

Professional and Corporate Services

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

THE HKMA IN THE COMMUNITY

The HKMA places great emphasis on transparency and accessibility in its operations. Its work in this area is co-ordinated by the Corporate Development Division within the Corporate Services Department. The Division provides media, publications, public communication, translation and administrative services to the HKMA. It also supports the Exchange Fund Advisory Committee (EFAC) and its Sub-Committees.

Media relations

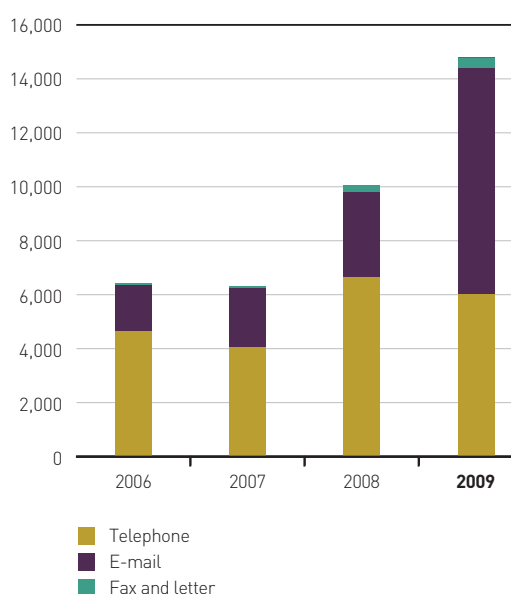
In a year during which the global financial crisis was followed by a modest recovery, the HKMA continued to maintain close contacts with the print, broadcast and internet media to communicate its latest policies and initiatives to the community in a timely and effective way. In 2009 the HKMA held four press conferences and gave 28 media interviews and 25 stand-up interviews. An average of 45 media enquiries were handled each day. A total of 310 bilingual press releases were issued, an increase of 14% over 2008 as a result of the weekly announcement of the progress of the HKMA's investigations into complaints about investment products related to Lehman Brothers. To facilitate better understanding of the HKMA's initiatives, five media briefings were organised to explain issues covering new banking policies, progress in the investigation of Lehman-related cases, the launch of the Government Bond Programme and the HKMA's role in international and regional financial co-operation. A media tour to Hong Kong Note Printing Limited was arranged to familiarise reporters with the process of banknote printing and highlight the importance of up-to-date security features.

Public enquiries

Public interest in banking-related issues rose considerably following the outbreak of the global financial crisis, resulting in a substantial increase in the number of enquiries handled by the HKMA's Public Enquiry Service. The number of enquiries increased by 47% to a record high of 14,741 in 2009, compared with 10,034 in 2008.

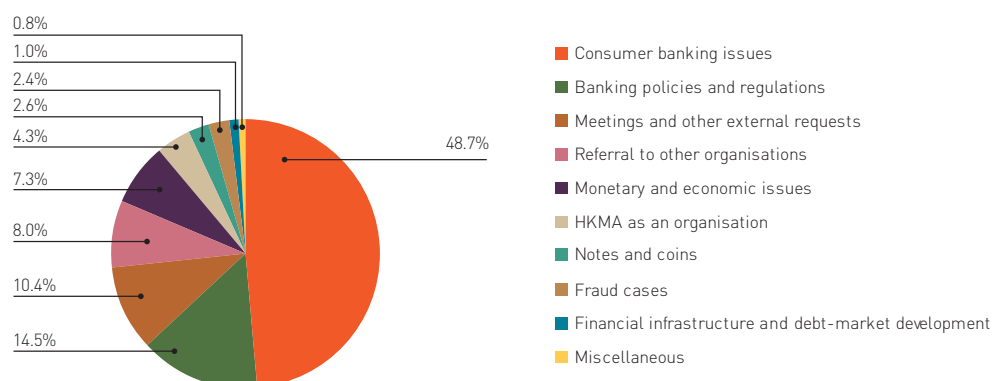
Among the enquiries received in 2009, around half were related to consumer banking issues including Lehman-related issues, banking products and services, and the Deposit Protection Scheme. Questions about banking policies and regulations accounted for another 14.5% of the total. Chart 1 shows the numbers of enquiries received since 2006 while Chart 2 breaks down the enquiries in 2009 by type.

Chart 1 Numbers of public enquiries



Professional and Corporate Services

Chart 2 Enquiries received by nature in 2009



Publications

The *HKMA Annual Report*, *Half-Yearly Monetary and Financial Stability Report*, *Quarterly Bulletin* and *Monthly Statistical Bulletin* are the major sources of information on monetary, banking and economic issues in Hong Kong. The HKMA has also published five background briefs introducing the HKMA and its work on maintaining monetary and banking stability.

The *HKMA Annual Report 2008* won a Silver Prize in the Hong Kong Management Association's Best Annual Reports Award.

The HKMA website

The HKMA website (www.hkma.gov.hk) provides comprehensive and accessible news and information about the HKMA. All the main HKMA publications together with a great deal of other information are available on the website.

Public education programme

The HKMA Information Centre on the 55th Floor of Two International Finance Centre is an important resource for explaining the HKMA's work to the community and public education on monetary and banking matters. The Centre consists of an exhibition area and a library, and is open to the public six days a week.

The Centre presents a survey of the history of money and banking in Hong Kong and the key policy objectives of the HKMA, and provides information on Hong Kong banknotes, Internet banking security and payment systems in Hong Kong. Daily guided tours are organised for visitors. During the year more than 40,000 people visited the Centre and more than 500 guided tours were organised for schools and other groups. 300,000 people have visited the Centre since it opened in December 2003.

The Library, situated just beyond the Exhibition Area, contains materials for detailed study of Hong Kong's monetary, banking and financial affairs and of central banking topics. It also houses an electronic register of authorized institutions in Hong Kong, maintained under section 20 of the Banking Ordinance.

The HKMA continued to organise public education seminars of topics related to its work. In 2009, three seminars, with the Linked Exchange Rate system as the main theme, were organised for more than 3,000 students, teachers and members of the public. Since the launch of the education programme in 1998, more than 42,000 people have participated in the seminars.

HUMAN RESOURCES

The HKMA is a compact organisation that requires high-quality staff with specialist skills in a variety of areas. It needs to recruit, develop and maintain a professional and highly qualified workforce to carry out its policy objectives and respond flexibly to changing work priorities. The HKMA is an integral part of the Government but is able to employ staff on terms different from those of the civil service in order to attract personnel of 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 meet new and increased workload whenever possible.

Staffing in 2009

The establishment of the HKMA at the beginning of the year was 676. To meet the staffing needs arising from the implementation of the Government Bond Programme and the development of the debt market, three new posts were created in August 2009, bringing the establishment to 679 at the end of the year.

During the year about 300 people were deployed to help shoulder the extra workload arising from the investigation of more than 21,000 complaints about the sale by banks of investment products related to Lehman Brothers. These included around 200 temporary staff hired on contracts, while the rest were permanent staff or secondees from an audit firm. The short-term contract appointments do not affect the permanent establishment of the HKMA.

Apart from the substantial deployment of resources to handle banking complaints, there were other staff redeployments during the year to cope with increased activities or workload. For example, a team was redeployed to the Monetary Management Department to provide support in preparation for the launch of the Government Bond Programme before new posts were created later in the year. To ensure that the HKMA has sufficient staff resources to address continuing pressure arising from the increasingly complex and dynamic financial environment, 32 new posts were added to the establishment in January 2010, representing an increase of 4.7%. These new posts will be deployed in the following areas:

- strengthening supervision of Als' businesses and activities, including their business on the Mainland, and of Mainland banks operating in Hong Kong
- increasing resources for supervising Als' securities-related, insurance and MPF-intermediary activities, and their e-banking business, IT controls and business contingency planning
- strengthening monitoring of systemic risks and stress-testing of Als' vulnerability to shocks

Professional and Corporate Services

- providing research and other support for increased participation in international standard-setting bodies arising from the global financial crisis, and for implementing new international standards in Hong Kong
- strengthening resources to prevent money-laundering, including strengthening on-site examinations and developing an enforcement framework to support the introduction of new legislation by the Government
- strengthening resources for exploring and developing opportunities to enhance returns and diversify risks in managing the Exchange Fund
- monitoring and following up on the recommendations of G20 and the Financial Stability Board on monetary management and refining contingency plans as appropriate
- strengthening support functions, including settlement, legal services, media relations and research.

The HKMA second staff to other organisations, such as the International Monetary Fund, to help co-ordinate activities or policy initiatives in which Hong Kong has an

interest. A number of staff are also redeployed full-time or part-time to provide operational support to the Hong Kong Deposit Protection Board and the Treasury Markets Association.

Organisational and senior staff changes in 2009

In January 2009 the Market Development Division was formed under the Monetary Management Department to permit a more focused effort in developing the debt market, fund management, and Islamic finance in Hong Kong. The new Division also took over the Treasury Markets Association team from the Financial Infrastructure Department. In May 2009 the treasury and financial market surveillance functions of the Banking Supervision Department were put under a new, specialised Division.

Mr Norman Chan was appointed Chief Executive of the HKMA on 1 October 2009, following the retirement of Mr Joseph Yam. Mr Arthur Yuen, the Executive Director in charge of the External Department, was promoted on 1 January 2010 to replace Mr Y K Choi as Deputy Chief Executive (Banking) upon Mr Choi's retirement.

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

Table 1 Establishment and strength of the HKMA on 1 January 2010

Department	Functions	Senior staff		Others	
		Establishment	Strength	Establishment	Strength
Chief Executive's and Deputy Chief Executives' Offices	Top management of the HKMA.	4	4	7	7
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	78	70
Banking Policy	To formulate supervisory policies for promoting the safety and soundness of the banking sector.	1	1	46	42
Banking Supervision	To supervise day-to-day operations of authorized institutions.	1	1	166	144
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	0	52	50
Financial Infrastructure	To develop and enhance the financial market infrastructure important for maintaining and strengthening Hong Kong as an international financial centre.	1	1	28	26
Monetary Management	To maintain currency stability through monitoring of market operations and development issues, and to ensure adequate supply of banknotes and coins.	1	1	30	30
Research	To conduct research and analysis on economic and international financial market development, both in Hong Kong and in other economies.	1	1	36	33
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	75	69
Office of the General Counsel	To provide in-house legal support and advice.	1	1	19	16
Corporate Services	To provide support services in the form of administrative, finance, HR, IT, and secretariat services, and to handle media and community relations.	1	1	152	151
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	8
Total		14	13	697	646

Professional and Corporate Services

Remuneration policies and pay review mechanism

The Financial Secretary determines the pay and conditions of service for HKMA staff on the advice of 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 members as a lump sum once a year depending on performance.

Pay for HKMA staff is reviewed annually by the Financial Secretary in the light of recommendations made to him through EFAC by 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 during the preceding year, and other factors considered appropriate. The performance of individual staff is taken into account in distributing any approved overall pay awards.

Remuneration of senior staff

The remuneration packages of the senior staff in 2009 are shown in Table 2.

Table 2 Remuneration packages of HKMA senior staff in 2009¹

\$'000	Chief Executive ²		Deputy Chief Executive (average)	Executive Director (average)
	Joseph Yam	Norman Chan		
Number of staff ³	1	1	3	12
Annualised pay				
Fixed pay	7,942	6,000	5,087	3,211
Variable pay ²	2,485	-	1,192	549
Other benefits ⁴	720	668	538	383

Notes :

- 1 Except for annual leave accrued, the actual remuneration received by staff during 2009 but not serving a full year is annualised for the purpose of calculating the average annual package for the rank.
- 2 Mr Norman T.L. Chan took over from Mr Joseph C.K. Yam as Chief Executive of the Hong Kong Monetary Authority on 1 October 2009. Mr Chan did not receive any Variable Pay in 2009. The maximum level of his Variable Pay is set at \$1.5 million for the first year.
- 3 The number of staff in this table at the Executive Director rank reflects staff movements during the year and includes the Chief Executive Officer of the Hong Kong Mortgage Corporation. The established number of posts at the Executive Director level is 11 (including the CEO of the Hong Kong Mortgage Corporation).
- 4 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 special emphasis on the training and development of staff. Training is designed to equip staff with the necessary knowledge and skills to fulfil their duties and to prepare them for posting and career development. It is provided along two dimensions: horizontal training focusing on general skills common to staff of the same rank and vertical training covering specialised skills specific to individual departments. A total of 2,772 training days were provided in 2009, comprising 1,170 days of horizontal training and 1,602 days of vertical training. Each staff member received an average of 4.3 days of training during the year.

As part of the horizontal training programme, courses on central banking and the work of the HKMA were organised for new staff. Courses on English writing skills were conducted for Assistant Managers and support staff, while training sessions on PC skills were attended by over 150 colleagues from various ranks. Putonghua and Cantonese classes were offered to staff according to their needs. Workshops on communication, time management, project management and strategy development were conducted for Senior Managers and Managers. The HKMA also sponsors executive courses for senior staff. In 2009 a number of senior staff attended an advanced national studies course in Beijing specially organised for Hong Kong senior government officials, a seminar on global economic issues, and short courses on executive development conducted by well-known overseas universities and training institutions.

The HKMA organised a comprehensive two-week in-house training programme for 35 new Assistant Managers in the banking departments. The course covered core banking supervisory topics including supervisory approaches, core principles for effective banking supervision, the Banking Ordinance and regulatory framework, CAMEL rating, statutory returns, Basel II, e-banking, capital adequacy and major banking risks, on-site examination and off-site review.

Other training courses, organised throughout the year, covered the latest developments on specific topics of interest for staff in the banking departments. Topics included renminbi trade settlement scheme, liquidity risk management and credit risk modelling. Suitable training courses offered by multilateral organisations and other central banks that were not available in Hong Kong were also identified for colleagues.

Apart from formal training, regular briefings were conducted by the senior executives to keep the staff up to date on a range of topics relating to the HKMA's work.

The HKMA runs a Training Sponsorship Scheme, which provides sponsorship for the pursuit of degree or diploma studies, professional qualifications or other short courses relevant to the work of the HKMA. Partial reimbursement of membership dues of relevant professional bodies is also provided.

FINANCE

The Finance Division's main objective is to achieve an efficient allocation of resources within the HKMA and to observe best practices in financial reporting.

Annual budget

The HKMA draws up its annual budget to ensure that sufficient resources are available for carrying out its functions. Budgeting 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 requires departments to critically assess each year the value of existing services and the cost-effectiveness of different methods of delivering them. The Finance Division 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.

Professional and Corporate Services

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 annual audit of the Exchange Fund.

The administrative expenditure in 2009 and the budgeted expenditure for core activities in 2010 are shown in Table 3. The difference between the 2009 actual expenditure and the 2010 budget arises mainly from an increase in staff costs, reflecting the full-year effects of staff increases in 2009, and the increase of 32 posts approved for 2010 by the Financial Secretary on the advice of EFAC to meet the increasing quantity and complexity of the HKMA's work, especially for the reorganisation of the banking departments to handle increased workload in key areas including supervision of AIs' business on the Mainland and of Mainland banks operating in Hong Kong and further strengthening of the supervision of securities, insurance and MPF activities of AIs.

In 2009 expenditures relating to the handling of complaints about banking services, mostly for the hiring external professional staff and renting the necessary office accommodation, amounted to \$113 million. An additional operational expenditure of \$149 million is required in

2010, mostly for the continuing employment of contract staff to continue this work and consequential increases in a number of other expenditure items including premises expenses, communication services, and professional and other services. The additional expenditure for this work will be limited to the period necessary for completion of the investigations. Because of the exceptional nature of this work, this additional budget is shown separately in Table 4.

Expenses related to premises for international organisations, whose presence in Hong Kong reflects its status as an international financial centre, are expected to remain stable in 2010. Expenditure continued in 2009 in relation to the programme to upgrade Hong Kong's financial infrastructure, including the migration of the Real Time Gross Settlement systems and the Central Moneymarkets Unit from the existing proprietary platform to SWIFTNet, which is an open browser-based platform. This spending will continue in 2010. 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. These expenses are shown in Table 5. The HKMA also provides operational support to the Hong Kong Deposit Protection Board in the areas of investment, accounting and settlement on a cost-recovery basis endorsed by the Financial Secretary.

Table 3 Administrative expenditure (2009 and 2010 budgeted)

\$ million	2009 Budget*	2009 Actual	2010 Budget*
Staff costs	656		698
Salaries and other staff costs		584	
Retirement benefit costs		48	
Premises expenses			
Operating lease charges	7	7	8
Other premises expenses (including utility charges and management fees)	36	35	40
General operating costs			
Maintenance of office and computer equipment	38	34	37
Financial information and communication services (including trading, dealing terminals and data link charges)	40	32	41
External relations (including international meetings)	28	17	29
Professional and other services	21	13	27
Training	7	5	9
Others	6	5	6
Total HKMA administrative expenditure	839	780	895

* Includes supplementary budget and relevant provisions in project budgets for the year.

Table 4 Expenses related to investigation of complaints about banking services (2009 and 2010 budgeted)

\$ million	2009 Budget	2009 Actual	2010 Budget
Handling of complaints about banking services			
Staff costs	84	63	95
Premises expenses	7	10	17
General operating costs			
Maintenance of office and computer equipment	–	5	–
Communication services	3	2	3
Professional and other services	43	32	31
Others	1	1	3
Total	138	113	149

Table 5 Additional expenses (2009 and 2010 budgeted)

\$ million	2009 Budget*	2009 Actual	2010 Budget*
Subsidy to the Hong Kong Institute for Monetary Research	18	15	19
Premises expenses of international financial organisations in Hong Kong	26	26	29
Service fees for financial infrastructure	54	40	55

* Includes supplementary budget and relevant provisions in project budgets for the year.

Professional and Corporate Services

In addition to investment income from managing the Exchange Fund, the HKMA earns revenue mainly through licence fees paid by AIs, and custodian and transaction fees from users of the Central Moneymarkets Unit. The HKMA also received reimbursement from the Hong Kong Deposit Protection Board for providing operational support to the Board according to section 6 of the Deposit Protection Scheme Ordinance. In 2010 licence fees are estimated at \$132.7 million (2009: \$134.1 million) and the other income components (excluding investment income) at \$63.7 million (2009: \$87.7 million), mainly due to decreases in rental income with termination of leases in Two International Finance Centre since July 2009.

Financial disclosure

The HKMA adopts best practices in financial disclosure as far as these are consistent with central banking operations. These standards include the reporting requirements laid down by the International Monetary Fund's Special Data Dissemination Standard. In the absence of specific reporting requirements applicable to central banking institutions, the HKMA adopts the disclosure requirements applicable to commercial entities as far as possible in order to achieve a high level of transparency. Working with the external auditor and other accounting professionals, the Finance Division prepares and presents the group financial statements in accordance with the Hong Kong Financial Reporting Standards as far as these are applicable to central banking operations. In this regard, the *HKMA Annual Report* compares favourably with those of other central banking institutions and monetary authorities: it contains detailed disclosure and thorough analyses of a wide range of expense items and budgetary information. Detailed information relating to the investment management of the Exchange Fund can be found in the chapter on Reserves Management, while information on the expenditure relating to investment management is shown in the Notes to the Financial Statements.

Substantial inflows of funds led to some changes to the balance sheet of the Exchange Fund. In response to the continuous capital inflows into the Hong Kong dollar and in accordance with the Currency Board system, the Exchange Fund bought US dollars against Hong Kong dollars, thus increasing the liquidity of the banking system. These changes are reflected on the liability side of the balance sheet in increases in the *Balance of the banking system* and *Exchange Fund Bills and Notes issued*. The US dollars received as a result of market operations were invested in *Financial assets designated at fair value*, which include Treasury Bills and commercial paper.

General administration

The HKMA continued to streamline its work wherever possible to improve efficiency and cost-effectiveness. Business continuity plans are kept under constant review. An evacuation drill and a drill of activation of the back-up office are held every year.

The HKMA's environmental policy is designed to promote staff awareness of environmental protection. Although the number of staff increased last year, as a result of the enhanced energy saving measures the average electricity consumption per staff in the HKMA offices¹ decreased by 1% in 2009. The HKMA also supports and encourages recycling, organising regular campaigns to collect unwanted clothes, toys and other reusable items from staff for donation to charities. Waste paper and used printer cartridges are also collected for recycling.

¹ Excluding the data centres, which house critical IT facilities.

During 2009 HKMA staff participated in a number of charity events. The HKMA Volunteer Team gave more than 330 hours of their free time to voluntary services in 2009. They assisted in organising activities for the Chak Yan Centre, the Society of Boys' Centres, the Circus Day Camp for TREATS and participated in the East Asia Games Volunteer Programme organised by the Agency for Volunteer Service. HKMA staff also took part in the Raleigh Wilson Trail Challenge, the Sowers Action Charity Marathon, and the Community Chest's Dress Special Day, Green Day and Love Teeth Day. 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.

INFORMATION TECHNOLOGY

The IT Division continued to upgrade the IT infrastructure and application systems in 2009 with the expansion of the computer centre and replacement of aging printers and portable computers.

The first phase of migration of the RTGS system to SWIFTNet platform was completed in 2009. The settlement system was upgraded to support trade settlements denominated in renminbi. The banking complaints database has also been expanded. The Division also provided technical support to the Deposit Protection Board in upgrading the payout system and launching other new initiatives.

SETTLEMENT SERVICES

The Settlement Section supports reserves management, monetary operations and other activities of the HKMA requiring transfers of funds or assets of the Exchange Fund, and is responsible for ensuring that the settlement standards adopted by the HKMA are in line with the best market practice. It also provides professional advice to other departments of the HKMA on projects that have implications for settlement functions.

The Settlement Section reports to one of the Division Heads and the Executive Director of the Banking Development Department. Since the Banking Department is separated from the monetary operations and reserves management functions of the HKMA, this arrangement achieves a segregation of duties and helps avoid potential conflicts of interest.

OFFICE OF THE GENERAL COUNSEL

The Office of the General Counsel is responsible for providing legal advice to the HKMA with regard to all aspects of the HKMA's work. There are 13 lawyers providing the full range of legal services to the HKMA's line departments. They participate in meetings and conferences for central bankers and the banking community, concerning such issues as money laundering, risk management and crisis management. They also take part in teleconferences with their counterparts in other central banks to discuss and resolve topics of current legal concern.

Professional and Corporate Services

INTERNAL AUDIT

The Internal Audit Division performs independent assessment of the adequacy and effectiveness of risk management and control, and advises on opportunities for improvement. The Division reports directly to the Chief Executive of the HKMA and the Audit Sub-Committee of EFAC.

During the year the Division co-ordinated the annual organisation-wide risk assessment and reported the results to the Risk Committee. Using a risk-based approach, the Division conducted operational audits and system security reviews covering all the significant risks in various business units in the HKMA. The Division advised on major system development projects and responded to management requests on internal-control matters from time to time. The Division also reviewed the operations of the Hong Kong Deposit Protection Board.

The Division attaches great importance to keeping abreast of the latest development in practices in the internal audit profession and other central banks. In 2009 the Division shared views and experience in risk management and audit matters in an international conference organised by the Bank for International Settlements for heads of internal audit of central banks and monetary authorities. The professional staff of the Division also attended seminars and training courses on the latest risk-management practices and audit techniques.

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 management 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, and to identify potential or emerging risks and devise mitigating strategies.

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.