

# Chairman's Statement

The enactment of the Deposit Protection Scheme Ordinance (the Ordinance) in May 2004 marked an important milestone in the development of the financial safety net in Hong Kong. Under the Ordinance, a deposit protection scheme (DPS) with a coverage limit of HK\$100,000 per depositor will be established to provide a measure of protection to depositors and to contribute to the stability of the banking system.

The Hong Kong Deposit Protection Board (the Board) is charged with responsibility for establishing, and in the future administering, the DPS. It is a statutory body created under the Ordinance. Members of the Board come from different professions such as accounting, banking, consumer protection, insolvency law, information technology and public administration. The Board currently comprises seven members including two ex officio members representing the Monetary Authority and the Secretary for Financial Services and the Treasury and me.



**Professor  
Andrew Chan Chi-fai**  
*Chairman*

There is a large volume of work to be completed before the DPS will be ready to provide deposit protection. Since its inception in July 2004, the Board has developed a two-year project plan for establishing the DPS.

The progress made by the Board in the nine months up to the end of March 2005 is remarkable. The Board has completed the development of a system for collecting contributions from member banks. It has identified the key principles to be incorporated into the rules governing the operation of the DPS, and has consulted the banking industry, as well as other relevant parties, on these principles. It is expected that these rules, which should be issued in the form of subsidiary legislation, will be ready for introduction into the Legislative Council by stages starting from the end of 2005. In addition, the Board has embarked on the development of a payout system for assessing and disbursing compensation to depositors in the event of a bank failure. This is the most complicated task of the whole project, and the Board has appointed a consultant with practical experience in deposit insurance operations to help out on this task. If everything goes smoothly, it is anticipated that the DPS will be ready to start collecting contributions from member banks and providing deposit protection in the second half of 2006.

The Board fully appreciates the need to keep the industry informed of the progress of the project. A Consultative Committee on DPS, comprising 13 representatives of the banking industry, has been formed to provide a forum for the Board and the industry to exchange views on issues of mutual interest. I wish to take this opportunity to thank members of the Committee for having provided many useful comments to the Board during the development of the rules governing the operation of the DPS.

All in all, the first financial year of the Board has been a busy but fruitful one. In this first annual report of the Board, I would like to pay tribute to my fellow members for their invaluable advice and contributions, without which the Board would not have made such progress in the past nine months. I would also like to thank the Hong Kong Monetary Authority for providing the Board with a capable team of staff who have worked very hard to implement the project plan.

**Professor Andrew Chan Chi-fai**  
*Chairman, Hong Kong Deposit Protection Board*