

**Information Note for
The LegCo Panel on Financial Affairs**

Permanent Accommodation for the HKMA

Introduction

On 11 January 2001, the Chief Executive of the Hong Kong Monetary Authority (HKMA) informed Members that, with the approval of the Financial Secretary, the HKMA was negotiating with the owner and developer of Two International Finance Centre (IFC II) on the acquisition of its top floors (levels 77 to 88), and 2 auditorium floors (levels 55 and 56), which is currently under construction. This note informs Members of the progress of the proposed acquisition.

Present position

2. The negotiation is at an advanced stage. We expect to be able to sign an agreement on the acquisition of the new premises in the near future.

Argument for Acquisition

3. It is a policy objective of the Government to house all financial regulators within a single strategic location (see extract from Policy Objectives, the 2000 Policy Address at **Annex**). The Mandatory Provident Fund Authority moved into the International Finance Centre in July 1999, followed by the Hong Kong Exchanges and Clearing Limited in March 2000. In 1997, the Financial Secretary, on the advice of the Exchange Fund Advisory Committee, asked the HKMA to

commence negotiation with the developer of IFC II, which is considered a suitable location for its permanent accommodation.

4. Since its establishment in 1993, the HKMA's main office has been accommodated in its existing premises at 3 Garden Road. While the present accommodation is a prestigious Grade A office, the fact that it is a multi-user commercial building has a number of shortcomings from the operational angle. For example, it has not been possible for us to introduce customised security arrangements that suit our unique requirements. There have also been constraints on the installation of internal staircases for floors occupied by the HKMA, and on the acquisition of additional space in convenient locations within the same building.

5. We can choose to lease or to purchase. We have carried out very rigorous analysis to assess the two options. This has involved a detailed comparison between the cost of purchase and the rental saved over the longer term, using different assumptions about the opportunity cost of the investment capital (i.e. the choice of the discount rate), the expected long-term capital gains, and so on. The analysis suggests that, based on past trends, it should be more economical in the long run to purchase rather than to lease. Since the transaction is still under negotiation, we cannot be too specific about the quantitative aspects of the proposed purchase. The detailed terms of the acquisition are commercially sensitive information since a number of listed companies are involved. We are therefore unable to share with Members the detailed quantitative analysis at this stage, but we shall be happy to do so when such information can be disclosed. Suffice it to say at present that, in the long run, the purchase option is likely to result in significant savings in rentals as well as potential capital gains from the investment.

6. In addition to financial benefits, the acquisition will also enable the HKMA to ensure that the design of the building meets its operational requirements. For example, the building can provide a separate lift lobby for the HKMA's premises, even though such premises are only a small part of the whole building. The HKMA will also be able to introduce enhanced and customised security arrangements to meet its special requirements. Separate and clearly identifiable premises are appropriate for the central banking institution of a premier international financial centre. In fact, the HKMA is almost the only central bank in the world that is leasing its present offices in a multi-user commercial building. It is common practice for central banking institutions and regulatory authorities around the world to be accommodated in separate and dedicated office premises.

The Proposed Acquisition

7. The total area of the office floors (level 77 to 88) is about 280,000 sq. ft. (gross). This is more than the size of the HKMA's current accommodation. The HKMA is currently leasing around 200,000 sq. ft. of office area. The extra space is to cater for any possible future expansion. Although there is currently no plan for such expansion, it would be sensible to cater for such possibility as a matter of prudent and cost-effective planning. In any case, any surplus space will be let out to suitable tenants at market rate, thus securing a reasonable return for the Exchange Fund. A number of central banking institutions around the world, e.g. the Monetary Authority of Singapore, also adopt this approach.

8. In addition to the office space, the HKMA intends to acquire two floors (level 55 and 56) of around 60,000 sq. ft. to provide for the following services:

- (a) Conference facilities – Hong Kong plays host to many international meetings and seminars. For example, the HKMA, often in conjunction with international financial institutions, such as the Bank for International Settlements, the International Monetary Fund, the World Bank, etc., convenes conferences and seminars in Hong Kong on a regular basis. These international meetings/seminars help promote and underscore Hong Kong’s status as the premier financial and business centre in the region. With the proposed provision of purpose-built conferencing facilities at IFC II, we will be able to provide high quality venue for international conferences and seminars; and

- (b) Public access to the HKMA – the floors will provide facilities for expanding the HKMA’s contacts with the general public and for developing its educational programmes. There will also be a small public gallery showing our monetary history and future developments. These facilities will enhance public understanding of the work of the HKMA and strengthen our efforts to increase transparency and accountability.

9. It is expected that the new premises will be completed in 2003 and the HKMA will be relocated there in 2004. The cost of the purchase will be charged to the Exchange Fund. The new premises will become part of the fixed assets on the books of the Exchange Fund. We believe that the purchase of the office accommodation at IFC II represents a profitable investment for the Exchange Fund in the long run.

Hong Kong Monetary Authority

26 March 2001

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Extract from "Policy Objectives, the 2000 Policy Address, Vol I, Section 15"

| Initiative | Target | Present Position |
|---|--|--|
| To house all major financial authorities under one roof <i>(FSB)</i> | To house all major financial institutions under one roof in the future Hong Kong International Finance Centre (HKIFC) which will be strategically located at the Central Waterfront <i>(1997)</i> | The Mandatory Provident Fund Schemes Authority moved into the HKIFC in July 1999, followed by the Hong Kong Exchanges and Clearing Limited in March 2000. We will continue to monitor the development in this project. <i>(Action in Progress: On Schedule)</i> |