

SFST on Lehman minibonds incident (1)

Wednesday, July 22, 2009

Following is the transcript of remarks (English portion) by the Secretary for Financial Services and the Treasury, Professor K C Chan, on the Lehman minibonds incident at a media session today (July 22):

Today the Securities and Futures Commission (SFC), the Hong Kong Monetary Authority (HKMA) and 16 distributing banks of Lehman Brothers minibonds have reached an agreement whereby the distributing banks will make a repurchase scheme to eligible minibond investors.

The repurchase scheme provides a practicable way to relieve the distress suffered by some 29,000 investors in the Lehman Brothers incident during the past months. The vast majority of investors who accept the scheme can get back 70% or more of their investment principal. The estimated amount that banks need to pay to repurchase the minibonds is around HK\$6.3 billion.

The agreement also requires the distributing banks to appoint independent professionals to review the banks' internal control and compliance systems, particularly the procedures for handling customers' complaints.

The repurchase scheme covers over 90% of the Minibond investors. Those accepting the offers will be relieved of the delay and uncertainty in going through the liquidation process. The amounts to be received under the Repurchase Scheme will be equal to or higher than those obtained through the liquidation of the minibonds. On the whole, the settlement offer takes into account investor interests and regulatory objectives. It provides relief to thousands of investors, and helps rebuild public confidence in the banking sector of Hong Kong.

The Government has all along been urging the HKMA and the SFC to complete as early as possible their investigations of mis-selling complaints. I think the distributing banks should draw lessons from this incident and properly implement the agreement reached with the regulatory authorities, so as to improve the systemic control of, and the complaint handling mechanism for, the selling of structured investment products.

In response to the Lehman incident reports submitted by the HKMA and the SFC at the end of last year, the Financial Services and the Treasury Bureau has conducted an in-depth review of the regulation of the local financial markets. We have worked out an action agenda to follow up in phases the recommendations in the reports. I will continue to work with the various stakeholders, including the Legislative Council, in exploring strategies and measures to further enhance investor protection and improve our regulatory framework in Hong Kong.

(To be continued)

(Please also refer to the Chinese portion of the transcript.)

Ends