

Heng Swee Keat: The sale of structured products to retail investors

Opening remarks by Mr Heng Swee Keat, Managing Director of the Monetary Authority of Singapore, at the Monetary Authority of Singapore's Press Conference on the Sale of Structured Products to Retail Investors, Singapore, 17 October 2008.

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Many individuals who purchased structured products linked to Lehman Brothers are worried about their investments. MAS has been actively working to ensure a fair resolution for these investors. We have also been communicating our actions to the public since the issue first came to light in the middle of September. Our first priority has always been to help affected investors. Let me touch on what we have done and how we have put in place a serious and impartial resolution process to deal with investors' legitimate concerns.

First, we are making sure that HSBC Institutional Trust Services (Singapore) Ltd, the trustee for the Lehman Minibond Programme, carefully considers all options and acts in the interests of investors. If a new swap counterparty is available, investors would have the opportunity to vote on this option. In order to assist investors make an informed decision, MAS will appoint an independent financial adviser. We expect the trustee to know whether options will be available to noteholders by the end of next week.

Second, each FI now has an independent person to oversee the complaints handling process relating to the sale of the Lehman Minibond Programme, DBS High Notes 5 and Merrill Lynch Jubilee Series 3 Linkearner Notes. These persons are Gerard Ee, Hwang Soo Jin and Law Song Keng. We recognise that the complaints handling process has not been easy, particularly for customers of some FIs. But as circumstances for each case may be different, this is the best way to deal with all the complaints. The independent parties will ensure that customers get a fair hearing. We have set a very clear timeline for complaints to be resolved. All the FIs have also set up internal review panels which are chaired by their CEOs. The panel is expected to conduct a thorough review of each complaint and decide on a course of action within four weeks. The decision will then be communicated to the customer.

Third, for affected investors who are not satisfied with the FIs decision on the matter, we have established a fast-track process to refer the case to the Financial Industry Disputes Resolution Centre (FIDReC). The FIDReC mediation process is free for consumers. If a case goes to arbitration, it will cost the consumer \$50. FIDReC will consider all relevant evidence whether written or oral. Statements can be prepared by consumers themselves and need not be made under oath. All FIDReC's adjudicators are well respected professionals. The chairman of FIDReC is Mr Goh Joon Seng, a retired High Court judge. As over 80% of customers invested S\$50,000 and below, FIDReC is the right avenue for them to pursue their claims. FIDReC normally deals with claims not exceeding S\$50,000. In the case of the structured products, however, the FIs have agreed for FIDReC to hear deserving cases.

We have also said that if there are breaches of our regulation, we will take action against the financial institution or individuals involved. MAS has required the independent parties to highlight these breaches and potential cases of mis-selling to MAS. They have already brought a number of possible cases to our attention and we are following up on them.

Normally, as you know, MAS does not comment on our dealings with individual institutions. However given public interest in this matter, MAS confirms that we have been conducting formal inquiries into allegations of breaches of the law, inadequate internal controls by the FIs or poor sales practices by their representatives. We will make an announcement on any actions we are taking when our inquiries are completed.

MAS urges any affected investor who has a genuine claim that you were mis-sold the product to make sure you lodge your complaint with your FIs. MAS requires FIs to have a

rigorous process to look into every complaint and resolve them fairly, giving due weight to the views of the independent parties.

Clearly, there is a range of investors who bought these products. Some are well-educated professionals. Others are sophisticated investors. The group we are most concerned with are the vulnerable customers. We are focussing on cases of mis-selling to vulnerable customers and on cases where the products were clearly inappropriate for them given their circumstances. We have required the FIs to give priority to these cases. They should not take an overly legalistic approach to mis-selling in dealing with these cases.

For cases where there are sufficient indications that the product was mis-sold or that it was clearly inappropriate given the investor's profile and circumstances, the FI should take responsibility. Several FIs have assured MAS that they will take full responsibility in such cases. We welcome this commitment and expect all FIs that have sold these products to take the same approach. They must do the right thing and ensure a quick and fair resolution for these customers. We have communicated this to their CEOs.

Thank you, I will now take your questions.