

Hong Kong Deposit Protection Board

Information Note on Reviewing the Information Required for Determining the Enhanced Protection Limit Following a Qualifying Arrangement of Scheme Members

PURPOSE

This note sets out the details of arrangement adopted by the Hong Kong Deposit Protection Board (the “Board”) for reviewing the information required for determining the enhanced protection limit of affected depositors related to a qualifying arrangement¹ of Scheme members where the material date¹ of the arrangement falls on or after 1 January 2025 and the related information retention mechanism².

BACKGROUND

2. The Legislative Council passed the Deposit Protection Scheme (Amendment) Bill 2024 on 3 July 2024 to enhance the Deposit Protection Scheme (“DPS”) on a number of aspects. One of the enhancements is to provide a time-limited enhanced protection limit after a qualifying arrangement³

¹ The terms “qualifying arrangement”, “resulting Scheme member”, “material date” and “enhanced protection period” are defined under sections 27A and 27B of the Deposit Protection Scheme Ordinance (“DPSO”).

² Apart from retention requirements for the relevant information, Scheme members involved in a qualifying arrangement are required to notify the Board and every depositors of the Scheme member affected by the qualifying arrangement in writing on or before the material date of the qualifying arrangement. Scheme members may refer to the Questions and Answers on the DPS website for more information about the notification requirements.

³ Pursuant to section 27A(3) of the DPSO, a qualifying arrangement involves the transfer, on the date on which the arrangement takes effect, of protected deposits maintained with any of the parties to the arrangement that is a Scheme member to another party to the arrangement to become protected deposits maintained with the resulting Scheme member (for reasons other than a resolution strategy); and the resulting Scheme member remains, or becomes, a Scheme member on that date.

(whether it is a merger, an acquisition or any other similar transaction) involving two or more Scheme members takes effect.

3. Against this background, the Board will require the retention of information related to deposits to be transferred to the resulting Scheme member¹ immediately before the material date of the arrangement (“Retained Information”), in order to determine the enhanced protection limit and to calculate the compensation amount for affected depositors if the resulting Scheme member becomes a failed Scheme member within the enhanced protection period¹. Specifically, the resulting Scheme member is required to keep the Retained Information for 5 years after the material date of the qualifying arrangement.

4. The detailed retention and submission requirements of the Retained Information are set out in the revised Guideline on Information Required for Determining and Paying Compensation (“IS Guideline”) issued by the Board on 13 September 2024. To ensure that the Retained Information is accurate and properly retained by the resulting Scheme member, an independent assessment is required to be conducted on the Retained Information and the related retention mechanism.

INDEPENDENT ASSESSMENT OF RETAINED INFORMATION

5. The resulting Scheme member is required to submit an independent assessment report regarding the accuracy of the Retained Information and the adequacy of the relevant retention mechanism by way of a review to be conducted by an external auditor to the Board.

Scope and nature of the review

6. The work that the auditor performs for the reporting of the review is an engagement providing reasonable assurance. The responsibility of correctly compiling the Retained Information and maintaining adequate internal controls for the retention of Retained Information rests with the management of the resulting Scheme member. The auditor's responsibility is to report on a) whether the Retained Information is accurately compiled, from books and records related to all deposits transferred to the resulting Scheme member as immediately before the material date; b) whether the Retained Information is correctly compiled in accordance with the requirements as set out under the IS Guideline; and c) whether the internal controls put in place by the resulting Scheme member are adequate in order to ensure that the Retained Information is securely kept and is readily available for timely submission to the Board upon the Board's request.

7. The auditor is expected to express an opinion on the completeness, accuracy and format of the Retained Information and the adequacy of the retention mechanism. In order to support the conclusion of the review performed by auditor, the nature of work to be performed by auditor should include the following:

- i. performing reconciliation of the Retained Information, so as to ascertain its complete and accurate compilation from the underlying books and records of the resulting Scheme member;
- ii. conducting verification of the Retained Information, so as to ascertain its completeness, accuracy and format in accordance with the requirements of the IS Guideline; and
- iii. reviewing the design and assessing the operating effectiveness of internal controls, so as to ascertain whether the Retained Information can be kept securely and be made available on a timely manner.

8. The auditor should conduct the relevant checking procedures in the Program Guide of Independent Assessment Program (the “Program Guide”) issued by the Board, such as i) the specific checking procedures in **Appendix I of the Program Guide** (except the procedures for Part (G) and Part (H) of the IS Guideline), when conducting the verification of the Retained Information, and ii) the assessment steps in **Retained Information Module (Module D) in Part II of the Program Guide**, when assessing the internal controls related to the retention of Retained Information.

9. For the avoidance of doubt, processes and controls over the maintenance of source documents, application systems and source data records for the processing of banking transactions and for the preparation of Retained Information do not fall within the scope of the review. However, such information may still need to be considered in the course of the review to identify potential root causes, and implications, of issues identified in the scope of work.

Requirements on external auditors

10. The review should be conducted by an external auditor who meets the independence and competency requirements set out in **Section F in Part I of the Program Guide**.

Reporting

11. Upon completion of the independent assessment, the auditor should issue an assessment report to the management of the resulting Scheme member under review for submission to the Board. The report issued by the auditor should comply with the requirements set out in the Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” (HKSAE 3000) issued

by the Hong Kong Institute of Certified Public Accountants or International Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” (ISAE 3000) issued by the International Auditing and Assurance Standards Board. A statement that the engagement was conducted in accordance with HKSAE 3000 or ISAE 3000 standards and a reasonable assurance opinion should be included in the report. The auditor should evaluate all the review findings and report those with material effect, including the resulting Scheme member’s comment for them, in the assessment report.

12. The resulting Scheme member should submit the auditor report to the Board within two months after the material date of the qualifying arrangement of Scheme members.

Handling of non-compliance issues and follow-up review

13. If issues of non-compliance are noted and reported by the auditor, the resulting Scheme member is expected to rectify the issues as soon as possible. The resulting Scheme member will generally be required to submit a follow-up report prepared by the auditor to the Board on whether the reported issues on the Retained Information and the related retention mechanism have been fully rectified within two months from the issuance date of the independent assessment report.

Hong Kong Deposit Protection Board
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