



The Accounts of the Exchange Fund

Certificate of the Director of Audit on the abridged statement of the accounts of The Exchange Fund for the year ended 31 December 1994

I have audited the abridged statement of the accounts of the Exchange Fund set out on pages 66 to 69.

Respective responsibilities of the Monetary Authority and Director of Audit

The Monetary Authority is responsible for preparing the abridged statement of the accounts of the Exchange Fund based on the full statement of the accounts of the Exchange Fund. My responsibility is to express an independent opinion, based on my audit, as to whether the abridged statement of the accounts is consistent with the full statement of the accounts.

Basis of opinion

I conducted my audit in accordance with the Audit Department auditing standards. The audit of the abridged statement of the accounts comprises an assessment of whether the abridged statement contains all information necessary to ensure consistency with the full statement of the accounts.

I certify that I have audited in accordance with the directive of the Governor made under section 7 of the Exchange Fund Ordinance (Cap. 66) and the Audit Department auditing standards the full statement of the accounts of the Exchange Fund for the year ended 31 December 1994 and in my certificate on the full statement of the accounts I have expressed an unqualified opinion.

My report on the full statement of the accounts also includes information on the responsibility of the Monetary Authority to sign the full statement of the accounts and my responsibility to audit the full statement, and on the basis of my opinion on the statement.

Opinion

In my opinion the abridged statement of the accounts of the Exchange Fund is consistent with the full statement of the accounts of the Exchange Fund for the year ended 31 December 1994 from which it is derived.

Audit Department
Hong Kong
13 April 1995

B G JENNEY
Director of Audit



Exchange Fund Abridged Balance Sheet

<i>as at 31 December</i>		1994	1993
	Notes	HK\$ mn	HK\$ mn
ASSETS			
Foreign currency assets	2	384,359	335,499
Hong Kong dollar assets	2	24,126	12,987
		408,485	348,486
LIABILITIES			
Certificates of Indebtedness	3	74,301	68,801
Fiscal Reserves Account	4	131,240	115,683
Coins in circulation		3,372	2,604
Exchange Fund Bills and Notes		46,140	25,157
Balance of banking system	5	2,208	1,385
Other liabilities	6	22,614	7,314
		279,875	220,944
Net Assets		128,610	127,542
REPRESENTED BY			
Accumulated Surplus brought forward		127,542	106,636
Surplus for the year		1,068	20,906
Accumulated Surplus carried forward		128,610	127,542
The notes on pages 68 to 69 form part of these accounts.			
Joseph Yam Monetary Authority 7 April 1995			



Exchange Fund Abridged Income and Expenditure Account

<i>for the year ended 31 December</i>		1994	1993
	Notes	HK\$ mn	HK\$ mn
INCOME			
Investment income	7	9,137	21,886
Licence fees		163	122
Others		35	12
Total Income		9,335	22,020
EXPENDITURE			
Note and coin expenses		320	349
Operating expenses	8	354	248
Interest	9	7,593	4,809
Total Expenditure		8,267	5,406
Surplus before extraordinary item		1,068	16,614
Extraordinary item	10	–	4,368
		1,068	20,982
Restatement to reflect changes in accounting policy	1	–	(76)
SURPLUS FOR THE YEAR		1,068	20,906

The notes on pages 68 to 69 form part of these accounts.



Notes to the Abridged Accounts

The abridged accounts, including Notes to the Abridged Accounts, agree with the detailed audited accounts in all material aspects, except that some of the smaller items have been consolidated in the abridged accounts.

I. Principal accounting policies

(a) Valuation of assets and liabilities

In order to give a more appropriate presentation of the results and financial position of the Exchange Fund, the accounting policy with respect to the valuation of assets and liabilities has been changed in accordance with the recommendation of the International Accounting Standards Committee Exposure Draft E48. In prior years, all assets were shown at market value, with the exception of fixed deposits, which were shown at cost. All liabilities were shown at their face amount, with the exception of Exchange Fund Bills and Notes, which were shown at discounted or amortised value. This policy has been changed. All assets of the Exchange Fund, and its liabilities in respect of Exchange Fund Bills and Notes and other borrowings, are now shown at market value on the last day of each accounting period. The Fiscal Reserves Account is still shown at its face amount, with the difference between its market value and the face amount being included in other liabilities.

To reflect the above change in accounting policy, the abridged accounts for the year ended 31 December 1993 have been restated as follows:

	Revised HK\$m	As previously published HK\$m	Change HK\$m
Assets	348,486	348,394	+92
Liabilities	220,944	220,776	+168
Net assets	127,542	127,618	-76

The effect of the above restatement has been reflected in the 1993 Abridged Income and Expenditure Account and Abridged Balance Sheet. For practical reasons, the change of the accounting policy has not been retrospectively applied to periods prior to those included in these Abridged Accounts.

(b) Translation of foreign currencies assets and liabilities

US dollar assets and liabilities are translated into HK dollars at the linked exchange rate of US\$1 = HK\$7.80. Assets and liabilities in other foreign currencies are translated into HK dollars based on US dollar middle market cross rates in London at the close of business on the last business day of the accounting period.

(c) Off balance sheet items

The Exchange Fund, as part of its reserves and monetary management operations, enters into interest rate

swap contracts and foreign exchange contracts.

Interest rate swap contracts are contractual agreements between two

counterparties for the exchange of periodic interest payments based on a notional principal amount and agreed-upon fixed and floating rates. Foreign exchange contracts include spot and forward contracts and involve the exchange of two currencies at a rate agreeable to the contracting parties.

These interest rate swap contracts and foreign exchange contracts are marked to market on the last day of each accounting period and any gains and losses are recognised in the Income and Expenditure Account as they arise.

2. Assets

(a) Investments

The Fund is invested in interest-bearing deposits with banks in Hong Kong and overseas and in a variety of financial instruments, including bonds, notes, treasury bills and US equities.

(b) Foreign currency assets distribution

A large proportion of the Fund's foreign currency assets are held in US dollars. Apart from the US dollar, the Fund also holds assets denominated in other major foreign currencies, such as the Australian dollar, Belgian franc, Canadian dollar, Danish krone, Deutschemark, Dutch guilder, the ECU, French franc, Japanese yen, pound sterling, Swiss franc, etc.

(c) Location of assets

The assets are held in deposit, trustee and safe-keeping accounts with banks, central banks and custodial organisations situated in Hong Kong and other major financial centres.

3. Certificates of Indebtedness

As backing for their bank note issues, the three note-issuing banks are required to hold non-interest bearing Certificates of Indebtedness issued by the Exchange Fund. Issuance and redemption of these Certificates are made against payments in US dollars at a fixed rate of US\$1 = HK\$7.80.

4. Fiscal Reserves Account

This comprises the fiscal reserves which have been transferred from the General Revenue Account, Capital Investment Fund, Loan Fund and Capital Works Reserve Fund of the Hong Kong Government to the Exchange Fund on an interest earning basis.

5. Balance of banking system

In accordance with the Accounting Arrangements introduced in July 1988, The Hongkong and Shanghai Banking Corporation Limited, as the Management Bank of the Clearing House of HKAB, is required to maintain a Clearing Account with the Exchange Fund. The balance in the Account, which represents the level of liquidity in the interbank market, is determined by the Monetary Authority. The Accounting Arrangements enable the Monetary Authority to maintain exchange rate stability more effectively by influencing the level of interbank liquidity through money market operations.

6. Other liabilities

Other liabilities comprise expenses accrued at the year end, in the main

interest due on transfers from fiscal reserves, other borrowings, provision for contingency related to Overseas Trust Bank Limited and the difference between the market value and the face amount of the Fiscal Reserves Account (see Note 1).

7. Investment income

Investment income includes interest and dividend income and net realised and unrealised exchange and investment gains and losses.

8. Operating expenses

This item comprises staff costs, office rental and other operating expenses.

9. Interest

This item comprises the interest payments for transfers from fiscal reserves, Exchange Fund Bills and Notes and other borrowings.

10. Extraordinary item

This item comprises solely the net proceeds of the sale of Overseas Trust Bank Limited in 1993, after all related costs and provision for contingency.