

**Supplementary information in relation to the meeting of the  
Legislative Council Panel on Financial Affairs  
held on 23 May 2016**

The Hong Kong Monetary Authority (“HKMA”) sets out below supplementary information regarding the Exchange Fund (“EF”) as requested by the Legislative Council Panel on Financial Affairs —

**Expenditure of the HKMA**

As shown in the HKMA’s annual report, total expenditure of the EF in the financial year 2015, excluding interest expense on placements by fiscal reserves, HKSAR Government funds and statutory bodies, amounted to HK\$4.86 billion. It must be pointed out that the HKMA’s mandate covers a wide range of responsibilities and functions – managing the EF being just one of them. The aforesaid total expenditure comprises operating expenses, relevant costs for maintaining the stability of Hong Kong’s monetary system (including interest payments on Exchange Fund Bills and Notes which are one of the components of the Monetary Base, and expenses on the issuance of notes and coins), and capital costs for developing the financial infrastructure in Hong Kong. It is also worth noting that while interest payments on Exchange Fund Bills and Notes have stayed at relatively low levels amid a low interest rate environment in recent years, they may increase over time along with the gradual normalisation of the US interest rates.

On the other hand, the funding source of a considerable portion of the EF’s assets is the Hong Kong dollar Monetary Base, which may change substantially as a result of fund flows into and out of the Hong Kong dollar. (The Monetary Base expanded significantly from HK\$507.5 billion at the end of 2008 to HK\$1,592.8 billion at the end of 2015.)

Based on the above, it would not be appropriate to directly compare the expenditure of the HKMA with the asset size of the EF to derive an over-simplified ratio.

### **Investment return of the EF**

The EF recorded an investment income of HK\$24.1 billion in the first quarter of 2016, representing an investment return of about 0.7%, mainly attributable to gains on bonds and positive currency translation effect.

In line with the statutory purposes and investment strategy of the EF, the long-standing principle of the EF is “capital preservation first, long-term growth next”. Through allocating funds across different asset classes, markets and currencies, the EF seeks to achieve a relatively stable overall investment income in the medium- and long-term. The heightened market volatilities and a highly uncertain investment environment in recent years underscore the importance of focusing on the EF’s medium- and long-term performance, rather than its short-term results on a quarterly or yearly basis.

### **Measures taken by the HKMA to control the operating expenditure of the EF**

The HKMA is committed to maintaining strict financial discipline. While ensuring sufficient resources to discharge its functions, it also strives to keep expenditure within reasonable levels. The HKMA has put in place robust systems and procedures for devising expenditure estimates. Various departments are required to assess their actual needs and review whether savings in staffing and expenditure can be achieved. Budget proposals are scrutinised by senior management and the Governance Sub-Committee of the Exchange Fund Advisory Committee (EFAC), before putting them through EFAC to the Financial Secretary for approval.

In addition, all expenditure items of the HKMA are subject to stringent financial controls through detailed procurement rules. The HKMA's financial position, including its expenditure, is audited by the Audit Commission of the HKSAR Government. The annual financial statements and operating conditions of the HKMA are disclosed in detail in its annual reports and subject to monitoring by the public as well as the Legislative Council.