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23 March 2005

Miss Salumi Chan
Clerk to Panel
Panel on Financial Affairs
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Miss Chan,

Panel on Financial Affairs
Use of the accumulated surplus of the Exchange Fund

Thank you for your letter of 2 March.

The Exchange Fund Ordinance governs the use of the Exchange Fund. In accordance with sections 3(1) and 3(1A) of the Ordinance, the Exchange Fund shall be used primarily for such purposes as the Financial Secretary thinks fit affecting, either directly or indirectly, the exchange value of the currency of Hong Kong and for other purposes incidental thereto. In addition to using the Fund for its primary purpose, the Financial Secretary may, with a view to maintaining Hong Kong as an international financial centre, use the Fund as he thinks fit to maintain the stability and the integrity of the monetary and financial systems of Hong Kong.

We understand that some Panel members have once suggested that part of the accumulated surplus of the Exchange Fund be transferred to the general revenue, in accordance with section 8 of the Ordinance. The Financial Secretary does not intend to invoke section 8, and the

Government's position remains unchanged. Should some Panel members still be interested in the subject, the Financial Secretary will be happy to re-state and explain the Government's position again at the half-yearly briefing on Hong Kong's economy scheduled for the FA Panel meeting in June.

Yours sincerely,

(Shirley Yuen)
Administrative Assistant to
Financial Secretary