

Speaking Note for Chairman of GSC
LegCo Financial Affairs panel 4 May 2006

Chairman,

I would like to thank the Panel for the opportunity to attend today's meeting. I think it would be helpful to begin by giving some background on the work of the Exchange Fund Advisory Committee's Governance Sub-Committee, which I chair, as it relates to today's agenda items.

The GSC is a Sub-Committee of EFAC and, like EFAC itself, is advisory. It was established in 2004 as the successor to the former Finance and Remuneration Sub-Committee as part of an exercise to expand the sub-committee structure of EFAC and improve the governance arrangements of the HKMA. The Sub-Committee consists entirely of non-official members of EFAC who do not come from the banking sector. The Chief Executive of the HKMA and other HKMA staff attend as necessary to present proposals and provide information, but they are not members.

The GSC's role is to monitor the performance of the HKMA and make recommendations to the Financial Secretary, through EFAC, on remuneration and human resources policies, and on budgetary, administrative and governance issues. The Sub-Committee examines carefully and in detail the HKMA's annual budget proposals before they are put to the Financial Secretary through EFAC. The Sub-Committee also monitors the performance of the HKMA and provides regular reports to the Financial Secretary on its assessment of how far the HKMA is meeting its

strategic objectives and on its use of resources. The Sub-Committee takes account of its assessment of the HKMA's performance in formulating its recommendations on the annual pay review, which also takes into account market pay trends in the financial sector provided by independent consultants.

The GSC keeps the disclosure arrangements for the HKMA's administrative budget under regular review, taking into account the best practices of listed companies and other financial regulators in Hong Kong, and central banks overseas. We have recommended improvements to disclosure in recent years. For example, since 2004 a table has been included in the HKMA's Annual Report giving a breakdown of the current year's budget and the staff establishment and strength by department. The Sub-Committee will continue to keep the HKMA's budget disclosure under review with the aim of ensuring that it is consistent with the practices of the financial sector and major central banks and the expectations of the community. This is an evolutionary process and I will be interested to hear the Panel's views on this matter.

It is an internationally accepted principle that central banks should have both operational and resource independence, while remaining accountable for ensuring that the resources they use are appropriate to their functions and not excessive. Resource independence matters because a budgetary approval process could become a tool for political influence over the operations of the central bank, which could affect its primary functions – including, in Hong Kong's case, ensuring the exchange rate stability of the Hong Kong dollar and the regulation of the banking system. It is of course essential that independence is balanced by accountability, both through legal

provisions and through transparency in the institution's operations. In Hong Kong, this principle is given effect through the governance arrangements of the HKMA, comprising a system of checks and balances, of which the Governance Sub-Committee is a part. A high degree of operational transparency is inherent in the Currency Board system, and the HKMA makes great efforts to keep the community informed about its work, not least by means of regular briefings to this Panel, such as the one given by the Monetary Authority this morning.

The HKMA's governance arrangements should be judged by whether they have contributed to making the HKMA an effective central banking institution, which provides value for money in carrying out its functions. The effectiveness of the HKMA in carrying out its primary policy objectives is not in doubt. With regard to the use of resources, the HKMA, with about 600 staff, is a compact organisation by international standards, indeed, research by the Bank for International Settlements, which I understand has already been made available to this Panel, suggests that a central banking institution like the HKMA, serving a population of about 7 million and carrying out an intermediate range of functions, would be expected to have more than 700 staff. The staff numbers of the HKMA have been kept stable for the past six years* since 2003, while its work has become considerably more complex and has increased in volume in areas such as banking supervision, developing Hong Kong as an international financial centre, positioning Hong Kong to take the best advantage of financial liberalisation on the Mainland, and building up our financial infrastructure.

* Staff Establishment of the HKMA

1999	2000	2001	2002	2003	2004	2005	2006
622	607	614	583	604	604	604	614

When we consider the record of the HKMA in maintaining financial and currency stability through a period of considerable economic difficulty and market volatility over the last few years, I think we can say, without being complacent, that the HKMA is a very cost-effective organisation.

Finally, Chairman, I would like to assure Members that I and the other members of the GSC – and I am sure the other members of EFAC – all share the belief that the HKMA plays a key role in maintaining Hong Kong's financial stability and contributing to its economic prosperity. We are therefore concerned that its governance arrangements should be appropriate and that it should be properly equipped to carry out its functions. This means that the HKMA should have adequate – but never excessive – resources, and in particular that it should be able to attract and retain suitably qualified staff in a very competitive environment.