

**Press Release**

**LCQ13: Follow-up actions taken on Lehman Brothers-related  
Minibonds incident**

Wednesday, February 26, 2014

Following is a question by the Hon Leung Kwok-hung and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (February 26):

Question:

Will the Government inform this Council, since the outbreak of the Lehman Brothers-related Minibonds incident:

(1) of the number of additional staff members employed by the Hong Kong Monetary Authority (HKMA) to handle the work relating to the incident; whether HKMA has terminated the employment of any such staff member so far; if it has, of the number of staff members involved; if not, the reasons for that;

(2) of the number of complaints received by HKMA regarding mis-selling of investment products by banks; the number of complaints referred by HKMA to the Securities and Futures Commission for follow-up and, among these cases, the number of substantiated cases which involved irregularities; and

(3) of the measures taken by HKMA, other than requesting banks to submit information on their internal control systems, to strengthen its efforts in monitoring the sale of investment products by banks, so as to prevent the recurrence of similar incidents?

Reply:

President,

(1) The Hong Kong Monetary Authority (HKMA) deployed around 300 persons during the peak time in 2009 (including around 200 temporary staff hired on contracts, while the rest being HKMA's permanent staff or secondees from an audit firm) to handle complaints regarding the sale by banks of Lehman-related investment products. The scale of manpower has been gradually reduced in subsequent years. At present, the Enforcement

Department of the HKMA, in charge of the enforcement of relevant laws and regulations and the complaint handling function, is manned by some 60 permanent staff and 20 hired on contracts.

(2) Since September 2008, the HKMA received 21,878 complaints on mis-selling of Lehman-related investment products. Following investigation, the HKMA referred 3,633 complaints, in which sufficient grounds had been identified for disciplinary action, to the Securities and Futures Commission (SFC) for further action. Of these complaints, the vast majority of the investors involved have been compensated pursuant to the agreements reached between the HKMA, SFC and relevant distributing banks of the Lehman-related investment products under section 201 of the Securities and Futures Ordinance. A total of 19,391 complaints have been resolved by compensations under such agreements.

(3) Taking into account the experience gained from the global financial crisis in 2008 and the Lehman episode, the changing market development and public expectation, the HKMA has taken steps to enhance the regulatory focus on business conduct of authorised institutions (AIs). The HKMA has devoted increasing supervisory resources to enhance the conduct supervision of AIs. With a view to developing a more robust regulatory structure, the HKMA established in April 2010 a new Banking Conduct Department, and redeployed existing resources on securities enforcement and complaint handling to form a new Enforcement Department.

The HKMA has introduced a number of investor protection measures to enhance AIs' sale process in respect of investment products, including:

- \* segregating investment corners from the general banking services areas to avoid confusion by retail banking clients in relation to traditional deposit-taking activities and retail investment activities;

- \* audio-recording the sale process and the client risk profile assessment process;

- \* enhancing control procedures for transactions with a mismatch between the product risk and a client's risk tolerance;

- \* implementing a Pre-Investment Cooling-off Period for unlisted structured

products so as to allow less sophisticated retail banking clients (e.g. elderly and first-time buyers) at least two days to understand and consider the appropriateness of the proposed investment, and to consult their family or friends;

\* allowing vulnerable clients (e.g. elderly and the illiterate) to opt for additional safeguards during the sale process (having a friend or relative and/or an additional bank staff to witness the sale process); and

\* implementing Important Facts Statement (IFS) to enhance disclosure of the key product risks and features of currency-linked and/or interest rate-linked investment products issued by AIs.

The HKMA has been working closely with the SFC in introducing and implementing a number of conduct requirements on intermediaries. The HKMA has also stepped up on-site examinations and off-site surveillance of the sale of investment products. In respect of the issues identified during the supervisory process, the HKMA has issued a number of circulars to provide guidance to AIs.

With regard to enhancing the standards of governance of the banking industry, the HKMA has rolled out a number of initiatives, including developing training programmes for directors and senior management of AIs, and developing an enhanced competency framework for private wealth management industry practitioners.

The HKMA also actively participates in public education activities with a view to enhancing the public knowledge in investment products and understanding of investors' rights and responsibilities, and helping clients become smart and responsible investors.

The aforesaid measures have helped enhance investor protection and standardised the sale process. Investors are now given clearer product information and have a better awareness of their rights and obligations. The compliance culture of banks and the controls over the sale process have also been strengthened.

Ends