

# Corporate Functions

The HKMA continues to maintain effective communication with the community at large through the media, regular briefings at the Legislative Council, public education programmes and other channels. Resources are deployed strategically in the pursuit of our corporate mission to maintain monetary and banking stability.

## CORPORATE DEVELOPMENT

### Media relations

The HKMA attaches great importance to maintaining effective and timely communications with the media to provide transparency and accessibility to its operations. Initiatives were taken in 2011 to strengthen this relationship and improve the understanding of the HKMA's policies and work by the media and the public. During the year, 76 open press events comprising 17 press conferences, 15 stand-up interviews and 44 other public functions were held. Another 76 media interviews were given. Altogether 327 bilingual press releases were issued and staff handled a large volume of media enquiries each day.

In addition, 15 media briefings were organised covering a wide range of topics to facilitate better understanding of the HKMA's operations and initiatives. These included investment performance of the Exchange Fund, banking policies and regulations, prudential measures for mortgage lending, implementation of Positive Mortgage Data Sharing and offshore renminbi business development.



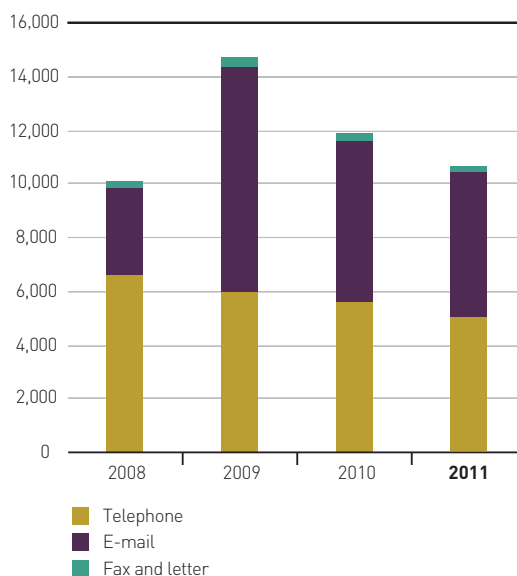
Chief Executive of the HKMA, Mr Norman Chan, briefs the media on a range of topical issues.

### Public enquiries

The Public Enquiry Service received 10,555 enquiries in 2011, reflecting the continued public interest in the work of the HKMA.

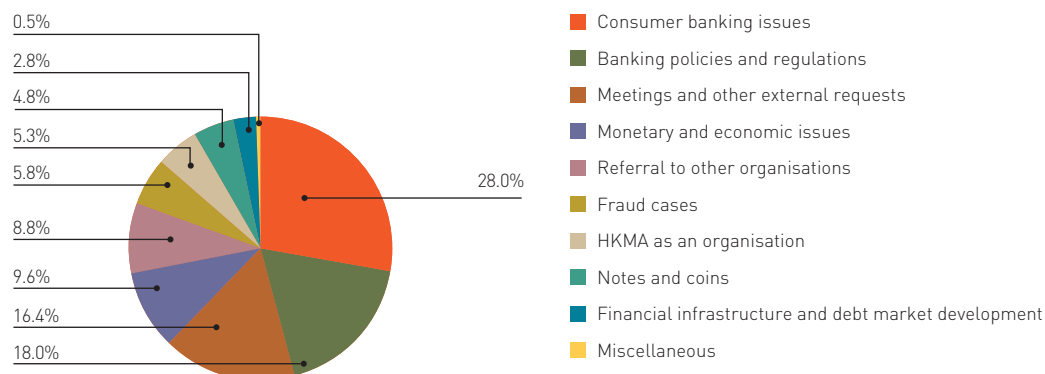
About half the enquiries were on consumer banking issues, and banking policies and regulations. Notable examples of enquiries included prudential measures on residential mortgage loans and the implementation of Positive Mortgage Data Sharing. A large number of enquiries about the inflation-linked bonds (iBonds) and the 2010 new series banknotes were also received. Chart 1 shows the number of enquiries received since 2008, while Chart 2 breaks down the enquiries in 2011 by type.

Chart 1 Total number of public enquiries



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**Chart 2 Nature of enquiries received in 2011**



## 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 its work on maintaining monetary and banking stability.

The *HKMA Annual Report 2010* received a Silver award in the Hong Kong Management Association's 2011 Best Annual Reports Awards.

## The HKMA website

The HKMA launched its redesigned website ([www.hkma.gov.hk](http://www.hkma.gov.hk)) in September 2011 to make browsing and information search easier. New features include online "Register of Authorized Institutions and Local Representative Offices" and the "Really Simple Syndication" function to facilitate the tracking of updates.



*The redesigned HKMA website launched in September 2011.*

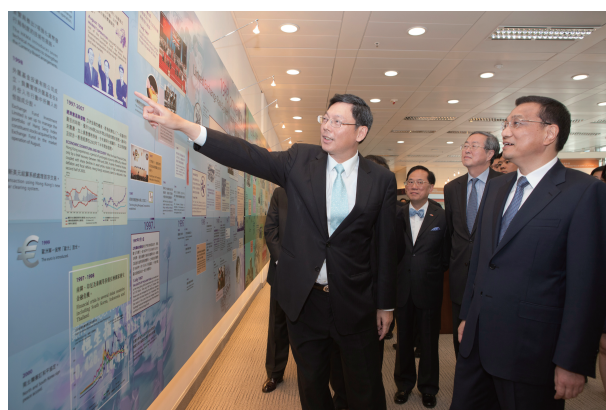
## Public education programme

The Information Centre on the 55th Floor of Two International Finance Centre is an important resource for introducing the HKMA's work to the community and promoting public awareness of monetary and banking matters.

The Centre consists of an exhibition area and library, and is open to the public six days a week. Displays cover the history of money and banking in Hong Kong, the key policy objectives of the HKMA, and provide information on Hong Kong's banknotes, Internet banking security, the payment systems and deposit protection. Daily guided tours are organised for visitors. During the year, the Centre received more than 38,000 visitors and hosted over 500 guided tours for schools and other groups (Chart 3). Over 373,000 visitors have visited the Centre since it opened in December 2003.

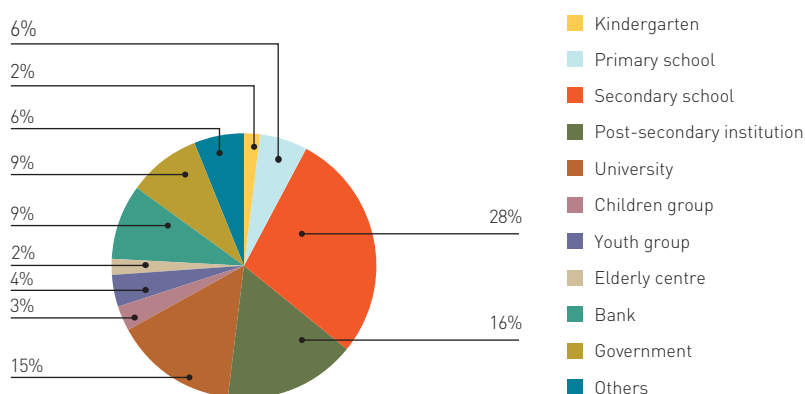
The Library, situated next to the Exhibition Area, contains materials for detailed study of Hong Kong's monetary, banking and financial affairs and of central banking topics. It houses an electronic register of authorized institutions in Hong Kong maintained under section 20 of the Banking Ordinance.

The HKMA continued to organise public education seminars on topics relevant to its work. In 2011, three seminars were held for over 2,000 students, teachers and members of the public. The Linked Exchange Rate system, Hong Kong's banknotes and the work of the HKMA were the main topics. Since the launch of the education programme in 1998, more than 46,000 people have participated in the seminars.



The Vice-Premier of the State Council, Mr Li Keqiang, is briefed by the Chief Executive of the HKMA, Mr Norman Chan, during his visit to the HKMA Information Centre on 17 August. The Chief Executive of the HKSAR, Mr Donald Tsang, and the Governor of the People's Bank of China, Mr Zhou Xiaochuan, accompanies Mr Li.

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





# Corporate Functions

## HUMAN RESOURCES

The HKMA needs to recruit, develop and maintain 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 to those of the civil service 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.

### Organisational changes

In December 2011 the Financial Stability Surveillance Division was formed under the Monetary Management Department to strengthen macro-financial surveillance. The Division comprises staff from the Banking Policy Department and the Monetary Management Department previously engaged in market surveillance work. The Treasury and Derivatives Teams in the Banking Policy Department were transferred to the Banking Supervision Department and the duties of some Divisions in the Banking Supervision Department were reshuffled to streamline operations. The Support Services Division of the Monetary Management Department was renamed Currency Division to reflect more clearly its function.

In January 2012 the duties of two Deputy Chief Executives were reshuffled. Mr Peter Pang took over Mr Eddie Yue's responsibilities for the Monetary Management Department and the Financial Infrastructure Department, while continuing to oversee the Research Department and The Hong Kong Mortgage Corporation Limited. Mr Yue took over Mr Pang's responsibilities for the External Department and the Corporate Services Department, and continued to oversee the Reserves Management Department.

## Staffing

The staffing establishment of the HKMA at the beginning of 2011 was 775. Twelve temporary positions in the Enforcement Department were converted into permanent posts in October in order to strengthen the core team of experienced permanent staff to supervise and guide the operations of the enforcement and banking complaint handling functions. At the end of 2011, the establishment was 787.

In January 2012, seven new posts were added to enhance support for essential activities, bringing the total establishment to 794 (an increase of 0.9%) (Table 1). These new posts will be deployed in the following areas:

- strengthening surveillance of global economic and financial developments
- promoting Hong Kong as a premier financial services hub
- strengthening supervision on customer and investor protection
- enhancing internal support, control and risk management.

**Table 1** Establishment and strength of the HKMA on 1 January 2012

| 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 Conduct  | To focus on payment systems oversight, licensing, deposit protection and settlement, and all supervisory and development functions relating to the business conduct of authorized institutions.             | 1             | 1         | 99            | 93         |
| Banking Policy   | To formulate supervisory policies for promoting the safety and soundness of the banking sector.   | 1             | 1         | 29            | 29         |
| Banking Supervision                                    | To supervise day-to-day operations of authorized institutions.  | 1             | 1         | 160           | 157        |
| Enforcement  | To focus on securities enforcement and complaint handling functions.  | 1             | 1         | 61            | 56         |
| External   | To help develop and promote Hong Kong as an international financial centre and to foster regional monetary co-operation through participation in the international central banking and financial community. | 1             | 1         | 51            | 49         |
| Financial Infrastructure                               | To develop and enhance the financial market infrastructure important for maintaining and strengthening Hong Kong as an international financial centre.  | 1             | 1         | 25            | 25         |
| Monetary Management                                    | To maintain financial and monetary stability through macro-financial surveillance, monitoring of market operations and development issues, and to ensure adequate supply of banknotes and coins.            | 1             | 1         | 39            | 39         |
| Research   | To conduct research and analysis on economic and international financial market developments in Hong Kong and other economies.  | 1             | 1         | 37            | 36         |
| 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         | 82            | 79         |
| Office of the General Counsel                          | To provide in-house legal support and advice.   | 1             | 1         | 20            | 19         |
| 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         | 159           | 154        |
| Internal Audit   | To provide audit services through assisting management in controlling risks, monitoring compliance and improving the efficiency of internal control systems and procedures.                                 | –             | –         | 10            | 8          |
| <b>Total</b>   |   | <b>15</b>     | <b>15</b> | <b>779</b>    | <b>751</b> |

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Temporary resources will continue to be deployed to meet other work demands. The number of temporary staff hired for handling banking complaints had been reduced from the peak of about 200 in 2009 to around 40 in January 2012.

The HKMA transfers staff on secondment to other international or local organisations such as the International Monetary Fund and the Hong Kong Interbank Clearing Limited to help co-ordinate activities or policy initiatives in which Hong Kong or the HKMA has an interest. Some staff 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 Exchange Fund Advisory Committee (EFAC) and its Governance Sub-Committee (GSC) 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 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 FS in the light of recommendations made to him by the GSC through EFAC, 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 appropriate factors.

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. Taking into account advice from independent consultant, the variable pay system for investment professionals in the HKMA was modified in 2011 to strengthen the linkage between their investment performance and remuneration award. The pay adjustments or awards to 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 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 2011 are shown in Table 2.

**Table 2** Remuneration packages of HKMA senior staff in 2011<sup>1</sup>

| \$'000                       | Chief Executive | Deputy Chief Executive (average) | Executive Director (average) |
|------------------------------|-----------------|----------------------------------|------------------------------|
| Number of staff <sup>2</sup> | 1               | 3                                | 12                           |
| Annualised pay               |                 |                                  |                              |
| Fixed pay                    | 6,000           | 5,180                            | 3,283                        |
| Variable pay                 | 2,038           | 1,519                            | 704                          |
| Other benefits <sup>3</sup>  | 1,000           | 468                              | 377                          |

Notes:

- 1 Except for annual leave accrued, the actual remuneration received by staff during 2011 but 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 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 places great emphasis on developing staff capabilities to meet operational needs, career development and new challenges. During the year, HKMA staff were provided with 3,228 training days compared with 2,799 in 2010. These included 1,343 days of horizontal training in general skills, and 1,885 days of vertical training in job-specific topics. Each staff received on average 4.39 days of training.

As part of the horizontal training programme, courses on central banking and the core functions of the HKMA were organised for new staff. Several team-building workshops were conducted to enhance the spirit of teamwork at the workplace. Courses on English writing skills were conducted during the year focusing mainly on support staff, while workshops on appraisal skills, objective-setting, public speaking and presentation skills, were attended by managerial staff. Putonghua courses and training on PC skills were provided to staff at various ranks. There were workshops targeted at staff of individual sections, such as media training for the Communications Unit. Training for senior staff included executive leadership programmes run by local universities and organisations, national studies courses organised by the Chinese Academy of Governance in Beijing, and central banking courses organised by the Federal Reserve Bank of New York.

During the year, a comprehensive in-house training programme was organised for newly-recruited Assistant Managers in the Banking Departments. The course lasted for two weeks and aimed to provide participants with the necessary knowledge and skills to perform the duties of an Assistant Manager in the Banking Departments. It covered basic banking supervisory topics including supervisory approach, core principles for effective banking supervision, Banking Ordinance and regulatory framework, CAMEL rating, capital adequacy, statutory returns, Basel II and III, major banking risks, on-site examination and off-site review. In-house training on specific topics was also organised for Banking staff throughout the year to update them on the latest developments, including updates on renminbi business, implementation of positive mortgage data sharing, sound systems and controls for liquidity-risk management, benchmarking of stress-testing practices, Basel III and mystery-shopping programme. Training courses offered by multilateral organisations and other central banks that were not available in Hong Kong were also identified for colleagues.

The HKMA runs a Training Sponsorship Scheme to help staff pursue further studies relevant to the work of the HKMA with a view to enhancing their knowledge-base and professional standards. Partial reimbursement of membership dues of relevant professional bodies is also provided.

Besides formal training, staff briefings were conducted by the senior executives and external speakers on a range of topics related to the work of the HKMA.

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## GENERAL ADMINISTRATION

The HKMA continued to streamline its work to improve efficiency and cost-effectiveness to cope with the increasing workload. Business continuity plans are kept under constant review to ensure their effectiveness in a changing business environment. An evacuation drill and a drill of activation of the back-up office are held every year. The Event Management Team monitors the response level of influenza pandemic in Hong Kong and implements necessary precautionary and contingency measures as appropriate.

The HKMA takes various steps to protect and preserve the environment. All HKMA staff support recycling campaigns in collecting clothes, toys, computers and other reusable items for donation to charities. Waste paper and used printer cartridges are also collected for recycling. The HKMA supports the use of recycled paper, which constitutes over half of the total paper consumption. Following a 14% reduction of paper consumption in 2010, the HKMA has reduced paper consumption by another 12.6% in 2011, along with other green achievements in reducing envelope consumption (67.9%) and electricity consumption (2.8%).

During 2011 HKMA staff teams participated in and raised funds for a number of charity events. The HKMA Team was the first runner-up of the Corporate Cup of the Sowers Action Charity Marathon and the UNICEF Half Marathon, and the second runner-up in the Bank Category of the Green Power Hike. HKMA staff took part in Blood Donation Day, the Community Chest's Dress Special Day and Love Teeth Day. In 2011 the HKMA Volunteer Team gave more than 170 hours of their free time to serving the community, including assisting in the donation exercise on recycled computer and peripherals to Caritas Computer Workshop, and participating in various volunteer services organised by the Agency for Volunteer Service.

The HKMA procures office supplies from a workshop operated by people with disabilities. In recognition of its commitment to corporate citizenship, the Hong Kong Council of Social Service awarded the "5 Years Plus Caring Organisation Logo" to the HKMA.

## FINANCE

### Annual budget

In drawing up the annual budget, the HKMA takes into account both its continuing operations and its 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 consider where 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 GSC of EFAC then deliberates on the budget and recommends any changes it believes are necessary, before putting it through EFAC to the FS for approval.

All expenditure is subject to stringent financial controls through 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 2011 and the budgeted expenditure for core activities in 2012 are shown in Table 3. With the establishment of the Enforcement Department and the substantial completion of the investigation work for Lehman-related complaints, the project funding for investigation of complaints about banking services ceased at the end of 2011 and on-going expenses for handling complaints are provided for in the administrative expenditure starting from 2012. Having regard to this change, figures in Table 3 have included the relevant expenditure. The difference between the 2011 actual expenditure and the 2012 budget arises mainly from an increase in staff costs, reflecting the full-year effect of staff increases in 2011 for enhancing the work on enforcement and banking complaint handling, and the increase of seven posts to strengthen support for essential activities in different areas of the HKMA's work, approved for 2012 by the FS on the advice of EFAC.

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 2012. Expenditure continued in 2011 on the programme to upgrade Hong Kong's financial infrastructure, including further strengthening Hong Kong's position as a regional payment hub, undertaking preparatory work for the establishment of a trade repository, and keeping infrastructure at the forefront of technology and in compliance with new standards.

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 4. 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**

| \$ million   | 2011<br>Budget* | 2011<br>Actual | 2012<br>Budget* |
|--|-----------------|----------------|-----------------|
| <b>Staff costs</b>   | 886             |                | 935             |
| Salaries and other staff costs   |                 | 751            |                 |
| Retirement benefit costs   |                 | 59             |                 |
| <b>Premises expenses</b>   |                 |                |                 |
| Operating lease charges  | 16              | 15             | 17              |
| Other premises expenses (including utility charges and management fees)  | 42              | 42             | 48              |
| <b>General operating costs</b>   |                 |                |                 |
| Maintenance of office and computer equipment   | 55              | 52             | 60              |
| Financial information and communication services<br>(including trading, dealing terminals and data link charges) | 45              | 40             | 54              |
| External relations (including international meetings)  | 46              | 29             | 54              |
| Professional and other services  | 54              | 28             | 49              |
| Training   | 9               | 7              | 9               |
| Others   | 13              | 10             | 23              |
| <b>Total administrative expenditure</b>  | <b>1,166</b>    | <b>1,033</b>   | <b>1,249</b>    |

\* Includes supplementary budget and relevant provisions in project budgets and expenses related to handling of complaints about banking services.

**Table 4 Additional expenses**

| \$ million  | 2011<br>Budget* | 2011<br>Actual | 2012<br>Budget* |
|---|-----------------|----------------|-----------------|
| Subsidy to the Hong Kong Institute for Monetary Research                | 20              | 15             | 21              |
| Premises expenses of international financial organisations in Hong Kong | 31              | 30             | 32              |
| Service fees for financial infrastructure                               | 72              | 51             | 97              |

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

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In addition to investment income from managing the Exchange Fund, the HKMA earns revenue through licence fees paid by AIs, and custodian and transaction fees from users of the Central Moneymarkets Unit. In 2012 licence fees are estimated at \$137 million (2011: \$136 million), cost recovered from the Hong Kong Deposit Protection Board and the other income components (excluding investment income) at \$74 million (2011: \$79 million).

## 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 Special Data Dissemination Standard of the International Monetary Fund. In the absence of specific reporting requirements applying to central banking institutions, the HKMA adopts the disclosure requirements applicable to commercial entities as far as possible 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 applicable to central banking operations. 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.

## INFORMATION TECHNOLOGY

The Information Technology Division maintained 100% operational uptime in 2011 for all time-critical systems. In April 2011 an organisation-wide Business Continuity Management (BCM) exercise was carried out with the participation of all senior management staff. The recovery time of all information technology (IT) systems met the required targets and all business functions operated satisfactorily in the BCM mode.

To ensure continued reliability of the HKMA's IT system, ageing components of the IT infrastructure including firewall systems and financial services like SWIFT system were updated in 2011. Taking into account evolving mobile technology, the Division also provided enhanced communication support to staff on the move. In order to further enhance IT security in the HKMA, the Division was implementing new security information and event management technology which can improve the current log review process and enable early security warning. This will make the IT environment more resilient against emerging security threats.

To meet the Banking Departments' evolving needs for IT support in discharging their responsibilities, a revamp of the existing banking supervisory information system was initiated in 2011. The new system will provide users with more business intelligence software tools so as to enable better utilisation of the data stored in the system in an effective and timely manner.

The Division continued to support the Hong Kong Deposit Protection Board in improving its payout efficiency by implementing the payout system enhancements identified in simulations and rehearsals.

## SETTLEMENT SERVICES

The Settlement Section provides settlement and operational support to ensure efficient and reliable transfers of funds or assets of the Exchange Fund arising from reserves management, monetary operations and other activities of the HKMA. With potential settlement and operational risks and the range of trading products and markets increasing, the Settlement Section remains vigilant towards issues that may arise during provision of settlement services. To ensure robust settlement operations, the Settlement Section dedicated a team to support the development of a new in-house investment and settlement processing system in 2011. A Pricing Unit was also established to ensure the integrity of pricing used in investment revaluation.



The Settlement Section and the Pricing Unit are committed to effective risk control mechanisms for settlement and operational support, and ensuring the segregation of duties and avoiding conflicts of interest between the monetary operations and reserves management functions of the HKMA. They are grouped under the Banking Conduct Department, which is separated from other functions of the HKMA.

## 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 13 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:

- preparation of legislative amendments to the Banking Ordinance for implementation of the Basel III framework
- formulation of the proposed regulatory regime for the over-the-counter (OTC) derivatives market, including establishing a trade repository in Hong Kong for OTC derivatives transactions
- formulation of proposals for regulating insurance intermediation services by authorized institutions as part of the new regulatory regime for insurance industry
- preparation of legislative amendments to the Mandatory Provident Fund Schemes Ordinance to establish a statutory regulatory regime for mandatory provident fund intermediaries

- continued development of the bond markets in Hong Kong and Asia, including the launch of iBond, and negotiations for the HKMA's status and participation as a Qualified Foreign Institutional Investor in the China interbank bond and securities markets
- continued development of the renminbi business in Hong Kong, including negotiating the Renminbi/Hong Kong Dollar Swap Agreement with the People's Bank of China, and launching the renminbi fiduciary account service to facilitate participating banks to better manage their credit exposure to the Clearing Bank for renminbi business in Hong Kong
- deliberation on effective resolution regimes to strengthen cross-border resolution for global systemically important financial institutions, including active participation in the Financial Stability Board (FSB) Steering Group for resolution regimes and preparation of bank-specific cross-border co-operation agreements
- deliberation on arrangements to improve information gaps and systemic linkages for global systemically important banks, including active participation in the FSB Data Gaps Implementation Group.

The OGC manages HKMA litigation matters and provides comments to government bureaux on significant legislative proposals from time to time, such as the Companies Bill. 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.

# Corporate Functions

## 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 Internal Audit Division co-ordinated the annual organisation-wide risk assessment exercise and reported the results to the Risk Committee and the Audit Sub-Committee. Using a risk-based approach, operational audits and system security reviews were conducted to cover all the significant risks facing the HKMA. The Division also reviewed the corporate governance and operations of the Hong Kong Deposit Protection Board. With effect from 2011, the HKMA's banking supervisory function was included in the Division's audit work plan. The Division advised on major system development projects and responded to management requests on internal-control matters, as well as advising senior executives on issues with control implications.

To keep abreast of development in practices in the internal audit profession and other central banks, the Division attended the meeting of Heads of Internal Audit for Asia-Pacific central banks and monetary authorities organised by the Bank for International Settlements to exchange views and share experiences in risk management and audit matters. It also participated in the seminar on recent regulatory reforms organised by Financial Stability Institute in Basel and attended the International Conference of the Institute of Internal Auditors held in Kuala Lumpur. In addition, professional staff attend 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.

In 2011 the HKMA has strengthened its risk management framework with the establishment of the Macro Surveillance Committee (see the "Macro-prudential Surveillance" paragraph in the Chapter on Monetary Stability for details) and refinements of the roles and responsibilities of the Risk Committee. Both Committees are chaired by the Chief Executive.

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 that promotes the proper levels of authorisation and controls.

These Committees meet 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.