

## CORPORATE GOVERNANCE

A strong and sound corporate governance framework is critical to the effectiveness of a DPS as a means to provide protection to depositors and to promote general banking stability. Therefore, apart from putting in place an efficient payout infrastructure and engendering a high level of public awareness and understanding of the DPS, the Board is fully committed to subscribing to sound corporate governance practices when administering the DPS, which in turn helps instil confidence in the public that the DPS will honour its commitments when a bank failure occurs.

Given the nature of the Board and the functions of the DPS, the corporate governance structure of the Board shares the characteristics of both a public organisation and a deposit insurer. The key elements of the Board's corporate governance structure interact and reinforce each other in supporting sound governance and are discussed in detail below.

## BOARD GOVERNANCE

The Board is an independent statutory body formed under the DPSO. It is subject to the oversight of the FS who is responsible for approving the Board's annual budget and tabling the Board's annual report to the LegCo.

The functions and composition of the Board are set out in the DPSO which provides that the Board shall comprise between six to nine members, all of whom are non-executive members. Except for the two ex officio members, all other members are appointed for a fixed renewable term, but for not more than six years in normal circumstances. These members are appointed mainly because they possess professional or occupational experience relevant to the operation of the DPS and are committed to participate in public service.

The proceedings of the Board are governed by the relevant provisions in the DPSO. The Board meets three to four times every year to deliberate policy issues crucial to the operation and development of the DPS. In 2010-2011, the Board met four times. On average, over 90% of members were present at each meeting.

Under the DPSO, the Board may appoint committees to assist it in performing its functions. Currently, an Investment Committee comprising members with experience and expertise in banking and investment matters has been formed to advise the Board on the investment of the DPS Fund. The Chairperson and a majority of the members of the Committee are also members of the Board.



## EXECUTIVE MANAGEMENT

Pursuant to section 6 of the DPSO, the Board shall perform its functions through the MA unless otherwise directed by the FS. This means the MA, acting as the executive arm of the Board, is responsible for managing the day-to-day operation of the DPS and assisting the Board in developing and implementing corporate policies and strategies.

The HKMA has assigned a team of staff to assist the Board in discharging its functions, headed by an Executive Director of the HKMA who is designated as the Chief Executive Director of the Board. The costs incurred by the HKMA for such purpose are reimbursed by the Board on a cost recovery basis in accordance with the provisions set out in the DPSO.

The powers that can be exercised by the Board in administering the DPS are specified in the DPSO. The Board has established clear guidelines on the division of responsibilities between the Board, the Management Team and other supporting divisions of the HKMA, and between the posts of the Chairperson and the Chief Executive Officer, which have been devised in line with good corporate governance practice. In general, strategic decisions relating to the operation and development of the DPS and those decisions requiring an exercise of the Board's powers under the DPSO have to be taken by the Board. The Management Team, on the other hand, is responsible for the day-to-day operation of the DPS according to the policies and principles endorsed by the Board.

## RISK MANAGEMENT AND AUDITS

The Board ensures that appropriate and prudent risk management systems for managing the risks in operating the DPS have been implemented and reviewed regularly. Assisted by the Internal Audit Division (IAD) of the HKMA, which is a division independent of the departments in the HKMA supporting the Board, the Management Team performs an annual assessment of the risks inherent in various operational areas of the Board, and evaluates whether appropriate controls are in place to safeguard the Board against the potential risks identified. Regular audit reviews of the operation of the DPS are conducted to ensure that the various internal control procedures of the Board have been properly adhered to, especially in relation to activities posing a relatively high level of risk to the Board. The findings of the risk assessment also form part of the basis of the IAD in formulating its plan for auditing the operation of the DPS.

The IAD reports its findings and recommendations directly to a meeting of the Board to ensure independence of communication of its review results.

The appointment of the external auditor of the DPS Fund requires the approval of the FS. The external auditor is responsible for auditing the annual statement of accounts of the DPS Fund prepared by the Board. The external auditor reports its findings directly to the Board.

The external auditor for the year under review was PricewaterhouseCoopers (PwC). Apart from auditing the statement of accounts for 2010-2011, PwC is also engaged by the Board in providing advisory services for enhancing the efficiency of payout procedures and as a potential candidate eligible for appointment as a project co-ordinator for managing payout services.

To ensure the independence and objectivity of the external auditor, the Board has put in place policies which restrict engaging PwC for non-audit services during the financial audit period which might potentially compromise the independence of the financial audit.



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### STANDARDS OF BEHAVIOUR AND ETHICS

In line with the good corporate governance standards applicable to deposit insurers, government representatives, including an HKMA officer, account for only a minority of the members of the Board. This allows the government and the banking supervisor to contribute to the operation of the DPS from the public administration and financial regulatory perspectives, but prevents the Board from overly exposing itself to the influence of the government and other financial safety-net players. The Management Team assigned by the HKMA to assist the Board is not responsible for prudential supervisory matters. The operation of the Board is insulated from the influence of the banking industry as no employees or directors of banks and banks' related companies can be appointed as a Board member.

The Board has established clear guidelines and procedures for declaration of interests and avoiding conflicts of interest. The relevant guidelines and procedures are set out in the DPSSO and the Codes of Conduct for members and staff of the Board. Board members are required to register in writing their personal interests when they first join the Board or its committees, and annually thereafter, to the secretary of the Board. The register of Members' interests is kept by the secretary and is available for public inspection. Senior staff members of the Board are required to make a declaration to the Chairperson of the Board annually. Specific procedures are available on how members and staff of the Board should report their interests and be excused from a decision making process.

### COMMUNICATIONS AND TRANSPARENCY

The Board is committed to open communication with the public and other stakeholders. It has set up an enquiry hotline to answer questions from the public, and maintains a website to facilitate access to information on different aspects of the DPS operations. In 2010-2011, the website registered over 150,000 visits. The Board also publishes an annual report, both for tabling to the LegCo and for public consumption. To keep the banking industry informed of the development of the DPS, the Board engages close discussion with the Consultative Committee on the Deposit Protection Scheme and the industry associations on policies and initiatives on the operation of the DPS that may have an impact on the banking industry.



## APPEAL MECHANISM

Certain decisions made by the Board and the MA under the DPSO can be the subject of an appeal to the Deposit Protection Appeals Tribunal. The Tribunal is chaired by a High Court judge appointed by the Chief Executive. Members of the Tribunal are appointed by the FS from a panel of three people appointed by the Chief Executive.

## REVIEW OF THE CORPORATE GOVERNANCE STRUCTURE

The Board has set a policy of reviewing its corporate governance structure regularly to ensure that it continues to adhere to sound corporate governance standards, despite any expansion or change in the scope of the Board's operations driven by the development of the DPS. Refinements are made between individual reviews as and when necessary as the Board keeps up with local and international best practices. In 2011, the IAD is conducting another review on the Board's corporate governance practices against the applicable standards promoted by international organisation and local professional body and authority.

