BOCHK would agree to take part in mediation or arbitration;

(b) the latest number of cases, if any, in respect of which mediation with customers had been arranged;

71.1 BOCHK investigates each complaint case thoroughly through its enhanced complaint handling procedures, and strives to use its best effort to resolve the complaints amicably with the complainants. All 78 cases in which the complainants had requested referral to Hong Kong International Arbitration Centre for mediation were eventually settled, either under the Repurchase Scheme or through the bank's negotiation process, before resorting to mediation.

(c) the number of cases settled by mediation, the number of investors and the amount (HK\$) involved;

71.2 Not applicable.

(d) a breakdown of the settled cases in (c) showing the amount settled as a percentage of the investment amount;

71.3 Not applicable.

(e) the reasons why mediation was unsuccessful;

71.4 Not applicable.

(f) the latest number of cases in respect of which arbitration with customers had been arranged;

71.5 All the 78 cases mentioned in paragraph 71.1 above were settled before resorting to mediation or arbitration.

(g) the number of cases resolved by arbitration, the number of investors and the amount (HK\$) involved; and

71.6 Not applicable.

(h) a breakdown of the settled cases in (g) showing the amount settled as a percentage of the investment amount.

71.7 Not applicable.

72. Please inform the Subcommittee of the following:

(a) the number of staff who had been involved in the sale of Minibonds and LB-related non-Minibonds structured financial products and who had left the employment of BOCHK after 15 September 2008;

72.1 The number of such staff members was 122.

- (b) out of the former staff referred to in (a),
    - (i) the number of staff who were involved in complaint cases in relation to Minibonds;
- 72.2 The number of such staff members was 111.
  - (ii) the respective number of such complaint cases for Minibonds;
- 72.3 The number of such complaint cases was 722.
  - (iii) the number of staff who were involved in complaint cases in relation to non-Minibonds products;
- 72.4 The number of such staff members was 44.
  - (iv) the respective number of such complaint cases for non-Minibonds products; and
- 72.5 The number of such complaint cases was 111.
  - (c) out of the complaint cases in (b), the number of cases in which BOCHK was unable to contact the responsible staff members who had left employment.
- 72.6 Out of the total of 833 cases mentioned in paragraphs 72.3 and 72.5 above, there were 251 cases which we were unable to contact the staff members who had left employment.

### **Regulatory oversight and compliance**

73. 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 BOCHK?
  - (b) The date (month/year) of these meetings and whether HKMA held these meetings with the board of directors or any committee of BOCHK; and
  - (c) at these prudential meetings, did HKMA express concerns or raise suggestions about boosting the bank's non-interest income? Please explain.
- 73.1 During the period mentioned, the HKMA had prudential meetings with the board of directors of BOCHK about once a year between 2002 and 2007. There were occasions where the HKMA drew the attention of BOCHK to the importance of a stable and diversified income source.



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

- (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.

74.1 The HKMA conducted several examinations throughout the Relevant Period. They made recommendations in several areas in relation to the sale of structured financial products by BOCHK. Examples of enhancements recommended by the HKMA include the application of QIP to structured financial products, design of questions in QIP regarding customers' investment experience in different product types, and vulnerable customer handling procedures. The enhancements recommended by the HKMA were all implemented expeditiously by BOCHK.

75. 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 BOCHK 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.

75.1 BOCHK receives the HKMA's circulars from time to time. Compliance Department brings these circulars to the notice of all relevant departments, provides guidance and liaises with the relevant departments to coordinate any necessary follow-up actions. Where new or revised process and procedure are considered necessary to implement the recommendations of the circulars, Compliance Department will advise the relevant departments accordingly to ensure compliance.