

# Corporate Functions

The HKMA maintains effective communications with the community and the market through the media, public education programmes, and various other channels to facilitate understanding of its policies and operations. In 2015, the HKMA improved corporate governance by supporting professional development of staff, instituting rigorous financial discipline, enhancing IT security, and realigning duties among senior management to help cope with challenges arising from the implementation of new programmes and systems and the increasing complexity of work.

## ENGAGING THE COMMUNITY CORPORATE DEVELOPMENT

### Media relations

The HKMA works closely with the media to improve transparency and promote public understanding of its policies and work. In 2015, 59 open media events were held, comprising 14 news conferences, 14 stand-up interviews and 31 other public functions. A further 43 media interviews were arranged, 325 bilingual press releases were issued and a substantial number of media enquiries were handled daily.

In addition, to enhance public understanding of the HKMA's key functions, two media tours were organised to the Hong Kong Note Printing Limited and Hong Kong Interbank Clearing Limited (HKICL) respectively to showcase Hong Kong's world-class note printing technologies and financial infrastructure. Educational workshops were conducted on the Currency Board system, renminbi business and the Exchange Fund for a more in-depth briefing for the media on these important subjects.



*An automated cheque sorting demonstration during a media tour to HKICL. In the middle of the photo (from left to right) are HKMA Chief Executive, Mr Norman Chan; Executive Director (Financial Infrastructure), Mr Esmond Lee; and HKICL Chief Executive Officer, Ms Haster Tang.*



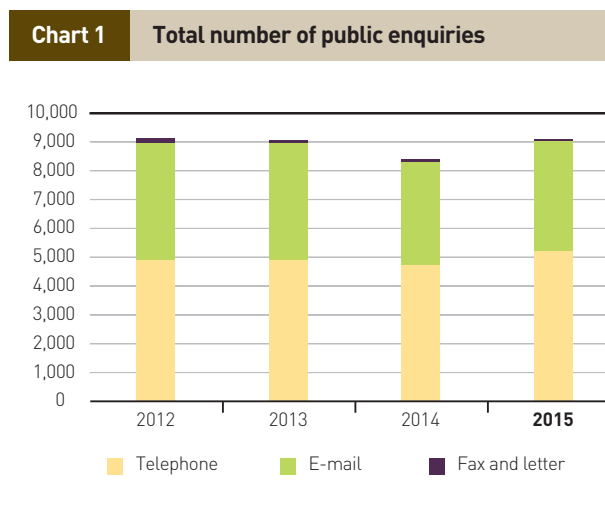
*HKMA Chief Executive, Mr Norman Chan (centre), and Executive Director (Monetary Management), Mr Howard Lee (right), inspect security features on banknotes during a media visit to the Hong Kong Note Printing Limited.*

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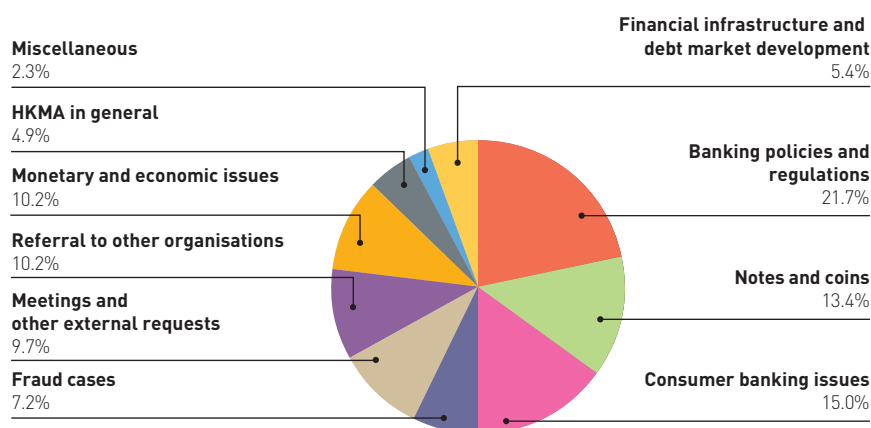
## Public enquiries

The Public Enquiry Service provides an effective means for people to obtain information from the HKMA, enabling them to get a greater understanding of the organisation's key functions. The Service handled 9,078 enquiries in 2015. About half of these related to banking policies and regulations, notes and coins, and consumer banking issues. Notable examples included prudential measures for property mortgage loans, banking products and services, prevention of money laundering and terrorist financing, and the coin collection programme.

Chart 1 shows the number of public enquiries received since 2012 and Chart 2 provides a breakdown by nature of the enquiries in 2015.



**Chart 2 Nature of enquiries received in 2015**



## **Publications**

Apart from the *HKMA Annual Report*, the HKMA published two issues of the *Half-Yearly Monetary and Financial Stability Report*, 4 issues of the Quarterly Bulletin, and released regular updates of the *Monthly Statistical Bulletin* over the past year to provide up-to-date and thematic information and analyses on monetary, banking and economic issues in Hong Kong. In addition, senior management of the HKMA published 14 *inSight* articles covering various topical and timely policy issues.

The *HKMA Annual Report 2014* received a Bronze award in the “Non-profit Making and Charitable Organisations” category in the Hong Kong Management Association’s 2015 Best Annual Reports Awards.

## **The HKMA website**

The HKMA corporate website ([www.hkma.gov.hk](http://www.hkma.gov.hk)), with over 50,000 pages in English and traditional and simplified Chinese, is the public access gateway to up-to-date information about the HKMA. It also contains the Register of Securities Staff of Authorized Institutions (AIs) and the Register of AIs and Local Representative Offices, both maintained under section 20 of the Banking Ordinance. With the implementation of the Payment Systems and Stored Value Facilities Ordinance, the website will also contain the register of stored value facility licensees under the Ordinance. Dedicated webpage and eye-catching short-cut links have been provided to draw the public’s attention to important and timely information on issues such as reminders on the need to remain vigilant against bogus phone calls and the location of the coin carts in the coin collection programme.

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## Public education programme

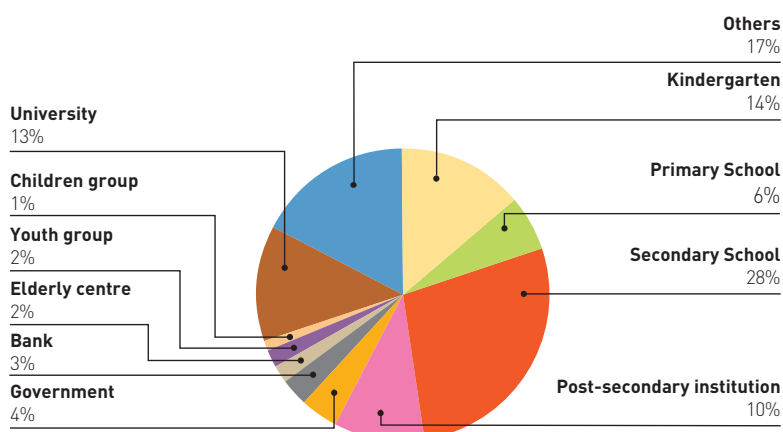
The HKMA Information Centre on the 55th Floor of Two International Finance Centre is an important resource for introducing the work of the HKMA to the community and promoting public awareness of monetary and banking matters. The Centre consists of the Exhibition Area and the Library, and is open to the public six days a week. The Exhibition Area introduces the work of the HKMA and the development of money and banking in Hong Kong. It includes reading materials and exhibits for the study of Hong Kong's monetary, banking and financial affairs.

Guided tours of the Information Centre are organised for visitors. During the year, the Centre received more than 48,300 visitors and hosted over 630 guided tours for schools and other groups (Chart 3). Over 530,400 people have visited the Information Centre since it opened in December 2003.

The Library, situated next to the Exhibition Area, houses more than 23,000 books, journals and other publications for the detailed study of Hong Kong's monetary, banking and financial affairs and central banking topics. It also maintains an electronic register of AIs in Hong Kong as required by section 20 of the Banking Ordinance.

In its ongoing programme to reach out to the community, the HKMA continued to organise public education seminars. In 2015, three seminars were held for some 2,300 secondary school students and teachers. Topics included the Linked Exchange Rate System, banknotes in Hong Kong, the smart use of credit cards and the Deposit Protection Scheme. More than 54,700 people have participated in the programme since its launch in 1998.

**Chart 3** Types of group visits to the Information Centre





*Young visitors learn about the development of money and banking in Hong Kong during a guided tour of the Information Centre.*



*Secondary school students and teachers participate in a public education seminar.*

## HUMAN RESOURCES

The HKMA recruits, develops and maintains a highly professional workforce to support its policy objectives and respond flexibly to changing work priorities. While the HKMA is an integral part of the Government, it is able to employ staff on terms different from those of the civil service to attract personnel with the right experience and expertise. As a public organisation, the HKMA aims to maintain a lean and flexible structure and to redeploy staff resources to undertake new initiatives and meet increased workload.

### Organisational changes

Following the enactment of the Payment Systems and Stored Value Facilities Ordinance, a new Retail Payment Oversight Division was formed under the Monetary Management Department (MMD) in December 2015 to carry out the HKMA's new statutory duties in the licensing and day-to-day supervision of stored value facilities and other retail payment systems. To enhance synergy amongst departments and reprioritise staff resources in coping with the challenges arising from the implementation of new initiatives as well as increasing workload and complexity of work, reshuffling of duties among a number of departments was planned in 2015 for implementation in early 2016. Details are as follows:

- The Financial Infrastructure Department (FID) took over the administration of the Deposit Protection Scheme and the settlement function from the Enforcement Department (ENFD) and the Currency Division from MMD. It also took over from the Banking Departments certain banking-related work such as consumer education, directors' development and enhanced competency framework for bank practitioners;
- The External Department took over the market development function of MMD, while the latter will continue with its work relating to the Treasury Markets Association and financial benchmarks; and
- ENFD took over the Anti-Money Laundering (AML) and Financial Crime Risk Division from the Banking Supervision Department, and was retitled as Enforcement and AML Department.

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## Staffing

The establishment of the HKMA in 2015 was 841. This is increased by 34 to 875 in 2016 (an increase of 4%) to ensure that sufficient resources are provided to cope with (i) the implementation of new legislation and initiatives, (ii) continuation of pilot projects proven necessary on an on-going basis, and (iii) the increasing complexity and volume of existing work. The new posts are deployed to the following functions:

- Enhancing banking and financial stability, which includes:
  - strengthening banking supervision work including on-site examination of banks' stress testing process, implementation of international banking standards and peer review exercises;
  - strengthening the supervision of banks' liquidity risk and cyber security risk management;
  - implementing the supervisory framework regarding over-the-counter (OTC) derivatives conducted through banks and approved money brokers under the newly effective OTC derivatives reporting and record-keeping rules;
  - strengthening supervisory and enforcement efforts in anti-money laundering and counter-terrorist financing;
  - gearing up the planning and preparatory work for the implementation of the Financial Institutions (Resolution) Bill, which applies international standards to address the "too big to fail" problem of the financial industry;
- promoting capacity building in the banking sector through the development of a director empowerment programme for independent non-executive directors of banks to further improve the governance of banks and collaboration with the industry to promote enhanced competency frameworks for banking practitioners engaged in core areas of banking operations;
- stepping up the banking conduct policy and research capability in new banking, securities and insurance products;
- enhancing consumer protection and consumer education efforts; and
- stepping up the monitoring and analysis of developments in the onshore renminbi market and in the CNH market with a view to supporting the orderly operation of Hong Kong's offshore renminbi market.
- Strengthening investment, risk management and legal support to the expanding investment activities associated with the establishment of the Future Fund and further diversification of the Exchange Fund's investment products, and enhancing strategic asset allocation and investment processes in the light of an increasingly challenging investment environment.
- Implementing the new statutory regime which empowers the HKMA to regulate stored value facilities and retail payment systems under the Payment Systems and Stored Value Facilities Ordinance.



Table 1 gives a breakdown of the establishment and strength of the HKMA.

<b>Table 1 Establishment and strength of the HKMA on 29 February 2016</b>		<b>Senior staff</b>		<b>Others</b>	
<b>Department</b>	<b>Functions</b>	<b>Establishment</b>	<b>Strength</b>	<b>Establishment</b>	<b>Strength</b>
Senior Executives' Office	Top management of the HKMA.	4	4	9	9
Banking Conduct	To focus on payment systems oversight, licensing, and all supervisory and development functions relating to the business conduct of authorized institutions.	1	1	73	70
Banking Policy	To formulate supervisory policies for promoting the safety and soundness of the banking sector.	1	1	32	32
Banking Supervision	To supervise operations of authorized institutions.	1	1	156	148
Enforcement and AML	To investigate and where appropriate take enforcement action under relevant Ordinances, to supervise anti-money laundering and counter-terrorist financing systems and to handle complaints.	1	1	94	89
External	To help develop and promote Hong Kong as an international financial centre; to foster regional monetary co-operation through participation in the international central banking and financial community; and to promote the development of financial markets.	1	1	49	48
Financial Infrastructure	To develop and enhance the financial market infrastructure for maintaining and strengthening Hong Kong's status as an international financial centre; to take charge of deposit protection and settlement functions; and to ensure adequate supply of banknotes and coins.	1	1	52	51
Monetary Management	To maintain financial and monetary stability through macro-financial surveillance, monitoring of market operations; and licensing and supervision of stored valued facilities and retail payment systems.	1	1	48	46
Research	To conduct research and analysis on economic and international financial market developments in Hong Kong and other economies.	1	1	41	37
Reserves Management	To manage reserves to achieve investment returns in line with established guidelines and to enhance the quality of returns by diversifying into different investment markets and asset types.	1	1	71	56
Risk and Compliance	To oversee all risk-generating activities, including investment risks and other non-investment related corporate risks of the HKMA.	1	1	38	34
Office of the General Counsel	To provide in-house legal support and advice.	1	1	23	21
Corporate Services	To provide support services in the form of administrative, finance, human resources, information technology and secretariat services; and to handle media and community relations.	1	1	163	155
Internal Audit Division	To provide audit services through assisting the management in controlling risks, monitoring compliance and improving the efficiency of internal control systems and procedures.	-	-	10	9
<b>Total</b>		<b>16</b>	<b>16</b>	<b>859</b>	<b>805</b>



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Temporary resources are deployed to meet other work demands. The HKMA transfers staff on secondment to other international or local organisations such as the International Monetary Fund (IMF) and the Financial Services Development Council to assist in activities or policy initiatives in which Hong Kong or the HKMA has an interest. Some staff members are deployed on a full-time or part-time basis to provide operational support to the Hong Kong Deposit Protection Board and the Treasury Markets Association.

## Remuneration policies and pay review mechanism

The Financial Secretary (FS) determines the pay and conditions of service for HKMA staff on the advice of the Governance Sub-Committee (GSC) through the Exchange Fund Advisory Committee (EFAC), taking into account the prevailing market rates and practices. Remuneration comprises a total cash package and a provident fund scheme, with minimal benefits in kind. The cash package consists of monthly fixed pay (or basic pay) and variable pay, which may be awarded to individual staff members as a lump sum once a year depending on performance.

Pay for HKMA staff is reviewed annually by the FS in the light of recommendations made to him by the GSC through EFAC, taking into account the GSC's assessment of the performance of the HKMA in the preceding year, the pay-survey findings of the financial sector conducted by independent human resources consultants and any other relevant factors. Special pay adjustments may be made from time to time for individual meritorious staff to maintain their pay competitiveness.

Any approved annual adjustments to the fixed pay or any variable pay awards for the HKMA are distributed to individual staff based on their performance. Investment professionals in the HKMA are subject to a variable pay system that seeks to strengthen the linkage between their investment performance and remuneration award. The pay adjustments or awards for individual staff members at the ranks of Executive Director or above are approved by the FS on the advice of the GSC. The staff members concerned are not present at the meetings when their pay is discussed. The pay adjustments or awards for individual staff members at the ranks of Division Head and below

are determined by the Chief Executive of the HKMA under delegated authority from the FS and within the approved overall pay awards.

## Remuneration of senior staff

The remuneration packages of the senior staff in 2015 are shown in Table 2.

**Table 2** Remuneration packages of HKMA senior staff in 2015<sup>1</sup>

HK\$'000	Chief Executive	Deputy Chief Executive (average)	Executive Director (average)
Number of staff <sup>2</sup>	1	3	13
Annualised pay			
Fixed pay	6,715	6,339	3,773
Variable pay	2,600	1,817	955
Other benefits <sup>3</sup>	917	852	536

Notes:

- (1) Except for annual leave accrued, the actual remuneration received by staff who did not serve out a full year is annualised for the purpose of calculating the average annual package for the rank.
- (2) The number of staff at the Executive Director rank includes the Chief Executive Officer of the Hong Kong Mortgage Corporation.
- (3) Other benefits include provident funds, 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 puts much effort into developing staff capabilities to meet operational demands, career development needs and new challenges. During the year, staff were provided with 3,008 training days, including 1,334 days of horizontal training in general skills and 1,674 days of vertical training in job-specific issues. On average each staff member received 3.7 days of training in 2015. These training courses were organised in-house, or by the Hong Kong Government, other central banking institutions, local and overseas universities, consultants and training institutions.

As part of the horizontal training programme, an annual in-house induction course covering an overview of central banking, and the roles and functions of the HKMA was organised for new recruits. Other horizontal training

events attended by staff covered leadership programmes and executive coaching, corporate governance, the global economy, public policy, national and foreign affairs studies, communication and presentation skills, team building, computer skills and language courses.

Vertical training for staff covered various courses on job-specific topics, including an overview of the Banking Ordinance, banking returns and management information system analysis, recovery and resolution planning, property mortgage lending, securities law, investigation of anti-money laundering, operational risk management, risk governance, interpretation of consumer credit reports, investment products, and overseas regulatory environment and bank capital. Staff are also sponsored to attend relevant courses run by local professional bodies and training consultants.

In addition, the HKMA provides a training sponsorship scheme to help staff pursue studies to enhance their work-related knowledge and professional standard. The scheme covers degree or diploma courses, professional examinations and short-term courses. The reimbursement of membership fees of relevant professional bodies is also provided.

## GENERAL ADMINISTRATION

The HKMA continues to streamline its work to improve efficiency and cost-effectiveness in coping with the increasing workload. Business continuity plans are reviewed regularly to ensure their effectiveness in a changing business and social environment. Drills on evacuation and the activation of the back-up facilities are conducted regularly to ensure the responsiveness and preparedness of various business continuity measures. A dedicated team monitors the influenza alerts and other relevant infectious diseases to ensure necessary precautionary and contingency measures are taken in accordance with the business contingency plan.

The HKMA has an established environmental policy to protect and preserve the environment. Office green measures include installing energy-saving devices, recycling, the use of recycled paper and envelopes,

minimising printing and the use of paper products. Green achievements in 2015 included reduction in envelope usage (43%) and chilled water consumption (1.7%). Staff also participate in regular campaigns for collecting clothes, toys and reusable items for donation to charities.

HKMA staff members also involve themselves in the community with their participation in various charity events. The HKMA Team ranked fourth in the team's category of the AXA Hong Kong Streetathon to raise funds for charities in Kowloon East. The Team also participated in the "Challenging 12 Hours Charity Marathon" to support the Sowers Action in promoting education aid in Mainland China. It finished seventh in a field of 87 teams, and secured a gold medal award by completing the marathon in 6 hours and 5 minutes. HKMA staff members were also involved in the Blood Donation Day, the Community Chest's Skip Lunch Day, Dress Casual Day and Love Teeth Day.

In 2015, the HKMA Volunteer Team devoted more than 110 hours of their free time to serving the community, including participating in a number of programmes organised by the Agency for Volunteer Service; making home visits to the elderly organised by the Senior Citizen Home Safety Association; and assisting in a project involving recycled computers and peripherals for the Caritas Computer Workshop. In recognition of the HKMA's commitment in caring for the community, the HKMA has been accredited with the "10 Years Plus Caring Organisation Logo" by the Hong Kong Council of Social Service.



*HKMA staff members give blood at the Red Cross Blood Donation Day.*

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## FINANCE

### Annual budget

In drawing up the annual budget, the HKMA takes into account its ongoing operations and strategic development set out in a three-year plan approved by the FS on the advice of EFAC. Departments are required to assess their needs for the coming year and to review whether savings in staffing and expenditure can be achieved. This requires departments to critically assess the value of existing services and the cost-effectiveness of delivery methods. The Finance Division scrutinises all budget requests and discusses them with individual departments before submitting a consolidated draft budget for scrutiny by senior management. The Governance Sub-Committee of EFAC then deliberates on the budget and recommends any changes it considers necessary, before putting it through EFAC to the FS for approval.

All expenditure items are subject to stringent financial controls through detailed procurement rules and guidelines. Compliance with these guidelines is subject to internal audit and is reviewed by independent auditors during the annual audit of the Exchange Fund. Expenses are analysed and reported to senior management every month.

The administrative expenditure in 2015 and the budgeted expenditure for core activities in 2016 are shown in Table 3. The difference between the 2015 actual expenditure and the 2016 budget arises mainly from an increase in staff costs, including the full-year effect of staff changes and pay review in 2015, and a net increase of 34 posts in 2016. The headcount change for 2016 was approved by the FS on the advice of EFAC.

Table 4 shows other expenses that are not directly related to the HKMA's own operations. Expenses related to the provision of premises for international organisations, whose presence in Hong Kong promotes our status as an international financial centre, are expected to remain broadly stable in 2016. Spending on financial infrastructure is related to the operation and continued development of payment and settlement systems to enable markets to function efficiently and securely. The HKMA also provides operational support to the Hong Kong Deposit Protection Board on a cost-recovery basis as endorsed by the FS according to section 6 of the Deposit Protection Scheme Ordinance (Cap. 581).

**Table 3** HKMA administrative expenditure

HK\$ million	2015 Budget	2015 Actual	2016 Budget
<b>Staff costs</b>	1,169		1,259
Salaries and other staff costs		990	
Retirement benefit costs		91	
<b>Premises expenses</b>			
Operating lease charges	26	26	26
Other premises expenses (including management fees and utility charges)	59	56	62
<b>General operating costs</b>			
Maintenance of office and computer equipment	83	78	93
Financial information and communication services (including trading, dealing terminals and data link charges)	57	48	60
External relations (including international meetings)	51	28	55
Public education and publicity	12	12	15
Professional and other services	63	29	60
Training	10	6	12
Others	17	14	19
<b>Total administrative expenditure</b>	<b>1,547</b>	<b>1,378</b>	<b>1,661</b>

**Table 4** Additional expenses

HK\$ million	2015 Budget	2015 Actual	2016 Budget
Subsidy to the Hong Kong Institute for Monetary Research	17	11	19
Premises expenses of international financial organisations in Hong Kong	40	40	40
Service fees for financial infrastructure	100	85	63

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## Financial disclosure

The HKMA adopts international standards in financial disclosure as far as they are applicable to central banking operations. These include the Hong Kong Financial Reporting Standards (HKFRSs) and other applicable reporting requirements (for example, the IMF's Special Data Dissemination Standard). Working with the external auditor and other accounting professionals, the Finance Division prepares and presents the Exchange Fund's financial statements in accordance with the HKFRSs. To achieve a high level of transparency, the HKMA also provides detailed disclosure and thorough analyses of a wide range of expense items and budgetary information in its *Annual Report*.

## INFORMATION TECHNOLOGY

The Information Technology (IT) Division maintained 100% operational uptime in 2015 for all time-critical systems.

To meet the Banking Departments' evolving needs for IT support in discharging their responsibilities, the existing banking supervisory information system has been upgraded and fully implemented. The work covered three main areas: (i) new system infrastructure, (ii) development of business intelligence tools and, (iii) enhancement of the existing banking return electronic submission system. The new business intelligence and workflow features have enhanced the HKMA's capacity to oversee various supervisory issues, keep track of work targets and put in place additional safeguards to ensure that supervisory work is carried out according to established procedures with a clear audit trail.

A new supervisory information system was also introduced in 2015 to accommodate the implementation of a regulatory regime for stored value facilities and retail payment systems. The new system covers the electronic submission of regulated information, processing and data downloading, and various other work-flow features to help the HKMA process applications of regulated entities and perform relevant supervisory and enforcement functions. It ensures the supervisory work is carried out according to established procedures with a clear audit trail.

Ageing components of the HKMA's IT infrastructure were updated in batches to ensure the continued reliability of its IT systems. The Division also began phased implementation of its Virtual Desktop Infrastructure (VDI) as a platform to support office automation services and enhance operational efficiency.

IT security continued to be one of the Division's top priorities, with the IT security information and event management software providing early warning to forestall possible security attacks. In 2015, a range of IT security detection software was upgraded to the latest versions and new defence systems were installed to strengthen system robustness in preventing cyber attacks.

## SETTLEMENT SERVICES

The Settlement Section provides settlement and operational support to ensure the sufficient and reliable transfer of funds or assets of the Exchange Fund arising from reserves management, monetary operations and other activities, as well as for the administration of the HKMA. In view of the potential settlement risks from a broad range of transactions involving different products and penetrating into various markets undertaken by the HKMA, the Settlement Section remains vigilant towards operational issues that may arise during the provision of settlement services. Since 2013, the Settlement Section has been implementing system enhancements in order to upgrade its settlement processes through automation and improve its operational controls. This would further ensure accurate and efficient transfers of funds and assets of the Exchange Fund. The Settlement Section is committed to effective risk control mechanisms for settlement and operational support.

## OFFICE OF THE GENERAL COUNSEL

The Office of the General Counsel (OGC) is responsible for providing legal advice to the HKMA on all aspects of its functions and activities. It comprises 15 lawyers who assist the HKMA in maintaining Hong Kong's banking and monetary stability, enhancing its financial infrastructure, maintaining its status as an international financial centre, and ensuring the effective management of the Exchange Fund.

In addition to providing legal support to the operation of each line department within the HKMA, the OGC assists in the planning and implementation of projects, initiatives and operations, most of which involve complex issues of commercial, regulatory and administrative law. Examples include:

- implementation of the Basel III framework, including the Banking (Capital) (Amendment) Rules 2015
- formulation and implementation of the regulatory regime for the over-the-counter derivatives market, including the draft expanded Securities and Futures (OTC Derivative Transactions — Reporting and Record Keeping Obligations) Rules and the draft Securities and Futures (OTC Derivative Transactions — Clearing and Record Keeping Obligations and Designation of Central Counterparties) Rules
- implementation of the regulatory regime for stored value facilities and retail payment systems
- formulation of proposals with the Government and other regulators for an effective resolution regime for financial institutions in Hong Kong, including provision of legal advice on issues arising from the drafting of the Financial Institutions (Resolution) Bill and the public consultation in connection therewith
- provision of advice on recovery and resolution planning of global systemically important banks, including advising on the drafting of bank-specific cross-border co-operation agreements
- involvement in initiatives for cross-border resolution for global systemically important financial institutions, including participation in the Financial Stability Board (FSB) Resolution Steering Group and Legal Experts Group on Cross-border Recognition of Resolution Actions
- deliberation on arrangements to improve information gaps and systemic linkages for global systemically important banks, including participation in the FSB Data Gaps Implementation Group
- advising on the impact of regulatory reforms in overseas jurisdictions, including under the Dodd-Frank Wall Street Reform and Consumer Protection Act and the European Market Infrastructure Regulation
- advising on the legal implications of certain business rules or regulations under the Shanghai-Hong Kong Stock Connect Programme
- advising on the amendments to the Deposit Protection Scheme in Hong Kong, including the Deposit Protection Scheme (Amendment) Bill 2015
- continued development of procedures for the prosecution of offences under the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance and the Securities and Futures Ordinance in respect of the business of OTC Derivative Transactions
- conduct and management of litigation matters involving the HKMA.

The OGC provides comments to government bureaux on significant legislative proposals from time to time, such as those listed above. OGC lawyers participate in regular meetings and conferences for central bankers, financial regulators and the banking community to keep abreast of topical developments in major international financial centres and to discuss and resolve issues of current legal concern. The OGC assists in promoting education and awareness of the HKMA's work and legal issues by taking up speaking engagements in academic programmes, professional symposiums and international forums.

## **INTERNAL AUDIT**

The Internal Audit Division independently assesses the adequacy and effectiveness of control, risk management and governance processes, and advises on opportunities for improvement. The Division reports directly to the Chief Executive of the HKMA and the EFAC Audit Sub-Committee (ASC).

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Using a risk-based approach, operational audits and system security reviews were conducted to cover all significant risk areas of the HKMA. The Division also advised on major system development projects and on internal control issues in response to requests from management and senior executives. The Division provided quarterly business risk updates to the Risk Committee, and quarterly reports to the senior executives and the ASC for audit engagement progress updates and key internal control matters.

## 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. There are two high-level committees under the HKMA's risk management framework, the Macro Surveillance Committee and the Risk Committee. Both Committees are chaired by the Chief Executive of the HKMA.

The terms of reference of the Macro Surveillance Committee are:

- to identify potential risks and threats to the monetary and financial system in Hong Kong and discuss possible measures to address such risks
- to review existing measures for managing risks in the monetary and financial system to identify possible gaps and ensure the adequacy of these measures
- to encourage cross-department sharing of relevant information on macro surveillance with a view to enhancing the macro surveillance capability of the HKMA.

The terms of reference of the Risk Committee are:

- to identify potential risks and threats to the organisation and devise strategies to reduce the impact of such events
- to review the existing system for managing risks across different departments to identify possible gaps and significant risks and ensure the adequacy of measures to address them
- to harmonise the criteria and methods of risk measurement and prioritise the resources management of risks identified
- to encourage a stronger risk management culture institutionally which promotes the proper levels of authorisation and controls.

Because of the growing complexity of the activities engaged by the HKMA, and the increasing public expectations of the organisation's work, the operational risk management process was strengthened in 2012. The framework now covers organisational risks at two levels: entity-level and department-level. Entity-level risks mainly refer to those which concern the entire organisation in the medium term, or which might call for a cross-departmental response. Potential or emerging risks identified by the business units, and the adequacy of the control measures and mitigating strategies they devise, are reported and reviewed quarterly. This is supplemented by a top-down approach to manage entity-level risks, in which senior colleagues heading different business units actively identify risks of wider impact and propose mitigating measures. These assessments are discussed at the Risk Committee, at which appropriate follow-up actions are decided.

## EXTERNAL AUDITOR

In accordance with section 7 of the Exchange Fund Ordinance, the Audit Commission of the Government of the Hong Kong Special Administrative Region audits the financial statements of the Exchange Fund. The Commission does not charge for this service.