

## KEY MILESTONES LEADING TO THE LAUNCH OF DEPOSIT PROTECTION SCHEME IN HONG KONG

### **BCCI Crisis and Subsequent Bank Runs (1991)**

In 1991, the collapse of Bank of Credit and Commerce International led to the closure of its Hong Kong subsidiary, Bank of Credit and Commerce Hong Kong Ltd (BCCHK). The contagion effect of this event was manifested in a number of bank runs in Hong Kong. The damage to the confidence in the banking sector was quickly contained.

### **Public Consultation on Deposit Protection (1992)**

Following the failure of BCCHK and a number of contagious bank runs in 1991, the Government conducted a public consultation in 1992 on whether to introduce a DPS in Hong Kong. The proposal for establishing a DPS was rejected, mainly due to cost, fairness and moral hazard concerns.

### **Introduction of Priority Claims System in Companies Ordinance (1995)**

Although the establishment of a DPS did not take place after the public consultation in 1992, the Companies Ordinance was amended in 1995 to accord a higher priority to depositors up to the first HK\$100,000 of their aggregate deposits in the event of liquidation of a licensed bank.

### **Rumour Driven Bank Run (1997)**

The spread of rumours triggered by the Asian financial crisis in 1997 adversely affected confidence in individual banks and the system as a whole, resulting in a short and temporary run on a local bank. This incident showed that even though the rumours might be entirely unfounded, depositors could still react strongly. Such events would not be conducive to the maintenance of financial stability, particularly in times of crisis.

### **Banking Sector Consultancy Study (1998)**

In 1998, the HKMA commissioned a consultancy study on the further development of the Hong Kong banking sector. As a measure to enhance the safety and soundness of the banking system, the study identified the need for introducing an enhanced form of explicit deposit protection in Hong Kong.

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<b>Consultancy Study on Deposit Protection in Hong Kong (2000)</b>	In response to the recommendation in the 1998 Banking Sector Consultancy Study and the growing international trend in favour of an explicit form of deposit protection, the HKMA commissioned a consultancy study on enhancing deposit protection in Hong Kong. In view of the broad support from the public, the Chief Executive-in-Council approved in principle the establishment of a DPS in Hong Kong in April 2001.
<b>Industry Consultations on Specific Design Features of the DPS (2001)</b>	The HKMA undertook industry consultations on specific design features of the DPS. The comments received in these exercises were subsequently reflected in the second public consultation paper.
<b>HKMA Consultation Paper on How the DPS in Hong Kong Should Be Structured (2002)</b>	In 2002, the HKMA conducted a second round of public consultation with a view to presenting its proposals on the salient features of the DPS and to seek views of interested parties on these proposals.
<b>Enactment of the Deposit Protection Scheme Ordinance (2004)</b>	Taking into consideration the comments received in the two rounds of public consultation, the HKMA finalised its proposals on the structure of the DPS and proceeded to prepare the relevant legislation for its implementation. The DPS Bill was enacted as an Ordinance in May 2004.
<b>Formation of the Hong Kong Deposit Protection Board (2004)</b>	Following the enactment of the DPS Ordinance, the Board was formed in July 2004 to take charge of the implementation of the DPS in Hong Kong.
<b>Commencement of Deposit Protection (2006)</b>	After two years of intensive preparations, the Board completed the key preparatory tasks for launching the DPS in the third quarter of 2006 and the DPS was launched on 25 September 2006.