

**Consumer Council's Views on
Deposit Protection Scheme (Amendment) Bill 2015**

4 January 2016

1. The Consumer Council (the Council) is pleased to submit its views to the Legislative Council Bills Committee regarding the legislative amendments of the Deposit Protection Scheme (DPS) Ordinance of adopting a gross payout approach, revising the definition of quantification date, and enabling the Hong Kong Deposit Protection Board (HKDPB) the use of electronic means for notification in the event the DPS is triggered.

Gross Payout Approach

2. In the Council's previous submissions, the Council expressed concern on the current full netting approach which may affect the speed of the payout process and that depositors would not have quicker access to compensation payment in relation to the protected deposits to mitigate their hardship due to a bank default. The Council welcomes and supports the legislative amendment of approach to a gross payout one, which is to issue compensation without deducting any liability, could accelerate the payment process and enhance the level of protection of depositors. The Council is pleased to note that the new approach would enable a faster payout to depositors from the current situation of nearly 6 weeks to within 7 days.

3. Notwithstanding the said benefits of improving the timeliness and efficiency of payouts to depositors, the Council understands the complexity for calculating the payout to depositors once bank failure occurs and trusts that the HKDPB would ensure the accuracy level of payment to each depositor even the timeframe is to be shortened to 7 days, so as to ascertain the reliability and credibility of the financial system of Hong Kong.

Quantification Date (QD)

4. To remove the uncertainties in the reference date (i.e. QD) for determination of compensation payment, the Council supports the revision of the definition of QD to align it with the date of the "specified event" that triggers the DPS. Under the proposed amendment, a "specified event" occurs when a winding-up order is made by the Court of First Instance in respect of a bank; or the Monetary Authority serves the HKDPB a notice of its decision that the DPS should be triggered, whichever is the earlier.

Electronic Notices

5. Whilst supporting the utilization of electronic channels by the HKDPB to notify depositors the compensation details, the Council emphasizes that the HKDPB should exhaust various channels, by both the electronic and conventional paper-form communications, instead of either one, when delivering payment details to depositors.

6. The Council is of the view that the HKDPB should take caution on the information delivered via electronic means be thorough and the same with written notice to be sent to depositors after the disbursement.

Other Comments

7. As stated in its previous submissions, the Council considers it important for the Government to review the protection limit periodically to ensure its effectiveness in safeguarding the interests of depositors in Hong Kong.

8. Apart from protection limit, the Council reiterates its views about the extension of DPS coverage to deposits held in restricted license bands (RLB) and deposit-taking companies (DTC). The Council is of the view that under the persistently low interest environment coupled with the aggressive marketing practices of some financial institutions, depositors may be attracted to deposit their money with these institutions for higher interest rates, without realizing that their deposits would become unprotected if there is no extension of the DPS.