

For information on
3 October 2003

**Bills Committee on
Deposit Protection Scheme Bill**

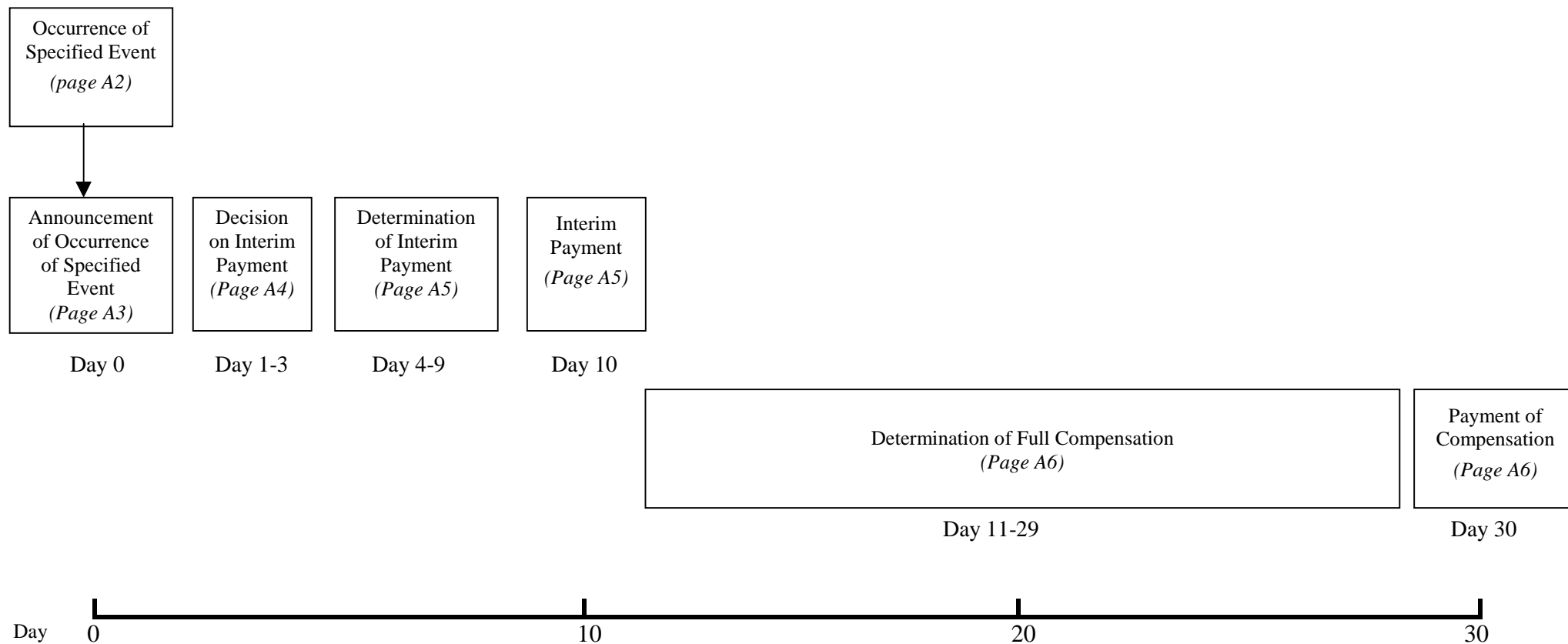
**Timeline Showing the Sequence of Events
Before Compensation is Paid to Depositors**

In response to Members' request at the meeting held on 17 September 2003, the Administration has prepared a timeline showing the sequence of events which will take place before compensation is paid to depositors in the event of a bank failure.

2. The timeline, which is enclosed at the Annex, only highlights the main steps that the DPS Board should go through before compensation is paid to depositors. It needs to be further developed having regard to the payout strategy and procedures formulated by the Board after it is established. In addition, the Administration will request the Board to seek the comments of the Consumer Council with a view to producing a version which is easier for the general public to understand.

Hong Kong Monetary Authority
Financial Services and the Treasury Bureau
September 2003

**Timeline Showing the Sequence of Events
Before Compensation is Paid to Depositors**



Day	Probable Sequence of Events	Relevant provisions in the DPS Bill
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OCCURRENCE OF SPECIFIED EVENT

Day 0	<ul style="list-style-type: none"> A specified event has occurred in respect of a Scheme member either because:- <ul style="list-style-type: none"> (a) A winding-up order has been made by the court in respect of the Scheme member; or (b) A Manager under section 52 of the Banking Ordinance or a provisional liquidator has been appointed in respect of the Scheme member; <u>and</u> the Monetary Authority (MA), after consultation with the Financial Secretary (FS), notifies the Board (by means of a written notice) that he believes that the Scheme member: <ul style="list-style-type: none"> (i) is likely to become unable to meet its obligations; (ii) is about to suspend payment to its depositors; or (iii) is insolvent, has ceased to pay its debts in the ordinary course of business, or cannot pay its debts as they become due. The written notice referred to in paragraph (b) above will be published in the Gazette. 	<p>Clause 21(1) & (2)</p> <p>Clause 21(4)</p>
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Day	Probable Sequence of Events	Relevant provisions in the DPS Bill
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ANNOUNCEMENT OF OCCURRENCE OF SPECIFIED EVENT

Day 0	<ul style="list-style-type: none"> • The Board issues a press release to inform the depositors that payout under the DPS has been triggered. • In the press release, the Board will advise the depositors how they can contact the DPS. • The Board sets up a communication centre to answer queries and provide help to the depositors. 	Clause 30(1)(a)
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Day	Probable Sequence of Events	Relevant provisions in the DPS Bill
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DECISION ON INTERIM PAYMENT

Day 0	<ul style="list-style-type: none"> The Board obtains access to the records of the Scheme member. 	Clause 30(2)
Day 1-3	<ul style="list-style-type: none"> The Board assesses the reliability of the records of the Scheme member. The Board decides whether to make an interim payment to depositors. 	Clause 34
Day 3	<ul style="list-style-type: none"> The Board issues a press release to inform depositors of the probable date of commencement of interim payment. The Board requests holders of special accounts such as bare trust and client accounts to produce additional information to the Board. Such information may include names and identification documents of the beneficiaries under the bare trust and clients under the client accounts. For a joint account, the account holders will be informed that the balance in the account will be deemed to be equally held by them unless there is satisfactory evidence as to their otherwise respective shares. 	<p>Clause 30(1)(b)</p> <p>Clause 26(3)</p>

Day	Probable Sequence of Events	Relevant provisions in the DPS Bill
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DETERMINATION OF INTERIM PAYMENT

Day 4-9	<ul style="list-style-type: none"> • The Board determines the amount of interim payment to be paid to eligible depositors. • As it may take some time for the Board to obtain additional information from the holders of special accounts such as bare trust and client accounts, it is unlikely that interim payment could be made in respect of such accounts. 	
Day 10	<ul style="list-style-type: none"> • The Board targets to start dispatching interim payment to the depositors about 10 days after payment under the DPS is triggered. • Each depositor will receive a statement explaining how the Board determines his entitlement to interim payment. The depositors will be advised to contact the DPS if they have queries about the calculation. 	

Day	Probable Sequence of Events	Relevant provisions in the DPS Bill
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DETERMINATION OF FULL COMPENSATION

Day 11-29	<ul style="list-style-type: none"> The Board ascertains the exact amount of compensation payable to each depositor. This process will include complete aggregation of deposit accounts belonging to a depositor, final netting of liabilities against protected deposits, as well as calculation of accrued interest on protected deposits and the relevant liabilities. For special accounts such as bare trust and client accounts, the Board will review the information received from account-holders and determines the entitlements to compensation of the beneficiaries or clients. 	
Day 30	<ul style="list-style-type: none"> After the entitlements to compensation of the majority of depositors are determined, the DPS Board will pay the full compensation, net of the interim payments, to depositors. The Board would target at completing this step within 1 month after the DPS is triggered. Each depositor will receive a statement explaining how the Board determines his entitlement to compensation. The depositors will be advised to contact the DPS if they have queries about the calculation. Given the need to dispatch compensation quickly, it cannot be ruled out that errors may creep in or information may be incomplete. The Board would pay up having satisfied itself that the determination process is largely accurate. Underpayments, if any, would be dealt with immediately. If necessary, the Board would rely on its subrogated rights and the claw back provision to deal with overpayments, if any. 	Clauses 35 and 36