

For information on
25 September 2003

**Bills Committee on
Deposit Protection Scheme Bill**

Membership and Exemption Arrangement

To facilitate Members' discussion, this paper sets out the main proposals of the Administration in relation to membership of the deposit protection scheme (DPS) and the proposed exemption arrangement for overseas incorporated banks.

Membership

2. Membership should be confined to licensed banks, whose participation should be mandatory. Mandatory participation is an essential design feature to ensure the viability of the scheme and to avoid the problem of adverse selection whereby only riskier banks would choose to join the scheme.

3. Given that the Hong Kong Deposit Protection Board will operate as a "pay-box", it is not appropriate for it to have the power to grant or terminate membership of individual banks. It is proposed that DPS membership be linked directly to an institution's banking licence (i.e. once an institution is authorized by the Monetary Authority to conduct banking business in Hong Kong, it will, unless exempted from participation, automatically become a member of the scheme. On the other hand, once the banking licence of the institution is revoked, it will automatically cease to be a member of the scheme).

Exemption arrangement

4. An overseas incorporated bank would be allowed to apply for exemption from participating in the scheme if the deposits taken by the bank's Hong Kong offices are protected by a scheme in the bank's home jurisdiction and the scope and level of protection afforded by that scheme are not less than those afforded to such deposits by the DPS in Hong Kong. It is considered desirable as a matter of general principle to introduce an exemption arrangement for foreign bank branches in Hong Kong. This would avoid double charging of premiums and help to maintain Hong Kong's attractiveness as an international financial centre.

5. An exempted bank is required to inform its depositors or prospective depositors that it is not a member of the scheme and therefore any deposits taken by it are not protected by the DPS in Hong Kong. The bank should also provide details of the protection offered by its home jurisdiction scheme including the level of protection and the types of deposits protected.

Hong Kong Monetary Authority
Financial Services and the Treasury Bureau
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