

Corporate Functions

The HKMA maintains effective communications with the community through the media, public education programmes and various other channels to facilitate the public's understanding of its policies and operations. During the year, it continued to step up corporate governance to support various functions of the HKMA, such as through realigning organisational structure to complement strategic priorities; supporting professional development of staff; instituting rigorous financial discipline; and developing and maintaining robust IT infrastructure.

ENGAGING THE COMMUNITY CORPORATE DEVELOPMENT

Media relations

The HKMA works closely with the media to enhance the transparency of and promote public understanding about its policies and work. In 2014, 52 open press events were held, comprising 13 press conferences, nine stand-up interviews and 30 other public functions. A further 43 media interviews were arranged. A total of 389 bilingual press releases were issued and a large number of media enquiries were handled on a day-to-day basis.

In addition, the HKMA organised thematic media briefings and workshops to facilitate better understanding of the HKMA's operations and initiatives on various topics, including Mainland-related exposure of Hong Kong banking sector, HKMA's investigations into Hong Kong Interbank Offered Rate (HIBOR) fixing, anti-money laundering, and renminbi internationalisation.

Public enquiries

The Public Enquiry Service provides an effective means for the general public to obtain information from the HKMA and better understand the key functions of the organisation. It handled 8,361 enquiries in 2014.

About half of the enquiries received were related to banking policies and regulations, notes and coins, and consumer banking issues. Notable examples included banking products and services, registration of relevant individuals, prevention of money laundering and terrorist financing, and the Coin Collection Programme launched in September 2014.

Chart 1 shows the number of public enquiries received since 2011 and Chart 2 provides a breakdown by nature of the enquiries in 2014.

Chart 1 Total number of public enquiries

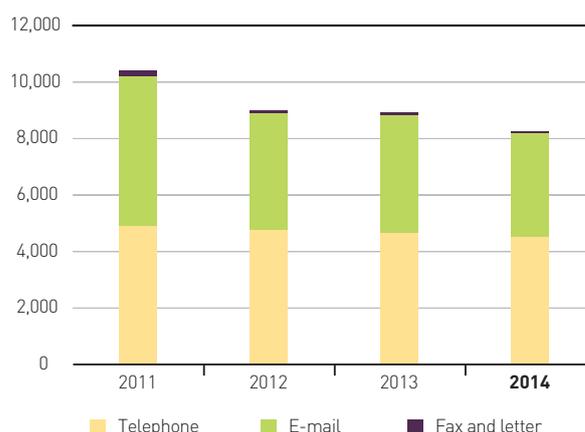
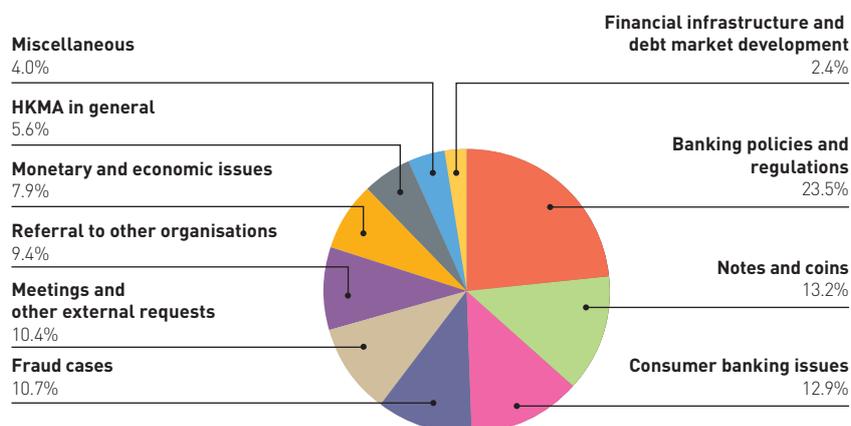


Chart 2 Nature of enquiries received in 2014



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Publications

Apart from the *HKMA Annual Report*, the HKMA published 2 issues of *Half-Yearly Monetary and Financial Stability Report*, 4 issues of *Quarterly Bulletin* and released regular updates of *Monthly Statistical Bulletin* over the past year to provide up-to-date information and analyses on monetary, banking and economic issues in Hong Kong. In addition, the senior management of the HKMA published 10 *inSight* articles covering various specific and timely policy issues of the HKMA, including a series of 6 articles by the Chief Executive reviewing the past 5 years of work of the HKMA and looking ahead to the next 5 years.

The *HKMA Annual Report 2013* received a Silver award in "Non-profit Making and Charitable Organisations" Category in the Hong Kong Management Association's 2014 Best Annual Reports Awards.

The HKMA website

The HKMA corporate website (www.hkma.gov.hk), with over 50,000 pages in English and traditional and simplified Chinese, is the gateway for the public to access up-to-date information about the HKMA. It also contains the Register of Securities Staff of Authorized Institutions and the Register of Authorized Institutions and Local Representative Offices, both maintained under section 20 of the Banking Ordinance.

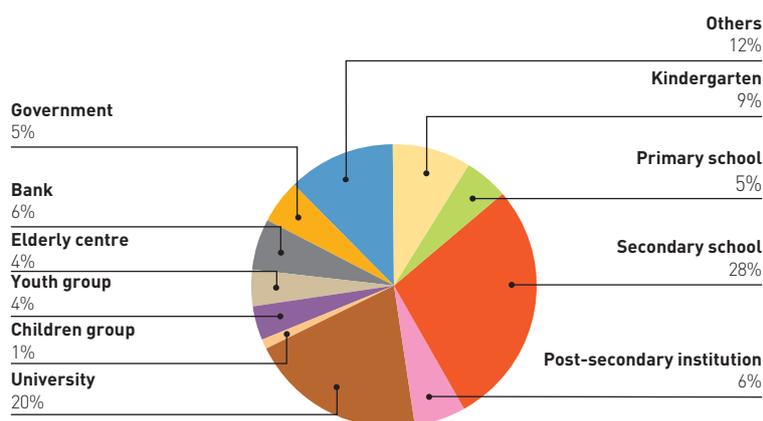
Public Education Programme

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 also contains materials and real exhibits for 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 29,200 visitors and hosted over 480 guided tours for schools and other groups (Chart 3). Over 482,000 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 authorized institutions in Hong Kong as required by section 20 of the Banking Ordinance.

Chart 3 Types of group visits to the Information Centre





Young visitors learn about currencies in Hong Kong in a guided tour of the Information Centre.

To reach out to the community and raise public awareness of the HKMA's work, the HKMA continued to organise public education seminars. In 2014, three seminars were held for around 2,500 secondary school students and teachers. They covered topics such as the Linked Exchange Rate System, banknotes in Hong Kong, smart use of credit cards and the Deposit Protection Scheme. More than 52,500 people have participated in this programme since its launch in 1998.



One of the public education seminars for secondary school students and teachers.

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 meet new and increased workload as necessary.

Organisational changes

In March 2014, the Banking Supervision Department (BSD) realigned its resources to better focus on significant risks faced by authorized institutions individually and by the banking sector as a whole in the medium term. Under the new structure, the original five divisions were reorganised as six divisions: three subject divisions are dedicated to the supervision of corporate sector credit risk, operational and technology risk, and anti-money laundering and financial crime risk respectively, while the remaining three case management divisions are responsible for the day-to-day prudential supervision of AIs in addition to the supervision of other topical subjects such as consumer credit risk, supervisory stress testing and treasury activities.

During the year, the Deposit Protection Scheme Division, including the Settlement Section, were transferred from the Banking Conduct Department to the Enforcement Department. To further enhance governance and management efficiency, the Corporate Services Department and the Risk and Compliance Department were also put under the direct supervision of the Chief Executive.

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Staffing

The establishment of the HKMA in 2014 was 816. To ensure that sufficient resources are provided to cope with the new initiatives and the increasing complexity and volume of existing work, the overall establishment of the HKMA is increased by 25 to 841 in 2015 (an increase of 3.1%). The new posts are deployed to the following functions:

- Enhancing banking and financial stability, which entails:
 - closely monitoring Als' Mainland-related exposure;
 - conducting more in-depth financial analysis of the banking system's balance sheet;
 - implementing new supervisory requirements regarding Als' credit and liquidity risks;
 - stepping up the supervision of Als' various day-to-day operational risks;
 - strengthening supervisory and enforcement efforts in anti-money laundering and counter-terrorist financing; and
 - further enhancing the HKMA's macro-surveillance capability in monitoring activities in the CNH market and over-the-counter derivatives trade
- Strengthening the HKMA's risk management function in view of the growing complexity of the HKMA's investment and other activities
- Strengthening support to the expanding investment activities associated with the Long-Term Growth Portfolio
- Implementing the new statutory regime which empowers the HKMA to regulate stored value facilities and retail payment systems under the Clearing and Settlement Systems (Amendment) Bill
- Enhancing Hong Kong's status as the premier offshore RMB business centre and Asset Management Centre
- Strengthening general support in the areas of financial reporting, administration, and research.

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

Table 1 Establishment and strength of the HKMA on 1 January 2015

Department	Functions	Senior staff		Others	
		Establishment	Strength	Establishment	Strength
Chief Executive's and Deputy Chief Executives' Offices	Top management of the HKMA.	4	4	8	7
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	72	71
Banking Policy	To formulate supervisory policies for promoting the safety and soundness of the banking sector.	1	1	27	27
Banking Supervision	To supervise operations of authorized institutions.	1	1	177	170
Enforcement	To focus on securities enforcement, complaint handling, deposit protection and settlement functions.	1	1	89	83
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	44	40
Financial Infrastructure	To develop and enhance the financial market infrastructure for maintaining and strengthening Hong Kong as an international financial centre.	1	1	29	24
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	48	47
Research	To conduct research and analysis on economic and international financial market developments in Hong Kong and other economies.	1	–	40	38
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	62	57
Risk and Compliance	To oversee all risk-generating activities, including investment risks and other non-investment related corporate risks of the HKMA.	1	–	34	33
Office of the General Counsel	To provide in-house legal support and advice.	1	1	22	20
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	156
Internal Audit Division	To provide audit services through assisting management in controlling risks, monitoring compliance and improving the efficiency of internal control systems and procedures.	–	–	10	10
Total		16	14	825	783

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Temporary resources will continue to be 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 fixed pay (or basic 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 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 2014 are shown in Table 2.

Table 2 Remuneration packages of HKMA senior staff in 2014¹

\$'000	Chief Executive	Deputy Chief Executive (average)	Executive Director (average)
Number of staff ²	1	3	12
Annualised pay			
Fixed pay	6,125	6,047	3,649
Variable pay	2,600	1,783	912
Other benefits ³	1,203	668	516

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 attaches great importance to developing staff capabilities to meet operational demands, career development needs and new challenges. During the year, HKMA staff received training totalling 3,328 days, or on average 4.2 days per staff member. These included 1,415 days of horizontal training in general skills, and 1,913 days of vertical training in job-specific issues.

Different horizontal training programmes were run in the year. These included an annual in-house induction course for new staff on the overview of central banking and the roles and functions of the HKMA, a departmental-wide training course for banking supervision staff on cultural change to tie in with the re-structuring of the department, communication skills workshops, language courses on English writing and Putonghua, and computer skills workshops. Managerial staff also attended locally-run leadership courses conducted by the Hong Kong Government and private sectors, and national studies at Tsinghua University and China Foreign Affairs University organised by the Hong Kong Government. Other leadership programmes, including one on global finance organised by a local university, three on leadership and public policy organised by overseas and local universities and co-ordinated by the Hong Kong Government, were attended by senior and managerial staff.

Training for senior staff included executive coaching, a locally-run executive leadership programme, a national studies programme conducted by the Chinese Academy of Governance in Beijing, and a central banking seminar organised by the Federal Reserve Bank of New York.

As for vertical training, various in-house courses on specific topics were organised for staff. The topics covered in the year included enhancing risk management of personal lending business, investigation and prosecution of money laundering, legal issues about regulatory litigation, legal professional privilege, leverage ratio, liquidity maintenance ratios and monitoring tools. External consultants were engaged to provide courses on US regulatory reforms, investigation skills and process sharing. Staff were also sponsored to attend courses on data protection in banking/financial services, structured trade and commodity finance, treasury market and operations, updates on insurance market and products, investment sales compliance and debt securities run by local professional bodies and training consultants.

With a view to enhancing the knowledge base and professional standards of staff, the HKMA has been running a Training Sponsorship Scheme to help staff pursue studies relevant to the work of the HKMA. The Scheme covers degree or diploma courses, professional examinations and short term courses. Reimbursement of membership fees of relevant professional bodies is also provided.

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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 back-up facilities are conducted every year to ensure the responsiveness and preparedness of various business continuity measures. A dedicated team keeps monitoring 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, use of recycled paper and envelope, minimising printing and the use of paper products. Green achievements in 2014 included electricity saving by 3.5%, reduction in paper consumption by 14.1% and increase in collection of waste paper by 51%. Staff also continued to participate in regular campaigns for collecting clothes, toys and reusable items for donation to charities.

HKMA staff share their social responsibility and have continued to provide strong support to charity events. The HKMA Team ranked third in the Men's category in the Raleigh Wilson Trail Challenge "Adventurer – Night Course" and raised funds for supporting overseas and local youth development projects. HKMA staff took part in the Blood Donation Day, the Community Chest's Green Day, Skip Lunch Day, Dress Casual Day and Love Teeth Day.

In 2014, the HKMA Volunteer Team devoted more than 260 hours of their free time to serving the community. They participated in various volunteer services organised by the Agency of Volunteer Service, arranged visits for the students of Chak Yan Centre, joined the home visits of elderly organised by the Agency for Senior Citizen Home Safety Association, and assisted in the donation exercise on recycled computers and peripherals to Caritas Computer Workshop. In recognition of its commitment to corporate citizenship, the HKMA has been accredited with the "5 Years Plus Caring Organisation Logo" by the Hong Kong Council of Social Service.



HKMA staff members take part in the Blood Donation Day on 30 May 2014.



HKMA volunteers participate in the home visit for the elderly organised by The Agency for Senior Citizen Home Safety Association on 29 March 2014.

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 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 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 2014 and the budgeted expenditure for core activities in 2015 are shown in Table 3. The difference between the 2014 actual expenditure and the 2015 budget arises mainly from an increase in staff costs, including the full-year effect of staff changes and pay review in 2014, and a net increase of 25 posts in 2015 for enhancing capabilities in the supervision of banks, internal risk control and investment activities. The headcount change for 2015 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 its status as an international financial centre, are expected to remain broadly stable in 2015. Spending on financial infrastructure is related to the operation and continued development of payment and other 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).

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Table 3 HKMA administrative expenditure

\$ million	2014 Budget*	2014 Actual	2015 Budget*
Staff costs	1,105		1,169
Salaries and other staff costs		955	
Retirement benefit costs		86	
Premises expenses			
Operating lease charges	25	25	26
Other premises expenses (including utility charges and management fees)	57	53	59
General operating costs			
Maintenance of office and computer equipment	76	73	81
Financial information and communication services (including trading, dealing terminals and data link charges)	53	46	57
External relations (including international meetings)	53	34	63
Professional and other services	56	28	63
Training	10	8	10
Others	16	11	17
Total administrative expenditure	1,451	1,319	1,545

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

Table 4 Additional expenses

\$ million	2014 Budget*	2014 Actual	2015 Budget*
Subsidy to the Hong Kong Institute for Monetary Research	22	18	17
Premises expenses of international financial organisations in Hong Kong	40	40	40
Service fees for financial infrastructure	111	92	100

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

In addition to investment income from managing the Exchange Fund, the HKMA collects licence fees from AIs. For 2015, revenue from licence fees is estimated at \$131 million (2014: \$131 million).

Financial disclosure

The HKMA adopts best practices in financial disclosure as far as they are consistent with central banking operations. These standards include the reporting requirements laid down by the Special Data Dissemination Standard of the IMF. In the absence of specific reporting requirements applicable to central banking institutions, the HKMA adopts 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 in terms of the comprehensiveness of financial disclosure. It contains detailed disclosure and thorough analyses of a wide range of expense items and budgetary information.

INFORMATION TECHNOLOGY

The Information Technology (IT) Division maintained 100% operational uptime in 2014 for all time-critical systems.

To meet the Banking Departments' evolving needs for IT support in discharging their responsibilities, a revamp of the existing banking supervisory information system was carried out. It covered three main areas, namely, new system infrastructure, development of business intelligence tools, and enhancing the existing banking return electronic submission system. The new business intelligence and workflow features will help the HKMA

oversee various supervisory issues, keep track of work targets, and ensure that supervisory work will be carried out according to procedures with clear audit trail. The project is progressing on schedule and its first phase was put into production use in December of 2014.

To implement a new regulatory regime for stored value facilities and retail payment systems, a new supervisory information system is being developed. The system covers regulated information electronic submission and data processing and downloading. It also provides various workflow features that help the HKMA process applications of regulated entities and perform supervisory and enforcement functions to ensure, with a clear audit trail, that the supervisory work will be carried out according to procedures. The system is expected to be implemented in the second half of 2015.

To ensure continued reliability of the HKMA's IT systems, ageing components of the IT infrastructure were updated in batches. The Division studied alternative office automation services and identified Virtual Desktop Infrastructure (VDI) as a suitable platform. The VDI platform was introduced in first half of 2014 involving 100 pilot users, and will gradually replace the existing de-centralised office automation platform over the coming years.

IT security continued to be the Division's high priority. The IT security information and event management software provided useful early security warning to prevent possible cyber attacks. As mobile technology is changing user and business behaviours, the Division continued to explore and deploy new security arrangements for supporting staff on the move to enhance their productivity in a secure environment.

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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 markets undertaken by the HKMA, the Settlement Section remains vigilant towards operational issues that may arise during the provision of settlement services. It is also dedicated to enhancing its settlement infrastructure to deliver greater accuracy, control and efficiency for the funds and assets transfers of the HKMA.

The Settlement Section is committed to effective risk control mechanisms for settlement and operational support. To ensure proper segregation of duties and avoid potential conflicts of interest with the monetary operations and reserves management functions of the HKMA, the Section is grouped under the Enforcement Department, which is separated from other HKMA functions.

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 16 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 (Liquidity) Rules, the Banking (Capital) (Amendment) Rules 2014 and the draft Banking (Disclosure) (Amendment) Rules 2014
- formulation and implementation of the regulatory regime for the over-the-counter derivatives market, including the draft Securities and Futures (OTC Derivative Transactions — Reporting and Record Keeping Obligations) Rules
- formulation and implementation of the regulatory regime for retail payment systems and stored value facilities, including the draft Clearing and Settlement Systems (Amendment) Bill
- formulation of proposals with the Government and other regulators for an effective resolution regime for financial institutions in Hong Kong
- involvement in initiatives for cross-border resolution for global systemically important financial institutions, including participation in the Financial Stability Board (FSB) Resolution Steering Group, the Legal Experts Group on Cross-border Recognition of Resolution Actions and Workstream on Information Sharing for Resolution Purposes, and the provision of advice on bank-specific cross-border co-operation agreements
- deliberation on arrangements to improve information gaps and systemic linkages for global systemically important banks, including participation in the FSB Data Gaps Implementation Group

- continued development and promotion of Islamic finance initiatives, including advising on specific issues in relation to the first Government sukuk issue in September 2014
- continued development and promotion of the bond market, including implementing liquidity enhancement measures under the Institutional Bond Issuance Programme of the Government Bond Programme
- continued development and promotion of Hong Kong as a hub for corporate treasury centres, including conducting a feasibility study on issues involved in establishing a corporate treasury centre in Hong Kong
- advising on, and preparing legal documentation for, the provision of renminbi liquidity by the HKMA for the purposes of the Shanghai-Hong Kong Stock Connect which commenced operation in November 2014
- from the perspective of the HKMA, advising on and assisting in negotiations on the intergovernmental agreement between the United States and Hong Kong in relation to compliance with the US Foreign Account Tax Compliance Act by financial institutions in Hong Kong, and advising on other compliance matters under that Act
- 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).

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.

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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.