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Bills Committee on Deposit Protection Scheme (Amendment) Bill

Background brief

Purpose

This paper outlines the proposals under the Deposit Protection Scheme (Amendment) Bill ("the Bill") and provides a summary of the views and concerns expressed by members when the subject was discussed by the Panel on Financial Affairs (the Panel).

Background

Deposit Protection Scheme Ordinance and Hong Kong Deposit Protection Board

2. The Deposit Protection Scheme Ordinance (Cap. 581) (DPSO) was enacted in May 2004, and the Hong Kong Deposit Protection Board[1] (the Board) was formed in July 2004. Upon enactment of the rules governing the operation of the Deposit Protection Scheme (DPS), the DPS commenced operation in September 2006.

3. The major features of the DPS include -

(a) Unless exempted by the Board, all licensed banks are DPS members. Restricted licence banks and deposit-taking companies are not members of DPS;

(b) A Deposit Protection Scheme Fund (DPS Fund) has been established from the contributions collected from DPS members. The target size of the DPS Fund is 0.3% of the total amount of protected deposits maintained with all DPS members;[2]

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1 The Hong Kong Deposit Protection Board is a statutory body established under the DPSO to establish and maintain DPS.

2 As stated in the consultation paper issued by the Board in April 2009, based on the current target fund size of 0.3% of total protected deposits under the protection limit of HK$100,000, the target size of the DPS Fund was estimated to be about HK$1.5 billion. So far, the Board had collected about HK$1 billion in contributions. Based on the existing contribution collection rate of about HK$300-350 million a year, it was projected that the target size of the Fund would be reached by 2012.

(c) The contribution payable by a DPS member for a year is determined by the amount of protected deposits held with the DPS member as of 20 October of the preceding year and the supervisory rating[3] assigned by the Hong Kong Monetary Authority to the member;

(d) Certain types of deposit are not protected by the DPS, including secured deposits (such as deposits used as collateral to secure a banking facility), time deposits with a maturity longer than five years, structured deposits (such as foreign currency-linked and equity-linked deposits), bearer instruments (such as bearer certificates of deposit) and offshore deposits. DPS members are required to notify customers if a financial product has been described as a deposit but is not protected by the DPS;

(e) The compensation limit under the DPS is HK$100,000 per depositor per bank. Compensation from the DPS Fund should be paid to depositors of a DPS member if a winding up order has been made against the DPS member or the Hong Kong Monetary Authority has decided that compensation should be paid by the DPS and has served notice on the Board accordingly; and

(f) When compensation under DPS becomes payable in respect of a DPS member, DPS will borrow from the Exchange Fund under a standby liquidity facility to pay compensation to depositors. The size of the facility offered by the Exchange Fund to the DPS is HK$40 billion. DPS will seek reimbursement from the liquidation of the failed DPS member for the compensation paid to depositors and repay the borrowings from the Exchange Fund. The cost of borrowing from the Exchange Fund, any compensation paid that cannot be recovered from the liquidation, and the administrative cost incurred by DPS in making compensation payments, will be charged to the DPS Fund.

<u>Temporary full deposit protection</u>

4. Amid the global financial crisis in late 2008, the Financial Secretary announced on 14 October 2008 two pre-emptive measures to reinforce confidence in the banking system in Hong Kong, viz. the use of the Exchange Fund to guarantee repayment of all customer deposits held in all authorized institutions in Hong Kong and the establishment of a Contingent Bank Capital Facility for the purpose of making available additional capital to local banks. The two new measures were operating in parallel with the DPS and would expire at the end of 2010[4].

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3 "CAMEL Rating" is a supervisory rating currently adopted by Hong Kong Monetary Authority to assess the financial strength and overall soundness of an authorized institution in the areas of **C**apital, **A**sset quality, **M**anagement, **E**arning and **L**iquidity.

4 On 17 October 2008, the Hong Kong Monetary Authority briefed the Panel on the two new measures, and advised that the measures would remain in force until the end of 2010 when a decision would be taken in the light of international financial conditions on whether they should be extended.

Review of the DPS

5. In the light of the experience gained from the operation of the DPS, and developments in international and local financial markets since the outbreak of the global financial crisis, the Board commenced a two-phase review of the DPS in the fourth quarter of 2008 with a view to enhancing the effectiveness and efficiency of the Scheme.

6. For the first phase of the review, the Board published a consultation paper on "Enhancing Deposit Protection under the DPS" on 27 April 2009, with proposed enhancements to the DPS in the areas of protection limit, compensation calculation basis, product coverage, types of institutions covered, and funding arrangements. The Panel was briefed on the recommendations at the meeting on 1 June 2009. In publishing the consultation report on 18 August 2009, the Board informed the Panel via a letter that during the two-month consultation period, the Board received more than 800 responses from the general public, and comments from major stakeholder groups. The Board had also conducted a territory-wide opinion survey to gauge public sentiments towards the recommendations. In general, the consultation conclusion was that there was broad public support for the Board's recommendations.

7. On 18 August 2009, the Board published the consultation paper on "Strengthening the operation of DPS" for the second phase of the review focusing on technical enhancements. The main recommendations include (a) streamlining proceedings of the Board and processes for determining compensation for depositors to speed up payouts; and (b) strengthening the representation regime of the DPS to enhance the transparency of its coverage. The Board published a report on the public consultation on 30 November 2009, indicating that the recommendations on streamlining payout processes received general support and the recommendations for enhancing the DPS representation regime received wide recognition, including that of the industry. The Board noted the industry's comments that banks might encounter genuine difficulties in implementing some of the recommendations.

8. In the light of the general support for the Board's recommendations in the public consultation exercises, the Administration and the Board took forward the proposed enhancements to the DPS, and briefed the Panel on 1 February 2010 on the relevant legislative proposals.

Legislative Proposals under the Deposit Protection Scheme (Amendment) Bill 2010

9. The Administration introduced the Deposit Protection Scheme (Amendment) Bill 2010 (the Bill) into the Legislative Council on 9 April 2010. The main provisions of the Bill cover the following aspects:

Level and coverage of protection

(a) To amend the definition of deposit under the DPSO to expand DPS coverage to include secured deposits. *(Clause 3)*

(b) To raise the limit on the total amount of compensation for each depositor under the DPS from HK$100,000 to HK$500,000. *(Clause 4)*

(c) To add a new provision to the DPSO to put it beyond doubt that the increased DPS protection limit will take effect only if compensation under the DPS is triggered on a day on or after the date on which the Bill commences operation. *(Clause 11)*

Funding arrangements

(d) To change the target fund size of the DPS Fund from the current 0.3% of the total amount of relevant deposits to 0.25%. *(Clause 13)*

(e) To reduce the percentages for charging annual build-up levies on DPS members by 65%. *(Clause 13)*

(f) To allow DPS members to report the amount of relevant deposits for contribution assessment purposes after deducting liabilities owed by depositors. *(Clause 13)*

(g) To empower the Board to obtain information required for the assessment of contributions payable by DPS members on a net deposit basis. *(Clause 9)*

Processes for determining compensation

(h) To provide for the Board to determine the amount of accrued interests and the values of annuities and future and contingent liabilities of depositors under specified circumstances. *(Clause 4)*

(i) To make necessary amendments to harmonize the maximum amount of compensation that can be paid to depositors and the amount of excessive payment that can be recovered from depositors with the expanded power of the Board in (h) above. *(Clause 5 and 7)*

(j) To articulate the Board's power to apply differential treatments to depositors when making interim payments. *(Clause 6)*

(k) To allow the Board members to conduct meetings and approve a resolution in writing through electronic means regardless of whether they are in Hong Kong. *(Clause 12)*

Representation arrangement

(l) To empower the Board to make additional rules to prescribe the representation, disclosure and acknowledgement requirements relating to protected and non-protected deposit products. *(Clause 10)*

Consequential amendments to the Companies Ordinance

(m) To amend section 265 of the Companies Ordinance (CO) to link the limit on priority claims of depositors in a bank liquidation to the limit on amount of compensation under section 27 of the DPSO and to adopt the definitions of "deposit" and "depositor" in the DPSO. *(Section 2 of the Schedule)*

Deliberations of the Panel

10. The Panel discussed the proposals on enhancements to the DPS on 1 June 2009 and 1 February 2010. The major concerns and views expressed by members are summarized in the following paragraphs.

Timing of implementation of the proposed enhancements to the DPS

11. Members considered that as the temporary full deposit protection would remain in force only up to the end of 2010, there was an urgent need for the Administration to introduce the relevant amendment Bill into the Legislative Council to ensure timely implementation of the proposed enhancements to the DPS. To prevent large capital outflow, the timing for lifting the temporary full deposit protection should also be synchronized with the relevant arrangements of other countries currently providing full deposit guarantee. The Board concurred with members about the importance of ensuring that implementation of the proposed enhancements to the DPS should dovetail with the lifting of the temporary full deposit protection. Since Hong Kong, Singapore and Malaysia had introduced full deposit guarantee at about the same time, a tripartite liaison group had been set up to co-ordinate the work of the regulatory authorities concerned. Subsequent to the meeting on 1 February 2010, the Board provided information (see **Appendix II**) about the deposit protection arrangements in other countries.

Coverage of DPS protection

12. Some members expressed concern whether the coverage of the enhanced DPS should extend to restricted licence banks (RLBs) and deposit-taking companies (DTCs). The Board was of the view that there were no strong grounds for covering RLBs and DTCs because these institutions could not take deposits less than $500,000 and $100,000 respectively and had very few small depositors. Subsequent to the meeting on 1 June 2009, the Board provided supplementary information (see **Appendix I**) on the number of depositors having deposit accounts in RLBs and DTCs with a breakdown by the amount of deposit balance.

The protection limit

13. Members generally supported the proposal to raise the DPS's protection limit from $100,000 to $500,000. There was a concern on whether the Administration had taken into account the moral hazard factor when formulating the proposal to raise the protection limit. The Board advised that the proposed protection limit of $500,000 was considered suitable based on the average per capita income of Hong Kong and similar arrangements in countries like the United States. With the protection limit raised to $500,000, over 90% of the depositors would be fully protected, but only 20% of the total amount of bank deposits would be covered by the revised DPS. The moral hazard risk was considered acceptable based on international standard.

14. Some members expressed concern that while 90% of depositors would be fully protected if the DPS's protection limit was raised to $500,000, the remaining 10% of depositors might seek to withdraw their deposits in excess of $500,000 from a bank in the event of rumours of bank failure. Besides, some depositors might split their deposits to get more protection.

15. The Board was of the view that pushing the limit beyond $500,000 would not add materially to the effectiveness of DPS because the percentage of depositors fully covered tended to increase at a diminishing rate with the protection limit. Some depositors might choose to split their deposits after the increase of the protection limit but they needed to consider the costs involved such as reduction in deposit interest rates and service level for smaller amount of deposits in each bank after the split. The Board would continue to keep track of the impact of the deposit splitting behaviour on the DPS's effectiveness. Subsequent to the meeting on 1 June 2009, the Board provided supplementary information on the percentage of depositors and the percentage of value of deposits covered, if the protection limit was increased to $200,000 and $500,000 respectively (see Appendix I).

Publicity and representation arrangements

16. Under the enhanced DPS, the coverage of the DPS would be expanded to include secured deposits. Members considered that to ensure depositors' awareness of the new protection status of their deposits, the Board should enhance the representation requirements on DPS members to notify their customers of their protected and non-protected deposits[5]. The Board should also step up publicity efforts in explaining to the public the definition of more complicated concepts such as structured deposits.

Management of the DPS Fund

17. Noting that the DPS Fund amounted to about $670 million and $1.3 billion in 2008 and 2009 respectively, and that the investment return of DPS Fund was only about $14 million and $4 million in 2008 and 2009 respectively, members expressed

[5] The Bill provides for the making of additional rules by the Board on the representation, disclosure and acknowledgement requirements relating to deposits and other financial products. According to the Administration, the additional rules to be made by the Board would require DPS members to make positive disclosures to confirm the protection status of a deposit to depositors, on top of the negative disclosures on non-protected deposits already in place.

grave concern about the low investment return of the DPS Fund. They urged the Administration and the Board to explore ways to enhance the investment returns of the DPS Fund, and to reduce its expenditure. There was a suggestion that the sums in the DPS Fund be placed with the Exchange Fund for investment under a "fixed rate" sharing arrangement similar to that for the fiscal reserves. In response to members' concerns, the Board provided supplementary information on the investment strategy of the DPS Fund (see Appendix I), measures taken by the Board to enhance the investment return, and details of the expenditure of the DPS Fund (see Appendix II).

Relevant papers

18. The relevant papers are available at the following links:

Administration's Legislative Council Brief on Deposit Protection Scheme (Amendment) Bill 2010 (April 2010)
http://www.legco.gov.hk/yr09-10/english/bills/brief/b23_brf.pdf

Legal Services Division Report on Deposit Protection Scheme (Amendment) Bill 2010 (April 2010)
http://www.legco.gov.hk/yr09-10/english/hc/papers/hc0423ls-57-e.pdf

Hong Kong Deposit Protection Board's information paper regarding the investment of the Deposit Protection Fund, expenditure of the Board and the deposit protection arrangements in other jurisdictions (follow up paper) (February 2010)
http://www.legco.gov.hk/yr09-10/english/panels/fa/papers/fa0201cb1-1221-2-e.pdf

Minutes of the FA Panel meeting on 1 February 2010 (Paragraphs 39 to 52) (February 2010)
http://www.legco.gov.hk/yr09-10/english/panels/fa/minutes/fa20100201.pdf

Legislative Council Secretariat's Background brief on review of the Deposit Protection Scheme (January 2010)
http://www.legco.gov.hk/yr09-10/english/panels/fa/papers/fa0201cb1-977-e.pdf

Administration's paper on Review of the Deposit Protection Scheme (January 2010)
http://www.legco.gov.hk/yr09-10/english/panels/fa/papers/fa0201cb1-978-4-e.pdf

Report on the public consultation on strengthening the operation of DPS (November 2009)
http://www.legco.gov.hk/yr09-10/english/panels/fa/papers/facb1-532-2-e.pdf

Report on the public consultation on enhancing deposit protection under DPS (August 2009)
http://www.legco.gov.hk/yr08-09/english/panels/fa/papers/facb1-2491-2-e.pdf

Consultation paper on strengthening the operation of the DPS (August 2009)
http://www.legco.gov.hk/yr08-09/english/panels/fa/papers/facb1-2491-3-e.pdf

Minutes of the FA Panel meeting on 1 June 2009 (Paragraphs 9 to 25) (June 2009)
http://www.legco.gov.hk/yr08-09/english/panels/fa/minutes/fa20090601.pdf

Hong Kong Deposit Protection Board's written response on enhancing deposit protection under the Deposit Protection Scheme (follow up paper) (June 2009)
http://www.legco.gov.hk/yr08-09/english/panels/fa/papers/fa0601cb1-2114-1-e.pdf

Consultation Paper on Enhancing Deposit Protection under the Deposit Protection Scheme (April 2009)
http://www.legco.gov.hk/yr08-09/english/panels/fa/papers/facb1-1428-e.pdf

Council Business Division 1
Legislative Council Secretariat
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Appendix I

Panel on Financial Affairs
Meeting on 1 June 2009
Responses to follow-up questions

Enhancing deposit protection under the Deposit Protection Scheme

(1) In relation to Hon Paul CHAN's concern about the investment strategy and return of the Deposit Protection Scheme (DPS) Fund, the Administration/Hong Kong Deposit Protection Board (HKDPB) were requested to consider and advise whether the sums in the DPS Fund should be placed with the Exchange Fund for investment, and receive a "fixed rate" fee payment like that for the fiscal reserves.

The main investment objectives of the DPS Fund are to preserve capital and maintain a high level of liquidity for meeting the cost of payouts. Consistent with these objectives, the DPS Ordinance specifies that the DPS Fund can be invested only in:

(a) deposits with the Exchange Fund;
(b) Exchange Fund Bills;
(c) US Treasury Bills;
(d) exchange rate or interest rate contracts for hedging purpose; and
(e) any other investments approved by the Financial Secretary (FS). Up-to-date, the FS has approved, subject to specified limits, investments in Exchange Fund Notes and US Treasury Notes of a tenor up to 2 years, and the maintenance of bank balances to facilitate the investment in the government papers.

The DPS Ordinance also specifies that the HKDPB has a function to manage and administer the DPS Fund. For the performance of this function, the HKDPB has established an investment committee. The committee comprises members with expertise in investment, banking and accounting. Given the relatively limited investment mandate and scope of the DPS Fund, the investment operation of the DPS Fund has been conducted very smoothly under the guidance of the committee.

The Exchange Fund does not have a mandate to provide fund management or investment service to other entities. Currently, it pays a market-based interest rate on deposits it takes from the DPS Fund. Unlike fiscal transfers from the Hong Kong SAR Government, which are public monies, the DPS Fund mainly comprises contributions paid by banks. Requiring the Exchange Fund to offer a fixed rate of interest to the placements by the DPS Fund similar to that applicable to fiscal transfers may result in the Exchange Fund's subsidisation of the privately-funded DPS.

(2) ***In relation to Hon James TO's concern about the implementation of the full deposit guarantee arrangement, the HKDPB was requested to provide the latest information on the number of account holders with non-protected deposits, following the deadline for notifications by Authroized Institutions (AIs) to account holders with non-protected deposits by the end of May 2009.***

According to the statutory guideline issued by the Hong Kong Monetary Authority (HKMA) in December 2008, all AIs are required to notify their customers of the non-protected deposits held by them before the end of May 2009. Based on the statistics reported by major retail banks after the completion of the notification exercise, it is estimated that less than 5% of their depositors are holding a non-protected deposit.

(3) ***To address Hon James TO's concern about the scope of protection under the DPS, the HKDPB was requested to provide the following information:***

(a) ***if the protection limit under the DPS was increased to HK$200,000, the percentage of depositors and the percentage of value of deposits covered (taking into account the effect of account splitting behaviour of depositors in response to the increase); and***

(b) ***if the protection limit under the DPS was increased to HK$500,000, the percentage of depositors and the percentage of value of deposits covered and not covered (taking into account the effect of account splitting behaviour of depositors in response to the increase)***

Based on the statistics reported by major retail banks to a survey of the HKDPB (with reference to their end-October 2008 positions), it is projected that about 84% and 91% of their depositors would be fully protected by the DPS if the protection limit is raised to HK$200,000 and HK$500,000 respectively. In terms of value of deposits covered, the corresponding percentages are estimated to be 17% and 27%. The estimations, however, were made without considering possible deposit splitting behaviour of depositors.

The findings of the past opinions surveys conducted by the HKDPB suggest that splitting of deposits into different banks has not been common among depositors under the current protection limit of HK$100,000. Whether depositors will opt to split their deposits at higher protection limits will depend on a host of factors, for example, the stability and the competitive environment of the banking sector, the benefits and costs relevant to individual depositors. It is therefore potentially difficult, if not impossible, to model the deposit splitting behaviour of depositors. The HKDPB, however, will continue to monitor the relevant trends and patterns through regular opinion surveys.

The current design of the DPS can to some extent accommodate an increase in deposit splitting behaviour. As the contributions payable by banks are calculated as a percentage of the amount of relevant deposits held with them, the amount of contributions collected will increase with the growth in the amount of relevant deposits due to deposit splitting behaviour. Hence, the effectiveness of the DPS will not be unduly affected unless deposit splitting becomes very common place. As mentioned above, the Board will keep this under close monitor.

(4) To address the Chairman's concern about the types of institution covered by the DPS, the HKDPB was requested to provide Information regarding the number of deposit accounts in the restricted licence banks (RLBs) and deposit-taking companies (DTCs), with breakdown by the number of accounts with a deposit of HK$500,000 or below and those with a deposit of over HK$500,000

Compensations under the DPS are calculated on a per depositor basis, that is, the deposits of a depositor in different accounts will be aggregated for compensation assessment purpose. It is therefore more relevant to assess the effectiveness of the DPS in terms of the number of depositors, instead of the number of accounts, of an institution covered by it. For the DPS to be effective in preventing rumour-driven run on an institution, it must be able to provide full protection to a majority of its depositors. Under a protection limit of HK$500,000, over 90% of depositors at banks would become fully protected by the DPS.

As RLBs are permitted by law to take only deposits of HK$500,000 or above, they have no depositors with a deposit balance of less than HK$500,000. In other words, none of their depositors would become fully protected under a protection limit of HK$500,000.

DTCs are permitted by law to take only deposits of HK$100,000 or above. Based on the statistics available to the HKDPB, only 8 out of the all 27 DTCs have more than 10 depositors. On average, about 60% of the depositors of DTCs have a deposit balance of over HK$500,000. Only around 40% of their depositors have a balance of HK$500,000 or below. This confirms that the DPS will not be able to fully protect a majority of their depositors even if its protection limit is raised to HK$500,000.

Hong Kong Deposit Protection Board
June 2009

Appendix II

Panel on Financial Affairs
Meeting on 1 February 2010
Responses to follow-up questions

Review of the Deposit Protection Scheme

Q1. In relation to Hon Paul CHAN and Hon Regina IP's concern about the investment strategy and return of the Deposit Protection Scheme (DPS) Fund, and the expenditure of the Hong Kong Deposit Protection Board (HKDPB), the Administration is requested to provide the following information:

(a) measures to be taken by HKDPB to enhance the investment return of the DPS Fund; and

(b) details of the expenditure (about $50 million a year) of the HKDPB and ways to reduce its expenses.

A1(a) The Deposit Protection Scheme (DPS) Fund was established under section 14 of the DPS Ordinance (DPSO) (Cap. 581). It comprises mainly contributions collected from member banks of the DPS. The investment scope of the Fund has been set out in section 21 of the DPSO:-

*"**21. Investment of money***

(1) The Board may place, or invest, money of the Fund that is not immediately required by the Board for the performance of its functions in the following—

> *(a) deposits with the Monetary Authority for the account of the Exchange Fund;*
> *(b) Exchange Fund Bills;*
> *(c) US Treasury Bills;*
> *(d) subject to subsection (2), exchange rate contracts or interest rate contracts, including derivative products;*
> *(e) any other investment approved by the Financial Secretary.*

(2) The Board shall not place, or invest, money of the Fund in exchange rate contracts or interest rate contracts except for hedging purposes."

The investment scope of the DPS Fund was set after thorough deliberation during the legislative stage. In keeping with the need for capital preservation and maintaining a high level of liquidity, particularly when crises strike, the Fund is allowed to be invested only in safe and liquid financial instruments. The investment scope turned out to be very effective in meeting the capital preservation objective. Despite the turbulent market conditions in 2008, the Fund did not suffer a loss and was able to achieve a positive return for the year.

The investment of the DPS Fund is managed independently by the Deposit Protection Board (DPB). The Fund is not invested as part of the Exchange Fund under the management of the HKMA. The DPB has taken steps to ensure that the investment of the Fund is being managed in accordance with the DPSO and, at the same time, delivering best possible returns. The DPB has established an Investment Committee comprising investment experts to oversee the investment of the Fund, including the establishment of investment-related policies and procedures, and reviewing, on a regular basis, the Fund's investment performance and strategy. The DPB has been vigilant in seeking opportunities to enhance the return of the Fund, for example, after considering the associated risks and benefits, the Board sought the Financial Secretary's (FS) approval in December 2008 to lengthen the investment horizon of the Fund to include Exchange Fund Notes and US Treasury Notes of a tenor up to two years. The DPB will endeavor to explore means for enhancing the return of the Fund, subject to the investment mandate enshrined in the DPSO.

A1(b) The total expenditure of the DPS Fund amounted to HK$58 million in the year 2008-2009. The two major categories of expenditure were hire of services (representing 42% of total expenditure) and printing and publicity (representing 34% of total expenditure).

The DPB is required by section 6 of the DPSO to perform its functions through the Monetary Authority. The DPB therefore has to reimburse the HKMA the cost incurred by the HKMA in rendering support to it, including the cost of human resources and administrative supports. To minimize recurring costs, the DPB has opted to maintain a very slim structure (with less than 10 full-time staff). However, to ensure that the DPS can pay compensation to depositors expediently, which is one of the key determinants of its effectiveness, the DPB has retained a network of external service providers that it can call upon for providing assistance at short notice when a bank failure occurs. The network of service providers is subject to regular rehearsals and simulations to maintain and enhance their readiness. The costs of hiring the services provided by the HKMA and external service providers are therefore essential for maintaining the effectiveness of the DPS. The Board is also of the view that those arrangements are more cost effective than the alternative of maintaining its own staff for administration and payout purposes.

Another key determinant of the effectiveness of a deposit protection scheme is whether depositors protected by it are aware of its existence, benefits and limitations. It is therefore necessary for the Board to conduct on-going promotional and educational activities to maintain and enhance public awareness and understanding of the DPS. Based on information available to the Board, its expenditure on publicity is in line with those of the other public bodies undertaking publicity campaigns of a comparable profile.

Due processes have been put in place to ensure that the annual budgets of the DPS Fund are formulated and individual expenditures are incurred in a prudent manner. According to the DPSO, the annual budgets of the DPS Fund are subject to the approval of the FS. The DPB is also required to produce statement of accounts of the Fund for submission to the FS and for tabling to the Legislative Council. Clear procurement rules and procedures, which are in line with those commonly adopted by public bodies, have been established by the DPB to govern its procurement process.

Q2. In relation to the concern of Hon Regina IP about the possible impact of the lifting of full deposit guarantee arrangement after 2010, the Administration is requested to provide information about the deposit protection arrangements in other countries, including but not limited to Australia and New Zealand.

A2 Please see the attached table.

The deposit protection arrangements in other jurisdictions, including but not limited to Australia and New Zealand

Jurisdictions	**Limited deposit protection arrangements in place**		**Full deposit guarantee / temporary deposit protection arrangements in place**
	Protection limit	**Foreign currency deposits**	
Hong Kong	HKD100,000	Protected	Full deposit guarantee until end-2010
Malaysia	MYR60,000 (equivalent to about HKD144,000)	Not protected	Full deposit guarantee until end-2010
Singapore	SGD20,000 (equivalent to about HKD110,000)	Not protected	Full deposit guarantee until end-2010
Taiwan	NTD1.5 million (equivalent to about HKD357,000)	Not protected	Full deposit guarantee until end-2010
Australia	No explicit deposit protection arrangements before the introduction of the existing temporary measures		Partial deposit guarantee of up to AUD1 million (equivalent to about HKD6.8 million) until October 2011
New Zealand			Partial deposit guarantee of up to NZD1 million (equivalent to about HKD5.4 million) until October 2010, and up to NZD500,000 (equivalent to about HKD2.7 million) from October 2010 to December 2011 (on a voluntary basis)
US	USD250,000 (equivalent to about HKD1.9 million) (raised temporarily from USD100,000 in October 2008)	Protected	Protection limit of existing scheme temporarily raised to USD250,000, first until end-2009 and then extended to end-2013, to return to USD100,000 in 2014
UK	GBP50,000 (equivalent to about HKD615,000) (raised permanently from GBP35,000 in October 2008)	Protected	Nil