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7 January 2005

Ms Shirley YUEN
Administrative Assistant to Financial Secretary
Financial Secretary's Office
12/F, West Wing
Central Government Offices
Lower Albert Road
Hong Kong

Dear Shirley,

Panel on Financial Affairs

**Briefing of the Panel on
Hong Kong Monetary Authority's Annual Budget**

On behalf of Hon Bernard CHAN, Chairman of the Panel, I write to invite the Financial Secretary (FS) to consider members' request for the Administration to brief the Panel on the Hong Kong Monetary Authority (HKMA)'s annual budget.

When the Panel discussed the governance of HKMA at its meeting on 2 February 2004, Hon SIN Chung-kai and Hon Emily LAU referred to the existing practice under which the Securities and Futures Commission (SFC) would present its annual budget to the Panel for Members' information before the commencement of each financial year, and proposed that HKMA's annual budget should be subject to the same arrangement. While FS responded that the existing arrangement had been effective, Hon SIN Chung-kai called on FS to consider the above proposal in the coming financial year to enhance the transparency of HKMA's expenditure and public confidence in its accountability. An extract of the minutes of the meeting is attached for your reference (paragraphs 46 to 48).

At the Panel meeting on 3 January 2005, Hon Emily LAU suggested that in line with the existing practice of SFC, HKMA should be invited to brief the Panel on its annual budget. She also suggested that the subject be covered by the regular briefing of the Panel on the work of HKMA to be held on 17 February 2005.

I should be grateful if you would invite FS to consider members' views and let me have a written response (in both Chinese and English) **by 3 February 2005**.

Please forward the soft copy of the written response to Ms May LEUNG at mleung@legco.gov.hk.

Please note that unless you raise objection, the written response will be made available to the media and public and placed in the Library of the Legislative Council. The paper may also be made available on the Web Site of the Council on the Internet.

Yours sincerely,

(Miss Salumi CHAN)
Clerk to Panel

Encl.

c.c. Hon Bernard CHAN, JP
Chairman of LegCo Panel on Financial Affairs

Hon SIN Chung-kai, JP

Hon Emily LAU Wai-hing, JP

Mr Joseph YAM, GBS, JP
Chief Executive, Hong Kong Monetary Authority
(Fax: 2878 8190)

Mr Frederick MA Si-hang, JP
Secretary for Financial Services and the Treasury
(Fax: 2147 3873)

Mr Clement CHAN, AS/FSTB
(Fax: 2527 0790)

Miss Fiona CHAN
Senior Manager, Hong Kong Monetary Authority
(Fax: 2509 9159)

立法會
Legislative Council

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Panel on Financial Affairs

Minutes of meeting
held on Monday, 2 February 2004 at 9:30 am
in the Chamber of the Legislative Council Building

- Members present** : Hon Ambrose LAU Hon-chuen, GBS, JP (Chairman)
Hon Henry WU King-cheong, BBS, JP (Deputy Chairman)
Dr Hon David CHU Yu-lin, JP
Hon Albert HO Chun-yan
Hon LEE Cheuk-yan
Dr Hon David LI Kwok-po, GBS, JP
Hon NG Leung-sing, JP
Hon James TO Kun-sun
Hon Bernard CHAN, JP
Hon CHAN Kam-lam, JP
Hon SIN Chung-kai
Dr Hon Philip WONG Yu-hong, GBS
Hon Jasper TSANG Yok-sing, GBS, JP
Hon Emily LAU Wai-hing, JP
Hon Abraham SHEK Lai-him, JP
- Non-Panel Member attending** : Hon LI Fung-ying, JP
- Members absent** : Hon Kenneth TING Woo-shou, JP
Hon James TIEN Pei-chun, GBS, JP
Dr Hon Eric LI Ka-cheung, GBS, JP

~~SFC and the Mandatory Provident Fund Schemes Authority were clearly specified in SFO and the Mandatory Provident Fund Schemes Ordinance (Cap. 485) respectively. Moreover, it was in line with the international trend for monetary and financial regulators to set out clearly their powers and functions in legislation. Mr SIN urged FS to consider the proposal.~~

45. Whilst appreciating that the proposal mentioned by Mr SIN Chung-kai would have the merits of enhancing HKMA's credibility, FS pointed out that as the current arrangement had worked well, there were no strong justifications for introducing changes at this stage. Given that the proposal involved fundamental changes to the existing arrangement, FS considered it necessary to examine the proposal carefully to avoid causing any adverse impacts on the stability of the monetary and financial systems. He said that the Administration would not rule out the proposal completely, and would study it at an appropriate juncture.

Annual budget of HKMA

46. Referring to the existing practice under which SFC would present its annual budget to the Panel for Members' information before the commencement of the relevant financial year, Mr SIN Chung-kai considered that HKMA's annual budget should be subject to the same arrangement. Ms Emily LAU supported Mr SIN's views.

47. In reply, FS re-iterated that under the existing arrangement, HKMA's annual budget was subject to careful scrutiny by the Remuneration and Finance Sub-committee, endorsement by EFAC and approval by FS. It was also subject to continuous scrutiny by the Director of Audit and HKMA's IAD. The existing arrangement had been effective in allowing sufficient flexibility in resource deployment for HKMA and providing checks and controls, while ensuring that HKMA's operations were free from political influence. Given that CE/HKMA attended before the Panel in February, May and November each year to brief Members on HKMA's work and the briefing in May included the presentation on HKMA's annual report including its accounts, FS considered that there were opportunities for Members to raise questions on the accounts of HKMA.

48. Mr SIN Chung-kai re-iterated that his proposal would enhance the transparency of HKMA's expenditure and public confidence in its accountability. He called on FS to consider the proposal in the coming financial year.

Remuneration for senior staff of HKMA

49. Mr LEE Cheuk-yan pointed out the public concern that the present remuneration levels of the senior staff of HKMA were on the high side. In fact, the remuneration of CE/HKMA was much higher than that of FS. According to the Report on "Review of Remuneration of Senior Executives in Statutory and Other