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Hong Kong SAR: Full Deposit Guarantee[1]

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Abstract

Following a run on Hong Kong's fifth-biggest bank in September 2008, the Hong Kong government announced that it would use its Exchange Fund to extend full insurance temporarily to depositors at approved banks. The existing Deposit Protection Scheme (DPS) would continue to insure the first 100,000 Hong Kong dollars (HKD; about USD 13,000) per depositor at each bank; the new program would cover the rest. It also covered a broader set of institutions. The Hong Kong Monetary Authority (HKMA) administered the program, overseen by the Hong Kong Deposit Protection Board (HKDPB); the HKMA was also responsible for managing the Exchange Fund, a standing reserve that was established in 1935. The Full Deposit Guarantee insured HKD 6 trillion during its operation. No claims were ever made. Upon its scheduled expiration on December 31, 2010, the government permanently replaced the existing DPS with an enhanced DPS, insuring deposits up to HKD 500,000.

Keywords: account guarantee, Exchange Fund, Full Deposit Guarantee, Global Financial Crisis, Hong Kong

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[1] This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering account guarantee programs. Cases are available from the *Journal of Financial Crises* at https://elischolar.library.yale.edu/journal-of-financial-crises/.

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Overview

In 2008, following the collapse of Lehman Brothers and the bailout of the American International Group (AIG) in the US, financial uncertainty spread across the globe, including to Hong Kong (HKDPB 2009c). The Bank of East Asia, Hong Kong's fifth-largest bank, experienced a run on September 24. Depositors feared it had exposures to Lehman and AIG (Chu 2011; Marks and Yao 2008).[4] Australia and New Zealand announced deposit insurance schemes on October 12 to reassure depositors (Reserve Bank 2008; Rudd 2008).[5] At the time, the Hong Kong Deposit Protection Board (HKDPB) administered the Deposit Protection Scheme (DPS), which guaranteed 100,000 Hong Kong dollars (HKD; roughly USD 13,000) per depositor at each bank (HKMA 2009a; Marks and Yao 2008).[6] It covered licensed institutions, which were automatically enrolled, and insured both HKD and foreign currency deposits (HKDPB 2009c). The pre-2008 guarantee did not cover deposits with a maturity longer than five years, structured deposits, bearer instruments, and other non-deposit products (HKDPB 2009c). The Deposit Protection Scheme Fund (DPS Fund) was funded through fees paid by insured institutions (Legislative Council 2004, articles 14-15).

On October 14, 2008, Hong Kong's financial secretary announced that the Hong Kong Monetary Authority (HKMA), Hong Kong's

Key Terms

Purpose: To "further strengthen confidence in Hong Kong's banking system" and "to stabilise the banks' deposit base as a source of funding over the next two years and provide comfort to banks on the availability of additional capital, thereby helping to restore the normal functioning of the interbank market"	
Launch Dates	Announcement: Oct. 14, 2008 Authorization: Oct. 14, 2008 Operation: Oct. 14, 2008
End Dates	Dec. 31, 2010
Eligible Institutions	Authorized Institutions in Hong Kong and some non-Authorized Institutions
Eligible Account(s)	Most deposits held by Authorized Institutions
Fees	No additional fees. HKMA used the Exchange Fund to fund the program
Size of Guarantee	Unlimited
Coverage	HKD 6 trillion
Outcomes	No claims made
Notable Features	Hong Kong coordinated its exit strategy with Malaysia and Singapore The Full Deposit Guarantee covered institutions not eligible for the pre-crisis guarantee

[4] The Bank of East Asia was sufficiently liquid to survive the bank run on September 24, 2008. The Hong Kong Monetary Authority took preemptive action to increase confidence in the financial system, injecting HKD 338 million into money markets. Li Ka-shing, a prominent Hong Kong billionaire, also helped restore confidence in the Bank of East Asia by purchasing its shares on the market (Bradsher 2008; Wong and Tang 2008).

[5] Australia's Financial Claims Scheme guaranteed deposits of 1 million Australian dollars for free (Rudd 2008). From 2008 to 2010, New Zealand's Crown Retail Deposit Guarantee Scheme guaranteed deposits of 1 million New Zealand dollars (OAG 2011).

[6] On October 15, 2008, USD 1 was equivalent to HKD 7.76, per Yahoo Finance.

central bank and banking regulator, would use the Exchange Fund to temporarily cover all deposit balances. It also announced the Contingent Bank Capital Facility (CBCF) to provide capital to banks. In the announcement, the financial secretary stressed that these measures were solely preemptive (HKMA 2008a; Tsang 2008).

This case study focuses on the temporary Full Deposit Guarantee (Tsang 2008). It expanded upon the existing DPS, increasing the guarantee to cover all deposit account balances, even those of more than HKD 100,000 (HKDPB n.d.a). Like the DPS, it guaranteed most deposits held in approved institutions, with the exception of secured deposits, structured deposits, bearer instruments, and offshore deposits (HKMA 2009a; HKMA 2010b). The HKMA and the HKDPB administered the program, consistent with the DPS Ordinance of 2004 (Legislative Council 2004, article 6[1-5]; HKMA 2009a).

The Full Deposit Guarantee was backed by the government's Exchange Fund through its existing HKD 40 billion standby credit facility with the HKDPB's DPS Fund (HKDPB 2009c; HKMA 2009c; Marks and Yao 2008; Tsang 2008). At the time of the Full Deposit Guarantee's operation, the Exchange Fund had a balance of HKD 2.1 trillion (Li 2010). The Exchange Fund Ordinance of 1935 established the Exchange Fund, which the Hong Kong government used to maintain the exchange value of Hong Kong's currency (Legislative Council 1935, 2). The financial secretary controlled the Exchange Fund and exercised it in consultation with the Exchange Fund Advisory Committee (Legislative Council 1935, 2). If an institution were to fail, the HKDPB would cover the first HKD 100,000 (HKDPB n.d.a). The Exchange Fund, administered by the HKMA, would then cover all deposits in excess of HKD 100,000 (HKDPB n.d.a). The Full Deposit Guarantee covered an estimated HKD 6 trillion in deposits in total.

On December 31, 2010, the government terminated the Full Deposit Guarantee as scheduled (HKMA 2010b). No claims were made under the program (FSB 2012; Wong and Tang 2008).

Upon its expiration, the government replaced the DPS with the enhanced DPS, which became a permanent feature of Hong Kong's financial system (HKMA 2010a). Like the DPS, the enhanced DPS was administered by the HKMA, under the HKDPB's oversight (Legislative Council 2004, article 6; HKMA 2010a). The program, which went into effect on January 1, 2011, guaranteed up to HKD 500,000 per deposit account (HKMA 2010a). It covered deposits and "deposits pledged as securities" (HKMA 2010a). The HKMA reported that the new scheme would cover about 90% of all bank deposits (HKMA 2010a).

Summary Evaluation

The Hong Kong government implemented the Full Deposit Guarantee to strengthen confidence in Hong Kong's banking system (Tsang 2008). The HKMA consistently stressed that the measure was solely preemptive (HKMA 2008a; Tsang 2008). The HKMA noted that although it expected its guarantee to be successful, its measures were "not meant to resist movements in asset prices," which would affect the global economy, including Hong Kong's (HKMA 2008e). During its operation, no claims were made on the Full Deposit Guarantee (FSB 2012).

Observers have attributed the program's success to various factors. First, the HKMA conducted a widespread publicity campaign to promote awareness of the program (IADI 2012). The central bank used similar campaigns to ensure that depositors knew when the Full Deposit Guarantee would be phased out (HKMA 2010a).

Second, the HKMA ensured that the program was transparent, requiring that depositors be notified of any uninsured accounts (HKMA 2009a; HKMA 2009b). Moreover, the HKMA publicly addressed questions regarding the program's implementation and its effect on specific accounts (HKMA 2009b).

Third, the HKMA cooperated with authorities in Malaysia and Singapore, which had similar temporary deposit insurance schemes, to formulate an exit strategy (IADI 2012; Tripartite Working Group 2009). This regional cooperation helped ensure a smooth crisis response and mitigated potential funding risks, due to a migration of funds (HKMA 2010c; IADI 2012).

Fourth, the Financial Stability Board (FSB) commended the Hong Kong government for its use of depositor databases and its regular audits of banks, which contributed to the program's success (FSB 2012).

Nevertheless, the Full Deposit Guarantee faced various critiques. First, there were moral hazard concerns associated with the guarantee (HKMA 2008c). The HKMA acknowledged that the program could introduce distortions to the banking system, providing incentives for banks to relax their prudential management standards (HKMA 2008e). In other words, the HKMA worried about moral hazard risks, or the notion that banks might increase risk due to the guarantee or relax risk controls (HKMA 2008c). The HKMA attempted to limit moral hazard concerns by enhancing its monitoring activities (HKMA 2008c; HKMA 2008e).

Second, the FSB questioned the HKMA's readiness to make potential payouts, given that no claims had ever been made on any of its previous deposit guarantee schemes, including the DPS (FSB 2012). Because of this lack of experience, the FSB recommended that Hong Kong hold simulation exercises to ensure payout readiness (FSB 2012). Hong Kong has since conducted such exercises, including one in 2018 (IMF 2021).

Third, the HKMA noted that the use of the Exchange Fund to back the Full Deposit Guarantee led to potential credit risks for the fund (HKMA 2008d). Still, the HKMA reiterated that it did not expect to exercise the guarantee (HKMA 2008d).

Context: Hong Kong SAR 2008–2010	
GDP (SAAR, nominal GDP in LCU converted to USD)	$219.31 billion in 2008 $214.05 billion in 2009 $228.66 billion in 2010
GDP per capita (SAAR, nominal GDP in LCU converted to USD)	$31,516 in 2008 $30,697 in 2009 $32,550 in 2010
Sovereign credit rating (five-year senior debt)	Data for 2008–2009: Moody's: Aa2 S&P: AA+ Fitch: AA+ Data for 2010: Moody's: Aa1 S&P: AAA Fitch: AA+
Size of banking system	$330.26 billion in 2008 $374.39 billion in 2009 $465.30 billion in 2010
Size of banking system as a percentage of GDP	150.59% in 2008 174.91% in 2009 203.49% in 2010
Size of banking system as a percentage of financial system	100% in 2008 100% in 2009 100% in 2010
Five-bank concentration of banking system	79.46% in 2008 78.28% in 2009 78.78% in 2010
Foreign involvement in banking system	91% in 2008 92% in 2009 92% in 2010
Government ownership of banking system	Data not available for 2008 Data not available for 2009 Data not available for 2010
Existence of deposit insurance	Yes, in 2008 Yes, in 2009 Yes, in 2010
Sources: Bloomberg; World Bank Global Financial Development Database; World Bank Deposit Insurance Dataset.	

Key Design Decisions

1. **Purpose: Hong Kong policymakers introduced the Full Deposit Guarantee to preemptively strengthen depositor confidence and to compete with international counterparts.**

Following the collapse of Lehman Brothers and the bailout of AIG, on September 24, 2008, the Bank of East Asia, Hong Kong's fifth-largest bank, experienced a run, as depositors feared it had exposures to Lehman and AIG (Chu 2011; Marks and Yao 2008). On October 12, 2008, Australia and New Zealand announced guarantees for their depositors (Reserve Bank 2008; Rudd 2008). In light of these conditions, on October 14, 2008, Hong Kong's financial secretary announced the Full Deposit Guarantee, which was a preemptive measure to "further strengthen confidence in Hong Kong's banking system" (Tsang 2008).

2. **Part of a Package (A): The Hong Kong government introduced the Full Deposit Guarantee alongside the CBCF.**

On October 14, 2008, Hong Kong's financial secretary announced two preemptive measures to "further strengthen confidence in Hong Kong's banking system" (Tsang 2008). One measure was the CBCF, which was meant to provide capital to approved banks if necessary (Tam and Kelly 2021; Tsang 2008; Yam 2008). The second measure was the Full Deposit Guarantee, which provided an unlimited guarantee on most deposit accounts in eligible institutions (Tsang 2008). The Full Deposit Guarantee expanded upon the HKDPB's guarantee in the existing DPS, which insured HKD 100,000 per depositor per institution (HKDPB n.d.a; Legislative Council 2004, article 15).

Part of a Package (B): The Hong Kong government later coordinated an exit strategy with Malaysia and Singapore.

Malaysia and Singapore introduced unlimited guarantees following the Full Deposit Guarantee's announcement (IADI 2012; Li 2010; Marks and Yao 2008). Although their announcements were not initially coordinated, the governments later formed the Tripartite Working Group to synchronize their exit strategies (Tripartite Working Group 2009). This regional cooperation helped ensure a smooth crisis response—namely, that there would be no incentive for depositors to move their funds from one country to another, in the hope of taking advantage of a guarantee (IADI 2012).

3. **Legal Authority: Hong Kong's pre-crisis deposit scheme was established using the DPS Ordinance, Cap. 581, of 2004. The financial secretary, using his authority under the Exchange Fund Ordinance, Cap. 66, expanded these protections.**

Hong Kong established the DPS, its pre-crisis deposit insurance scheme, with the DPS Ordinance, Cap. 581, of 2004 (Legislative Council 2004, article 3). The HKMA administered the DPS, overseen by the HKDPB (HKMA 2004; Legislative Council 2004, article 3). The HKDPB guaranteed HKD 100,000 held in accounts at Authorized Institutions through the existing DPS (HKDPB n.d.a; Legislative Council 2004, articles 4, 11-12). This guarantee covered licensed institutions, which were automatically enrolled, and insured HKD and foreign currency deposits (HKDPB 2009c). All institutions with banking licenses were automatically enrolled as “Authorized Institutions” and covered under the pre-crisis DPS (Legislative Council 2004, article 12). Article 13 of the DPS Ordinance exempted banks incorporated outside Hong Kong and deposits that were protected by another guarantee scheme (Legislative Council 2004, article 13). The pre-crisis DPS insured HKD 100,000 per depositor per bank and charged fees to participating institutions, which funded the DPS Fund (Legislative Council 2004, article 15).

The Full Deposit Guarantee was backed by the existing HKD 40 billion standby facility from the government’s Exchange Fund (Marks and Yao 2008; Tsang 2008). Articles 6(3) and 6(4) of the DPS Ordinance, Cap. 581, of 2004 allowed the HKMA, under the financial secretary, to utilize the Exchange Fund to cover expenses associated with a guarantee. The Exchange Fund was established in 1935, pursuant to the Exchange Fund Ordinance (Legislative Council 1935, 1–2). The Hong Kong government funded the Exchange Fund (Legislative Council 1935, 1–2). The Exchange Fund’s purpose was to maintain the exchange value of Hong Kong’s currency and to maintain “Hong Kong as an international financial centre,” which allowed the financial secretary to expand the guarantee scheme (Legislative Council 1935, 2). The Exchange Fund could also be used to “maintain the stability and the integrity of the monetary and financial systems of Hong Kong” (Legislative Council 1935, 2).

4. Administration: The HKMA administered Hong Kong’s existing deposit insurance scheme, and it also administered the Full Deposit Guarantee.

The HKMA administered Hong Kong’s existing deposit insurance scheme under the DPS Ordinance, which assigned the HKMA to be the executive arm of the HKDPB (Legislative Council 2004, article 6[1]). Given its control over the Exchange Fund, the HKMA also administered the Full Deposit Guarantee (Legislative Council 2004, articles 4, 6[1]).

As Hong Kong’s central bank and primary bank regulator, the HKMA was well suited to administer the guarantee, given its depositor databases and its regular audits of banks, which contributed to the program’s success (FSB 2012). The financial secretary, as the ex-officio head of the HKMA Exchange Fund Advisory Committee, was also responsible for administering the program (Legislative Council 1935, 2).

5. Governance: The HKMA reported to the HKDPB in administering the deposit scheme; it also had an Exchange Fund Advisory Committee reviewing the use of the Exchange Fund. Both were subjected to audits.

The HKDPB was a statutory body under the DPS Ordinance of 2004. This ordinance stipulated the governance of the HKDPB’s fund (Legislative Council 2004, articles 18-20). The financial secretary appointed the eight members of the board. It included two ex-officio members representing the HKMA and the secretary for financial services and the treasury. The other members served two-year terms and had broad backgrounds in accounting, banking, consumer protection, insolvency law, investment, information technology, and public administration (HKDPB 2009c).

Pursuant to the ordinance, the HKDPB was required to maintain records of all transactions and publish a year-end report, which was submitted to the financial secretary (Legislative Council 2004, articles 18, 20). Article 19 also allowed the financial secretary to appoint an auditor to audit the HKDPB (Legislative Council 2004, article 19).

The financial secretary controlled the Exchange Fund and exercised it "in consultation with an Exchange Fund Advisory Committee" (Legislative Council 1935, 2). The financial secretary served as the Exchange Fund Advisory Committee's ex officio chairman and appointed the committee's other members (HKMA 2008d). The committee advised the financial secretary with respect to the Exchange Fund, along with the HKMA's annual budget (HKMA 2008d).

6. Communication: The HKMA emphasized that the Full Deposit Guarantee was meant to reassure depositors but that such protections were solely preemptive.

On October 14, 2008, Hong Kong's financial secretary announced "two new precautionary measures to further strengthen confidence in Hong Kong's banking system," including the Full Deposit Guarantee (Tsang 2008). He stressed that these measures were solely preemptive (HKMA 2008a; Tsang 2008).

Following the announcement of the Full Deposit Guarantee, the HKMA required all Authorized Institutions to inform their depositors about the guarantee (HKMA 2008d). The HKMA monitored whether Authorized Institutions complied with this requirement (HKMA 2008d).

The HKMA also conducted a widespread publicity and educational campaign, which promoted awareness of the Full Deposit Guarantee and ensured that depositors knew when the program would be phased out (HKDPB 2009c; HKMA 2008d; HKMA 2010a; IADI 2012). For instance, Hong Kong released press releases to promote awareness of the program (HKDPB 2009a). The HKMA built upon previous publicity campaigns, which advertised on television, newspapers, radio, and the Internet (IADI 2012). By conducting such campaigns, the HKMA hoped to bolster confidence and thereby ensure financial stability (IADI 2012). Moreover, the HKMA addressed questions regarding the program's implementation and its effect on specific accounts (HKMA 2009b).

After the Global Financial Crisis (GFC), the HKMA and the HKDPB conducted a review of the pre-crisis DPS (HKDPB 2009b). The review included public consultations and resulted in an increase in the deposit cap from HKD 100,000 to HKD 500,000, beginning in 2011 (HKDPB 2009b; Li 2009).

7. **Size of Guarantees: The Full Deposit Guarantee covered eligible accounts with an unlimited guarantee.**

The existing DPS, which the HKDPB launched in 2006, guaranteed all deposits in licensed banks up to HKD 100,000 (HKDPB n.d.a). The HKMA, through the Full Deposit Guarantee, covered eligible accounts in Authorized Institutions of more than HKD 100,000 with an unlimited guarantee (HKDPB n.d.a). The HKMA also covered certain non-Authorized Institutions with an unlimited guarantee, using the Exchange Fund.

In the case of an Authorized Institution's failure, the HKDPB covered the first HKD 100,000 and the Exchange Fund, administered by the HKMA, then immediately covered any amounts above HKD 100,000 (HKDPB n.d.a).

8. **Source(s) and Size of Funding: The HKDPB's DPS Fund covered the first HKD 100,000 of each depositor's funds, and the Exchange Fund covered the rest through its existing HKD 40 billion standby facility with the HKDPB.**

Hong Kong's government created the HKDPB in 2004, and it began building the DPS Fund in 2006 through the collection of fees paid by Authorized Institutions (HKDPB 2010; Legislative Council 2004, articles 14-15). The HKDPB targeted a fund size of 0.3% of total insured deposits, which in 2008 would have been about HKD 1.5 billion; in March 2009, the DPS Fund had accumulated total assets of HKD 963 million through those fees (HKDPB 2009c).

Before the GFC, the Exchange Fund provided the HKDPB with a HKD 40 billion standby credit facility, to be drawn upon in the case of an eligible institution's failure (HKDPB 2009c; HKMA 2009c). That standby facility remained in place when the HKMA announced that it would use the Exchange Fund to back deposit insurance for accounts in excess of HKD 100,000. The Exchange Fund was funded by the government of Hong Kong (Marks and Yao 2008; Tsang 2008). At the time of the announcement of the Full Deposit Guarantee, the Exchange Fund had a balance of HKD 2.1 trillion (Li 2010).

The Exchange Fund was established in 1935 by the Exchange Fund Ordinance and funded by the government (Legislative Council 1935, 1–2). The Exchange Fund's purpose was to affect the exchange value of Hong Kong's currency and to maintain "Hong Kong as an international financial centre" (Legislative Council 1935, 2). The financial secretary controlled the Exchange Fund and exercised it "in consultation with an Exchange Fund Advisory Committee" (Legislative Council 1935, 2).

If the Exchange Fund were insufficient, the HKMA could levy additional fees to repay the Exchange Fund and could use the DPS Fund to cover such payments (HKMA 2004).

9. **Eligible Institutions: All banks, which were already Authorized Institutions under the pre-crisis DPS, as well as some non-Authorized Institutions were automatically enrolled in the Full Deposit Guarantee.**

The Full Deposit Guarantee had two classes of eligibility. The first class included Authorized Institutions in Hong Kong (Tsang 2008). Under the DPS Ordinance, Cap. 581, of 2004, all institutions with banking licenses were automatically enrolled as Authorized Institutions and covered under the pre-crisis DPS (Legislative Council 2004, article 12). Article 13 of the DPS Ordinance set out exemption criteria for institutions, including whether a bank was incorporated outside Hong Kong and whether the deposits were protected by another guarantee scheme (Legislative Council 2004, article 13). These institutions were covered by the pre-2008 DPS up to HKD 100,000; the Exchange Fund covered balances of more than HKD 100,000 (HKDPB n.d.a). The HKMA required these Authorized Institutions to write to depositors about the Full Deposit Guarantee's expiry (Datwani 2010a).

The second category included "Restricted-License Banks and Deposit-Taking Companies as well as Licensed Banks" (Tsang 2008).[7] These institutions were fully covered by the Exchange Fund, as opposed to the Hong Kong DPS Fund (HKDPB n.d.a).

The Full Deposit Guarantee also applied to deposits held in HKD and other currencies, which had been covered under the pre-crisis DPS, along with deposits "held with Hong Kong branches of overseas institutions" (HKDPB 2009c; Tsang 2008). These institutions were all automatically enrolled in the Full Deposit Guarantee (Tsang 2008).

At the end of 2009, the Full Deposit Guarantee covered 140 Authorized Institutions (HKDPB 2009c). This included 23 locally incorporated banks and 117 foreign bank branches (HKDPB 2009c).

10. Eligible Accounts: Although the Full Deposit Guarantee covered most deposit accounts, some were excluded from the guarantee.

The Full Deposit Guarantee guaranteed most deposits held in approved institutions (HKMA 2009a; HKMA 2010b). However, several deposit-like accounts were excluded from the program, including secured deposits, structured deposits (a type of derivative linked to currencies or equities), bearer instruments, and offshore deposits (HKMA 2009a). Some deposits, like time deposits exceeding a maturity of five years, were also excluded from the Full Deposit Guarantee because they were viewed as less liquid than other types of deposits (HKMA 2009b). Hong Kong did not guarantee such deposits in its pre-crisis DPS (HKMA 2009b). The government also did not guarantee any "offshore deposits" collected by foreign offices of Authorized Institutions (Datwani 2010b).

The HKDPB reported that in 2008, deposits in Authorized Institutions expanded by 2% from 2007 (HKDPB 2009c). It noted that this growth was "benign" compared to the 7% growth between 2006 and 2007 (HKDPB 2009c). The HKDPB also noted that large and retail banks comprised the majority of deposits (HKDPB 2009c).

[7] "Restricted-License Banks" refer to institutions that are engaged in merchant banking or capital market activities and can take deposits of HKD 500,000 and above of any maturity (HKMA 2008b). "Deposit-Taking Companies" refer to institutions that, while associated with banks, engage in specialized activities—such as consumer finance and commercial lending—and can take deposits of HKD 100,000 and above with an original term maturity of three months (HKMA 2008b). "Licensed Banks," as defined by the HKMA, refer to institutions that operate current and savings accounts, accept deposits of any size or maturity, pay or collect checks for customers, and use the title "bank" without restriction (HKMA 2008b).

11. Fees: There were no additional fees associated with the Full Deposit Guarantee.

No additional fees were associated with the Full Deposit Guarantee; instead, Hong Kong used the Exchange Fund to expand its deposit guarantee (Tsang 2008).

The fees associated with the HKDPB's guarantee for Authorized Institutions were determined by an institution's "amount of protected deposits" and the "supervisory rating assigned to the Scheme member by the HKMA," according to Article 15 the DPS Ordinance (HKDPB n.d.b; Legislative Council 2004, article 15, schedule 4). These fees maintained the DPS Fund (Legislative Council 2004, articles 14-15). Authorized Institutions were required to submit an annual return with this information, which the HKDPB then used to calculate their fees (HKDPB 2009c).

In 2008, the HKDPB collected HKD 328 million in fees from Authorized Institutions, which funded the DPS Fund (HKDPB 2009c). In 2009, it collected HKD 340 million in fees (HKDPB 2009c). By March 2009, the DPS Fund had total assets amounting to HKD 963 million (HKDPB 2009c). In 2010, the HKDPB collected HKD 377 million in fees from Authorized Institutions (HKDPB 2010). Ninety-five percent of these fees were collected from the 20 largest Authorized Institutions (HKDPB 2009c; HKDPB 2010).

12. Process for Exercising Guarantee: In the event of a bank failure, the HKDPB and the HKMA immediately covered depositor losses, with the HKDPB then acting as the bank's receiver.

If an institution were to fail, its administrators would alert the HKDPB and the HKMA. For Authorized Institutions in Hong Kong, compensation would be triggered in response to either a court order or consultation from the HKMA, which would direct the HKDPB to pay depositors (HKDPB 2009c; Legislative Council 2004, article 22). The HKDPB would set up an operation team, obtain depositor information, and cover the first HKD 100,000, using the DPS Fund (HKDPB n.d.a; HKDPB 2009c). The Exchange Fund, administered by the HKMA, would then immediately cover any amounts above HKD 100,000 (HKDPB n.d.a).

If the failed institution were a Restricted-License Bank or Deposit-Taking Company, the HKMA would use the Exchange Fund to cover all losses (HKDPB n.d.a). Pursuant to Article 32 of the DPS Ordinance, the HKDPB would become the bank's receiver and insurer, with the proceeds from liquidation covering losses (Legislative Council 2004, article 32).

13. Other Restrictions on Eligible Institutions/Accounts: Participating institutions were subject to heightened monitoring, to limit moral hazard.

Institutions participating in the Full Deposit Guarantee were subject to heightened surveillance (HKMA 2008c; HKMA 2008e). The HKMA increased its monitoring to limit moral hazard concerns (HKMA 2008c; HKMA 2008e).

14. Duration: The Full Deposit Guarantee ended on December 31, 2010, as initially scheduled.

The program ended as scheduled on December 31, 2010 (Datwani 2010a; HKMA 2010a). This coincided with the termination of similar guarantees in Singapore and Malaysia (IADI 2012; Tripartite Working Group 2009).

In light of global financial conditions, and the run on the United Kingdom's Northern Rock, the HKDPB initiated a review of the pre-crisis DPS (HKDPB 2009c). The review found that the pre-crisis cap of HKD 100,000 covered less than 80% of depositors (HKDPB 2009c). The review also recommended extending the pre-crisis DPS's protections to additional deposits (HKDPB 2009c).

As such, the DPS was replaced by the enhanced DPS, which became a permanent feature of Hong Kong's financial landscape (HKMA 2010a). The enhanced DPS was administered by the HKDPB (HKMA 2010a). To formulate this enhanced scheme, the HKDPB worked to publicly review the previous scheme and worked alongside the Department of Justice to develop the bill (HKDPB 2010). The enhanced DPS went into effect on January 1, 2011, and guaranteed HKD 500,000 (HKMA 2010a). It covered deposit accounts and "deposits pledged as securities" (HKMA 2010a). These protections, the HKMA said, would cover about 90% of all bank deposits (HKMA 2010a).

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