

For information

Legislative Council Panel on Financial Affairs

Establishment of the Deposit Protection Scheme

Introduction

The Deposit Protection Scheme Ordinance (Cap. 581) was enacted in May 2004. The Hong Kong Deposit Protection Board (the Board), assisted by the Hong Kong Monetary Authority (HKMA), is making the necessary preparations for launching the Deposit Protection Scheme (DPS). This paper reports on the progress made by the Board so far.

Formation of the Board

2. Following the enactment of the DPS Ordinance, the Chief Executive appointed Professor Andrew Chan as the Chairman of the Board on 1 July 2004. He also appointed four persons, with expertise in the fields of accounting, banking, information technology and insolvency laws, as members of the Board. Including the two ex-officio members, namely the Monetary Authority (MA)¹ and the Secretary for Financial Services and the Treasury², the Board currently consists of seven persons.

3. Since its formation in July 2004, the Board has held seven meetings. It has developed a detailed project plan for establishing the DPS and has commenced work on a number of key preparatory tasks as described below.

System for assessment of contributions

4. The DPS will be funded by the banking industry. Every Scheme member is required to make an annual contribution to the DPS Fund. The amount of contribution payable by a Scheme member will be assessed by the Board with reference to the amount of relevant deposits held with that Scheme member and its supervisory rating assigned by the MA. In relation to the former, the Board has developed an annual return for Scheme members to

¹ Pursuant to section 4(1)(b) of the DPS Ordinance, the MA has appointed Deputy Chief Executive (Banking) of the Hong Kong Monetary Authority as his representative to be an ex-officio member of the Board.

² Pursuant to section 4(1)(a) of the DPS Ordinance, the Secretary for Financial Services and the Treasury has appointed the Permanent Secretary for Financial Services and the Treasury (Financial Services) as his representative to be an ex-officio member of the Board.

report their amount of relevant deposits. Scheme members will submit the first return in December 2005 regarding the amount of relevant deposits as of 20 October 2005. As regards the latter, the Board and the HKMA have jointly worked out a mechanism through which the HKMA will provide the Board with the supervisory ratings of individual Scheme members. These two elements together constitute the system for the assessment of contributions payable by Scheme members.

Development of payout procedures and systems

5. Among the preparatory tasks to be completed by the Board before the DPS can start providing deposit protection, the development of a set of procedures and the associated information systems for assessing and paying compensation to depositors is the most complicated one. To ensure the smooth completion of this task, the Board has appointed a consultant with practical experience in deposit insurance operation to help out on this task. In addition, the Board has engaged an information technology company to develop the requisite information systems.

6. The progress of this task has so far been on schedule. The payout consultant has already developed a broad framework for the payout procedures. In the months ahead, he will, with the assistance of the other staff of the Board and the HKMA, work out the detailed procedures. Meanwhile, the user requirements of the payout systems have been specified, and the information technology company is now developing the functional specifications of the systems. It is expected that the payout procedures and systems will be ready for testing in the first half of 2006.

Preparation of rules

7. The Board and the MA are empowered under the DPS Ordinance to make rules governing the operation of the DPS. These rules should be issued in the form of subsidiary legislation and therefore should be tabled before the Legislative Council for negative vetting. They should be in place before the DPS starts providing deposit protection.

8. There are altogether five sets of rules to be made by the Board and the MA. They are namely –

Rules to be made by the Board

- (i) rules governing the representations that should be made by Scheme members regarding their membership as well as the coverage of the DPS;

- (ii) rules concerning the manner in which Scheme members should pay contributions to the DPS Fund;
- (iii) rules on the information systems and records to be maintained by Scheme members for the purpose of facilitating the Board to pay compensation to depositors expediently;
- (iv) rules concerning the forms in which compensation will be paid to eligible depositors; and

Rules to be made by the MA

- (v) rules governing the maintenance of assets in Hong Kong by Scheme members.

9. The preparation of the above rules is in good progress. The banking industry has been consulted on the main principles to be incorporated into these rules. It is expected that the above rules will be ready for tabling before the Legislative Council for negative vetting by stages starting from late 2005 or early 2006.

Establishment of Deposit Protection Appeals Tribunal

10. Under the DPS Ordinance, certain decisions of the Board and the MA³ are appealable to a tribunal known as the “Deposit Protection Appeals Tribunal”. The Tribunal was established in January 2005. Mr Simon Herbert Mayo, a former Vice-President of the Court of Appeal of the High Court, was appointed by the Chief Executive as the Chairman of the Tribunal. A panel of six persons, from which the Financial Secretary may appoint as members of the Tribunal, have also been appointed. Sittings of the Tribunal will be convened on a need basis. If there is an application to the Tribunal for a review of the Board’s or the MA’s decision, the Chairman together with at least two members appointed by the Financial Secretary will hear the case.

Consultation with banking industry

11. The Board has kept the industry informed of the development of the DPS project. It has established a Consultative Committee comprising 13 representatives of the banking industry. The committee serves as a useful

³ These decisions include the Board’s decisions regarding whether a foreign bank branch can be exempted from participation in the DPS, the amount of contribution payable by a Scheme member and the amount of compensation payable to a depositor; and the MA’s decision to impose an asset maintenance requirement on a Scheme member.

forum for the Board and the banking industry to exchange views on issues of common interest. For instance, members of the Consultative Committee have provided many useful comments to the Board in preparing the rules governing the operation of the DPS.

Commencement of deposit protection

12. So far, the Board has made good progress in the establishment of the DPS. In the year ahead, the Board will continue to develop the payout procedures and systems as well as the rules governing the operation of the DPS. It will also formulate a strategy to educate the public about the protection available under the DPS before the Scheme is launched. It is expected that the DPS will be ready to start providing deposit protection in the second half of 2006.

Hong Kong Deposit Protection Board
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