
Enforcement News

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KGI Asia Ltd agrees with SFC to repurchase Minibonds from its clients at original value

The Securities and Futures Commission (SFC) has issued a reprimand to KGI Asia Ltd (KGI) in respect of internal systems and controls relating to its sale of Lehman Brothers Minibonds to its clients following an investigation by the SFC (Notes 1 and 2).

KGI has agreed with the SFC to make a voluntary offer to purchase all outstanding Lehman Brothers Minibonds subscribed for or bought by its clients at a price equal to the principal amount invested by them (Notes 3 and 4).

The SFC's top down investigation focussed on KGI's internal systems and controls relating to the sale of Lehman Brothers Minibonds. The investigation raised concerns with respect to:

- the adequacy of measures implemented by KGI to review and evaluate the nature of and risks associated with Lehman Brothers Minibonds;
- the adequacy of training and guidance given to its sales staff on Minibonds to enable them to understand the product and all its material risks;
- the adequacy of measures implemented by KGI to ensure that its sales staff gave reasonably suitable advice by matching the risk-return profile of Minibonds with the personal circumstances of each client; and
- the record-keeping of investment advice given to clients and the rationale for its recommendations.

Without admission of liability and in the best interests of its clients, KGI has agreed to resolve these matters by:

- making an offer to purchase from its clients all outstanding Lehman Brothers Minibonds subscribed for or purchased through KGI at a price equal to the principal amount invested by those clients (the clients will retain all coupon payments received to date) with payments to be made within 30 days of the date of acceptance (Note 5);
- engaging an independent audit firm to review its internal controls, systems and procedures;
- accepting that if, within 18 months from the completion of an independent internal control review, the SFC finds the same concerns of a materially serious nature as those identified in this investigation, KGI's licence will be partially suspended for a period of three years to the extent that KGI will not be allowed to sell or distribute to clients any unlisted or structured products or provide advice to clients in relation to these investment products.

The SFC's investigation into KGI's sale of Lehman Brothers Minibonds has now concluded.

The SFC reached agreement with KGI after taking into account:

- KGI's agreement to resolve the SFC's concerns in a timely manner;
- KGI's repurchase offers are being made voluntarily;
- KGI's agreement to engage an independent audit firm for internal control reviews to prevent

- recurrence of similar compliance issues in the future; and
- KGI's full cooperation with the SFC's investigation.

Mr Mark Steward, the SFC's Executive Director of Enforcement, said: "This outcome resolves our concerns about KGI's past sales practices in respect of Lehman Brothers Minibonds, covers present losses incurred to their clients and provides assurance that these problems will not arise again in the future. KGI and their management should be commended for taking up this initiative."

End

Notes :

1. KGI is licensed under the Securities and Futures Ordinance (SFO) to carry on business in Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities.
2. KGI was a distributor of Series 34, 35 and 36 of Lehman Brothers Minibonds, over the period from November 2007 to May 2008.
3. KGI sold Minibonds to five clients and none of these clients are professional investors. The total amount of the repurchase is estimated to be HK\$1.6 million.
4. For more details on the repurchase scheme, please call KGI's InvestLine at (852) 2878 5555.
5. Clients who accept this offer will be required to transfer their Minibonds (or entitlement thereto) to KGI and sign a release and waiver of claims they may have against KGI.

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