



# Professional and Corporate Services

The Corporate Services Department, Office of the General Counsel, and Internal Audit Division provide professional and administrative support to the HKMA in carrying out its policy objectives.

## THE HKMA IN THE COMMUNITY

The HKMA emphasises transparency and accessibility in its operations, and works to achieve these through

- extensive contacts with the media
- regular and special publications
- a comprehensive bilingual website
- the HKMA Information Centre
- education programmes for students and community groups
- frequent meetings with legislators
- a public enquiries service staffed nine hours a day.

These services are co-ordinated by the Corporate Development Division within the Corporate Services Department. The Division is responsible for providing media, publications and public communications services to the HKMA. It also provides translation and drafting services, and support to the Exchange Fund Advisory Committee and its Sub-Committees.

### Media relations

In 2006, as in previous years, the HKMA maintained close ties with the media, one of the most important channels of communication. A number of stand-up interviews were given in 2006 in response to developments in the financial environment. During the year, the HKMA issued 276 press releases, held four press conferences and gave more than 40 written and spoken interviews. On average, the HKMA answered more than 40 press enquiries each day. One media educational briefing was organised in April to help reporters understand more about the management of the Exchange Fund.



Chief Executive Joseph Yam at a stand-up interview.

### Publications

The HKMA produces a variety of publications to provide information and statistics and promote greater public understanding of its work.

The HKMA publishes its *Quarterly Bulletin* and on-line *Monthly Statistical Bulletin* as easily accessible sources of information on monetary, banking and economic issues. The June and December issues of the *Quarterly Bulletin* include the HKMA's *Half-Yearly Monetary and Financial Stability Report*, which analyses recent external and domestic influences on Hong Kong's monetary and financial systems. A new edition of the *Guide to Hong Kong Monetary and Banking Terms*, which now covers more than 200 terms, was published in November. Two new *HKMA Background Briefs* were also published during the year. Background Brief No. 3, on the mandate and governance of the HKMA, brings together the main laws and documents that determine the functions and governance arrangements of the HKMA. Background Brief No. 4 introduces to readers the financial infrastructure of Hong Kong, in the form of the clearing and settlement systems, and the HKMA's role in developing them.

## The HKMA website

The HKMA website [www.hkma.gov.hk](http://www.hkma.gov.hk) provides comprehensive and accessible news and information about the HKMA for people throughout the world. All the main HKMA publications, together with a great deal of other information, are available on the website. In 2006 the website received nearly 40 million page views (Chart 1), 82% more than in 2005. Around 3,600 subscribers now receive the latest HKMA news through a daily e-mail news service.

In 2006 the HKMA launched a new feature called *Online Learning* on its website. *Online Learning* is a lively way for members of the public, especially young people, to understand how the financial and monetary systems of Hong Kong work.

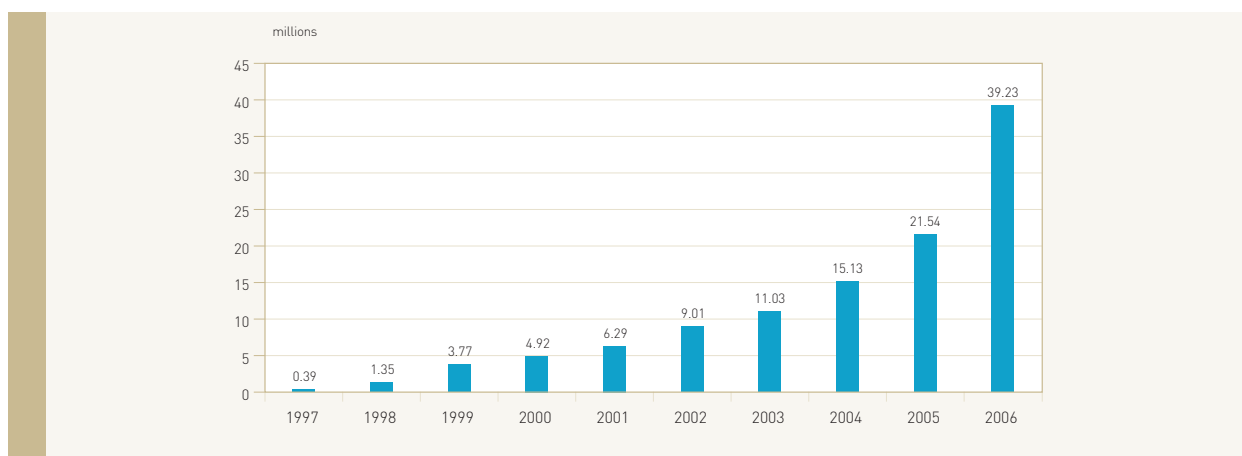
## Public education programme

The HKMA Information Centre on the 55th floor of Two International Finance Centre plays an important role in the HKMA's public education programme. The Centre consists of an exhibition area and a library, and is open to the public six days a week.

Using interactive and video presentations, as well as the more traditional panels and material exhibits, the exhibition area presents a survey of the history of money and banking in Hong Kong and the key policy objectives of the HKMA. Computer programmes and interactive systems are also used to provide information about Hong Kong banknotes, Internet banking security and the payment systems of Hong Kong. Daily guided tours are organised for visitors. During the year more than 52,000 people visited the Centre and over 500 guided tours were organised for schools and other groups. More than 160,000 people have now visited the Centre since its opening in December 2003.

The Library, situated just beyond the Exhibition Area, contains a wide range of materials about Hong Kong's monetary, banking and financial affairs, and central banking topics elsewhere in the world. The main elements of the collections are publications by the HKMA and other central banks and international organisations, books and journals on monetary, banking, economics, finance and related subjects, and an electronic register of authorized institutions in Hong Kong maintained under Section 20 of the Banking Ordinance.

Chart 1. Page views of the HKMA website



The HKMA organises regular public education seminars to explain its work. In 2006, nine seminars were held for more than 3,000 students, teachers and members of the public. The Linked Exchange Rate system, Hong Kong's banknotes and the history of Hong Kong's old financial districts were the main topics of these seminars. Since the launch of the education programme in 1998, more than 33,000 students, teachers and members of the public have participated in the seminars.



Public education seminar on the Linked Exchange Rate system.



Mr Cheng Po-hung, a well-known local historian, leads a tour around the old banking and financial districts of Hong Kong.

An art competition was organised for primary school students, who were invited to create pictures of any subject using images of coins currently or previously in circulation in Hong Kong. Over 5,000 students participated in the competition and the winning drawings were displayed in the public areas of the HKMA offices at Two International Finance Centre in Central.

 > HKMA Information Centre

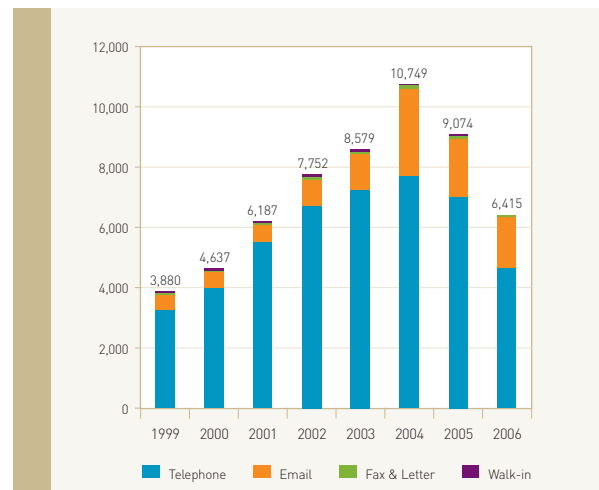


Winning entry of the art competition for primary school students. The theme of the drawing is "Celebration of peace and prosperity".

### Public enquiries

The HKMA received over 6,400 public enquiries in 2006 (Chart 2). The reduction in enquiries in 2006 partly reflects the continued decline in reports about suspected fraudulent bank e-mails and websites, following the introduction of two-factor authentication, improved public education and other measures to strengthen the security of Internet banking. Most of the enquiries were received by telephone, and came from researchers, financial professionals, students and members of the public requesting statistical or other information on consumer banking issues, banking and monetary policies and other HKMA-related issues.

Chart 2. Total number of public enquiries



The HKMA is committed to delivering speedy and informed responses to all enquirers. To improve service quality in handling public enquiries, an interactive voice response system with a recording function was installed for the general telephone line of the HKMA in March. The system provides callers with pre-recorded answers to some common questions about the HKMA, such as its functions and opening hours, and directs callers with more complex questions or suggestions to staff who can help them.

## HUMAN RESOURCES

The Human Resources Division provides human resources support and associated services to the HKMA.

### Organisational changes

A number of organisational changes were made in 2006 to help departments respond to changing priorities. The Support Services Division was transferred from the Monetary Management and Infrastructure Department to the Strategy and Risk Department in March. The Banking Development Department was reorganised in November into three new divisions:

- the Deposit Protection Scheme Division, which supports the Deposit Protection Board and includes the Settlement Section
- the Securities Enforcement Division, which also includes the Complaints Handling Section
- the Payment Systems Oversight & Licensing Division, which includes the Licensing Section that handles Als' licensing matters.

In January 2007 the responsibilities for anti-money-laundering and counter-terrorist-financing matters of the Banking Policy Department and the Banking Supervision Department were brought together under a new division in the Banking Policy Department. The new

division also took over consumer issues previously under the Banking Development Department. The Administration Section was transferred from the Finance & Administration Division to the Corporate Development Division. The Finance & Administration Division was therefore renamed the Finance Division.

### Staffing

The overall establishment of the HKMA at the end of the year was 614. The HKMA's workload has increased and become more complex in most areas of its operations. Eight new posts were added to the establishment in January 2007, representing an increase of 1.3%, to ensure that adequate resources and necessary skills are available in areas where workload has increased or where new or more complex requirements have arisen. These areas include

- setting policies for and supervising anti-money-laundering and counter-terrorist-financing activities and preparing for the evaluation of Hong Kong by the Financial Action Task Force in 2007
- addressing operational risk arising from the increasingly complex operations of Als
- increased investigation and disciplinary work in securities enforcement
- strengthening investment analysis in reserves management.

Table 1 gives a breakdown of the establishment and strength in January 2007.

 [Careers@HKMA](#)

Table 1 Establishment and strength of the HKMA on 1 January 2007

Department	Functions	Senior staff		Others	
		Establishment	Strength	Establishment	Strength
Chief Executive's and Deputy Chief Executives' Offices	Top management of the HKMA.	4	4	6	6
Banking Development	To formulate policies for the development of the banking industry, and to facilitate settlement for transactions executed by the HKMA for the Exchange Fund.	1	1	64	63
Banking Policy	To formulate supervisory policies for promoting the safety and soundness of the banking sector.	1	1	37	37
Banking Supervision	To supervise day-to-day operations of authorized institutions.	1	1	154	143
Office of the General Counsel	To provide in-house legal support and advice.	1	1	15	15
External	To help develop and promote Hong Kong as an international financial centre and to foster regional monetary co-operation through active participation in the international central banking and financial community.	1	1	50	46
Monetary Management & Infrastructure	To maintain currency stability through monitoring of market operations and development issues and developing financial market infrastructure.	1	1	36	35
Research	To conduct research and analysis on economic and international financial market development, both in Hong Kong and in other economies.	1	1	32	31
Reserves Management	To manage reserves to achieve investment returns in line with established guidelines and to enhance the quality of return by diversifying into different investment markets and asset types.	1	1	53	50
Strategy & Risk	To examine and develop strategic responses to the impact on the HKMA's policies and operations of such processes as the globalisation and liberalisation of financial markets and technological change, and to ensure adequate supply of banknotes and coins.	1	1	12	11
Corporate Services	To provide support services in the form of administrative, finance, human resources, IT, and secretariat services, and to handle media and community relations.	1	1	141	134
Internal Audit	To provide audit services through assisting the management in controlling risks, monitoring compliance, and improving the efficiency of internal control systems and procedures.	0	0	8	7
<b>Total</b>		<b>14</b>	<b>14</b>	<b>608</b>	<b>578</b>

## Remuneration policies and pay review mechanism

Pay and conditions of service for HKMA staff are determined by the Financial Secretary on the advice of the Exchange Fund Advisory Committee (EFAC) and its Governance Sub-Committee (GSC) having regard to prevailing market rates and practices. The HKMA remuneration package is a total cash package with minimal benefits in kind and a Provident Fund Scheme. The HKMA pay package consists of two elements: Fixed Pay, which is payable monthly, and Variable Pay, which may be awarded to individual staff as a lump sum once a year depending on performance.

Pay for HKMA staff is reviewed annually by the Financial Secretary on the advice of EFAC and the GSC, taking into account the findings of independent consultants on pay trends and pay levels in the financial sector, the GSC's assessment of the performance of the HKMA, and other factors considered appropriate. The performance of individual staff members is taken into account in distributing any approved overall pay awards.

## Remuneration of senior executives

The remuneration packages of the senior executives in 2006 are shown in Table 2.

**Table 2. Remuneration packages of HKMA senior executives in 2006**

\$'000	Chief Executive	Deputy Chief Executive (average)	Executive Director (average)
Number of staff	1	3	12
Fixed pay	6,801	4,215	2,880
Variable pay	2,550	1,267	582
Other benefits	223	508	296
Notes:			
(1) Except for annual leave accrued, the actual remuneration received by staff not serving a full year is annualised for the purpose of calculating the average annual package for the rank.			
(2) The number of staff in this table at the Executive Director (ED) rank reflects staff movement during the year and includes the Chief Executive Officer of the Hong Kong Mortgage Corporation. The established number of posts at the ED level is eleven (including the CEO of the Hong Kong Mortgage Corporation): please see the organisation chart on page 31 for details.			
(3) Other benefits include provident funds or gratuity as the case may be, medical and life insurance and annual leave accrued during the year. The provision of these benefits varies among senior staff depending on individual terms of service.			

## Training and development

The HKMA places great emphasis on training its staff in the general and specialised skills necessary for them to do their jobs effectively. During 2006 2,600 training days were provided. These included 900 days of training in general skills common to staff of the same rank, and 1,700 days of job-specific training. Each staff member received an average of 4.32 days of training during the year.

Two senior staff participated in national studies programmes in Beijing, which were specifically organised for senior government officials of Hong Kong. Another senior staff member attended a programme on corporate leadership, jointly delivered by universities in Hong Kong and the UK. Four other staff members attended central banking courses offered by other central banks. In addition to these training opportunities, the HKMA, in co-operation with external consultants and institutions, provided training to staff at different levels to improve their leadership, language and communication skills. An in-house central banking course was also arranged for new staff.

The HKMA continued to arrange for its staff to attend job-specific training offered by other central banks, multilateral organisations and other institutions. Regular briefings and workshops conducted by in-house experts were arranged for staff in the banking departments. Topics covered in these workshops included Basel II, the Deposit Protection Scheme, anti-money-laundering measures, renminbi business and market risk. During the year, a five-week induction course was arranged for the new Assistant Managers in the banking departments.

## FINANCE AND ADMINISTRATION

### Finance

The Finance Section aims at achieving an efficient allocation of resources within the HKMA.

The HKMA's administration budget is prepared annually to ensure that sufficient resources are available for carrying out its functions. The budgeting process takes into account both the continuing operations of the HKMA and its strategic development set out in a three-year plan approved by the Financial Secretary on the advice of EFAC. During the budgeting process, departments are required to assess their needs for the coming year and to consider where savings in staffing and expenditure can be achieved. This process requires departments to

critically assess each year the value of existing services and the cost-effectiveness of different methods of delivering them. The Finance Section scrutinises all budget requests and discusses with individual departments before submitting a consolidated draft budget for scrutiny by the senior management. The Governance Sub-Committee of EFAC then deliberates on the budget and recommends any changes it believes are necessary, before putting it through EFAC to the Financial Secretary for his approval.

After the budget is approved, all expenditure under it is subject to procurement rules and guidelines and stringent financial controls. Compliance with these guidelines and procedures is subject to internal audit and is reviewed by independent auditors during the Exchange Fund annual audit.

The administrative expenditure in 2006 and the budgeted expenditure for 2007 are shown in Table 3. The difference between the 2006 and 2007 budgets arises mainly from an increase in staff costs, reflecting full-year effects of staff increases and pay adjustments in 2006, the 2007 pay adjustment, and the increase of eight posts approved for 2007 by the Financial Secretary on the advice of EFAC in areas where workload and the complexity of tasks have increased.



**Table 3. Administrative expenditure (2006 and 2007 budgeted)**

\$ million	2006 Budget*	2006 Actual	2007 Budget*
Staff costs	523		572
Salaries and other staff costs		479	
Retirement benefit costs		27	
Premises expenses			
Operating lease charges	4	4	4
Other premises expenses (including utility charges and management fees)	31	31	32
General operating costs			
Maintenance of office and computer equipment	35	32	29
Financial information and communication services (including trading, dealing terminals and data link charges)	31	27	32
External relations (including international meetings)	18	14	20
Professional and other services	17	15	16
Training	4	4	4
Others	5	3	5
<b>Total HKMA administrative expenditure</b>	<b>668</b>	<b>636</b>	<b>714</b>
* Includes supplementary budget and relevant provisions in project budgets for the year.			

**Table 4. Additional expenses (2006 and 2007 budgeted)**

\$ million	2006 Budget*	2006 Actual	2007 Budget*
Subsidy to the Hong Kong Institute for Monetary Research	10	8	12
Premises expenses of international financial organisations in Hong Kong	1	1	20
Service fees for financial infrastructure	28	28	49
* Includes supplementary budget and relevant provisions in project budgets for the year.			

There has also been an increase in expenditure to upgrade Hong Kong's financial infrastructure, in particular for the migration of the RTGS systems and the CMU from the existing proprietary platform to SWIFTNet, an open platform which makes access by users easier. Spending on financial infrastructure is not related to the HKMA's own operations, but to providing and expanding payment and other systems to enable markets to function efficiently. Expenses related to premises for international organisations in Hong Kong also increased as a result of the expansion of these international organisations in 2007, reflecting and supporting Hong Kong's status as an international financial centre. These expenses are shown in Table 4.

In addition to investment income from managing the Exchange Fund, the HKMA earns revenue mainly through licence fees paid by AIs, rental payments from tenants in Two International Finance Centre, and custodian and transaction fees from users of the Central Moneymarkets Unit. In 2007, licence fees are estimated at \$128 million and the remaining income components (excluding investment income) at \$75 million.

## General administration

The HKMA continued to streamline its work flow to improve cost-effectiveness. The electronic procurement system was upgraded and detailed guidelines were given to staff to improve operational efficiency and internal controls on procurement. Regular drills were held to practise office evacuation and activation of backup facilities. Contingency plans were kept under review.

Since the adoption of the HKMA Environmental Policy in 2001, a number of green office measures have been introduced and staff awareness of environmental protection has been increasing. In 2006 31% fewer envelopes and 49% fewer paper cups were used. Electricity consumption in the HKMA's general offices<sup>1</sup> decreased by 3% during the year.

The HKMA supports and encourages recycling. In 2006 the HKMA donated computers and other equipment to the Computer Recycling Scheme organised by the Hong Kong Council of Social Service and the Education and Manpower Bureau. Regular campaigns were held to collect unwanted clothes, toys and other reusable items from staff for donation to charities. Waste paper and used printer cartridges were collected for recycling.

During 2006 the HKMA participated in a number of fund-raising activities including the Hong Kong Standard Chartered Marathon, the Green Power Hike, the MTR Hong Kong Race Walking, and the Run-up Two IFC Charity Race. More than 50 staff donated blood to the Hong Kong Red Cross in May. Other charity events included the Green Day, the Dress Special Day and the Skip Lunch Day organised by the Community Chest.

The HKMA Volunteer Team gave more than 330 hours of their free time in 2006 to voluntary services, including clearing refuse and plant debris in countryside, raising funds to help school students in Liannan, a mountainous area of Guangdong, and arranging events for the students of the Chak Yan Centre. The HKMA procured

office supplies from a workshop operated by people with disabilities. In recognition of the HKMA's commitment to corporate citizenship, the Hong Kong Council of Social Service awarded the Caring Organisation Logo to the HKMA in 2006/07.



HKMA volunteers and students of the Chak Yan Centre in a day camp.



Senior citizens of the Ho Kwok Pui Chun Social Centre visit the HKMA.

<sup>1</sup> This excludes the data centre, where the introduction of new facilities essential to the financial infrastructure of Hong Kong led to an increase of 13% in electricity consumption.

## INFORMATION TECHNOLOGY

The IT Division carried out a large-scale infrastructure upgrade in 2006, covering the file-and-print system, IT security, the SWIFT platform, and the remote email system by introducing two-factor authentication. The upgrading project will continue in 2007 with the migration of the Lotus Notes workflow and email engine to a newer release. In December, an annual organisation-wide business continuity drill was conducted. The recovery times of IT systems met the targets set by the business units.

The payout system for the Deposit Protection Scheme was completed in September. During 2006, the Division continued programming and testing for the submission of new banking returns according to the requirements of Basel II, with the necessary upgrades expected to go into service in 2007. The SWIFTNet migration project continued in 2006, with completion scheduled for the first half of 2008.

## OFFICE OF THE GENERAL COUNSEL

The Office of the General Counsel (OGC) advises the HKMA on the legal aspects of all of the HKMA's activities. The OGC's lawyers are involved at an early stage in the planning and implementation of the HKMA's projects, initiatives and operations.

In addition to its general operational workload, the OGC was involved in a number of projects in 2006, including the preparation of the Banking (Capital) Rules and Banking (Disclosure) Rules to implement the new capital regulatory regime in Hong Kong based upon the Basel II Capital Accord and the Deposit Protection Scheme (Asset Maintenance) Rules. All of these Rules became effective in January 2007. The OGC also advised on a number of

other projects, including the renminbi settlement system, the payment-versus-payment link between Hong Kong's US dollar RTGS system and Malaysia's ringgit RTGS system, and several bank mergers.

During the year, lawyers of the OGC participated in meetings and conferences for central bankers and their legal advisers to keep abreast of topical developments in important international financial centres. These conferences covered issues such as money laundering, financial infrastructure, resolution of banking crises, economic crime and corporate governance. OGC lawyers also took part in teleconferences with their counterparts from other central banks to clarify and resolve topics of current concern. Presentations were made by lawyers of the OGC at international forums on subjects such as central bank market intervention, economic crime and Basel II.

## INTERNAL AUDIT

The Internal Audit Division was established in 1995 to assist the management in accomplishing organisational objectives by independently reviewing and evaluating the effectiveness of risk management, control and governance processes, and advising on opportunities for improvement. The role, mission and authority of the Division are defined in the Internal Audit Charter granted by the Chief Executive of the HKMA. The Charter is available at the HKMA website. The Division reports directly to the Chief Executive of the HKMA and the EFAC Audit Sub-Committee.

The Division continued to operate independently and effectively in 2006. Co-ordinated by the Division, line management of all business units updated their risk assessment reports, which identify and assess risks and

corresponding controls in their operations. Based on the risk profiles of individual business units, the Division prepared an audit plan covering all the significant risks. The Division also analysed the results of the assessments to facilitate review by the Risk Committee.

Internal audit assignments carried out by the Division covered monetary operations, reserves management, monitoring and supervision of clearing systems, settlement operations, budgetary control, financial management reporting, operations and security of the data centre, security and contingency arrangements of critical IT systems and the business continuity plans of business units. The Division also advised on IT system development projects and performed ad hoc reviews at the request of the senior management. The results of the audits conducted in 2006 were satisfactory. Recommendations for improvement put forward by the Division were accepted and implemented by the management.

The Division attaches great importance to keeping abreast of developments in internal auditing standards and the practices adopted by other central banks. During 2006 staff of the Division attended an international conference of heads of internal audit of central banks organised by the Bank for International Settlements. They also visited and received internal auditors of other central banks to exchange views and share experience in risk management and internal auditing. Training courses and seminars on risk management, audit techniques, management and language skills were arranged for staff of the Division.

 > Internal Audit

## RISK MANAGEMENT

One of the most important tasks of the HKMA is to manage risks to the monetary and banking systems. Risk management is undertaken both at a working level in the day-to-day operations of the HKMA and at a higher level through strategic planning.

The Chief Executive chairs a high-level Risk Committee established to

- identify potential risks and threats to the organisation and the monetary and financial systems more broadly, and devise strategies to reduce the impact of these risks and threats
- review the existing systems for managing risks across different departments to identify possible gaps and significant risks, and ensure the adequacy of measures to address them
- harmonise the criteria and methods of risk measurement and prioritise the resource management of risks identified
- encourage a stronger risk management culture which promotes the proper levels of authorisation and controls.

The Committee meets regularly to review the risk assessments made by the business units and the adequacy of controls, as well as to identify potential or emerging risks and devise mitigating strategies. One of the areas on which the Committee focused in 2006 was business continuity planning for a possible outbreak of avian flu, not only for the HKMA but also the financial sectors for which it is responsible. The Committee also considered ways to strengthen the corporate business continuity plan of the HKMA and refinements to the Risk Assessment Methodology to facilitate a more efficient self-assessment of risks.