

12 April 2001

The Hon Ambrose LAU Hon-chuen, JP
Chairman
LegCo Panel on Financial Affairs
Legislative Council Building
8 Jackson Road
Hong Kong

**LegCo Panel on Financial Affairs
Special Meeting on 20 April 2001**

Thank you for inviting me to the meeting of the Legislative Council Panel on Financial Affairs on 20 April 2001 to brief Members on the purchase of permanent accommodation by the Hong Kong Monetary Authority (HKMA). Before I respond to that invitation, I would like to set out my position in this matter and the underlying principle.

Members have noted that the cost of the purchase will be charged to the Exchange Fund. This will not be a charge to General Revenue, subject to the approval of the Legislative Council. It is perhaps necessary for Members to understand first the Government's position on the use of the Exchange Fund. The Exchange Fund provides the ultimate security for our monetary system. The confidence of the international financial community in our monetary and financial systems is built to a large extent on the strength of the Exchange Fund, and on our ability to deploy that strength swiftly, vigorously and professionally.

For this reason, it is of utmost importance to Hong Kong that the operation of the Exchange Fund should be free from any political interference. Any suspicion of political interference in its deployment would undermine market confidence in the system. Hong Kong's credit rating will suffer. Our position as a premier international financial centre will be put in jeopardy. This is why economies around the world have moved in the direction of ensuring the independence of their central banks and insulating monetary policy from political influence.

I agree that there have to be proper checks and balances on the use of the Exchange Fund. Strong checks and balances already exist. The management and use of the Exchange Fund is governed by the Exchange Fund Ordinance. The operation of the HKMA in managing the Exchange Fund is monitored by the Exchange Fund Advisory Committee (EFAC), which comprises experts from the community distinguished for their financial knowledge and experience. At present representatives of the three note issuing banks sit on EFAC. The Director of Audit also scrutinises the Fund's annual accounts.

More important, the HKMA maintains a very high degree of transparency in its operations. Indeed it ranks among the best central banking institutions worldwide in meeting the highest disclosure and transparency standards. The HKMA strives to match the best international practices as they continue to evolve. This high degree of transparency provides perhaps the most effective and direct mechanism for public monitoring of the operation of the Exchange Fund.

On the use of the Exchange Fund to purchase permanent office accommodation for the HKMA, Mr Joseph Yam, as head of the HKMA, took the initiative to brief the Legislative Council on the intention to purchase part of the Two International Finance Centre for this purpose as far back as January this year.

The specific legal advice sought over this transaction confirms that the legality of using the Exchange Fund to purchase permanent office accommodation for the HKMA is beyond question. Section 6(a) of the Exchange Fund Ordinance provides that "the emoluments payable to, and other staff costs relating to, the persons employed in connection with the purposes of the Fund" shall be charged to the Fund. The accommodation of staff and their equipment is clearly a "staff cost" in this context. The proposed acquisition using the Exchange Fund is in line with the law.

I support the initiative of the HKMA to keep the Legislative Council informed of the proposed acquisition, in line with our spirit of being as transparent as possible. However, I am strongly opposed to any attempt by the legislature to intrude into the management and operation of the Exchange Fund. I do not see any need for the Council to approve a legitimate administrative expense of the Exchange Fund, which has been vetted and approved by the Exchange Fund Advisory Committee, under the Exchange Fund Ordinance. To entertain any such attempt would be a

retrograde step in the governance of the HKMA and would immediately damage the credibility of our monetary system.

Accordingly, I do not believe that it is in the wider public interests for me to probe into or justify, at a Legislative Council forum, my decision taken on EFAC's advice on what is essentially an operational matter of the HKMA. To do so would give a wrong impression to the investment community, or to the world at large, that I am seeking approval from the Legislative Council on the management and use of the Exchange Fund. I must respectfully decline your invitation. I understand that Mr Joseph Yam will appear before your Panel on 20 April to provide more information about the proposed acquisition, in line with the policy of transparency.

Yours sincerely,

(Donald Tsang)
Financial Secretary