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SFC urges structured notes holders to seek updated information

The Securities and Futures Commission (SFC) today urges investors to be as up to date as possible about the factors that could impact their investments and the options open to them, as investigations into widespread allegations of mis-selling of certain structured notes (including Minibonds) continue. Only when armed with up to date information will investors be able to make informed decisions as to what course of action is in their best interest, the SFC says.

The worsening of the credit market in recent weeks has resulted in a number of credit defaults around the world. Investors in structured notes need to understand what impact this may have had on the underlying value of their specific investment. In particular, investors need to be aware that further defaults of companies, which form part of the collateral for some notes, could have a significant impact on the value of their investment.

Holders of structured products, particularly credit linked notes, are urged to seek information from distributors regarding the changed risks of their investment following recent events.

“As investors in the notes may suffer a substantial loss as a result of credit defaults, we consider it appropriate for issuers to give notice to registered note holders, for forwarding to the end investors, providing information that may be expected to significantly affect the ability of the issuer to meet its commitments under the notes,” said the SFC’s Chief Executive Officer Mr Martin Wheatley. “This is in accordance with issuers’ undertaking to do so, as disclosed in the prospectuses.”

The SFC has written to note issuers requiring that they notify distributors of information that may materially affect the issuers’ ability to perform their obligations; this should include any credit downgrade of the underlying reference entities or the collateral. Investors can then receive this information, including collateral information, directly from distributors.

In seeking to understand the current situation and the market prices of their structured

notes, investors are encouraged to contact the relevant distributor from whom they bought the product directly. Examples of questions they may wish to ask to get a better understanding of their current position would include:

- What is the buy-back price of the note? (Note 2)
- What are the security arrangements backing this investment? This may include:
 - the mark-to-market value of the collateral;
 - whether the issuer has advised of any credit rating downgrade of collateral or any other event which may affect the value of the note (Note 3); and
 - the nature of the collateral (Note 4) e.g. whether it includes collateralised debt obligations (CDOs) and, if so, the portfolio reference entities; the recent collapse of three Icelandic banks and Washington Mutual, for example, may result in a significant reduction in value of CDOs that reference those entities and further defaults may lead to early termination of the notes.

End

Notes:

2. Investors should receive monthly statements with mark-to-market value of their investments as at month end.

3. Investors should receive issuers' notification via their distributors of information that may materially affect issuers' ability to perform their obligations under the notes. In the context of credit linked notes, such information may include credit downgrade of the underlying reference entities or the collateral.

4. Collateral information forms part of the "display documents" which should be available from the offices of the arranger during normal office hours. In any event, investors can contact their distributors for information about their investments in retail structured notes including their current prices in case investors may wish to sell back their notes before maturity.

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