



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

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Briefing to the Legislative Council

Panel on Financial Affairs

Review of Deposit Protection Scheme -

Providing better and clearer deposit protection

1 February 2010



Overview

- In the light of relevant developments in international and local financial markets, the Deposit Protection Board (the Board) commenced a two-phase review of the Deposit Protection Scheme (DPS) in Hong Kong in Q4 2008
- The two-phase review was completed in Q4 2009 as scheduled
- Legislative amendments are being drafted
- Target to introduce the amendments to LegCo in Q2 2010, and for the amendments to take effect by the beginning of 2011, immediately after the full deposit guarantee expires



First phase review process

- Focused on level and scope of deposit protection
- Review completed in Q1 2009, recommendations published for public consultation in April 2009
- Public consultation from April to June 2009
 - publicity campaign to invite public comments
 - solicited comments from interested parties: banking industry, Consumer Council, LegCo members, Standing Committee on Company Law Reform, academics, legal and accounting professionals
 - briefing to FA Panel in June 2009
- Consultation report published in August 2009



Conclusions of the first phase review

- To raise DPS protection limit from HK\$100,000 to HK\$500,000
- To improve clarity of DPS coverage by protecting secured deposits
- To eliminate any potential for cost transfer to depositors by
 - reducing premium rates (by 65%) to keep annual contribution of the industry unchanged at the current level
 - allowing banks to report deposits for contribution assessment more reflective of the actual amount of deposits protected, i.e. on a net basis
 - aligning the level and coverage of preferential claims for depositors in bank liquidations with those of the DPS
- To leave the approach for calculating compensation unchanged, i.e. full netting, due to the little benefit but significant effort and impact expected
- To leave the membership of the DPS unchanged, as deposit-taking institutions other than licensed banks have very few small depositors



Second phase review process

- Focused on efficiency of making compensation payment and transparency of DPS coverage
- Review completed in Q3 2009, recommendations published for public consultation in August 2009
- Public consultation from August to October 2009
 - publicity campaign to invite public comments
 - solicited comments from interested parties: banking industry, Consumer Council, LegCo members, academics, legal and accounting professionals
- Consultation report published in November 2009



Conclusions of the second phase review

- To speed up payment of compensation to depositors in payouts by
 - legitimising Board members to participate in Board meetings while they are overseas
 - empowering the Board to determine interests on complex deposits and liabilities, and the value of future and contingent liabilities of depositors if ascertaining the relevant amounts may unduly delay payments
 - stating more explicitly the Board's power to set the amount of interim payment for individual groups of depositors
- To enhance the transparency of the coverage of the DPS by
 - requiring banks to make better negative disclosures (abolish disclosures on an account basis, except for automatic rollovers and institutional clients)
 - requiring banks to make positive disclosures (on an account basis) and to respond to enquiries within specified timeframe and in specified manners
 - requiring banks to make disclosure statements more prominent and easily identifiable by depositors (by specifying their sizes and locations)
 - imposing restrictions on the use of the term “structured deposit”



Proposed legislative amendments (1)

- To the DPS Ordinance (Cap. 581) (DPSO)
 - adjust relevant figures to reflect the higher protection limit, lower premium rates and target size of the DPS Fund as a percentage of protected deposits
 - adjust definition of deposit to include secured deposits
 - adjust the scope and methodology for banks to report deposits for contribution assessment purposes (to allow net basis)
 - adjust provisions on proceedings of the Board to count Board members overseas in quorum of meetings
 - adjust provisions on determination and limit of compensation to empower the Board to decide on accrued interests or values of annuities, future or contingent liabilities, in case of uncertainties



Proposed legislative amendments (2)

- To the DPSO (Cap. 581) (cont'd)
 - adjust provisions on interim payment to articulate more clearly the Board's power on determining the amount of payment for individual groups of depositors
 - amend and add provisions on representation requirements
- To the Companies Ordinance (Cap. 32) (CO)
 - link the definition of deposit and depositor for preferential claims to the definitions in the DPSO
 - link the limit of preferential claims to DPS protection limit in the DPSO



Legislative timetable

- Legislative amendments being drafted, comprising:-
 - an amendment bill (covering amendments to DPSO and consequential/related amendments to CO and certain subsidiary legislation under DPSO)
 - further amendments to other subsidiary legislation under DPSO
- Target to introduce the amendment bill into LegCo in Q2 2010
- Further amendments to other subsidiary legislation under DPSO to be tabled for negative vetting as soon as possible after the passage of the amendment bill



Implementation schedule

- Target to implement by the beginning of 2011, except for those relating to contribution assessment to take effect earlier
- Lead time required by
 - the Board to publicise the confirmed changes
 - the public to get ready for the transition
 - banks to make preparations, e.g. adjusting systems, printing new deposit documentation, training front-line staff, etc.
- The Board and the Financial Services and the Treasury Bureau will render full support to LegCo to facilitate early passage of the proposed amendments



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