



香港存款保障委員會
HONG KONG DEPOSIT
PROTECTION BOARD

Briefing to Legislative Council Panel on Financial Affairs

6 March 2006



(I) Purpose

- To update LegCo on the latest progress in relation to the establishment of the Deposit Protection Scheme (DPS) in Hong Kong



(II) Background

- Enactment of DPS Ordinance in May 2004
- Formation of Hong Kong Deposit Protection Board in July 2004
- The Board currently consists of 5 appointed members and 2 ex officio members who are responsible for the establishment of the DPS



Composition of the Board

Professor Andrew Chan Chi-fai	Chairman & Member
Mr Ian Chapman	Member
Dr David Cheung Wai-lok	Member
Mr Nicholas Peter Etches	Member
Mr Nam Lee-yick	Member
Monetary Authority (represented by DCE(B) / HKMA)	Ex officio member
Secretary for Financial Services and the Treasury (represented by PSFS)	Ex officio member



Performance of Functions

- According to section 6 of the DPS Ordinance, the Board shall perform its functions through the Monetary Authority unless otherwise directed by the Financial Secretary
- The HKMA has assigned an Executive Director and a team of staff to assist the Board. The Executive Director is authorised to discharge his duties for the Board as its CEO
- The Board has also employed its own legal counsel and a payout consultant
- More details in the first annual report of the Board submitted to LegCo in Oct 2005



Recent Developments

- The Board is making the necessary preparations for the launch of the DPS
- As will be shown in the next section, good progress has been made by the Board in the past 20 months



(III) Major Preparatory Tasks

1. System for assessment of contributions
2. Development of rules and guidelines governing the operation of the DPS
3. Payout infrastructure
4. Publicity campaign
5. Others



1. System for Assessment of Contributions

- Scheme members submitted the first deposit returns and the HKMA provided the supervisory ratings in Dec 2005
- Ready to assess the amount of contributions payable by Scheme members in 2006



2. Development of Rules and Guidelines Governing the Operation of the DPS

- 3 sets of rules to be tabled before LegCo for negative vetting:
 - i) Rules on Payment of Contributions
 - ii) Rules on Representations
 - iii) Asset Maintenance Rules
- Information system guideline



i) Rules on Payment of Contributions

- Specify the manners in which Scheme members should pay the contributions and late payment fees (if any) to the Board
- Industry consulted and only has minor technical comments



ii) Rules on Representations

- Display the DPS Membership Sign in local branches
- Restrictions on advertisement of membership status and protected deposits
- Negative disclosure to customers and obtain their acknowledgement before purchase of non-protected deposits



ii) Rules on Representations

- Notify customers when protected deposits become unprotected by the DPS (e.g. extension of maturity date to over 5 years or the depositor pledges the deposit as security for credit facilities) and obtain their acknowledgement
- Industry and Consumer Council agree with the principles



iii) Asset Maintenance Rules

- Purpose is to require troubled Scheme members to maintain sufficient assets in Hong Kong to meet the priority claims of depositors such that the potential shortfall loss of the Board can be minimised
- Circumstances under which the MA may impose the asset maintenance requirements are specified



iii) Asset Maintenance Rules

- Types of eligible assets and the relevant discount ratios are defined
- To consult industry on rule drafting shortly



iv) Guideline on Information Systems

- Require Scheme members to keep and provide information in specified formats
- Facilitate expeditious determination and payment of compensation to depositors
- Tests will be conducted to ensure compliance with the guideline



3. Payout Infrastructure

- Payout system development is progressing well
- Payout procedures are being finalised
- Secured a standby facility from Exchange Fund to ensure prompt payments of compensation to depositors when there is a bank failure
- Selected service providers to assist in payouts



Hong Kong Deposit Protection Board

Accounting firm

To manage the payout and perform accounting related functions

Service providers engaged by the Board

Call centre operator

- To set up and operate a hotline for answering depositors' enquiries

Security printing company

- To print and mail cheques and statements to depositors

Transferee bank

- To disburse compensation to depositors through electronic means

Service providers nominated by the accounting firm

Law firm

- To advise on legal matters related to the determination of compensation

PR firm

- To assist in communication with public in a payout

IT firm

- To extract data relevant for determining compensation from the failed bank



4. Publicity Campaign

- A must to ensure effectiveness of the DPS
- Intensive publicity activities shortly before and after the official launch of the DPS
- TV and radio commercials for 4 to 6 weeks
- Information leaflets to be distributed through the branch networks of Scheme members
- Exhibitions at major shopping malls in the two-month period after the launch of DPS
- On-going publicity activities to maintain awareness of the DPS



5. Others

Proposing amendments of Schedules 1 and 4 to the DPS Ordinance:

- Schedule 1: to clarify the treatment of structured products under the DPS
- Whether a structured product constitutes a deposit needs to be determined on a case-by-case basis, therefore, high operational costs and uncertainty to bank customers
- Many structured products are not deposits. Even if they are deposits, the holders are likely to be large depositors



5. Others

- Proposes to exclude all structured products from DPS protection initially to provide absolute clarity to banks and depositors
- Very clear representation will be required
- Industry and Consumer Council agree to exclude structured products from protection, subject to review



5. Others

Benchmarks for triggering a review:

- No. of depositors holding principal-linked or interest-linked products and having an aggregate deposit balance \leq \$100,000 with banks constitutes 3% or more of the total no. of depositors in Hong Kong
- No. of depositors holding either type of structured products and having an aggregate deposit balance \leq \$100,000 with banks constitutes 2% or more of the total no. of depositors in Hong Kong
- 24 months have lapsed after the launch of the DPS



5. Others

- Schedule 1 & 4: miscellaneous amendments to improve the operation of the DPS
 - To allow Scheme members not to exclude deposits held by certain excluded persons in the assessment of contributions
 - To clarify that contributions for the first year will be assessed on a time pro-rata basis
 - To specify that Scheme members should report their deposit positions on the preceding day if 20 Oct of the year is a general holiday



(IV) Way Forward

- Expect to complete the remaining tasks in the next 6 months
- If everything goes smoothly, deposit protection will commence in the second half of 2006