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14 July 2009

Clerk to Panel on Financial Affairs  
Legislative Council Building  
8 Jackson Road  
Central  
Hong Kong  
(Attn: Mr Noel Sung)

Dear Mr Sung,

**Panel on Financial Affairs**  
**Recent developments of Lehman Brothers-related Issues**

Thank you for your letter of 23 June 2009 to the Secretary for Financial Services and the Treasury inviting the Administration to co-ordinate with parties concerned to provide written information in relation to the concerns raised by Hon Mrs Regina Ip in her letter of 17 June 2009. I have been authorised to reply.

With respect to the concerns raised in Hon Mrs Regina Ip's letter, please find our response below –

**I. Lehman Brothers (LB) Subsidiaries in Administration**

In respect of the “international framework” (the Protocol), we are aware that the liquidators for the LB subsidiaries in Hong Kong have entered into a non-binding “international framework” with their counterparts in the US, Australia, Germany and Singapore to coordinate the liquidation proceedings.

The Protocol is not legally enforceable by or against the parties and does not impose legal duties or obligations on the liquidators. It was not necessary for the Hong Kong liquidators to go to the court or the creditors for permission. Under the Companies Ordinance (Cap. 32), liquidators appointed by the Court in a compulsory winding-up are answerable to the court and/or the creditors through a committee of inspection. Section 199 of the Companies Ordinance sets out the powers of a

liquidator that may be exercised with and without the sanction of the court or the committee of inspection.

The liquidators for the LB subsidiaries in Hong Kong are expected to have exercised their professional judgment in deciding to enter into the Protocol, and in doing so to have acted in the interests of the respective liquidations of the LB companies in Hong Kong.

As to whether the decision to enter into the “international framework” would be in the best interest of Hong Kong’s noteholders of LB-related structured financial products, we understand that the Hong Kong noteholders have not made claims in the Hong Kong liquidations. The decision of the Hong Kong liquidators to enter into the “international framework” therefore would not be related to the interests of the noteholders.

## **II. Reinvestment of Collateral for Underlying Securities**

The Trustee of the Underlying Securities (Bank of New York Mellon) is required to act in the best interest of the noteholder of the Underlying Securities when making decisions on the reinvestment of the collateral. The Administration has all along urged all parties involved including the Hong Kong Association of Banks and HSBC as Trustee of the Minibonds to continue to mobilize its professional knowledge in helping the Minibond holders and take all the necessary action to safeguard the assets of the Minibond holders and realize their current values as soon as practicable.

In this regard, three partners of PricewaterhouseCoopers Hong Kong were appointed Receivers of the collateral securing a number of the Minibond series on 30 June 2009. The Receivers' role is to safeguard the interests of the Trustee (acting as representative of the beneficiaries, including the Minibond holders) and take steps to realise the collateral by unwinding the Minibond structures. A webpage has been set up to provide information to noteholders about the Receivership and also to provide answers to frequently asked questions in relation to the Receivership appointment. In addition, a telephone hotline for noteholders to ask specific questions about the Receivers' appointment and role is also available.

Yours sincerely,



(Ms Selene Tsoi)

for Secretary for Financial Services and the Treasury