

Panel on Financial Affairs
Briefing on the work of the Hong Kong Monetary Authority

Requests previously raised by members

| Requests raised by members | Administration's reply |
|---|---|
| <p>1. <u>Request set out in the letter dated 30 April 2004 from the Clerk to Panel to the Chief Executive of the Hong Kong Monetary Authority (CE/HKMA)</u></p> <p>Request for the following information:</p> <p>(a) a breakdown of the Exchange Fund Operating Expenses by item;</p> <p>(b) a breakdown of the market expenses^{Note} by item;</p> <p>(c) a breakdown of salaries and other staff costs of HKMA by department;</p> <p>(d) a breakdown of HKMA's other departmental expenses; and</p> <p>(e) a breakdown of HKMA's total expenditure on salaries and departmental expenses by department.</p> | <p><u>Reply dated 30 June 2004 from CE/HKMA</u></p> <p>The Governance Sub-Committee (GSC) of the Exchange Fund Advisory Committee (EFAC) will carry out a review of disclosure on this subject in the context of the Annual Report for 2004.</p> <p><u>Reply dated 12 July 2004 from CE/HKMA</u></p> <p>The request will be conveyed to GSC.</p> <p><u>Reply dated 19 April 2005 from CE/HKMA</u></p> <p>The Financial Secretary, on the advice of EFAC and GSC, has approved the proposal to disclose information on HKMA's administrative budget for the current financial year in the Annual Report starting from the Annual Report 2004.</p> <ul style="list-style-type: none"> ● For item 1(a), please refer to pages 104 and 132 of HKMA Annual Report 2004. ● For item 1(b), please refer to "Management and custodian fees" in page 104 of HKMA Annual Report 2004. |

Note

According to the paper provided by HKMA in April 2004 (LC Paper No. CB(1)1686/03-04(01)), market expenses cover costs related to the investment process of the Exchange Fund, including trading and custodian costs and fees for the external managers.

| Requests raised by members | Administration's reply |
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| <p>2. <u>Request set out in the letter dated 6 July 2004 from the Clerk to Panel to CE/HKMA</u> Request that the breakdown of the establishment and strength by department of HKMA by two categories, namely, senior staff and other staff, be incorporated into HKMA's Annual Report in future.</p> | <p><u>Reply dated 19 April 2005 from CE/HKMA</u> Please refer to page 131 of HKMA Annual Report 2004.</p> |
| <p>3. <u>Request set out in the letter dated 7 January 2005 from the Clerk to Panel to the Administrative Assistant to Financial Secretary (AA/FS)</u> Request for HKMA to brief the Panel on its annual budget.</p> | <p><u>Reply dated 17 January 2005 from AA/FS</u> The Financial Secretary will invite the GSC to consider this latest suggestion in the context of its current review.</p> <p><u>Reply dated 19 April 2005 from CE/HKMA</u> Please refer to Table 3 in page 132 of HKMA Annual Report 2004.</p> |

Council Business Division 1
Legislative Council Secretariat
19 April 2005

EXCHANGE FUND – NOTES ON THE ACCOUNTS (cont.)

(b) Operating expenses

| | Group | | Fund | |
|--|--------------|--------------|--------------|--------------|
| | 2004 | 2003 | 2004 | 2003 |
| Staff costs | | | | |
| Salaries and other staff costs | 523 | 536 | 421 | 437 |
| Retirement benefit costs | 31 | 30 | 25 | 25 |
| Premises and equipment expenses | | | | |
| Depreciation charges | 135 | 94 | 100 | 62 |
| Operating lease charges | 18 | 66 | 10 | 55 |
| Other premises expenses | 39 | 36 | 33 | 28 |
| General operating costs | | | | |
| Maintenance of office and computer equipment | 35 | 26 | 30 | 20 |
| Financial information and communication services | 31 | 30 | 27 | 26 |
| External relations | 15 | 10 | 13 | 9 |
| Professional and other services | 43 | 28 | 35 | 22 |
| Training | 5 | 5 | 4 | 4 |
| Others | 101 | 168 | 10 | 12 |
| Management and custodian fees | 547 | 479 | 543 | 479 |
| TOTAL | 1,523 | 1,508 | 1,251 | 1,179 |

The number of senior staff (Executive Directors and above) of the HKMA whose emoluments fell within the following bands were:

| HK\$ | 2004 | 2003 |
|------------------------|-----------|-----------|
| 500,000 or below | - | 1 |
| 1,000,001 to 1,500,000 | 1 | - |
| 1,500,001 to 2,000,000 | 1 | 1 |
| 2,000,001 to 2,500,000 | 1 | - |
| 2,500,001 to 3,000,000 | - | 1 |
| 3,000,001 to 3,500,000 | 5 | 5 |
| 3,500,001 to 4,000,000 | 2 | 1 |
| 4,000,001 to 4,500,000 | 1 | 2 |
| 5,000,001 to 5,500,000 | 1 | 1 |
| 5,500,001 to 6,000,000 | 1 | 1 |
| 8,500,001 to 9,000,000 | 1 | 1 |
| | 14 | 14 |

The overall establishment of the HKMA for 2004 remained at 604, despite the expansion in scope and increase in complexity of various activities undertaken by the HKMA. The human resources required for the new activities were met by internal redeployment or regrading of posts.

Table 1 shows a breakdown of the establishment and strength in various departments at the end of 2004.

Remuneration of senior executives

The remuneration packages of the senior executives in 2004 are shown in Table 2.

TABLE 1 Establishment and strength of the HKMA

| Department | Functions | 2004 | | | |
|--|--|-------------------------------|--------------------------|-------------------------|--------------------|
| | | Senior staff Establishment | Senior staff Strength | Others Establishment | Others Strength |
| Chief Executive's and Deputy Chief Executives' Offices | Top management of the HKMA. | 4 | 4 | 6 | 6 |
| Banking Development | To formulate policies for the development of the banking industry, and to facilitate settlement for transactions executed by the HKMA for the Exchange Fund. | 1 | 1 | 65 | 65 |
| Banking Policy | To formulate supervisory policies for promoting the safety and soundness of the banking sector. | 1 | 1 | 38 | 38 |
| Banking Supervision | To supervise day-to-day operations of authorized institutions. | 1 | 1 | 155 | 137 |
| Office of the General Counsel | To provide in-house legal support and advice. | 1 | 1 | 15 | 15 |
| External | To help develop and promote Hong Kong as an international financial centre and to foster regional monetary co-operation through active participation in the international central banking and financial community. | 1 | 1 | 47 | 46 |
| Monetary Management & Infrastructure | To maintain currency stability through monitoring of market operations and development issues and developing financial market infrastructure, and to ensure adequate supply of banknotes and coins. | 1 | 1 | 38 | 38 |
| Research | To conduct research and analysis on economic and international financial market development, both in Hong Kong and in other economies. | 1 | 1 | 31 | 30 |
| Reserves Management | To manage reserves to achieve investment returns in line with established guidelines and to enhance the quality of return by diversifying into different investment markets and asset types. | 1 | 1 | 46 | 44 |
| Corporate Services | To provide support services in the form of administrative, finance, HR, IT, and secretariat services, and to handle media and community relations. | 2* | 1 | 142 | 136 |
| Internal Audit | To provide audit services through assisting the management in controlling risks, monitoring compliance, and improving the efficiency of internal control systems and procedures. | 0 | 0 | 7 | 7 |
| Total | | 14 | 13 | 590 | 562 |

* Senior staff refers to staff at the Executive Director level and above.

* Inclusive of a frozen Executive Director post

TABLE 2 Remuneration packages of HKMA senior executives in 2004

| \$'000 | Chief Executive | Deputy Chief Executive (average) | Executive Director (average) |
|-----------------|-----------------|----------------------------------|------------------------------|
| Number of staff | 1 | 3 | 10 |
| Fixed pay | 6,493 | 4,102 | 2,832 |
| Variable pay | 1,918 | 822 | 394 |
| Other benefits | 488 | 488 | 204 |

Note:
Other benefits include provident funds, gratuity, medical and life insurance and annual leave accrued during the year. The provision of these benefits varies among senior staff depending on individual terms of service.

Training and development

The HKMA continued to arrange training programmes to meet organisational and career development needs. During the year, HKMA staff were provided with a total of 3,208 training days. These included 1,311 days of horizontal training in general skills common to staff of the same rank, and 1,897 days of vertical training in job-specific skills and knowledge. Each staff member received on average 5.57 days of training.

Horizontal training covered regular in-house programmes on personal effectiveness, languages and communications, leadership and computer applications to improve the core competencies of staff at different levels. Others included a crisis management workshop and team building workshops. A central banking course was conducted in July for new appointees.

For vertical training, staff attended a range of courses offered by other central banks, multilateral organisations and other institutions to deepen their skills and knowledge and broaden their international exposure. In-house programmes were also arranged for banking staff: apart from programmes on general supervisory issues conducted in-house, guest speakers from relevant industries were enlisted to speak on specialised areas. Experts from the Federal

Reserve System also conducted workshops at the HKMA to help banking supervisors improve their skills in conducting meetings with authorized institutions.

FINANCE AND ADMINISTRATION

The Finance and Administration Division aims at achieving an efficient allocation of resources within the HKMA. The administrative expenditure in 2004 and the budgeted expenditure for 2005 are shown in Table 3.

TABLE 3 Administrative expenditure (2004 and 2005 budgeted)

| \$ mn | 2004 Budget* | 2004 Actual | 2005 Budget* |
|---|--------------|-------------|--------------|
| Staff costs | 474 | | 490 |
| – Salaries and other staff costs | | 421 | |
| – Retirement benefit costs | | 25 | |
| Premises and equipment expenses | | | |
| – Operating lease charges | 11 | 10 | 5 |
| – Other premises expenses (including utility charges and management fees) | 37 | 33 | 31 |
| General operating costs | | | |
| – Maintenance of office and computer equipment | 31 | 30 | 27 |
| – Financial information and communication services (including trading, dealing terminals and data link charges) | 28 | 27 | 30 |
| – External relations (including international meetings) | 14 | 13 | 15 |
| – Professional and other services (including service fees for operating the interbank payment system) | 39 | 35 | 26 |
| – Training | 5 | 4 | 5 |
| – Others | 15 | 10 | 14 |
| TOTAL | 654 | 608 | 643 |

* Includes supplementary budget and relevant provisions in project budgets for the year.

In 2004 the Division continued to streamline the workflow, and implemented electronic receipt and electronic inventory systems to improve operational efficiency.