

### THE OUTLOOK

At the start of 2009, the global economy was clouded by widespread concerns of a full-blown recession. Probably due to the unprecedented market rescue measures and financial stimulus packages introduced by central banks worldwide, major economies managed to turn the corner by the end of 2009. Stepping into 2010, many economies around the world have experienced some growth. However, concerns have begun to loom on whether the nascent growth can last if emergency measures are withdrawn even though it is recognised that such withdrawal is inevitable given the undesirable effects of leaving the measures in place for too long. The outbreak of the European debt crisis also triggered renewed concern about whether there will be a double dip recession. In the light of the uncertainty in the external environment, the path to recovery for the domestic economy is not without risk. The operating environment for banks in Hong Kong will therefore remain challenging.

The Board's top priority in the coming year is to implement the enhancements to the DPS concluded in the DPS review in 2009 at the beginning of 2011 as scheduled. Significant effort will need to be expended on drafting the legislation and assisting the LegCo in the enacting process. The Board plans to make preparations on all fronts, including engaging the industry and the public as early as possible to ensure the readiness of all the relevant parties for the transition. Despite the heavy workload anticipated for launching the enhanced DPS, the Board cannot lose sight of its paramount function to maintain the efficient and effective operation of the DPS under its existing framework.

### ADMINISTRATION OF THE DPS

The Board is scheduled to assess and collect contributions from Scheme members for 2011 in January, based on the returns of relevant deposits submitted by Scheme members and their supervisory ratings provided by the HKMA. Subject to the passage of the amendment bill to implement the enhanced DPS in time, contributions will be assessed based on the new protection limit and scope that will take effect in 2011. Scheme members will also be allowed to report the amounts of their relevant deposits on a net deposit basis, that is, after deducting the liabilities of depositors to Scheme members from their relevant deposits. To give effect to the new reporting basis, the Board is in the process of amending the return of relevant deposits and will provide clear and early guidance to facilitate the industry to adopt the new reporting standards. The accuracy of the returns of relevant deposits compiled by Scheme members under the new basis will continue to be monitored through reviewing auditors' reports submitted by Scheme members.

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## ENSURING ADEQUACY OF THE COVERAGE OF THE DPS

In collaboration with the relevant government departments, the Board will assist in the completion of the legislative process for implementing the enhancements to the DPS and putting them into effect as scheduled. The LegCo has formed a Bills Committee to scrutinise the amendment bill introduced into the LegCo in April 2010, which is mainly for improving deposit protection, mitigating the cost of providing additional protection and enhancing the payout efficiency of the DPS. The Board will render full support to the Bills Committee with a view to ensuring that the Bill can be passed as early as possible. In parallel, the Board is assisting the DoJ in completing the drafting of the legislative amendments to effect the remaining enhancements concluded in the DPS review last year, mainly those to enhance the DPS representation regime. The Board aims to submit the amendments, which will be promulgated in the form of subsidiary legislation, to LegCo immediately after its summer recess, so that their negative vetting can be completed in time for the rules to take effect at the start of 2011.

The Board will continue to monitor the adequacy of the DPS coverage by analysing statistics collected from regular simulation tests with Scheme members and studying relevant market developments. The Board will also be watchful for developments and reform experience in other countries that may help improve the effectiveness of the DPS in Hong Kong.

## ENSURING READINESS OF THE DPS TO PAYOUT

With a significant amount of practice and lessons learnt from previous payout readiness simulation activities, the Board will consolidate this knowledge and apply it to initiatives to ensure the Board's ability to make compensation payments in changing circumstances. Modifications to the payout procedures and processes will be made to cope with the amended features of the DPS due to the implementation of the enhanced DPS. Protocols for collaboration and detailed modules for estimating compensation entitlements of depositors will be developed with the help of relevant counterparties.

Payout rehearsals will continue to be conducted, albeit in a more focused manner. They will focus on rehearsing those procedures that require more in-depth manual processing. These targeted rehearsals will give the Board the opportunity to assess the extent of work that will be required during a payout when dealing with complex issues.

The Board will continue to conduct compliance reviews combined with simulations to ensure the readiness of Scheme members' systems and its own Payout System. In anticipation of the commencement of the enhanced DPS in 2011, the simulations are planned to include in their scope the enhanced features of the DPS. Scheme members' compliance with the revised ISG, as well as Scheme members' remediation of non-conformity issues identified in past compliance reviews will continue to be monitored.

### **MAINTAINING AND ENHANCING PUBLIC AWARENESS AND UNDERSTANDING**

In anticipation of the paradigm shift for deposit protection in Hong Kong in 2011, which will involve the expiry of the Government's full deposit guarantee and the launch of the enhanced DPS, the focus of the publicity activities for the year will fall on communicating the impending changes to the public in time so as to enable them to be better prepared for the changes. An extensive publicity campaign will be launched immediately after the amendment bill for enhancing the DPS is passed, which will be followed by targeted publicity activities immediately before and after the change-over to reinforce public understanding of the changes. The effectiveness of the publicity campaigns will continue to be monitored through regular opinion surveys.

The DPS review in 2009 concluded the need to make a number of enhancements to the DPS representation regime. Specifically, the enhancements involve improving negative disclosures, introducing positive disclosures, improving prominence of disclosure statements and restricting the use of the term "structured deposit". The Board will finalise the legislative amendments for implementing the revised and new requirements in consultation with the industry. Subject to the timely completion of the negative vetting process for the relevant legislative amendments, the requirements are targeted to take effect at the beginning of 2011 together with the other enhancements to the DPS. Issuance of guidance notes as well as briefings will be arranged well in advance to engage Scheme members to prepare for meeting the new standards. In parallel, the Board will explore additional means to monitor Scheme members' compliance with the DPS representation requirements, including seeking the assistance of the HKMA in performing on-site compliance checks for the Board.