

# **Enhanced deposit protection in the event of a merger or acquisition involving Scheme members**

## **Questions and Answers**

### **Background**

The Legislative Council passed the Deposit Protection Scheme (Amendment) Bill 2024 on 3 July 2024 to enhance the Deposit Protection Scheme (DPS) in a number of aspects. One of the enhancements is to provide enhanced deposit protection in the event of a qualifying arrangement, i.e. a merger, an acquisition or any other similar transactions that involve a transfer of protected deposits from a Scheme member to the resulting Scheme member on the effective date of the merger or acquisition (material date).<sup>1</sup> Depositors who have pre-existing protected deposits with two or more of the relevant Scheme members immediately before the merger or acquisition will be eligible for enhanced protection limit, which means that on top of the standard protection limit available at the resulting Scheme member, they will have an additional coverage for the protected deposits transferred from each of the original Scheme member(s) up to the standard protection limit for a period of six months starting from the material date, which will be lengthened if a time deposit is involved and its original maturity date falls after the expiry of the six-month period (enhanced protection period).<sup>2</sup>

This set of Questions and Answers, together with a number of examples at the **Appendix**, serve to facilitate Scheme members' understanding of this enhancement and relevant new requirements under the DPS Ordinance.<sup>3</sup>

### **Q1. What arrangements will qualify for the time-limited enhanced deposit protection in sections 27A to 27C of the DPS Ordinance?**

A1. The enhanced deposit protection in sections 27A to 27C of the DPS Ordinance applies to cases where there is (i) a merger of two or more Scheme members, or (ii) an acquisition of a Scheme member's deposit-taking business by another Scheme member, involving a transfer of protected deposits for reasons other than a resolution strategy<sup>4</sup> and taking effect on or after 1 January 2025.

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<sup>1</sup> The terms "qualifying arrangement", "resulting Scheme member" and "material date" are defined under section 27A of the DPS Ordinance.

<sup>2</sup> The terms "enhanced protection limit" and "enhanced protection period" are defined under section 27B of the DPS Ordinance.

<sup>3</sup> The data retention and submission requirements in the event of a merger or acquisition involving Scheme members are set out separately in the Guideline on Information Required for Determining and Paying Compensation.

<sup>4</sup> If a resolution strategy is initiated, an additional coverage for protected deposits transferred from a non-viable Scheme member to a viable Scheme member is provided separately under the Financial Institutions (Resolution) Ordinance (FIRO). Please refer to section 12 of Schedule 4 to the FIRO for more details.

**Q2. When will the enhanced protection period commence and how long will it last?**

A2. The enhanced protection period will commence from the effective date of merger or acquisition, i.e. the date on which the merger or acquisition takes effect and protected deposits are transferred to the resulting Scheme member. It will last for six months unless a time deposit with original maturity date beyond the six-month period is involved, in which case the enhanced protection period for the time deposit will be until its original maturity date.

**Q3. Who will be eligible for the enhanced deposit protection?**

A3. Affected depositors, i.e. depositors who have pre-existing protected deposits with two or more Scheme members involved in the qualifying arrangement immediately before the effective date of merger or acquisition, will be eligible for enhanced deposit protection for a time-limited period.

**Q4. What are the notification requirements for the Scheme members involved in a qualifying arrangement?**

A4. The Scheme members involved in the qualifying arrangement should on or before the effective date of merger or acquisition:

- (i) notify the affected depositors about the enhanced deposit protection arrangement as a result of the merger or acquisition; and
- (ii) inform the Hong Kong Deposit Protection Board (the Board) of the merger or acquisition, including information about the contact person(s) of the Scheme members for matters related to the merger or acquisition in case of inquiry, in writing (via email to [dps\\_merger@dps.org.hk](mailto:dps_merger@dps.org.hk)) before sending the notice referred to in (i) above to the affected depositors, and then update the Board after such notice has been issued.

**Q5. What are the acceptable types of written notice and the required information to be included in the written notice to depositors affected by a qualifying arrangement?**

A5. Scheme members should adopt effective means of notification which would provide reasonable assurance that their customers will be informed of the relevant arrangement, such as via the website of the Scheme members involved, major newspapers, letter, e-mail and/or SMS message. The written notice should include, but not limited to, the following information:

- (i) the types of depositors eligible for the enhanced protection;
- (ii) description about the enhanced protection<sup>5</sup>;

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<sup>5</sup> The section “background” contains a general description of the enhanced protection arrangement for reference by Scheme members.

- (iii) the date on which the enhanced protection takes effect (an indicative or target date may be provided by a Scheme member if the effective date of merger or acquisition is not yet confirmed at the time of issuance of the notice); and
- (iv) the duration of the enhanced protection.

**Q6. Will there be any cost implications for Scheme members due to the enhanced deposit protection?**

A6. No, there will not be any cost implications for Scheme members due to the enhanced deposit protection. Since the enhanced protection is only a temporary arrangement lasting for six months generally, the Board does not impose an additional levy on the deposits for the duration of the enhanced coverage. Scheme members will continue to pay contribution based on the amount of protected deposits with reference to the standard protection limit on 20 October every year.

## Appendix

The following examples show how compensation under the Scheme is calculated for persons having protected deposits with relevant Scheme members immediately before a merger or acquisition.

### Example 1 – Depositors having savings deposits with two or more relevant Scheme members immediately before a merger or acquisition

Assume Bank A merges with Bank B and all deposits are transferred from Bank A to Bank B on 1 January 2025 (i.e. effective date of merger).

- (a) If a depositor has HK\$300,000 at Bank A and HK\$500,000 at Bank B immediately before the effective date of merger, the depositor will be entitled to a maximum compensation of HK\$1.1 million (i.e. HK\$300,000 + HK\$800,000) at the consolidated Bank B during the six-month period.

<b>Bank A → Bank B</b>	<b>Amount (HK\$)</b>	<b>Enhanced protection limit (HK\$) at consolidated Bank B after the date of merger</b>	
	<b>2024</b>	<b>2025</b>	
	<b>31-Dec</b>	<b>Jan - Jun</b>	<b>Jul onwards</b>
Savings deposit at Bank A	300,000	300,000	
Savings deposit at Bank B	500,000	800,000	
Deposit at consolidated Bank B on the date of merger	800,000	1,100,000	800,000

- (b) If another depositor has HK\$900,000 at Bank A and HK\$800,000 at Bank B immediately before the effective date of merger, the depositor will be entitled to a maximum compensation of HK\$1.6 million (i.e. HK\$800,000 + HK\$800,000) at the consolidated Bank B during the six-month period.

<b>Bank A → Bank B</b>	<b>Amount (HK\$)</b>	<b>Enhanced protection limit (HK\$) at consolidated Bank B after the date of merger</b>	
	<b>2024</b>	<b>2025</b>	
	<b>31-Dec</b>	<b>Jan - Jun</b>	<b>Jul onwards</b>
Savings deposit at Bank A	900,000	800,000	
Savings deposit at Bank B	800,000	800,000	
Deposit at consolidated Bank B on the date of merger	1,700,000	1,600,000	800,000

**Example 2** – Depositors having both savings and time deposits with two or more relevant Scheme members immediately before a merger or acquisition

Assume Bank A merges with Bank B and all deposits are transferred from Bank A to Bank B on 1 January 2025 (i.e. effective date of merger).

If a depositor has a deposit portfolio at Bank A immediately before the effective date of merger, containing a savings deposit and two time deposits with original maturity dates beyond six months after the effective date of merger, the enhanced protection period will be extended.

Bank A → Bank B	Amount (HK\$)	Enhanced protection limit (HK\$) at consolidated Bank B after the date of merger			
	2024	2025			
	31-Dec	Jan - Jun	Jul - Sep	Oct	Nov onwards
Savings deposit at Bank A	200,000	800,000	700,000	400,000	800,000
Time deposit at Bank A (Maturity date: 30/09/2025)	300,000				
Time deposit at Bank A (Maturity date: 31/10/2025)	400,000				
Savings deposit at Bank B	600,000	800,000			
Time deposit at Bank B (Maturity date: 30/11/2025)	500,000				
Deposit at consolidated Bank B on the date of merger	2,000,000	1,600,000	1,500,000	1,200,000	800,000

During the six-month period (i.e. January to June 2025), the enhanced protection limit will be HK\$1.6 million as the depositor will have an additional coverage for all his / her protected deposits transferred from Bank A to Bank B (up to the standard protection limit) plus the standard protection limit originally available at Bank B (i.e. HK\$800,000 + HK\$800,000).

After the expiry of the six-month period, the additional coverage will only be available to those transferred time deposits with original maturity dates beyond the six-month period. Therefore, during July to September 2025, the enhanced protection limit will be HK\$1.5 million (i.e. HK\$700,000 + HK\$800,000). During October 2025, the enhanced protection limit will be reduced to HK\$1.2 million (i.e. HK\$400,000 + HK\$800,000). From November 2025 onwards, the protection available for the depositor at Bank B will revert to the standard protection limit.

**Example 3** – Depositors having deposits with only one of the relevant Scheme members immediately before a merger or acquisition

Assume Bank A merges with Bank B and all deposits are transferred from Bank A to Bank B on 1 January 2025 (i.e. effective date of merger).

If a depositor only has HK\$800,000 at Bank A and did not have any deposits at Bank B immediately before the effective date of merger, his/her maximum level of deposit protection will not be affected by the merger and will remain at the standard protection limit of HK\$800,000 after the merger.

Bank A → Bank B	Amount (HK\$)	Protection limit (HK\$) at consolidated Bank B after the date of merger
	2024 31-Dec	Jan 2025 onwards
Savings deposit at Bank A	800,000	Not applicable
<u>No</u> deposit at Bank B	0	
Deposit at consolidated Bank B on the date of merger	800,000	800,000