



27 January 2006

Miss Salumi Chan
Clerk to Panel
Legislative Council Panel on Financial Affairs
Legislative Council
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Miss Chan,

**Panel on Financial Affairs
Meeting on 6 February 2006**

Thank you for your letter dated 5 January 2006 inviting the Chief Executive of the Hong Kong Monetary Authority (HKMA) to brief the Panel on the work of the HKMA at the meeting to be held on 6 February 2006.

In accordance with the normal practice for these regular briefings, the presentation materials for the meeting are being sent to you separately. However, we would like to take this opportunity to address the three points raised in paragraph 2 of your letter.

(a) Closure of local branches by banks and the impact on the public. The increased competition among banks following the full liberalisation of interest rates in July 2001 has been of benefit to the majority of people in Hong Kong with borrowers, especially mortgage borrowers, generally paying substantially less interest and depositors receiving more for their savings than would otherwise have been the case. At the same time, increased competition has obliged banks to pay greater attention to their costs and this, together with the introduction of new technology, has led to some consolidation of bank branches. The HKMA has no statutory authority, nor is it our function, to give direction to the banks on what is essentially a commercial decision. Nevertheless, we are ready to assist in communication on this subject between the banking industry and the community. The HKMA facilitated a meeting

among several LegCo Members and the Hong Kong Association of Banks (HKAB) to exchange views on this issue on 23 November 2005. We believe that this meeting helped the banks understand more about the needs and concerns of certain sectors of the community. The Chairman of the HKAB has recently announced that the Association is establishing a group to look into ways to alleviate the effects of branch closures and facilitate access to services.

(b) Policy and arrangement governing post-termination employment of the HKMA's senior staff. Currently, HKMA staff at the Senior Manager level and above are required to obtain prior approval from the Chief Executive of the HKMA (or, in the case of Chief Executive himself, from the Financial Secretary) before taking up new employment in Hong Kong within six months from the termination of their employment with the HKMA. The Chief Executive may impose a sanitisation period up to the end of those six months and attach any reasonable conditions. There are in addition a number of legal provisions governing the secrecy of certain types of information which staff may have obtained in the course of their work with the HKMA, and the prevention of bribery, which apply to staff after they have left the HKMA.

The Governance Sub-Committee (GSC) of the Exchange Fund Advisory Committee (EFAC) is currently reviewing the rules on post-termination employment for HKMA staff in the light of the new arrangements introduced for the Civil Service on 1 January 2006, and taking into account the circumstances of the HKMA. The objectives of the review are to ensure that the rules

- (i) properly address real or potential conflicts of interest arising from a person's former duties at the HKMA and his or her proposed new employment;
- (ii) are practical, effective, and enforceable;
- (iii) do not unreasonably restrict a person's right to earn a living in his or her chosen profession; and
- (iv) do not impair the HKMA's ability to attract high-quality staff or undermine the mobility of skills in the financial services and other sectors that are of benefit to furthering the objectives of the HKMA.

(c) The HKMA's annual budget. As in previous years, the HKMA's 2006 administrative budget will be included in the 2005 Annual Report to be published in April. The annual budget is carefully scrutinised by EFAC and the GSC before approval. In January 2005 the Financial Secretary confirmed that 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 interference.

The GSC has recently reviewed disclosure on the HKMA's administrative expenditure, taking into account the disclosure practices of comparable organisations, accounting standards and other relevant factors. The advice of the GSC is that the current disclosure arrangements for the annual budget are both broadly consistent with the best practices of comparable organisations and in line with the governance arrangements of the HKMA.

Yours sincerely,



(Trevor Keen)
for Chief Executive
Hong Kong Monetary Authority