

**Bills Committee on Securities and Futures and Companies
Legislation (Structured Products Amendment) Bill 2010**

Analysis of the market development of structured products in Hong Kong with relevant quantitative information, and explain how the development has been affected by changes to the regulatory regime, such as the enactment of the safe harbour provisions in the Seventeenth Schedule to the Companies Ordinance

Under the CO prospectus regime, the SFC is empowered to authorize the registration of prospectuses. This includes the prospectuses of publicly offered structured notes. Exemptions are however provided to offers specified in Part 1 of the 17th Schedule to the CO, e.g. an offer to not more than 50 persons; an offer with a minimum denomination of \$500,000; an offer with a maximum size of \$5 million; and an offer to professional investors. These exemptions became effective on 4 December 2004. They were introduced as part of a package to improve the prospectus regime to facilitate market development.

2. Table A below presents the total issue sizes of publicly offered structured notes with prospectuses authorized by the SFC under the CO in 2004 – 2009. Most publicly offered structured notes are equity-linked notes and credit-linked notes. The SFC does not have statistics on the market size of structured notes offered under the exemptions of the CO prospectus regime. While exemptions were introduced in 2004, it is noted that there was no material change in the issue size of structured notes whose prospectuses were authorized by the SFC in 2005. The issue sizes dropped since 2006.

Table A. Publicly offered structured notes the prospectuses of which were authorized by the SFC under the CO – Aggregate issue size in 2004 – 2009 (rounded to nearest HK\$ million)

	2004	2005	2006	2007	2008	2009
Total	16,463	15,899	9,708	7,616	7,035	0

3. Under the SFO offers of investments regime, the SFC may authorize the issue of offer documents and marketing materials with respect to securities (other than shares or debentures), regulated investment agreements and collective investment schemes offered to the public. This includes equity-linked investments. The SFO offers of investments regime has its own exemptions. For example, section 103(3)(k) gives exemption to the issue of an advertisement, invitation or document in respect of securities, regulated investment agreements and collective investment schemes that are intended to be disposed of only to professional investors; and section 103(2)(a) gives exemption to the issue of an advertisement, invitation or document made by an intermediary licensed or registered to conduct the regulated activities of dealing in securities, advising on securities or advising on corporate finance in respect of securities.

4. Table B below presents the monthly issue size of equity-linked investments the offer documents / marketing materials of which were authorized by the SFC under the SFO in 2006 – 2009. Equity-linked investments generally have a much shorter tenor of about several months and investors tend to roll-over their positions on expiry. The figures show that the issue size dropped significantly after 2008. There were very few authorization of offer documents / marketing materials of such products prior to 2006, and hence relevant statistics were not kept prior 2006. The SFC does not have statistics on the market size of equity-linked investments offered under the exemptions of the SFO.

Table B. Publicly offered equity-linked investments the offer documents/marketing materials were authorised by the SFC under the SFO – Monthly issue size in 2006 - 2009 (rounded to nearest HK\$ million)

	2006	2007	2008	2009
January	10,255	22,111	16,492	391
February	11,138	10,722	11,189	379
March	7,557	17,348	18,369	73
April	8,716	8,665	14,159	0
May	9,717	19,251	23,222	0
June	8,458	13,988	17,844	17

July	6,900	19,751	14,072	4,472
August	8,268	23,615	16,382	5,855
September	9,123	24,114	11,428	2,315
October	9,248	28,808	2,228	2,166
November	16,951	27,787	149	1,629
December	15,173	15,108	182	1,974

5. Based on a survey conducted by the SFC in 2006, most investors who invested in publicly offered structured notes or equity-linked investments bought them through banks.

**Financial Services and the Treasury Bureau
Securities and Futures Commission
November 2010**