

Legislative Council
Panel on Financial Affairs
Enhancements to
the Deposit Protection Scheme

4 May 2015

The Deposit Protection Scheme (DPS)

- Fully implemented in 2006
- Compensation limit: HK\$500,000 per depositor per bank (Full protection for 90% depositors)
- All banks are members of the DPS (unless exempt)
- Deposits denominated in HKD and other currencies are protected
- Current DPS Fund size: around HK\$2.4 billion
- The DPS has not been triggered since its establishment

Proposed Legislative Amendments

To amend the Deposit Protection Scheme Ordinance

(i) Adopting the gross payout approach to determine compensation

- To switch from net to gross basis (i.e. a depositor will be compensated an amount without setting off the depositor's liabilities against his/her deposits owed to the same bank at the time of the payout determination and distribution) (up to HK\$500,000)
- Facilitate the shortening of the payout timeframe to 7 days
- The HKDPB will reimburse from the bank's assets for the amount of compensation paid out

Proposed Legislative Amendments

(i) Adopting the gross payout approach to determine compensation
(continued)

- Existing creditor hierarchy in the insolvency regime and obligation of depositors to repay outstanding liabilities to the bank remain unchanged
- The level of premium rates applicable to banks remain unchanged, and the HKDPB will calculate the contributions payable by banks on a gross basis

Proposed Legislative Amendments

(ii) Enhancing certainty for determination of the Quantification Date (QD)

- QD: a reference date for compensation determination (including interests and conversion of non-Hong Kong currencies), usually the date of appointment of a provisional liquidator
- Propose defining the QD as the DPS trigger date viz. the earlier date of:
 - the Court issuing a winding-up order in respect of the Bank;
or
 - the Monetary Authority serving a notice to the Deposit Protection Board to trigger the DPS
- Greater clarity for the triggering mechanism of the DPS

Proposed Legislative Amendments

(iii) Enabling the use of electronic notices

- Upon the triggering of the DPS, the HKDPB will notify depositors of compensation entitlements by post as per the present arrangement
- Propose empowering the HKDPB to, other than paper-form notices, send electronic notices
- With the development of technologies, electronic communication will enable the HKDPB to accelerate the notification process
- Depositors who do not habitually use electronic communication will not be affected and will continue to receive paper-form notices issued by HKDPB

Public Consultation and Way Forward

- The Government conducted a public consultation in Q4 last year
- Responses indicate support to the proposals
- We are drafting the Deposit Protection Scheme (Amendment) Bill 2015 for introduction into the Legislative Council later this year.

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