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Core Pacific-Yamaichi International (H.K.) Limited agrees with SFC to repurchase Minibonds, Octave Notes and Constellation Notes from clients at original value

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The Securities and Futures Commission (SFC) has issued a reprimand to Core Pacific-Yamaichi International (H.K.) Limited (CPYI) in respect of its internal systems and controls relating to sales of Minibonds, Octave Notes and Constellation Notes (collectively, Lehman Brothers-related structured products) following an investigation by the SFC (Notes 1 & 2).

The investigation of the SFC raised a number of concerns with CPYI's internal systems and controls relating to the sale of Lehman Brothers-related structured products. Specifically, SFC's concerns were related to:

- the adequacy of product due diligence on Lehman Brothers-related structured products before they were sold to clients;
- the adequacy of training and guidance given to its sales staff to enable them to understand the investment return characteristics, structure and risk profile of Lehman Brothers-related structured products; and
- the establishment and implementation of proper guidelines and monitoring procedures on the sale and marketing of Lehman Brothers-related structured products to clients.

CPYI does not admit any liability arising from these matters, but acknowledges the seriousness of these concerns. CPYI has agreed with the SFC to:

- offer to repurchase from all its eligible customers (Note 3) all outstanding Lehman Brothers-related structured products at a price equal to the principal amount invested by them, less any coupon payments received; and
- offer to pay compensation to all its eligible former customers (Note 4) in respect of their previous holding(s) in Lehman Brothers-related structured products in an amount equal to the principal amount invested by them, less any coupon payments, residual value and/or sale proceeds received.

The total amount that CPYI offers pursuant to the repurchase and compensation offers is approximately HK\$9.6 million.

CPYI has also agreed to:

- immediately implement special enhanced complaints handling procedures to resolve, in a fair and reasonable manner, all complaints in relation to the sale and distribution of structured products other than Lehman Brothers-related structured products;
- engage an independent reviewer, to be approved by the SFC, to review its systems and processes relating to the sale of structured products and to report to the SFC, and to commit to the implementation of all recommendations by the independent reviewer; and
- to engage a qualified third party, as approved by the SFC, to review and enhance its complaints handling procedures, and to commit to the implementation of all recommendations by such third party.

The SFC considers that this agreement resolves its concerns about CPYI's sales practices in respect of Lehman Brothers-related structured products and is in the best interests of the investors. The repurchase or compensation scheme should ensure that eligible customers and eligible former customers who accept the repurchase or compensation offers will receive return of their capital.

This agreement is also forward looking and should ensure that CPYI remediates its systems and processes to meet the standards expected from a licensed corporation which distributes investment products and/or provides investment advice to its clients.

The SFC considers this to be an appropriate outcome in light of the nature and extent of the concerns with CPYI's sales practices that SFC's investigation raised.

The SFC acknowledges that CPYI has fully co-operated with SFC's investigation and has acted responsibly in agreeing to compensate eligible customers and eligible former customers.

End

Notes:

1. CPYI is registered under the Securities and Futures Ordinance to carry on business in Type 1 (dealing in securities), Type 4 (advising in securities) and Type 6 (advising on corporate finance) regulated activities.
2. CPYI has sold about HK\$1.25 million worth of Lehman Minibonds in series 5, 7, 10, 12 and 20; about HK\$12 million worth of Octave Notes in series 3, 5, 6, 10, 11, 19, 21 and 22 (CPYI was one of the distributors of these series of Octave Notes); and about HK\$0.7 million worth of Constellation Notes in series 40 and 43.
3. Eligible customers are CPYI customers who have open position(s) in the Lehman Brothers-related structured products. Eligible customers will not include experienced investors (meaning investors who in the three years preceding their first purchase of the Lehman Brothers-related structured products, executed five or more transactions in Structured Products) and customers who were licensed persons at the time of their first purchase of the Lehman Brothers-related structured products.
4. Eligible former customers are either CPYI customers whose holding(s) in the Lehman Brothers-related structured products has/have been mandatorily redeemed, or CPYI customers who sold their holding(s) in the Lehman-related structured products after the date on which Lehman Brothers Holdings Inc. filed a petition under Chapter 11 of the U.S. Bankruptcy Code (i.e. 15 September 2008).

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