

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

Annual Report 2004-2005

# Contents

	Page
Chairman's Statement	2
Members of the Board	3
About the Hong Kong Deposit Protection Scheme	4
Report on Activities	7
Report of the Auditors	10
Statement of Accounts of the Deposit Protection Scheme Fund	11

# Chairman's Statement

The enactment of the Deposit Protection Scheme Ordinance (the Ordinance) in May 2004 marked an important milestone in the development of the financial safety net in Hong Kong. Under the Ordinance, a deposit protection scheme (DPS) with a coverage limit of HK\$100,000 per depositor will be established to provide a measure of protection to depositors and to contribute to the stability of the banking system.

The Hong Kong Deposit Protection Board (the Board) is charged with responsibility for establishing, and in the future administering, the DPS. It is a statutory body created under the Ordinance. Members of the Board come from different professions such as accounting, banking, consumer protection, insolvency law, information technology and public administration. The Board currently comprises seven members including two ex officio members representing the Monetary Authority and the Secretary for Financial Services and the Treasury and me.



**Professor  
Andrew Chan Chi-fai**  
*Chairman*

There is a large volume of work to be completed before the DPS will be ready to provide deposit protection. Since its inception in July 2004, the Board has developed a two-year project plan for establishing the DPS.

The progress made by the Board in the nine months up to the end of March 2005 is remarkable. The Board has completed the development of a system for collecting contributions from member banks. It has identified the key principles to be incorporated into the rules governing the operation of the DPS, and has consulted the banking industry, as well as other relevant parties, on these principles. It is expected that these rules, which should be issued in the form of subsidiary legislation, will be ready for introduction into the Legislative Council by stages starting from the end of 2005. In addition, the Board has embarked on the development of a payout system for assessing and disbursing compensation to depositors in the event of a bank failure. This is the most complicated task of the whole project, and the Board has appointed a consultant with practical experience in deposit insurance operations to help out on this task. If everything goes smoothly, it is anticipated that the DPS will be ready to start collecting contributions from member banks and providing deposit protection in the second half of 2006.

The Board fully appreciates the need to keep the industry informed of the progress of the project. A Consultative Committee on DPS, comprising 13 representatives of the banking industry, has been formed to provide a forum for the Board and the industry to exchange views on issues of mutual interest. I wish to take this opportunity to thank members of the Committee for having provided many useful comments to the Board during the development of the rules governing the operation of the DPS.

All in all, the first financial year of the Board has been a busy but fruitful one. In this first annual report of the Board, I would like to pay tribute to my fellow members for their invaluable advice and contributions, without which the Board would not have made such progress in the past nine months. I would also like to thank the Hong Kong Monetary Authority for providing the Board with a capable team of staff who have worked very hard to implement the project plan.

**Professor Andrew Chan Chi-fai**  
*Chairman, Hong Kong Deposit Protection Board*

# Members of the Board



**Mr Ian Chapman**  
*Member*



**Dr David Cheung Wai-lok**  
*Member*



**Mr Nicholas Peter Etches**  
*Member*



**Mr Nam Lee-yick**  
*Member*



**Mr William Ryback, JP**  
*Ex officio Member*  
Representative of the  
Monetary Authority



**Mr Kevin Ho Chi-ming, JP**  
*Ex officio Member*  
Representative of the  
Secretary for Financial Services  
and the Treasury

# About the Hong Kong Deposit Protection Scheme

## INTRODUCTION

The Deposit Protection Scheme Ordinance (the Ordinance) which provides for the establishment of a deposit protection scheme (DPS) in Hong Kong was enacted in May 2004. Following this, the Hong Kong Deposit Protection Board (the Board) was formed in July 2004 to oversee the project of establishing the DPS.

## COMPOSITION OF THE BOARD

The Board is a body corporate established under section 3 of the Ordinance. Members of the Board are appointed by the Chief Executive. At present, the Board consists of seven members including two ex officio members, namely the Deputy Chief Executive (Banking) of the Hong Kong Monetary Authority (being the Monetary Authority (MA)'s representative) and the Permanent Secretary for Financial Services and the Treasury (Financial Services) (being the representative of the Secretary for Financial Services and the Treasury).

## FUNCTIONS OF THE BOARD

Under section 5 of the Ordinance, the Board's functions are confined to the assessment and collection of contributions, managing the DPS Fund, making payments to depositors in the event of a failure of a Scheme member and recovering payments from the assets of the failed Scheme member.

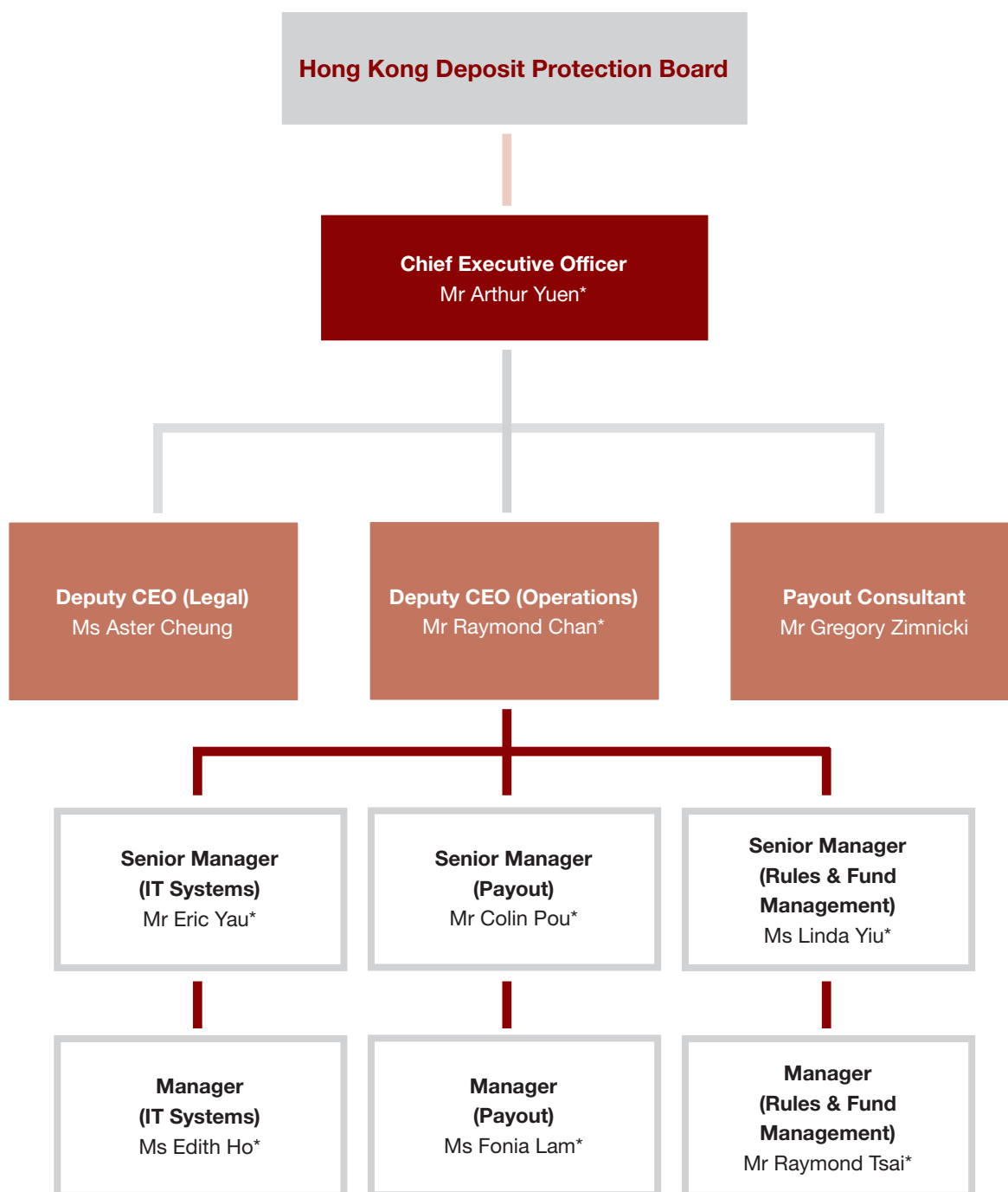
## PERFORMANCE OF FUNCTIONS

Pursuant to section 6 of the Ordinance, the Board shall perform its functions through the MA unless otherwise approved by the Financial Secretary. This means that the MA will act as an executive arm of the Board in administering the DPS and will, in this respect, be subject to the oversight of the Board.

The Hong Kong Monetary Authority (HKMA) has provided a team of staff to assist the Board in establishing the DPS. The team is headed by an Executive Director of the HKMA, who is designated as the Chief Executive Officer (CEO) of the Board. The CEO is assisted by two Deputy CEOs in charge of operational matters and legal services respectively, and a Payout Consultant responsible for developing the payout procedures and systems. The HKMA has also provided the Board with support services such as accounting, administration, human resources, and information technology throughout the period.

# About the Hong Kong Deposit Protection Scheme

## Organisation Structure of the Board



\* HKMA staff seconded to assist the Board in establishing the DPS. The emoluments of these staff are borne by the HKMA until the DPS starts collecting contributions from Scheme members.

*Note: On 1 June 2005, Mr Arthur Yuen resigned as the CEO of the Board to take up a new assignment with the HKMA. His position was taken up by Mr Raymond Li on the same day.*

## About the Hong Kong Deposit Protection Scheme



Front row, from left to right: Mr Gregory Zimnicki, Mr Arthur Yuen, Mr Raymond Li, Mr Raymond Chan, Ms Aster Cheung  
Back row, from left to right: Mr Eric Yau, Mr Colin Pou, Mr Raymond Tsai, Ms Edith Ho, Ms Linda Yiu, Ms Fonia Lam

### MAIN FEATURES OF THE DEPOSIT PROTECTION SCHEME

The DPS to be introduced in Hong Kong will have the following main features:—

- (a) all licensed banks, unless otherwise exempted by the Board, are required to participate in the DPS as Scheme members;
- (b) the compensation limit is set at HK\$100,000 per depositor per Scheme member;
- (c) both Hong Kong dollar and foreign currency deposits are protected;
- (d) a DPS Fund with a target fund size of 0.3% of the total amount of relevant deposits (translating into a fund size of approximately HK\$1.6 billion) will be built up through the collection of contributions from Scheme members; and
- (e) differential contributions will be assessed based on the supervisory ratings of individual Scheme members.

# Report on Activities

With the assistance of the HKMA, the Board is making the necessary preparations for launching the DPS. The Board held six meetings during the first financial year covering the period from 1 July 2004 to 31 March 2005. It has developed a detailed project plan for establishing the DPS and has commenced work on a number of key preparatory tasks:—

## **(a) System for assessment of contributions**

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 report their amount of relevant deposits. Scheme members are required to submit the first return in December 2005, reporting the amount of relevant deposits as of 20 October 2005. The supervisory ratings of individual Scheme members will be provided to the Board by the HKMA under a mechanism that they have jointly developed.

## **(b) Development of payout procedures and systems**

One of the key preparatory tasks is the development of a set of procedures and the associated information systems for assessing and paying compensation to depositors in the event of a bank failure. To ensure the smooth completion of this task, the Board has appointed a consultant with practical experience in deposit insurance operations to advise on this area. In addition, the Board has engaged an information technology company to develop the requisite information systems.

## **(c) Preparation of rules**

The Board and the MA are empowered under the Ordinance to make rules governing the operation of the DPS. These rules will be issued in the form of subsidiary legislation and therefore will be subject to negative vetting by the Legislative Council.

There are altogether five sets of rules that will be made by the Board and the MA, 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 to facilitate the Board in making compensation payments to depositors expeditiously;
- (iv) Rules concerning the forms in which compensation will be paid to eligible depositors; and



# Report on Activities

## *Rules to be made by the MA*

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

The banking industry and other relevant parties have been consulted on the main principles to be incorporated into these rules. The Board will take into account their comments in drafting the rules.

## CONSULTATIVE COMMITTEE ON DEPOSIT PROTECTION SCHEME

The Board has kept the industry informed of the progress of the DPS project. It has established a Consultative Committee on DPS (the Committee) comprising 13 representatives of the banking industry. The Committee serves as a useful forum for the Board and the banking industry to exchange views on issues of common interest. For instance, members of the Committee have provided many useful comments to the Board in preparing the rules governing the operation of the DPS. The members of the Committee are:–

Mr Fung Tin-yiu, *Bank of China (Hong Kong) Limited*

Mr Tong Hon-shing, *Bank of East Asia Limited*

Mr Gilbert Lee, *BNP Paribas, Hong Kong Branch*

Mr C Y Ling, *CITIC Ka Wah Bank Limited*

Ms Francesca So, *Dah Sing Bank Limited*

Mr Dennis Chan Kwok-keung, *DBS Bank (Hong Kong) Limited*

Mr Joseph TC Cho, *Hang Seng Bank Limited*

Mr Lawrence Law, *The Hong Kong and Shanghai Banking Corporation Ltd.*

Mr George Kwan, *Industrial and Commercial Bank of China (Asia) Ltd.*

Mr Kevan Albrighton, *JPMorgan Chase Bank, Hong Kong Branch*

Ms Maggie Cheung, *Mizuho Corporate Bank Ltd, Hong Kong Branch*

Ms Tai Kwai Heung, *Nanyang Commercial Bank Limited*

Ms Ann Kung, *Standard Chartered Bank (Hong Kong) Limited*

# Report on Activities

## DEPOSIT PROTECTION APPEALS TRIBUNAL

Under the Ordinance, certain decisions of the Board and the MA can be the subject of an appeal to the Deposit Protection Appeals Tribunal (the Tribunal). These 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, as well as the MA's decision to impose an asset maintenance requirement on a Scheme member.

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. Members of the Tribunal are appointed by the Financial Secretary from a panel of six persons. The panel members are listed below. Sittings of the Tribunal will be convened on an as needed basis.

Mr Charles David Booth

Professor Simon Ho Shun-man

Miss Winnie Lun Pong-hing

Ms Melissa Kaye Pang

Mr Rupert James Purser

Mr James Wardell

## PLAN FOR 2005-2006

In the year ahead, the Board will continue to develop its 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 and collecting contributions from Scheme members in the second half of 2006.

# Auditors' Report to the Hong Kong Deposit Protection Board

We have audited the statement of accounts of the Deposit Protection Scheme Fund ("the Fund") established under Section 14 of the Hong Kong Deposit Protection Scheme Ordinance ("the Ordinance") set out on pages 11 to 16 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## RESPECTIVE RESPONSIBILITIES OF THE BOARD AND AUDITORS

The Ordinance requires the Hong Kong Deposit Protection Board ("the Board") to keep and maintain proper accounts and records of all transactions of the Fund and cause to be prepared a statement of accounts in respect of each financial year. The Board does so on the basis that this statement of accounts gives a true and fair view. In preparing the statement of accounts which gives a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the statement of accounts prepared by the Board and to report our opinion to the Board, as a body, in accordance with section 19 of the Ordinance. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the statement of accounts. It also includes an assessment of the significant estimates and judgements made by the Board in the preparation of the statement of accounts and of whether the accounting policies are appropriate to the Fund's circumstances, have been consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the statement of accounts is free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the statement of accounts. We believe that our audit provides a reasonable basis for our opinion.

## OPINION

In our opinion the statement of accounts gives a true and fair view of the state of affairs of the Fund at 31 March 2005 and of the deficit of the Fund for the period then ended, and has been properly prepared in accordance with the Ordinance.

### KPMG

*Certified Public Accountants*  
Hong Kong

20 June 2005

# Income and Expenditure Account

for the Period from 1 July 2004 to 31 March 2005

(Expressed in Hong Kong dollars)

	Period from 1 July 2004 to 31 March 2005
<b>Income</b>	\$ –
<b>Expenditure</b>	
Staff costs	\$ 833,736
Office equipment and stationery	1,216
Transport and travelling	1,296
Hire of services	102,880
Communication	11,000
Printing and publicity	53,200
Publications	14,242
Recruitment expenses	36,631
Other expenses	3,433
Depreciation	3,944
<b>Total expenditure</b>	<b>\$ 1,061,578</b>
<b>Deficit for the period</b>	<b>\$ (1,061,578)</b>

The notes on pages 13 to 16 form part of this statement of accounts.

# Balance Sheet

at 31 March 2005

(Expressed in Hong Kong dollars)

	Note	2005
<b>Non-current assets</b>		
Fixed assets	4	\$ 67,046
<b>Current assets</b>		
Prepayments	5	\$ 2,309,718
Cash		532,939
		\$ 2,842,657
<b>Current liabilities</b>		
Accrued expenses	6	\$ 271,281
Loan	7	3,700,000
		\$ (3,971,281)
<b>Net current liabilities</b>		\$ (1,128,624)
<b>NET LIABILITIES</b>		\$ (1,061,578)
Representing:		
<b>FUND</b>		
<b>Accumulated deficit</b>		\$ (1,061,578)

Approved and authorised for issue by the Hong Kong Deposit Protection Board on 20 June 2005.

**Professor Andrew Chan Chi-fai**

*Chairman*

The notes on pages 13 to 16 form part of this statement of accounts.

# Notes to the Statement of Accounts

*(Expressed in Hong Kong dollars)*

## 1 PURPOSE AND ACTIVITIES

The Deposit Protection Scheme Fund ("the Fund") is established under the Hong Kong Deposit Protection Scheme Ordinance ("the Ordinance") for the purpose of providing compensation to depositors under certain circumstances in respect of deposits maintained with banks which are members of the Deposit Protection Scheme ("the Scheme"). The Hong Kong Deposit Protection Board ("the Board") manages the Fund in accordance with the provisions of the Ordinance.

The Scheme will be funded by contributions levied on member banks. During the period, the Board has commenced the establishment of the Scheme. However as the Scheme was not fully operational during the period, no contributions were levied and the Fund was not required to provide deposit protection. The expenditure incurred during the period was financed by an interest free credit facility from the Hong Kong Monetary Authority ("HKMA") which will be repaid from contributions once the Scheme is fully operational.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

This statement of accounts has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. A summary of the significant accounting policies adopted by the Fund is set out below.

### (b) Basis of preparation

The measurement basis used in the preparation of the statement of accounts is historical cost.

### (c) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation, which is calculated on a straight-line basis to write off the assets over their estimated useful lives as follows:

	Years
Computer hardware, software and development costs:	
– System development costs	5
– Servers (hardware and software)	5
– Others, e.g. personal computers, printers and accessories	3
Office furniture, equipment and fittings	5

Only items costing HK\$10,000 or more are capitalised. Gains or losses arising from the disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income and expenditure account in the month of disposal.

# Notes to the Statement of Accounts

*(Expressed in Hong Kong dollars)*

## **(d) Revenue recognition**

Revenue is recognised in the income and expenditure account when it is probable that economic benefits will flow to the Fund and the revenue can be measured reliably.

Interest income on deposits is accrued on a time apportionment basis, by reference to the principal outstanding and at the interest rate applicable.

## **(e) Translation of foreign currencies**

Foreign currency transactions during the period are translated into Hong Kong dollars at the exchange rates ruling at the transactions dates. Monetary assets and liabilities in foreign currencies are translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date. Exchange gains and losses are dealt with in the income and expenditure account.

## **(f) Operating leases**

Where the Fund has the use of assets under operating leases, payments made under the leases are charged to the income and expenditure account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

## **(g) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Fund has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

## **(h) Employee benefits**

Obligations for contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as an expense in the income and expenditure account as incurred.

# Notes to the Statement of Accounts

(Expressed in Hong Kong dollars)

## (i) Related parties

For the purpose of this statement of accounts, we consider that the following are related parties of the Fund:

- (i) parties that the Fund has the ability, directly or indirectly, to control or significantly influence in making financial and operating decisions;
- (ii) parties that have the ability, directly or indirectly, to control or significantly influence the Fund in making financial and operating decisions; and
- (iii) parties that are subject to common control or common significant influence.

Related parties may be individuals or corporate entities.

## 3 EXPENSES

All expenses are recognised in the income and expenditure account on an accruals basis.

## 4 FIXED ASSETS

### Desktop computer

	2005
<b>Cost:</b>	
Addition	\$ 70,990
At 31 March 2005	\$ 70,990
<b>Accumulated depreciation:</b>	
Charge for the period	\$ 3,944
At 31 March 2005	\$ 3,944
<b>Net book value:</b>	
At 31 March 2005	\$ 67,046



# Notes to the Statement of Accounts

(Expressed in Hong Kong dollars)

## 5 PREPAYMENTS

	2005
Deposit – Payout system	\$ 2,295,000
Others	14,718
	<b>\$ 2,309,718</b>

## 6 ACCRUALS

	2005
Hire of services	\$ 102,500
Staff expenses	101,535
Others	67,246
	<b>\$ 271,281</b>

## 7 LOAN - RELATED PARTY

The Deputy Chief Executive (Banking) of the Hong Kong Monetary Authority ("HKMA") is an ex officio member of the Board which manages the Fund. The HKMA has also seconded the Executive Director (Banking Development) and a Division Head to assist the Board to establish the Scheme including the administration of the Fund. They are designated as the Chief Executive Officer and Deputy Chief Executive Officer (Operations) of the Board respectively. During the period, the HKMA provided a committed, interest-free credit facility to the Board for the purpose of meeting establishment and initial operating cost of the Board. The maximum amount which may be drawn down under the facility is \$30,000,000, of which HK\$3,700,000 was drawn down during the period.

## 8 TAXATION

No provision for Hong Kong Profits Tax has been made as the Board is exempt from Hong Kong Profits Tax pursuant to section 10 of the Ordinance.

## 9 RECENTLY ISSUED ACCOUNTING STANDARDS

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting period beginning on or after 1 January 2005.

The Board has not early adopted these new HKFRSs in the statement of accounts for the period ended 31 March 2005. The Board has commenced an assessment of the impact of these new HKFRSs.