

**Legislative Council Panel on Financial Affairs
Follow-up to meeting on 2 March 2012**

Item 2(a) - Comparison of the investment return of the Exchange Fund with inflation

The investment objectives of the Exchange Fund, as approved by the Financial Secretary on the advice of the Exchange Fund Advisory Committee (EFAC), are:

- (a) to ensure that the entire Monetary Base at all times will be fully backed by highly liquid US dollar-denominated securities;
- (b) to preserve capital;
- (c) to ensure that sufficient liquidity will be available for the purposes of maintaining monetary and financial stability;
and
- (d) subject to (a) – (c), to achieve an investment return that will help preserve the long-term purchasing power of the Fund.

2. In assessing the investment performance of the Exchange Fund, regard must be made to the above investment objectives of the Exchange Fund. It should also be recognised that financial markets

are volatile and it would be advisable to assess the investment performance of the Exchange Fund over the medium to long term against the approved investment objectives.

3. The investment performance of the Exchange Fund as compared to inflation over the past four years are set out in the table below. The table shows that the Exchange Fund achieved an average return comparable to or higher than inflation over a 3-year, 5-year and 10-year horizon and also since 1994.

	Investment return^{1 & 2}	Composite CPI³
2008	-5.6%	2.1%
2009	5.9%	1.5%
2010	3.6%	2.9%
2011	1.1%	5.7%
3-year average (2009 – 2011)	3.5%	3.4%
5-year average (2007 – 2011)	3.2%	3.2%
10-year average (2002 – 2011)	4.9%	1.6%
Average since 1994	5.6%	1.8%

Note:

1. Investment return calculation excludes the holdings in the Strategic Portfolio.
2. Averages over different time horizons are calculated on an annually compounded basis.
3. Composite Consumer Price Index is calculated based on the 2009/2010-based series.

Item 2(b) - Declaration of interest by the Chief Executive of the HKMA (CE/HKMA)

4. As a member of EFAC, CE/HKMA makes an annual declaration on directorship and shareholding of companies, remunerated employments and other declarable interests having regard to the nature of work of EFAC. This declaration is available for public inspection. In addition, CE/HKMA has also made available his declaration on interest in land and property in and outside Hong Kong for public inspection.

5. All HKMA staff, including CE/HKMA, are subject to the Prevention of Bribery Ordinance as “prescribed officers”. They are also bound by the HKMA’s Code of Conduct, which includes the restrictions and reporting requirements concerning investment holdings/transactions as well as receipts and disposals of gifts. The HKMA has consulted the ICAC on these rules, which are comparable to those applicable to civil servants. CE/HKMA has complied with the relevant rules and reporting requirements set out in these rules. In line with common practices of government departments, the HKMA does not publish the list of investment holdings/transactions of its staff or the list of gifts received and disposed by HKMA officers.

Item 2(c) – Consideration of changing the name of the Hong Kong Mortgage Corporation Limited (HKMC)

6. Since its incorporation in 1997, the HKMC has strategically developed new business initiatives to meet the needs of Hong Kong. The HKMC will give due consideration to the question on the need for changing its name in light of the broadening of its scope of business.

Hong Kong Monetary Authority

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