

LegCo Panel on Financial Affairs

**Extracts of minutes of meetings relating to the accountability
of the Hong Kong Monetary Authority**

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Meeting on 11 January 2001

Accountability of HKMA

22. Miss Emily LAU asked whether the possible introduction of a new appointment system of principal officials of the Government to enhance their accountability to the public would have any impact on HKMA. Noting the trend for financial regulators to be set up as independent authorities in order to enhance their public accountability, Mr SIN Chung-kai remarked that the Democratic Party would support arrangements for strengthening the independence of HKMA.

23. In response, CE/HKMA reiterated HKMA's commitments to maintaining its fairness, impartiality and transparency in discharging its duties. While recognizing members' concern, CE/HKMA said that under present circumstances the current system worked well. But it would be useful to keep in review, having regard to changing circumstances, whether the immunity of the system to political interference could be further enhanced. He thought that it might be useful in any case to lay out more clearly the policy objectives of the HKMA, its powers and responsibilities, and the related governance and accountability arrangements.

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Meeting on 20 April 2001

Issues about accountability and transparency

19. Mr Albert HO and Miss Emily LAU expressed strong dissatisfaction about the allegation of political interference by LegCo Members over the operations of EF as contained in FS' letter of 12 April 2001. They considered that it was the duty of LegCo to monitor the operations of EF and HKMA. Mr TSANG Yok-sing added that it was legitimate for LegCo to ask the Government questions on the management and control of EF, as this was one of the means for ensuring the Government's accountability. They considered that the Government should provide detailed information on the proposed acquisition in a timely manner to facilitate monitoring by LegCo.

20. CE/HKMA stressed that it was beyond doubt that LegCo had a legitimate interest in monitoring the use of public funds, regardless of whether it was the general revenue or EF. The Administration was vested with the power to control

and manage EF and had been discharging this responsibility in a highly transparent manner. There was no adverse reaction from members of the Panel after the intention to purchase permanent accommodation for HKMA was disclosed in January 2001. An information paper was specifically prepared in March 2001 to update members on the progress. CE/HKMA also said that he had accepted members' invitation to attend the present meeting to brief them on further details on the subject. However, the success of Hong Kong's monetary management and the credibility of its monetary policy depended crucially on the independence of the monetary authority in discharging its responsibilities. Any indication from LegCo Members to halt the negotiation on the purchase using EF could be interpreted by the international financial community as fettering the independent and exclusive power of FS provided under EFO. This would undermine their confidence in Hong Kong's monetary and financial systems.

21. On the issue of public scrutiny, CE/HKMA fully agreed that the greater the independence in the control of EF the greater the need for arrangements to ensure that those exercising the authority were accountable. The degree of transparency in the operations of HKMA was already exceedingly high by international standards. The accountability arrangements mentioned in the above discussion were working effectively. HKMA welcomed advice from LegCo Members and the public on ways to further enhance its public accountability.

22. In this connection, Members were of the view that it was necessary to conduct a comprehensive review on the structure and operation of HKMA and EFO. In response, CE/HKMA advised members that the Administration, by its own initiative, had planned to further clarify the policy objectives, the mandates, the authority, and the governance and accountability arrangements of HKMA to ensure that it was able to discharge its functions effectively and professionally.

23. As regards Miss Emily LAU's comment that EFAC might be ineffective in monitoring the operations of HKMA, as majority of the members were from the banking sector whose business was regulated by HKMA, CE/HKMA stressed that EFAC comprised experts who were leading figures in the financial services sector with extensive knowledge and experience. He was confident that these members were able to provide objective advice on the management of EF and the operations of HKMA. He did not concur with Miss LAU's view that there would be role conflict on the part of members.

24. Members agreed that the Panel should follow up the subject. The development on the matter should be kept in view and further meetings would be convened when necessary.

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Meeting on 4 June 2001

34. Miss Emily LAU remarked that the recent purchase of permanent accommodation for HKMA using the Exchange Fund had aroused public concern

over the transparency and accountability of HKMA's operations. She asked whether the Government had any plan to conduct a review on the current legislation related to HKMA or enable part of its functions to be subject to statutory checks and monitoring.

35. ES recognized the need to strike a balance between enhancing the independence of HKMA in discharging its responsibilities and ensuring transparency and accountability of HKMA's operations. As his predecessor had already suggested, HKMA was conducting an internal review of its organizational structure and powers with a view to further clarifying HKMA's policy objectives, mandates, authority, governance, and accountability arrangements. Since the review was still underway, there was no concrete plan as to how the matter would be taken forward. He assured members that the Government would listen carefully to LegCo Members' views and he welcomed views from the public. While recognizing members' concern in this respect, FS stressed that HKMA had contributed significantly to the stability of Hong Kong's monetary system. Any reforms in HKMA should not be carried out hastily.

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Meeting on 5 November 2001

Review of HKMA's powers and management structure

59. Members noted that at the Panel meeting on 20 April 2001, CE/HKMA had informed members that the Administration had plans to further clarify the policy objectives, the mandates, the authority, and the governance and accountability arrangements of HKMA to ensure that it was able to discharge its functions effectively and professionally. In response to Miss Emily LAU's enquiry about the progress of the review, DS/FS said that according to his understanding, the former FS had mentioned about the plan to review the powers and management structure of HKMA to reinforce its accountability and transparency in the 2001-02 Budget Speech. At this stage, the Administration did not have a timetable on the matter.

60. Miss Emily LAU expressed disappointment that the Administration was not able to report any progress of the review to members although the plan to conduct the review had already been announced in March 2001 by the former FS. DS/FS said that he would convey members' views on the matter to FS. At Miss LAU's request, the Chairman agreed to write to FS to convey members' concern and draw FS's attention to the need to take up the matter.

(Post-meeting note: The Chairman's letter to FS and FS's reply were issued to members vide LC Paper No. CB(1)373/01-02 dated 21 November 2001 and CB(1)610/01-02(01) dated 14 December 2001.)

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