

Hong Kong Deposit Protection Board

Report on the public consultation on the second phase of the review of the Deposit Protection Scheme

Questions and Answers

A. General Issues

Q1. What were the responses to the consultation?

A1. As expected, the Board received fewer comments from the general public on the second phase of the review than on the first phase, probably because the subjects under consultation are relatively technical in nature. Nevertheless, the Board has actively approached and solicited comments from key stakeholder groups, such as industry and professional bodies, consumer interest groups, academics and the legislature.

Q2. What were the responses to the recommendations?

A2. The recommendations on streamlining payout processes received a general support. Comments received mainly requested that the flexibilities to be added to the payout processes be implemented in a responsible, fair and transparent manner, and be accompanied by proper checks and balances.

The recommendations on enhancing the DPS representation regime were well received by the public and consumer interest groups. The industry shared the Board's view that it is important to keep depositors properly informed of the protection status of their deposits, but had concerns about the practical difficulties and cost expected for implementing some of the revised and new disclosure requirements.

Q3. Will there be any change as a result of the industry's concern?

A3. The Board is prepared to provide flexibilities to address the reasonable concerns of the industry. The flexibilities will be developed in consultation with the relevant parties during the law drafting stage.

Q4. When will the changes proposed in the second phase of the review take effect?

A4. The Board intends to introduce the enhancements concluded in the second phase of the review together with those concluded in the first phase, preferably before the end of 2010, so that the public can benefit from an enhanced DPS when the full deposit guarantee of the Government expires.

B. Funding arrangements for the DPS (*Issues arising from the first phase of the review of the DPS*)

Q5. Why did the Board decide to increase the reduction rate to the contribution rates?

A5. Raising the reduction rate can fully offset the recurrent cost impact of the proposed increase in protection and therefore eliminate any reasons for the cost of deposit protection being transferred to depositors because of the proposed changes.

Q6. Why is the reduction (65%) concluded by the Board different to that (50%) proposed in the consultation paper on the first phase of the review?

A6. The Board recommended in the consultation paper to cut contribution rates by 50% to largely offset the cost impact of raising the protection limit. To fully offset the impact, the statistics in the consultation paper suggest that the rates should be reduced by 57%. The significant growth of the deposit market since late last year when the Board's estimation was made also added to the reduction required for offsetting the cost impact.

Q7. What will be the impact of the reduction in terms of additional time to reach the target fund size?

A7. Based on the Board's estimation, if the contribution rates were reduced by 65%, it would require two more years (on top of the four years required if the rates were cut by half) for the target size of the DPS Fund to be reached, i.e. by 2018.

Q8. Why did the Board decide not cutting the rates by 75% as requested by the industry?

A8. Cutting the rates by as much as 75% to accommodate the above average increases in protected deposits expected for some wholesale banks as requested by the industry will risk significantly under-charging retail banks holding the bulk of protected deposits and cause a significant delay for the DPS Fund to reach its target.

C. Processes for determining compensation

Q9. How will the Board ensure that the flexibilities to be added will be deployed in a responsible, fair and transparent manner as requested by some respondents?

A9. The Board will set out standards and conditions for applying the flexibilities in the Board's payout policies and procedures. The flexibilities applied will be made known to the public through public announcements and communications with depositors in a payout.

Q10. What are the checks and balances available over the application of the flexibilities by the Board?

A10. An appeal mechanism for depositors to appeal against their compensation entitlements decided by the Board has been put in place since the DPS commenced operation in 2006. The Board will consider the need and appropriateness of introducing other checks and balances.

D. Representation arrangements

Q11. How will the Board address the concerns of the industry about the implementation of the revised or new disclosure requirements?

A11. The Board is prepared to provide flexibilities in the implementation of the relevant requirements to address the reasonable concerns of the industry provided that the intended objectives are met. The Board will consult the relevant parties, including the industry and the Consumer Council, when drafting the detailed requirements.

Q12. Why did the Board suggest retaining the option of making negative disclosures on an account basis for institutional customers?

A12. The Board believes that institutional customers are generally in a better position than ordinary retail depositors to understand the risks to their investments. Despite the suggestion of retaining the option of making negative disclosures to them on an account basis, regular reminders are suggested to be sent to them to improve the disclosures to them.

**Hong Kong Deposit Protection Board
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