
Press Releases

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22 September 2008

SFC steps up measures to address investors' concerns

The Securities and the Futures Commission (SFC) has continued to work closely with the Government and the Hong Kong Monetary Authority (HKMA) to address the concerns of investors who bought Lehman Minibonds.

SFC representatives attended a meeting between the HKMA and Minibond holders today, and have also been directly in touch with the Government and the Minibond trustee to discuss possible steps to protect the interests of the note holders.

The SFC has increased the manpower on its own enquiry hotline, which has so far handled more than 780 enquiries and over 130 complaints. Complaints related to alleged mis-selling by banks are being referred to the HKMA for further action. The SFC, in conjunction with the HKMA, has also arranged for distributors of Lehman Minibonds to set up hotlines to handle investors' enquiries and complaints (Note 1).

"Minibonds" are a brand name for credit-linked notes issued by Pacific International Finance Ltd. They are legally structured as debentures and the issuer must ensure that the disclosures are factually correct, not misleading and meet the requirements of the Companies Ordinance. The SFC reviews the document so that on the basis of the facts provided by the issuer, these disclosure requirements are met.

The SFC does not comment on the product itself, which is something that needs to be considered at the point of sale when the individual needs of each investor should be taken into account. This process is governed by the SFC's Code of Conduct.

Typically, the issuer of this type of product uses the proceeds from investors to buy collateral and also enters into some financial arrangements, known as swaps, which allow the issuer to enhance the potential overall yield above that given by traditional bank deposits. These "swap" arrangements will often relate to certain reference entities that have strong credit ratings. However, if any one of the reference entities or the swap counterparty becomes insolvent then the structure fails and the product needs to be unwound and the collateral liquidated.

In the case of the Minibonds, the Lehman Brothers entities outside of Hong Kong were

involved in the swap arrangements. Since they have now become bankrupt the swap arrangements now need to be unwound and the collateral liquidated.

The responsibility for doing this rests with the trustees who hold the assets on behalf of the investors. It is the job of the licensed entities that sold these Minibonds to assist investors, communicate with these trustees and also to answer any questions that investors may have.

End

Note:

1. The SFC issued a [“Circular to All Licensed Corporations and Registered Institutions”](#) on 19 September 2008 to remind distributors of retail structure products of their responsibilities, including setting up hotlines to address concerns of Lehman Minibond investors.

Page last updated: 22 September 2008