PRESS RELEASE

HKDPB publishes the report on the second phase of the review of the Deposit Protection Scheme

The Hong Kong Deposit Protection Board (the Board) today (Monday) published a report on the public consultation on the second phase of the review of the Deposit Protection Scheme (DPS). The report also contains the Board's decision on the adjustments to the funding arrangements for the DPS, which have not yet been concluded in the consultation on the first phase of the review.

Following the completion of the public consultation on the recommendations for enhancing deposit protection identified in the first phase of the review, the Board commenced consulting the public in mid-August 2009 on the recommendations identified in the second phase of the review, which focused on improving payout efficiency of the DPS and the transparency of its coverage. The two-month consultation period ended on 17 October 2009.

The recommendations on streamlining payout processes received a general support in the consultation. Comments received mainly requested that the flexibilities to be added to the payout processes be executed in a prudent, fair and transparent manner, and be accompanied by proper checks and balances. The spirit of keeping depositors well informed of the protection status of their deposits enshrined in the package of recommendations for enhancing the DPS representation regime also received wide recognition, including that of the industry. The Board noted the industry's comments that banks might encounter genuine difficulties in implementing some of the recommendations. The Board is prepared to provide flexibilities that can address the reasonable concerns of the industry, but, at the same time, will not compromise the achievement of the intended policy objectives.

In parallel with the consultation on the second phase of the review, the Board continued to discuss with the banking industry on the adjustments to the funding arrangements for the DPS to offset the cost impact of raising the DPS protection limit. After having discussed with the industry, the Board did not find it appropriate to cut the contribution rates[1] by as much as 75% as proposed by the industry as it will risk significantly under-charging banks holding the bulk of protected deposits and causing a significant delay for the DPS Fund to reach its target. However, to better eliminate the potential for cost transfer to depositors, the Board agreed to cut the rates by 65%, after taking into consideration the Board's own estimation and the notable growth in the deposit market since late last year when the Board's estimation was made.

Professor Andrew Chan Chi-fai, Chairman of the Board, said, "The completion

of the consultation on the second phase of the review marked the end of the two-phase review of the DPS commenced by the Board in the fourth quarter of 2008. We are truly thankful to the public, the industry and other parties in providing their valuable comments to us, especially under the relatively compact consultation schedule."

Mr Raymond Li, Chief Executive Officer of the Board, added, "Following the completion of the review and consultation work, the next milestone to achieve is the commencement of the legislative process to effect the changes concluded in the review. The Board has already commenced drafting the relevant legislative amendments. The Board will continue to seek support and comments from the relevant parties to ensure that the detailed requirements developed can meet their intended objectives and, at the same time, not too costly or burdensome to implement."

The Board intends to introduce the enhancements to the DPS concluded in both phases of the DPS review as soon as possible, preferably before the end of 2010 so that the public can benefit from an enhanced DPS when the full deposit guarantee provided by the Government expires.

The full report on the consultation on the second phase of the review can be found at the Board's website (www.dps.org.hk).

[1] contribution rates mean the rates for charging build-up levies on Scheme members during the initial, build-up phase of the DPS Fund.

Annex: Report on public consultation on strengthening the operation of the DPS

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Hong Kong Deposit Protection Board
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