

**Annual Administrative Budget of the Hong Kong Monetary Authority:**  
**Points raised by the Legislative Council Panel on Financial Affairs**

**Introduction**

This paper provides responses to the points raised in the letter from the Clerk to the Legislative Council Panel on Financial Affairs dated 6 April 2006.

(a) Approval of the HKMA's administrative budget

The HKMA's annual administrative expenditure is charged to the Exchange Fund in accordance with the relevant provisions of the Exchange Fund Ordinance (EFO). Article 113 of the Basic Law provides that "The Exchange Fund of the Hong Kong Special Administrative Region shall be managed and controlled by the government of the Region, primarily for regulating the exchange value of the Hong Kong dollar". Consequentially, expenditure under the Exchange Fund that is in accordance with the EFO is authorised without the need for further approval by the Legislative Council.

(b) Status of the HKMA

The HKMA is a part of the Government but has funding and staffing arrangements that are separate from the rest of the Government. The funding arrangements are in accordance with the internationally accepted principle that central banking institutions should have operational and resource independence to ensure that they can carry out their responsibilities free from political influence. The operations of the HKMA are therefore funded by the Exchange Fund rather than from the general revenue. In any event, the EFO has authorised the Government to incur certain expenditure under the Exchange Fund.

Governance arrangements exist to ensure that the HKMA is accountable and transparent in its operations. The HKMA is accountable to the Financial Secretary, who controls the Exchange Fund in accordance with the provisions of the EFO. In exercising this function he is advised by the Exchange Fund Advisory Committee (EFAC) and its Sub-Committees. In particular, the Governance Sub-Committee

(GSC), which is composed of the non-official, non-banking Members of EFAC and chaired by a non-official, advises on matters of governance including the annual administrative budget. The HKMA's account and operations are also subject to stringent auditing by the Audit Commission.

(c) & (d) Disclosure of the HKMA's administrative budget

The GSC has continued to keep under review the question of disclosure of the HKMA's administrative expenditure, taking into account general central bank practice, private and public sector practice in Hong Kong, accounting standards and other relevant factors. The recommendation of the GSC, which has been accepted by the Financial Secretary on the advice of EFAC, is that the current disclosure arrangements for the annual budget are broadly consistent with the arrangements of major central banks in other jurisdictions and appropriate for the HKMA. The current arrangements for approval of the HKMA's budget have been effective in allowing sufficient flexibility in resource deployment for the HKMA and in providing checks and controls, while at the same time ensuring that the HKMA's operations are free from political influence.

The functions and governance arrangements of the HKMA are different from those of the Securities and Futures Commission. Taking into account the functions of the HKMA as a central banking institution and its governance arrangements, the disclosure arrangements for the HKMA's administrative budget are appropriate to its status. The GSC will continue to keep disclosure arrangements under review, taking into account changing practices among comparable organisations and other relevant factors.

Hong Kong Monetary Authority

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