

香港存款保障委員會
HONG KONG DEPOSIT
PROTECTION BOARD

4 September 2008

The Chief Executive
All Scheme Members

Dear Sir/Madam,

Review of Returns of Relevant Deposits

I am writing to share with the industry the result of the first review exercise for the returns of relevant deposits submitted by Scheme members.

In November last year, the Board announced the implementation of a policy to require Scheme members to submit an auditor's report to certify the correctness of the returns of relevant deposits they submit to the Board for contribution assessment purpose. According to the policy, Scheme members are required to submit an auditor's report on a rotational basis. The first batch of 34 Scheme members submitted their reports to the Board in April 2008.

The result of the first review exercise was satisfactory. Among the 34 Scheme members that submitted an auditor's report, 19 of them were found to have their returns correctly compiled without any reporting errors. Fifteen Scheme members were reported to have made an error. Nevertheless, the aggregate amounts of contributions underpaid and overpaid due to the errors were only HK\$63,000 and HK\$78,000 respectively, resulting in a negligible net overpayment of about HK\$15,000. The Board has issued demand notes to collect the shortfalls in contribution from the relevant Scheme members and credit notes to refund the excesses received. As the relevant deposits held with the Scheme members that have been subject to a review accounted for over 90% of the industry total, the reviews conducted so far have provided a reasonable assurance over the correctness of the aggregate amount of relevant deposits reported by the industry and, hence, the aggregate amount of contributions received by the Board.

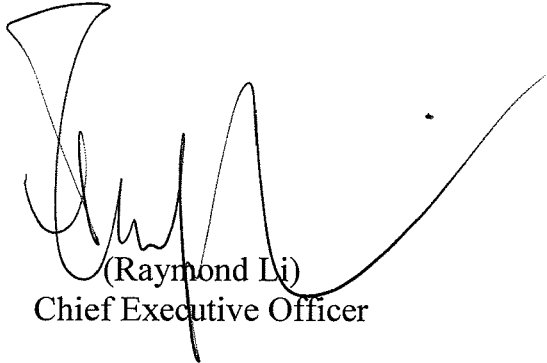
According to the auditor's reports, the reporting errors mainly arose from incorrect treatment of pledged deposits, applying wrong deposit cap in the process of data compilation and miscalculation of the amount of relevant deposits held by a depositor with multiple accounts (e.g. a depositor with a personal account and a joint or sole proprietor account). They were mainly caused by inadequate return compilation procedures and systems.

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The Board takes every instance of reporting error seriously and will continue to monitor the quality of the returns vigilantly. The Board has already requested the Scheme members reporting an error to take actions to improve their reporting mechanisms. For Scheme members whose returns have not yet been subject to a review, they are advised to critically review the adequacy of their return compilation processes, with particular attention to the common errors identified above.

Should you have any questions, please contact Ms Eve Law at 2878 1197 or Ms Tess Leung at 2878 8280.

Yours faithfully,



(Raymond Li)
Chief Executive Officer

Encl.

cc Hong Kong Monetary Authority (Mr Nelson Man)