

BY FAX & MAIL
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30 October 2002

Mr. David CARSE
Deputy Chief Executive
Hong Kong Monetary Authority
30th Floor, 3 Garden Road
Hong Kong

Re: Deposit Insurance Scheme

The Council has received a query concerning its submission of 6 June 2002 to the HKMA on the Deposit Insurance Scheme (DIS) from Dr. James Kung. Dr Kung was under the impression that the Council is in favour of establishing a separate entity (i.e. the Deposit Insurance Board) to wholly administer the DIS. The Council would like to clarify its response in this regard.

To recall, the Council submitted that it supports the establishment of a statutory independent Deposit Insurance Board to have responsibility for administering the DIS. The reason being that a degree of separation in terms of governance between those persons appointed to the Board and those persons appointed to the supervisory authority avoids a conflict of interest and provides greater accountability and transparency to the public.

Such an arrangement should also comprise a majority of lay members on the Deposit Insurance Board to ensure sufficient independence, and allow for direct consumer representation, in addition to banking and government interests. Appointment to the Board should be honorary, in other words, the Board members would be serving on a voluntary non-paid basis.

The Council agreed with the HKMA's Consultant that the DIS should confine its role largely to that of a paybox, and its size should be kept at a minimal level in order to save costs, given the relatively small size of the Hong Kong market and the comparative rarity of bank failures.

With regard to the functioning of the DIS, in terms of the day to day administration of the scheme, and when a situation arises requiring the scheme to be activated and payments made to depositors, this should rest with the public sector. For example rather than having any staff appointed to the DIS, as distinct from honorary Board appointments, the administrative functions could be carried out by existing HKMA

staff. The Council supports this form of public administration, because depositors may perceive a lack of government participation in that aspect as a less credible form of deposit insurance. It would also be consistent with ensuring that the DIS is maintained at as low a cost as possible.

Should you have any queries about this matter please feel free to contact me on 2856 8585.

Mrs. CHAN WONG Shui
Chief Executive

CWS/RC/VT

c.c. - Dr. James KUNG, Chekiang First Bank Ltd.
- Mr. Tony Miller, Permanent Secretary for the Financial Services