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Middle class complains about banks' questionable practice in financial product selling and holds MA accountable for the Lehman Brothers debacle and demands a term limit for MA's chief executive

(Hong Kong, 19 Oct 2008) Since Lehman Brothers filed for bankruptcy protection on 15 September and set off a global financial crisis with far-reaching impact. In Hong Kong alone, there are as many as 40,000 affected customers and over \$ 20 billion was involved. According to a recent MCF's survey, the middle class blamed the banks for their practice in selling financial products and how the distributing banks handled the matter after Lehman Brothers went down as well as the government for not ineffectively monitoring them. MCF suggests that after the financial crisis aftermath begin to quiet down, the SAR government should hold the Monetary Authority ("HKMA") and Securities and Futures Commission ("SFC") answerable and the term of office of Chief Executive("CE") of HKMA should be specified and it should ask Joseph Yam, Chief Executive of HKMA to promise the public that he would not join any banks or financial institutions after he steps down as HKMA's CE.

Middle class complains how the banks have handled the Lehman Brothers debacle

A total of five hundred and seventeen (517) middle class individuals were interviewed in this survey conducted between 4 and 15 October. The middle class is generally upset with how the banks handled the Lehman Brothers debacle, specifically in the areas of the banks' selling practice, how they defied SFC's regulation of taking into account of the customer's circumstances and explaining the risks of financial products. The banks also failed to take the initiative to pacify the affected customers, the middle class complained about these three aspects. According to the survey, 55% of the respondents thought that the banks abused the use of personal data while pushing sales of those financial products; near 47% of the middle class respondents said they did not understand what the financial products were nor their nature; more than 65% of the respondents said the banks failed to contact the affected customers to explain the current status after the global financial crisis broke.

Middle Class Power member and Eastern District Councillor (Taikoo Shing West) Mr Andrew Chiu (趙家賢) pointed out that in the process of his helping the affected holders of the Lehman products, he felt that **many of them buy the products simply because they did not understand and were misled into it.** "In many of the cases I helped, retired senior citizens were involved and they were misled to believing "mini-bonds" were a kind of deposit substitute and a low-risk financial product, that's why they poured their life-savings

into it, not knowing their nest egg could vanish like that. ”

Banks have obligation to tell customers what happened

Mr Chiu added that the banks did not explain clearly the nature of the financial products to the customers and therefore were responsible; and **after witnessing the distraught minibonds holders taking to the street protesting, how people were shaken up, the banks should have risen to the occasion and go to the affected customers first, to explain to them the current status of the incident in order to calm down nerves.** Such “cowardly behaviour” of the banks should be condemned too. It didn’t only hurt the banks’ credibility but also Hong Kong’s image as an international financial centre.”

HKMA’s monitoring was ineffective and more accountability needed

Moreover, as many as 58% of the respondents thought that HKMA should review the current selling practice of the banks and that 59% thought the bank’s salesmanship was misleading. MFC’s chairman and District Councillor Mr Andrew Fung said the oversight of HKMA as the regulator of operation of banks and financial institutions was ineffective. “The banks sold complex derivative products to low-risk investors and they allegedly misled many older investors with poor knowledge of finance and investing to buy the products. All these things come under the jurisdiction of the HKMA. **Joseph Yam can’t shirk responsibility by a little explanation at the Legco,**” said Fung.

MCF recommends: future nomination of CE of HKMA should be approved by Legco, with term of office specified

Regarding HKMA taking blame for failed supervision, MFC recommended the government to step up on the monitoring of HKMA as early as 2006. At present, the post of Chief Executive of HKMA is appointed by the Financial Secretary but its term of office is not specified by the Exchange Fund Ordinance. According to an opinion poll conducted by MFC in 2006, 52% of the respondents thought that the future CE of HKMA should be openly recruited to attract talents with relevant experience and specialized knowledge, so that the HKMA could operate closer to the pulse of the market and to genuinely fulfill its function of monitoring the industry.

Mr Fung said, “we urge the government to step up on monitoring and accountability by revising the appointment clause in the Exchange Fund Ordinance regarding Monetary Authority (that is, Chief Executive of HKMA) such that the appointment will be nominated by the Financial Secretary, followed by approval of the Legislative Council and that its term of office specified.”

Urges Privacy Commissioner to open investigation

Fifty-two percents(52%) of the respondents said that they felt their privacy violated

while bank employees marketed products to them. Mr Chiu suggested, “the Privacy Commissioner for Personal Data should set up a task force to investigate it. It should advise on whether the concerned selling practice does constitute violation of customers’ privacy and to establish guidelines for bank employees to comply. For example, it should lay down under what circumstances frontline sales staff can use personal data facilitate marketing and selling of financial products to customers.”

About Middle Class Power

Middle Class Power is an advocacy group on public issues made up of middle class individuals from various professional backgrounds and different sorts of executives, it collects opinions of the middle class and conduct relevant research to reflect such opinions and make proposals to the government and relevant departments. *Middle Class Power’s* mission is to uphold the core values of Hong Kong people and to build a better home and business environment in Hong Kong.

Released by *Middle Class Power*, for further information, please contact

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Survey results: what does the middle class think of the retail banks’ practice of selling financial products?

Option		Frequency	Percentage	Margin of error
1. Whenever you go to the bank for transactions, are you often approached by the bank employees who try to talk you into buying financial products?				
1	Yes	298	57.8%	±2.2%
2	No	171	33.1%	±2.1%
3	Neither agree or disagree	47	9.1%	±1.3%

Option		Frequency	Percentage	Margin of error
2. Would you agree that when the bank has full knowledge of your accounts, which it relies on to market you financial products, without your prior approval, that it is allegedly “an abuse of your personal data and a violation of your privacy”?				
1	Yes (Please go to question 3)	281	61.6%	±2.2%
2	No (Please go to question 4)	109	23.9%	±1.9%
3	Neither agree or disagree	66	14.5%	±1.6%

Option		Frequency	Percentage	Margin of error
3. Would you agree the Privacy Commissioner for Personal Data should review aforementioned bank practice and look into the accusation of customers' privacy violation?				
1	Yes	236	52.1%	±2.3%
2	No	85	18.8%	±1.8%
3	Neither agree or disagree	132	29.1%	±2.1%

Option		Frequency	Percentage	Margin of error
4. After the Lehman Brothers debacle, would you agree that the HKMA, for the protection of the interests of the retail bank customers, should review whether it is appropriate for retail banks to continue selling the concerned financial products?				
1	Agree	301	58.3%	±2.2%
2	Disagree	115	22.3%	±1.8%
3	Neither agree or disagree	100	19.4%	±1.7%

Option		Frequency	Percentage	Margin of error
5. Do you think supervisory bodies such as the SFC should standardize the Chinese and English wording of financial products so that bank depositors would not be led on to believe "capital guaranteed", "bonds" as something different as their names claim to be ("capital not guaranteed in practice", "something called bonds but not ordinary bonds")?				
1	Agree	304	58.9%	±2.3%
2	Disagree	81	15.7%	±1.7%
3	Neither agree or disagree	89	17.2%	±1.7%

Option		Frequency	Percentage	Margin of error
6. When you buy such financial products, are you fully aware that such products should be similar to Deposit Substitute/Deposit Equivalent in terms of level of risk?				
1	Yes	173	38.4%	±2.3%
2	No	211	46.9%	±2.4%
3	Neither agree or disagree	66	14.7%	±1.7%

Option		Frequency	Percentage	Margin of error
7. When you bought such financial products, did the bank employees clearly present or provide you with the prospectuses of those products and did they also point out to you various risks such as the general risk of the issuer Lehman Brothers going out of business?				

1	Yes	215	47.8%	±2.4%
2	No	190	42.2%	±2.3%
3	Neither agree or disagree	45	10.0%	±1.4%

Option		Frequency	Percentage	Margin of error
8. Even though you have not purchased any Lehman Brothers' products, did your bank take initiative to keep you posted on the status of the financial products you owned after the global financial crisis unravelled?				
1	Yes	121	26.9%	±2.1%
2	No	294	65.3%	±2.2%
3	Neither agree or disagree	35	7.8%	±1.3%

The sampling error for this survey is at 95% confidence level throughout the entire sample. A 95% confidence level means when the survey is repeated 100 times on random samples, that the results would lie within plus or minus percentage points of the margin of error. The press may cite "the sampling error on all ratings for this survey is within ±2.4% at the 95% confidence level" when reporting the survey results.