

Press release

Administration's response to Report issued by Subcommittee to Study Issues Arising from Lehman Brothers-related Minibonds and Structured Financial Products

Wednesday, June 6, 2012

The Administration has noted that the Subcommittee to Study Issues Arising from Lehman Brothers-related Minibonds and Structured Financial Products has just published its Report, and has noted that three members of the Subcommittee have published another report. The Administration will study the contents and the recommendations of the reports carefully.

A government spokesman today (June 6) thanked the Subcommittee for spending three years to conduct the hearings and write up the report on the Lehman Brothers (LB) incident since October 2008. During the hearings, the Government and the regulators have been co-operating actively with the work of the Subcommittee.

As mentioned by the Financial Secretary and the Secretary for Financial Services and the Treasury during the public hearings, when LB filed for bankruptcy protection and collapsed subsequently in mid-September 2008, it triggered the global financial crisis. The scope and magnitude of the global financial crisis exceeded the expectations of all parties and the ramifications were cross-sectoral, cross-border and far-reaching.

Following the LB incident, the Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC) submitted review reports on the LB Minibond incident to the Financial Secretary on December 31, 2008, upon his request. The two regulators presented conclusions from the experience gained in the process of investigating LB Minibonds-related complaints, and made a number of recommendations.

These recommendations covered areas including enhancing the selling practices of investment products, the business conduct of intermediaries and investor education. The Administration has implemented these recommendations with the HKMA and the SFC in the past three years in phases. For example, the HKMA issued relevant circulars to the Registered Institutions, requiring them to attach "health warnings" to retail structured products and to have clear segregation between general banking business and securities-related activities, etc. Moreover, the SFC completed the public consultation in 2009, and implemented a series of proposals with a view to enhancing the regulation of intermediaries selling investment products to the public in 2010, including the requirement to provide product key fact statements, introducing cooling-off periods and disclosing commercial interest involved in the sales process (including commissions and fees), etc. As for investor education, the Legislative Council passed the Securities and Futures (Amendment) Ordinance 2012 at the end of April 2012, empowering the SFC to establish a cross-sectoral investor education centre, with a view to improving investors' financial education and assisting them in making better investment decisions. The centre is expected to start operation in the fourth quarter of 2012. Furthermore, after a year of preparation, the Financial Dispute Resolution Centre, which has been set up to provide investors with an effective route to handle disputes, will commence its operation this month.

Moreover, the two regulators reached an agreement with the distributing banks in relation to LB Minibonds in July 2009, under which the distributing banks will repurchase the Minibonds from a majority of investors. This has enabled the issue to be settled properly.

Looking forward, when formulating and implementing our financial policies, the Administration endeavours to foster the two main policy objectives of investor protection and financial stability. The Administration will pay due regard to the views of market players, the Legislative Council and various sectors of the community, and also take into account factors such as the global developments in financial regulatory measures.

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