

Corporate Functions

The HKMA maintains effective communication with the community and the market through the media, public education programmes and other various channels to facilitate public understanding of its policies and operations. During the year, the HKMA continued to improve corporate governance by supporting professional development of staff, instituting rigorous financial discipline and enhancing IT security to cope with challenges arising from the implementation of new initiatives and the increasing complexity of work.

ENGAGING THE COMMUNITY CORPORATE DEVELOPMENT

Media relations

The HKMA works closely with the media to enhance transparency and promote public understanding about its policies and work. In 2017, 86 open press events were organised, comprising nine press conferences, 16 stand-up interviews and 61 other public functions. In addition, 42 media interviews were arranged and a total of 360 bilingual press releases were issued. It also handles a large number of media enquiries every day.

To raise awareness of the HKMA's key functions, guided tours were organised for the media to visit the newly revamped HKMA Information Centre. Furthermore, in-depth media briefings and educational workshops were conducted for local and overseas media on a wide range of topics, including the Bond Connect scheme, prudential measures for property mortgage loans, the Resolution Regime and Exchange Fund investments.



HKMA Chief Executive, Mr Norman Chan, conducts a media interview with local newspapers regarding the key initiatives of the HKMA's Infrastructure Financing Facilitation Office and Fintech Facilitation Office.



HKMA Chief Executive, Mr Norman Chan, introduces a mosaic artwork called "Small Change, Big Ode" to the media at the HKMA Information Centre. The artwork, featuring the Victoria Harbour and the Hong Kong skyline, was created using a total of 135,811 pieces of Hong Kong coins in different denominations.

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Public enquiries

The Public Enquiry Service provides an effective means for the public to better understand the key functions and operations of the HKMA. A total of 8,752 enquiries were handled in 2017, about half of which were related to banking policies and regulations, monetary and economic issues, consumer banking issues as well as notes and coins. Notable examples included the Coin Collection Programme, banking products and services, banking-related guidelines and circulars, monetary and economic statistics, prudential measures for property mortgage loans, and prevention of money laundering and terrorist financing.

Chart 1 shows the number of public enquiries received since 2014 and Chart 2 provides a breakdown in terms of the nature of enquiries received in 2017.

Chart 1 Total number of public enquiries

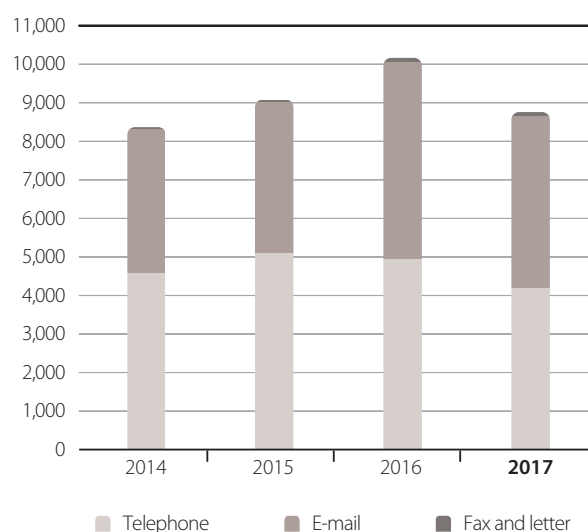
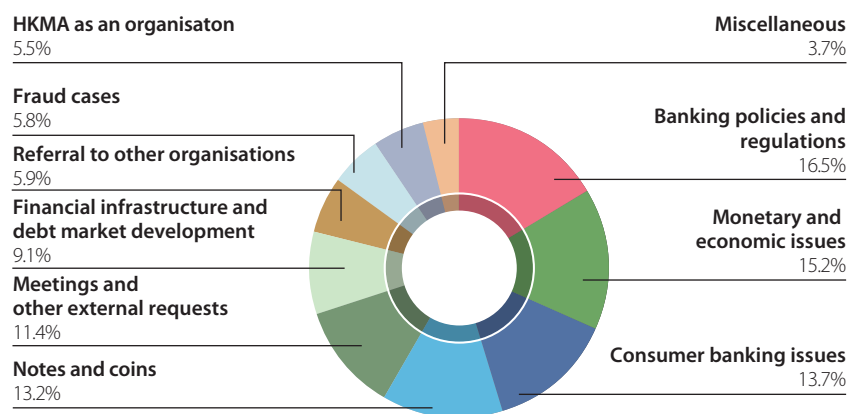


Chart 2 Nature of enquiries received in 2017



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Publications

Apart from the *HKMA Annual Report*, in 2017 the HKMA published two issues of the *Half-Yearly Monetary and Financial Stability Report* and four issues of the *Quarterly Bulletin*, and released regular updates of the *Monthly Statistical Bulletin* to provide up-to-date and thematic information and analyses on monetary, banking and economic issues in Hong Kong. In addition, the HKMA issued a total of 23 *inSight* articles, covering various topical issues related to its work.

HKMA website

The HKMA corporate website (www.hkma.gov.hk), with over 60,000 pages in English and traditional and simplified Chinese, is the public access gateway to up-to-date information about the HKMA. It also contains the register of authorized institutions (AIs) and local representative offices and the register of securities staff of AIs, both maintained under section 20 of the Banking Ordinance, as well as the register of stored value facility (SVF) licensees under the Payment Systems and Stored Value Facilities Ordinance. Dedicated webpages and eye-catching short-cut links are designed to draw public attention to the new initiatives of the HKMA, such as account opening, the regulatory regime for SVFs, the Infrastructure Financing Facilitation Office and the Fintech Facilitation Office, as well as important and timely information, such as reminders on the need to remain vigilant against bogus telephone calls and the location of Coin Carts under the Coin Collection Programme.

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. It consists of an exhibition area and a 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 reading materials and exhibits for the study of Hong Kong's monetary, banking and financial affairs.

The new look of the policy section of the Information Centre, which introduces the work of the HKMA and related financial concepts, was re-opened to the public on 24 February 2017 upon completion of the refurbishment work. The revamped policy section contains various interactive games and devices that integrate play into learning and explain complicated financial concepts in a simple way. Feedback from the visitors has been positive.



Students try out the educational games at the policy section of the Information Centre to learn about the work of the HKMA.

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Guided tours of the Information Centre are organised for visitors. During the year, it received more than 59,000 visitors and hosted over 650 guided tours for schools and other groups (Chart 3). More than 645,000 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 study of Hong Kong's monetary, banking and financial affairs and central banking topics. It also maintains the register of AIs and local representative offices and the register of securities staff of AIs, as required by section 20 of the Banking Ordinance.



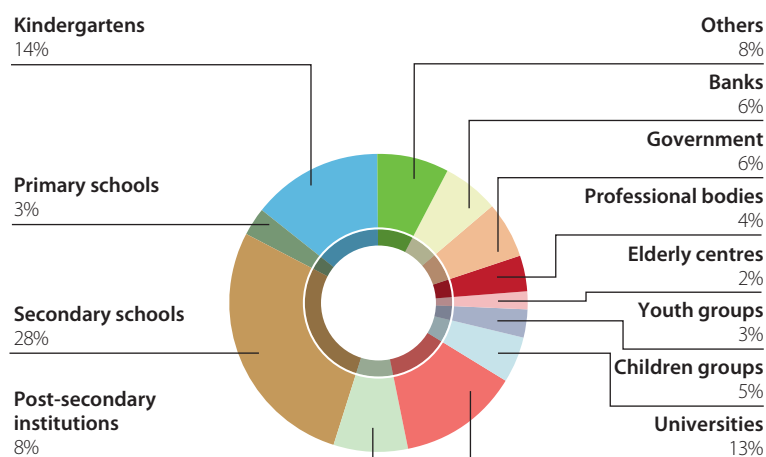
The library in the HKMA Information Centre.

To reach out to the community and raise public awareness of the HKMA's work, the HKMA organised four public education seminars for about 2,000 secondary school students and teachers in 2017. Topics covered in the seminars included the Linked Exchange Rate System, Hong Kong banknotes, banking stability, consumer protection, the Deposit Protection Scheme, fintech, the Belt and Road Initiative and careers in the financial industry. More than 58,400 people have participated in this public education programme since its launch in 1998.



Students and teachers from secondary schools in different districts participate in one of the public education seminars.

Chart 3 Types of group visits to the Information Centre in 2017



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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 employs 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, where possible, to redeploy staff resources to undertake new initiatives and meet increasing workload.

Organisational changes

The Resolution Office was established on 1 April 2017 to implement the Financial Institutions (Resolution) Ordinance enacted in June 2016. The Office aims to ensure that the Hong Kong resolution regime is operational for banks. This is essential to enhancing the resilience of the Hong Kong banking sector in the event of any crisis.

Staffing

The establishment of the HKMA in 2017 was 927. This will be increased by 35 to 962 in 2018 (an increase of 3.8%) to ensure that sufficient resources are provided to cope with the new initiatives and the increasing complexity and volume of existing work. The new posts are deployed to the following functions:

- Enhancing banking and financial stability, which includes:
 - enhancing capacity to support the launch of the Faster Payment System and easy banking initiatives;
 - strengthening supervisory capacity to deal with the regional and business expansion of banks and to facilitate (i) the wider adoption of fintech in the provision of banking services and (ii) collaboration with other regulatory authorities on cyber security and fintech issues; and
 - supporting the work of the Fraud and Money Laundering Intelligence Taskforce to fight against fraud, money laundering and other types of financial crimes, and strengthening legal support for enforcement actions under legislation governing anti-money laundering and SVFs.
- Strengthening investment, risk management and other related support for the further expansion and diversification of the Exchange Fund's investment activities.
- Stepping up global macro and financial-sector surveillance, and strengthening talent development programmes to ensure that the HKMA has the necessary human capital to meet the long-term development needs of the organisation.

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

Table 1 Establishment and strength of the HKMA on 1 January 2018

Department	Functions	Senior staff		Others	
		Establishment	Strength	Establishment	Strength
Senior Executives' Office	Top management of the HKMA.	4	4	9	9
Banking Conduct	To take charge of payment systems oversight, licensing, and all supervisory and development functions relating to the business conduct of AIs.	1	1	84	78
Banking Policy	To formulate supervisory policies for promoting the safety and soundness of the banking sector, enhance capacity building of industry practitioners and consumer education, and take charge of deposit protection function.	1	1	45	42
Banking Supervision	To supervise operations of AIs.	1	1	165	155
Enforcement and AML	To investigate and where appropriate take enforcement action under relevant Ordinances, supervise anti-money laundering and counter-terrorist financing systems and handle complaints.	1	1	99	94
External	To help develop and promote Hong Kong as an international financial centre, foster regional monetary co-operation through participation in the international central banking and financial community, and promote the development of financial markets.	1	1	56	52
Financial Infrastructure	To develop and enhance the financial market infrastructure for maintaining and strengthening Hong Kong's status as an international financial centre, take charge of settlement function, and ensure adequate supply of banknotes and coins.	1	1	46	45
Monetary Management	To maintain financial and monetary stability through macro-financial surveillance and monitoring of market operations, license and supervise SVFs, and designate and oversee important Retail Payment Systems.	1	1	49	49
Research	To conduct research and analyses on economic and financial market developments in Hong Kong and other economies.	1	1	39	36
Reserves Management	To manage reserves in line with established guidelines to achieve investment returns and enhance the quality of returns by diversifying investments into different markets and asset types.	1	1	94	74
Risk and Compliance	To oversee all risk-generating activities, including investment risks and other non-investment related corporate risks of the HKMA.	1	1	42	40
Office of the General Counsel	To provide in-house legal support and advice.	1	1	26	21
Corporate Services	To provide support services in the form of administrative, finance, human resources, information technology and secretariat services, and handle media and community relations.	1	1	172	159
Internal Audit Division	To provide audit services through assisting the management in controlling risks, monitoring compliance and improving the efficiency of internal control systems and procedures.	0	0	10	10
Resolution Office	To establish resolution standards; contribute to international resolution policy development; undertake local and cross-border resolution planning; develop operational capabilities to implement resolution; and execute orderly resolution of a failing AI or a cross-sectoral group if needed.	0	0	10	8
Total		16	16	946	872

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

Remuneration policies and pay review mechanism

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

Pay for HKMA staff is reviewed annually by the FS in the light of recommendations made to him by the GSC through the 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 members to maintain their pay competitiveness.

Any approved annual adjustments to the fixed pay and any variable pay awards for the HKMA are distributed to individual staff members based on their performance. Investment professionals in the HKMA are subject to a variable pay system that seeks to strengthen the link between their investment performance and remuneration award. The pay adjustments and awards for individual staff members at the ranks of Executive Director and 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 and 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 members

The remuneration packages of senior staff members in 2017 are shown in Table 2.

Table 2 Remuneration packages of HKMA senior staff members in 2017¹

HK\$'000	Chief Executive	Deputy Chief Executive/ Senior Executive Director (average)	Executive Director (average)
Number of staff ²	1	4	14
Annualised pay			
Fixed pay	7,116	5,786	3,853
Variable pay	2,600	1,547	1,013
Other benefits ³	1,059	773	515

1. Except for annual leave accrued, the actual remuneration received by staff members 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 in this table includes staff members who did not serve out a full year. The HKMA senior staff members include the Chief Executive Officer of the Hong Kong Mortgage Corporation and the Commissioner of Resolution Office.
3. 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 members, depending on individual terms of service.

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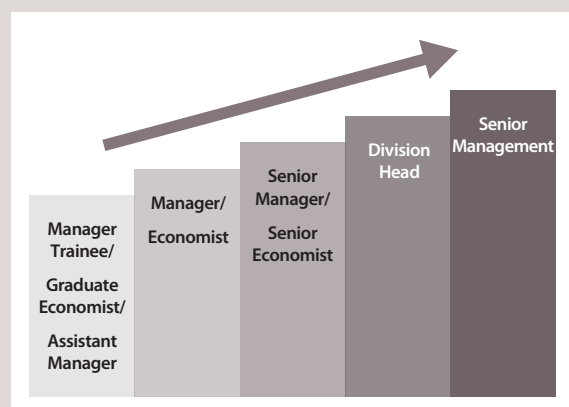
Manager Trainee (MT) and Graduate Economist (GE) programmes

To develop a pool of young talent with sharp analytical minds, strong communication skills and good team spirit for a long-term career in central banking, the HKMA runs two trainee programmes: the MT programme and the GE programme. Each programme lasts for a period of two years.

The MT programme prepares young graduates interested in central banking work to become the HKMA's future key management staff and contribute to the financial stability and prosperity of Hong Kong. Each MT undergoes on-the-job training in two to three departments to acquire hands-on experience on the important functions of the HKMA. For the GE programme, young graduates interested in economic research are offered the opportunity to harness their research skills in two to three departments to provide important input to the policy formulation process.

Both the MT and GE programmes provide an all-rounded career development environment for the trainees. Apart from on-the-job training, the MTs and GEs also attend structured foundation central banking courses organised internally and by leading international or regional organisations. Upon successful completion of the respective programme, MTs are offered appointments as Managers and GEs as Economists to continue their pursuit of a professional career in the organisation.

Career Prospect



|| MTs and GEs participate in team-building activities.

Assistant Managers (AMs)

AMs form an important backbone of the HKMA's professional staff. Most AMs work in the banking departments to promote the safety and stability of the banking system. A small number of AMs work in other functions, providing analytical and other forms of support. Young graduates with keen interest in banking supervisory and regulatory work would find the position of AM a good starting point for a fulfilling career.

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Training and development

The HKMA attaches great importance to developing staff capabilities to meet operational demand, career development needs and new challenges. During the year, HKMA staff attended various training courses equivalent to 4,236 days. These included 1,593 days of horizontal training in general skills, and 2,643 days of vertical training in job-specific issues. Each staff member received on average 4.9 days of training. These training courses were organised in-house, or by the Government, other central banking institutions, local and overseas universities, consultants and training institutions.

As part of the horizontal training programme, an annual in-house induction course covering an overview of the roles and functions of the HKMA was organised for new recruits. Other horizontal training programmes attended by staff during the year included public policy, national studies, leadership and executive coaching, communication and presentation skills, team building, computer skills, language courses and conduct-related matters.

Vertical training for staff covered various job-specific areas, including fintech, big data, supervision of technology risks, trends in cyber security and cyber crime, the Belt and Road Initiative, the Bond Connect scheme, regulatory litigation, insurance law and practice, recovery and resolution planning, bank risks and cryptocurrencies. Staff members were also sponsored to attend courses run by local professional bodies and training consultants.

To enhance work-related knowledge and professional standards of staff, the HKMA runs a training sponsorship scheme to help staff pursue studies relevant to the work of the HKMA. The scheme covers degree and diploma courses, professional examinations and short-term courses. Reimbursement of membership fees of relevant professional bodies is also provided.

GENERAL ADMINISTRATION

The HKMA continues to streamline its work to improve efficiency and cost-effectiveness in coping with the increasing workload. Business continuity plans are reviewed constantly 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 staff in carrying out various business continuity measures. A dedicated team monitors influenza alerts and other relevant infectious diseases to ensure that necessary precautionary and contingency measures are taken in a timely manner.

The HKMA has an established environmental policy to protect and preserve the environment. Office green measures include the use of energy-saving devices, recycled paper and envelopes, arrangements for recycling, and minimal printing and use of paper products. Green achievements in 2017 included reductions in the consumption of electricity by 0.64%, chilled water by 4.2% and envelopes by 55.1%, while the collection of waste paper increased by 6.1%.

The HKMA organises staff activities to enhance physical wellness, promote a sense of belonging and foster cooperation among colleagues. These activities include interest classes, sports competitions and volunteer activities.

During the year, HKMA staff continued to support various charitable events. The HKMA team participated in the "Challenging 12 Hours Charity Marathon" to support Sowers Action in promoting education aid in Mainland China. The Team came 11 out of 73 teams, and completed the 42km marathon in 8 hours and 12 minutes. HKMA staff took part actively in the Blood Donation Day, Territory-Wide Flag Day, the Community Chest's Green Day, Love Teeth Day, Skip Lunch Day, and Dress Casual Day. Staff also participated in regular campaigns that collect clothes, toys and other reusable items for donation to charities.

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In 2017, members of the HKMA Volunteer Team devoted 485 hours of their free time to serving the community. They participated in numerous charitable events, including “Step Out for Children”, organised by The Society for the Relief of Disabled Children to raise funds for mitochondrial disease diagnostic tests for children; “Yo! Let’s Walk the Road”, organised by the Youth Outreach to help at-risk youth grow into responsible members of the community; “Cane-a-thon International White Cane Day 2017”, organised by the Hong Kong Blind Union to raise funds for advocacy work and services for the visually impaired; “V-Run and Walk”, organised by the Agency for Volunteer Service to develop volunteerism; “New World Harbour Race 2017”, organised by the Hong Kong Amateur Swimming Association to advocate a strong Lion Rock spirit; and “Oxfam Trailwalker 2017”, organised by Oxfam to support poverty alleviation and emergency relief projects in Africa and Asia. In recognition of its commitment in caring for the community, the HKMA was accredited with the “10 Years Plus Caring Organisation Logo” by the Hong Kong Council of Social Service.



The HKMA Basketball Team participates in the Supervisory Cup Basketball Competition 2017.



HKMA volunteers participate in the fund-raising event, “YO! Let’s Walk the Road”, organised by the Youth Outreach on 7 October 2017.

FINANCE

Annual budget

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

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

The administrative expenditure in 2017 and the budgeted expenditure for core activities in 2018 are shown in Table 3. The difference between the 2017 actual expenditure and the 2018 budget is mainly due to an increase in staff costs, including the full-year effect of staff changes and pay review in 2017, and a planned net increase of 35 posts in 2018.

Table 4 shows other expenses that are not related directly to the HKMA's own operations. Expenses related to the provision of premises for international organisations, whose presence in Hong Kong promotes the city's status as an international financial centre, are expected to remain broadly stable in 2018. Spending on financial infrastructure is related to the operation and continued development of payment and settlement systems to enable markets to function efficiently and securely. The HKMA also provides operational support to the Hong Kong Deposit Protection Board on a cost-recovery basis, as endorsed by the FS according to section 6 of the Deposit Protection Scheme Ordinance (Cap. 581).

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Table 3 HKMA administrative expenditure

HK\$ million	2017 Budget	2017 Actual	2018 Budget
Staff costs	1,371		1,475
Salaries and other staff costs		1,140	
Retirement benefit costs		105	
Premises expenses			
Operating lease charges	34	33	31
Other premises expenses (including management fees and utility charges)	68	58	72
General operating costs			
Maintenance of office and computer equipment	111	100	104
Financial information and communication services (including trading, dealing terminals and data link charges)	63	53	69
External relations (including international meetings)	51	29	62
Public education and publicity	25	17	24
Professional and other services	85	45	98
Training	13	8	17
Others	12	9	14
Total administrative expenditure	1,833	1,597	1,966

Table 4 Additional expenses

HK\$ million	2017 Budget	2017 Actual	2018 Budget
Subsidy to the Hong Kong Institute for Monetary Research	20	14	20
Premises expenses of international financial organisations in Hong Kong	39	39	41
Service fees for financial infrastructure	147	113	189

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Financial disclosure

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

INFORMATION TECHNOLOGY (IT)

The IT Division maintains a reliable and secure IT environment that supports the smooth and efficient operation of the HKMA.

In 2017, all time-critical systems of the HKMA maintained full operational uptime. During the year a virtual desktop infrastructure was rolled out as planned to further enhance the efficiency of the office automation services and support the use of more advanced technology and solutions to strengthen the systems' cyber resilience.

IT security continued to be a high-priority task of the IT Division in 2017. Emerging threats in the cyber space are closely monitored and the preparedness of the IT security system is put under regular reviews. System enhancements are carried out and, where necessary, internal controls are strengthened to better prepare the HKMA in preventing, detecting and responding to cyber threats. Business contingency plan is also in place to ensure continued operation of critical systems.

SETTLEMENT SERVICES

The Settlement Section provides robust and reliable settlement services and operational support to the reserves management, monetary operations and other initiatives undertaken by the HKMA. In 2017, the Settlement Section has further strengthened its operational controls in the settlement processes and system security to mitigate potential risk of cyber attacks to ensure accurate, efficient and safe transfers of funds and assets of the Exchange Fund. The Settlement Section will remain versatile to meet new service demands and cyber resilience requirements.

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.

In addition to providing legal support for the operation of each line department within the HKMA, the OGC assists in the planning and implementation of specific projects and initiatives which can involve complex issues of commercial, regulatory and administrative law. Examples in 2017 include:

- continued implementation of the Basel III framework, including the Banking (Capital) (Amendment) Rules 2017 and the Banking (Liquidity) (Amendment) Rules 2017

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- establishment and maintenance of the bank resolution regime, including a peer review conducted by the Financial Stability Board (discussed on page 75 of the Banking Stability chapter); recovery and resolution planning for global systemically important banks, including advising on the drafting of bank-specific, cross-border co-operation agreements; operationalisation of the Financial Institutions (Resolution) Ordinance (Cap. 628), including the preparation of subsidiary legislation; as well as participation in the Financial Stability Board Resolution Steering Group and its Legal Experts Group on Cross-border Recognition of Resolution Actions
- implementation of Bond Connect, launched in July, for the purpose of facilitating mutual access to capital markets between Mainland China and Hong Kong
- provision of advice on issues relating to legislative and regulatory reforms in overseas jurisdictions, including the Markets in Financial Instruments Directive II.

The OGC also provides commentary to government bureaux on significant legislative proposals which may impact the functions or mandates of the HKMA.

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.

INTERNAL AUDIT

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

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

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, namely the Macro Surveillance Committee and the Risk Committee. Both committees are chaired by the Chief Executive of the HKMA.

The terms of reference of the Macro Surveillance Committee are:

- to identify potential risks and threats to the monetary and financial system in Hong Kong and discuss possible measures to address such risks
- to review existing measures for managing risks in the monetary and financial system to identify possible gaps and ensure the adequacy of these measures

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- to encourage cross-departmental 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 activities the HKMA engaged in, 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 refer mainly 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, which decide on appropriate follow-up actions.

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.