

A strong and sound corporate governance framework is crucial to ensure the effectiveness of the DPS. The Board is fully committed to establishing sound corporate governance practices for administering the DPS.

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 Legislative Council.

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 because they possess professional or occupational experience relevant to the operation of the DPS and are committed to serving the public.



The proceedings of the Board are governed by the relevant provisions in the DPSO. The Board meets about three times every year to deliberate policy issues crucial to the operation and on-going developments of the DPS. In 2015-2016, the Board met three times. On average, over 80% of members were present at each meeting.

Under the DPSO, the Board may appoint committees and advisory panels to assist it in performing its functions. Currently, an Investment Committee and an Advisory Panel on Communication and Public Education have been formed for this purpose.

The objective of the Investment Committee comprising members with experience and expertise in banking and investment matters is 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.

The objective of the Advisory Panel on Communication and Public Education is to advise the Board in developing its communication and public education strategy and implementation plan, and in monitoring the effectiveness and quality of the related activities. The Advisory Panel consists of the Chairperson of the Board and experts with extensive experience in public relations, communication and community education strategies.

Executive Management

Pursuant to section 6 of the DPSO, the Board shall perform its functions through the HKMA unless otherwise directed by the FS.

In this connection, the HKMA has assigned a number of professional and support staff to the Board to assist in discharging its functions. A senior officer of the HKMA is designated as the Chief Executive Officer of the Board to oversee all day-to-day functions of the Scheme. 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 among 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 principles and policies 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 are adequately implemented and reviewed regularly. The Internal Audit Division (IAD) of the HKMA performs periodic assessment of the risks inherent in various operational areas of the Board. The IAD also assesses whether appropriate controls are put in place by the Management Team to safeguard the Board against the potential risks identified. Regular audits of the operation of the DPS are conducted to ensure that the 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 results of the risk assessment are the basis for formulating the audit plan of the DPS.

The IAD reports its findings and recommendations directly to the Board to ensure the independence and effective communication of its results. In 2016, the IAD conducted a review of the operations and internal controls of the Board and no major weakness was identified from the review.

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 also reports the results and any findings directly to the Board.

The external auditor for the year under review was PricewaterhouseCoopers (PwC). To avoid conflicts of interest, the Board has a standing mechanism that preserves the independence of the financial audit undertaken by PwC if it is also engaged in non-financial audit engagements. Apart from auditing the statement of accounts for the financial year ended 31 March 2016, PwC, through a separate team of the audit engagement, was also engaged by the Board to provide advisory services for enhancing the payout processes and procedures. It is also on the panel list of the Board to provide project management and accounting services related to payouts.

Standards of Behaviour and Ethics

In line with the good corporate governance standards applicable to deposit insurers, only a minority of the members of the Board are from the Government and the HKMA. While such arrangement allows the Government and the banking supervisor to contribute to the management and operation of the DPS from the public administration and regulatory perspectives, it also enables valuable inputs from professionals outside the Government and avoids any undue influence exerted upon the Board by the Government and the HKMA. In addition, the Management Team assigned by the HKMA to assist the Board is not responsible for banking prudential supervisory matters. The operation of the Board is insulated from the influence of the banking industry as employees or directors of banks and banks' related companies are not eligible for appointment to the Board.

The Board has established clear guidelines and procedures for preventing any possible conflicts of interests, including the requirements of declaration of interests. The relevant guidelines and procedures are set out in the DPSO and the Codes of Conduct for members and staff of the Board. Board members are required to declare 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 in place on members and staff of the Board with respect to the detailed reporting requirements of their interests, and when, where applicable, excuse themselves from the 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. The Board also makes its annual report publicly available. To keep the banking industry informed of the developments of the DPS, the Board consults the banking industry through the Consultative Committee on the DPS and the industry associations on policies and initiatives relating to the operation of the DPS that may have an impact on the industry.

Appeal Mechanism

Certain decisions made by the Board and the HKMA 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 CE/HKSAR. Sittings of the Tribunal will be convened only on a need basis. The CE/HKSAR has appointed a panel of three persons who may be called upon as members of the Tribunal. So far, there has been no appeal case reported or reviewed by the Tribunal.

Review of the Corporate Governance Structure

The Board has a policy of reviewing its corporate governance structure regularly to ensure that it continues to adhere to the sound corporate governance standards, despite any expansion or change in the scope of the Board's operations. Refinements are made between individual reviews, as and when necessary, to facilitate the Board in keeping up with local and international best practices.