

REVIEW OF OPERATIONS BY
THE CHIEF EXECUTIVE OFFICER



Mr Raymond Li, JP
Chief Executive Officer

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Good progress was made last year in meeting the Board's target of launching the DPS on 25 September and in operating the Scheme following its commencement. Highlights of our achievements in 2006-07 include:

- The introduction of legislative amendments to the DPS Ordinance to clarify the protection status of structured deposits and the issuing of two sets of rules governing the Scheme's operation in the form of subsidiary legislation. The purpose of the *DPS (Representation on Scheme Membership and Protection of Financial Products under Scheme) Rules* (Representation Rules) is to assist members of the public to distinguish between DPS protected and non-DPS protected financial products, while the *DPS (Payment of Contributions, Late Payment Fees and Rebates) Rules* prescribe how Scheme members should pay contributions or late payment fees to the Board, as well as how the Board should pay rebates of contributions to Scheme members. A review was conducted in December on the compliance of selected Scheme members with the Representation Rules.
- The development and implementation of the Payout System before the launch of the Scheme. "Live" data from Scheme members was used to assess the system's capabilities in handling real banking data. These simulation tests are continuing in an effort to improve the Payout System. Payout agents that might be called on to assist with the calculation and payment of compensation to depositors were recruited, including an information technology consultancy firm, a cheque printing company, a call centre operator and a business recovery service provider. To enable the Board to arrange compensation efficiently in the event of a payout, the Board issued the *Guideline on Information Required for Determining and Paying Compensation*. This statutory guideline specifies the requirements on information systems and customer records to be followed by member banks. Based on the results of the self-assessment by members, banks with 500,000 deposit accounts or less reported 100% compliance with the guideline by October 2006, while those with over 500,000 deposit accounts reported 85% compliance by April 2007.

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- The collection of contributions from members for 2006 and 2007 was completed on schedule. The investment and investment control policies for the DPS Fund were implemented following approval by the Board's Investment Committee. As at 31 March 2007, the total assets of the DPS Fund stood at over HK\$370 million.
- The Board secured a credit facility from the Exchange Fund to pay compensation to depositors in the event of a bank failure. The size of the credit facility is sufficient to cope with the simultaneous failure of two medium-sized banks. This is consistent with the international standards promulgated by the Financial Stability Forum.
- A comprehensive publicity campaign was organised to promote awareness of the Scheme during its launch period. The campaign included the use of television and radio, and exhibitions in public housing estates. An enquiry hotline and a website were also launched to help the public learn more about the Scheme.

In the coming year, further improvements and refinements will be made to the operation of the DPS in line with the Board's business plan for 2007-08. In particular, we will work to establish a mechanism to monitor the Scheme's coverage, continuously promote public awareness and understanding of the Scheme, monitor member banks' compliance with the disclosure requirements in the Representation Rules, further improve the Board's readiness for payout, and review the corporate governance of the Board after it has gained experience in operating the DPS.

I would also like to thank members of the Board for their support and advice over the past year, as well as my staff who have worked superbly in assisting the Board in performing its functions.

Mr Raymond Li, JP
Chief Executive Officer