

Legislative Council Panel on Financial Affairs

**Claims for compensation from investors of
Lehman Brothers-related investment products**

Response to follow-up questions raised by Hon Mrs Regina Ip

(a) & (b)

As indicated in the Administration's response of 28 March 2012 to the written question from Hon Mrs Regina Ip, investors who can file claims against Lehman Brothers Holdings Inc. via the liquidation process involve investment products that are broadly divided into (i) investment products that were arranged by Lehman and secured by collateral (including Lehman Minibonds); and (ii) investment products that were issued by Lehman but not secured by any collateral (e.g. equity-linked notes).

2. Claims against Lehman via the liquidation process have been filed directly by the investors of Lehman-related investment products to Lehman's liquidators or handled by the receivers appointed for the underlying collateral of investment products. There are also certain cases where the Distributing Bank has, upon the request and consent of the investors, filed claims on behalf of the investors. As several filing channels are involved, it is difficult for the Administration to collect statistics on the number of creditors in Hong Kong who are eligible and have submitted claims on Lehman, as well as on the amounts of claims involved for the respective types of Lehman-related investment products.

3. However, as rough indicators for reference, the Administration can share the following information which has been obtained primarily from the customer complaint handling and enforcement process of the Hong Kong Monetary Authority (HKMA):

- A large number of investors have entered into mass settlement or bilateral settlement with the banks concerned, under which the rights to file claims against Lehman via the liquidation process have been transferred to the banks. Therefore, it is believed that only a small proportion of the investors have to file a claim in the liquidation process.

- For instance, in respect of investment products under category (i), it is estimated that among the about 30,000 investors of **Minibonds** (involving investment amount of around HK\$11 billion), over 99% of them have settled with the Distributing Banks, leaving a few hundred investors who have not settled with the banks and have to file a claim in the liquidation process. In addition, according to the HKMA's customer complaints data, it is estimated that among the about 900 investors (involving investment amount of around HK\$150 million) of **ProFund Notes** and **Pyxis ELN**, about 600 investors (involving investment amount of about HK\$90 million) have not settled with the banks and have to file a claim in the liquidation process.
- In respect of investment products under category (ii), it is estimated that there were about 6 000 retail bank customers who have invested about HK\$6 billion. Among these investors, about 2 000 of them (involving investment amount of about HK\$2 billion) have not settled with the banks and have to file a claim in the liquidation process.

4. Since the processing of eligible creditors' claims by the liquidator involves complex proceedings that can be very time-consuming, it is difficult to predict whether and when the claimants in Hong Kong will receive recovered amounts from the liquidator.

(c) & (d)

5. The Distributing Banks in Hong Kong have been required to provide assistance, including setting up telephone hotlines to provide information relating to Lehman's liquidation process, so as to facilitate investors' filing of claims. We understand that there are some cases where the Distributing Bank has, upon the request and consent of the investors, made claims on behalf of the investors.

6. In respect of investment products under category (i) with Receivers appointed for the underlying collateral, the Receivers have already put forward the claims to the liquidators on behalf of the investors. It is the responsibility of the Receivers to act in the best interests of the investors, including monitoring the Lehman liquidation process. In order to increase the information transparency, the Receivers have been requested to publish the latest information concerning the recovery progress.