

Corporate Functions

The HKMA maintains effective communication with the community and the market through traditional and social media, its website, the Information Centre and other channels to facilitate public understanding about its policies and operations. Within the institution, the HKMA makes conscientious efforts to improve corporate governance by supporting the professional development of staff, instituting rigorous financial discipline, enhancing information technology security, and promoting a culture of innovation to cope with challenges arising from the implementation of new initiatives and the increasing complexity of work.



Corporate Functions

ENGAGING THE COMMUNITY

Media relations and social media

The HKMA works closely with the media to enhance transparency and promote public understanding about its policies and operations. During the year, the HKMA held 93 physical and virtual events, comprising eight press conferences, five stand-up interviews and 80 other public functions. A further 14 media interviews were arranged. A total of 552 bilingual press releases were issued and a large number of media enquiries were handled on a daily basis.

To raise awareness of the HKMA's key functions, media briefings and educational workshops were organised for local and overseas media as well as key opinion leaders in the community. Topics covered included the Linked Exchange Rate System (LERS), fintech, green finance, and macroprudential measures.



HKMA Chief Executive, Mr Eddie Yue, moderates a virtual panel discussion at the Hong Kong FinTech Week 2020.



HKMA Deputy Chief Executive, Mr Arthur Yuen (middle), hosts a media briefing on the HKMA's two-year roadmap to promote Regtech.



HKMA Chief Fintech Officer, Mr Nelson Chow (left), conducts an interview with Bloomberg.

The HKMA utilises social media to enhance understanding of its work and strengthen communication with the public. Five social media channels are in operation on Facebook, Instagram, LinkedIn, Twitter and YouTube, reaching over 66,500 followers as at end-2020. Amid the COVID-19 pandemic, the HKMA made use of social media to continue engaging the public and effectively dispel rumours about Hong Kong's financial and banking stability.

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Public enquiries

The Public Enquiry Service provides an effective means for the public to better understand key HKMA functions and operations. It handled 9,514 enquiries in 2020, about half of which were related to banking policies and regulations, consumer banking issues, notes and coins, as well as financial infrastructure and debt market development. Some of the notable enquiries were about the Coin Collection Programme, banking products and services, banking-related guidelines and circulars, the Retail Bond Issuance Programme and monetary and economic statistics.

Chart 1 shows the number of public enquiries received since 2017 and Chart 2 provides a breakdown by enquiry nature in 2020.

Chart 1 Total number of public enquiries

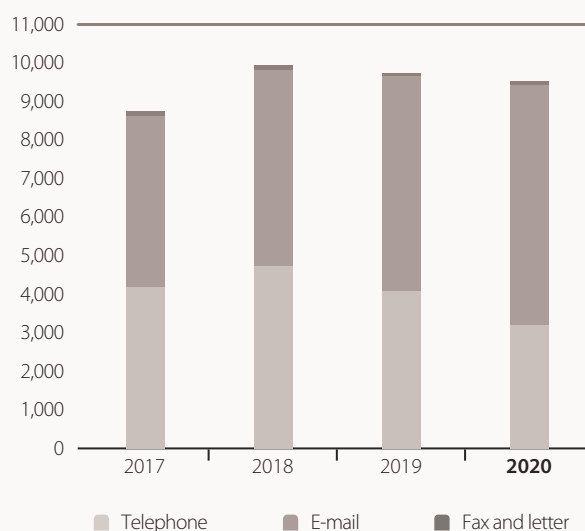
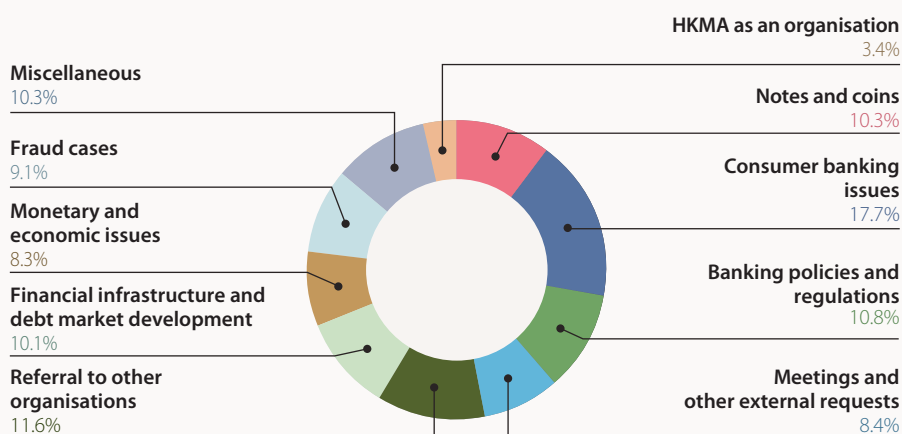


Chart 2 Nature of enquiries received in 2020



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Publications

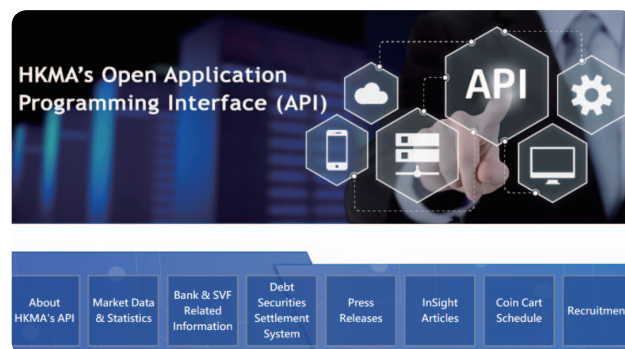
Apart from the *HKMA Annual Report*, the HKMA published two issues of the *Half-Yearly Monetary and Financial Stability Report*, four issues of the *Quarterly Bulletin*, and regularly updated the *Monthly Statistical Bulletin* to provide up-to-date and thematic information and analyses on monetary, banking and economic issues in Hong Kong. The HKMA also published 18 *inSight* articles to introduce its major new initiatives and policies and discuss topical issues of interest to the public.

The *HKMA Annual Report 2019* received a Silver Prize in the “Non-profit Making and Charitable Organisations” category of the Hong Kong Management Association’s 2020 Best Annual Reports Awards.

HKMA website

The official HKMA website (www.hkma.gov.hk) presents more than 40,000 pages of content in English and traditional and simplified Chinese, and is the public gateway to up-to-date information about the HKMA. It 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.

The HKMA has been releasing financial data and important information on its website via the Open Application Programming Interface (Open API) in phases since 2018. By end-2020, the HKMA had opened up 144 sets of Open APIs on its website according to schedule.



The HKMA embraces the development and application of Open API.

HKMA Information Centre

The HKMA Information Centre on the 55th floor of Two International Finance Centre is an important facility 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. The exhibition area provides an overview of the HKMA’s work and the development of money and banking in Hong Kong in an interactive manner. It also contains information and exhibits for the study of Hong Kong’s monetary, banking and financial affairs. The library, situated next to the exhibition area, houses more than 26,000 books, journals and other publications on Hong Kong’s monetary, banking and financial affairs as well as 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.

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In recognition of its thoughtful design and unique ambience, the HKMA Information Centre was named one of the Platinum Winners of the 2020 MUSE Design Awards in Interior Design category among over 1,000 entries from around the world.

During the temporary closure of the Information Centre in 2020 amid the pandemic, the opportunity was taken to enhance the facilities at the Policy Section, which explains the work of the HKMA and related financial concepts. The enhancements, which took into account visitors' feedback, aimed to further improve the visiting experience by making the interactive facilities more user-friendly, engaging and durable.



Interactive facilities at the Policy Section of the HKMA Information Centre are enhanced.



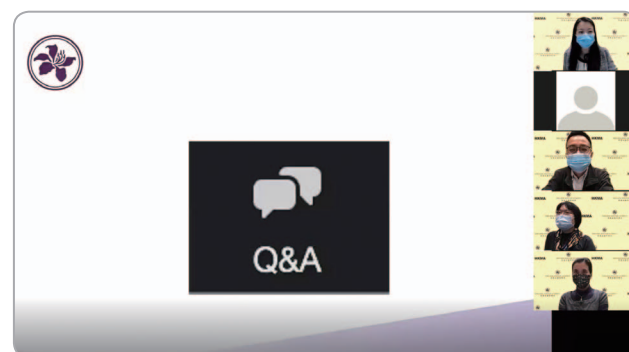
The Exhibition Area of the HKMA Information Centre introduces the work of the HKMA and the development of money and banking in Hong Kong.

To ensure equal access to its services by all members of the public regardless of race, the Information Centre has implemented procedures to provide language services assistance to visitors and to enquirers who called the Centre's hotline.

The opening and service hours of the HKMA Information Centre have been affected by the ongoing pandemic situation. To safeguard public safety and to maintain a high standard of hygiene during the pandemic, special opening arrangements and precautionary measures have been implemented during the year. Cleansing and disinfection were stepped up, and facilities and exhibits were sanitised regularly with anti-microbial coating.

Public and consumer education

To reach out to the community and raise public awareness of the HKMA's work, a webinar was organised for over 1,600 students and teachers from 61 secondary schools in 2020. The webinar covered an introduction to the work of the HKMA, the LERS, Hong Kong banknotes, protection of personal digital keys and the Deposit Protection Scheme. This was the first time for the public education programme to be held virtually since its launch in 1998. To date, the programme registered more than 61,000 participants.



Over 1,600 students and teachers from 61 secondary schools participate in the HKMA Public Education Webinar.

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The HKMA educates and engages the public on how to be smart and responsible financial consumers. An ongoing topic of focus has been “Protection of personal digital keys”. During the year, the HKMA produced a series of short videos urging the public to properly safeguard their financial accounts and personal information no matter when and where. In view of prevailing online scams amid COVID-19, the public were reminded to stay vigilant against fraud when shopping or using personal credentials online.

The HKMA seeks to raise the interest of the young generation in joining the organisation. It launched an online drama series “STEPS” and a collection of related posts on social media in 2020, covering the HKMA’s work in areas including currency, the LERS, fintech, financial inclusion, banking supervision and international collaboration.



The drama series “STEPS” introduces the HKMA’s major functions in a light-hearted manner through the story of a young new recruit.



Protection of personal digital keys is extensively promoted on digital platforms and out-of-home media.

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The HKMA also collaborated with stakeholders through a number of community engagement programmes, one of which being an online parenting and educational campaign to teach kindergarten and junior primary school pupils about money management concepts and banking and payment services. The campaign featured animation videos, web-based games, DIY toys, downloadable worksheets and a colouring competition.



Animation videos featuring mascot Dollar Pig and the Kam family bring out messages on five themes.



Demonstration on making DIY toys with recycled materials.

Other initiatives on youth education included an online financial literacy quiz and a webinar for secondary school students and teachers, producing comic storybooks for primary school pupils and parents jointly with a professional association, and delivering online talks to tertiary students.

The HKMA supports the Investor and Financial Education Council in promoting financial literacy and capacity in Hong Kong, and will explore further collaboration with stakeholders to maximise the impact of community engagement.

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OUR PEOPLE

While the HKMA is an integral part of the Government, it employs staff on terms different from those of the civil service to attract people with the right experience and expertise. The HKMA recruits, develops and maintains a highly professional workforce to support its policy objectives and respond flexibly to changing work priorities.

The establishment of the HKMA in 2020 was 1,005. The HKMA made strong efforts to support new initiatives and the increasing complexity and volume of existing work through flexible redeployment of existing resources, efficiency enhancement and streamlining of work processes. In 2021, the HKMA will maintain its establishment at 1,005 and redeploy existing resources for the following new and expanded tasks:



Banking and Financial Stability

- Support the policy development of Wealth Management Connect (WMC), and other Greater Bay Area (GBA) and private wealth management initiatives, and undertake ongoing supervision of WMC activities
- Handle licensing work under the Insurance Ordinance and the new over-the-counter derivatives regime, and undertake conduct supervision of virtual banks
- Implement new supervisory requirements on climate risks, and step up prudential supervision of banks



Reserves Management

- Strengthen investment and risk management and other necessary support for the further expansion and diversification of the Exchange Fund's investment activities



Hong Kong as an International Financial Centre

- Support increased participation in activities of the Financial Stability Board and other international working groups
- Administer the newly proposed tax concession regime for carried interest and validate the eligibility of funds for various tax concessions

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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 2021

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	90	82
Banking Policy	To formulate supervisory policies for promoting the safety and soundness of the banking sector, enhance the capacity building of industry practitioners, and take charge of the deposit protection function	1	1	43	43
Banking Supervision	To supervise operations of AIs	1	1	182	171
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	95
Exchange Fund Investment Office	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	105	97
Risk and Compliance*	To oversee all risk-generating activities, including investment risks and non-investment related corporate risks of the HKMA	1	1	45	44
External	To develop and promote Hong Kong as an international financial centre, foster regional monetary cooperation through participation in the international central banking and financial community, and promote the development of financial markets	1	1	54	50
Financial Infrastructure	To develop and enhance financial market infrastructure for maintaining and strengthening Hong Kong's status as an international financial centre, take charge of the settlement function, and ensure an adequate supply of banknotes and coins	1	1	53	50
Monetary Management	To maintain financial and monetary stability through macro-financial surveillance and monitoring of market operations, license and supervise stored value facilities, and designate and oversee important retail payment systems	1	1	50	48
Research	To conduct research and analyses on economic and financial market developments in Hong Kong and other economies	1	1	40	37
Office of the General Counsel	To provide in-house legal support and advice	1	1	27	25
Corporate Services	To provide support in the form of administration, finance, human resources, information technology and secretariat services, handle media and community relations, and provide consumer education	1	1	170	160
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 the orderly resolution of a failing AI or a cross-sectoral group if needed	0	0	12	11
Total		16	16	989	932

* Staff members overseeing investment risks are part of the Exchange Fund Investment Office set-up. For presentational reasons, they are grouped under the Risk and Compliance Department.

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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 that 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 to reward individual meritorious staff members and to maintain the competitiveness of their pay.

Any approved annual adjustments to the fixed pay and any variable pay awards are distributed to individual staff members based on their performance. Investment staff members 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 within the approved overall pay awards.

Remuneration of senior staff members

The remuneration packages of senior staff members in 2020 are shown in Table 2.

Table 2 Remuneration packages of HKMA senior staff members in 2020¹

	Chief Executive	Deputy Chief Executive/ Senior Executive Director (average)	Executive Director (average)
HK\$'000			
Number of staff members ²	1	4	14
Annualised pay			
Fixed pay	7,000	5,601	4,263
Variable pay	2,300	1,672	1,100
Other benefits ³	1,015	767	697

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 members in this table includes those who did not serve out a full year. The HKMA senior staff members include the Chief Executive Officer of the Hong Kong Mortgage Corporation Limited, the Commissioner of the Resolution Office, and the Chief Operating Officer of the Exchange Fund Investment 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. Relatively, more annual leave accrual was observed in 2020.

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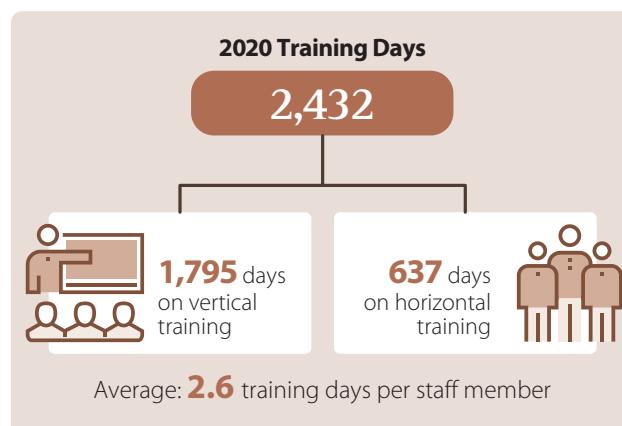
Conduct and discipline

The HKMA places great emphasis on the integrity and conduct of its staff, and expects them to observe an exemplary standard of personal conduct and integrity and to act in the best interests of the organisation. A Code of Conduct provides guidance to staff on their ethical and legal responsibilities.

Continuing efforts are made to remind staff of conduct-related rules and regulations. Weekly email alerts are issued to enhance staff's awareness of important conduct issues related to the avoidance of conflict of interest, prevention of corruption, personal data protection, and anti-discrimination practices. Staff are required to take an online test to deepen their understanding of the relevant policies, rules and regulations.

Staff development

The HKMA accords priority to developing its staff's capabilities not only for operational needs, but also for their career development and increase their adaptability to new challenges. Considerable efforts are devoted to training the staff's vertical (job-specific) and horizontal (general) skills in accordance with the identified individual and organisational needs. During the year, a number of training initiatives were launched to support various functional areas, and topical briefings on the HKMA's work and new and emerging trends were also arranged to keep the staff abreast of the latest financial developments. These briefings covered green finance, fintech, Regtech, control risks, legal protections and bank culture. A new Fundamental Digitalisation and Data Science Training Programme was launched to equip all staff with basic knowledge to participate in the journey of digitalisation. The training programmes were organised in-house or by the Government, other central banking institutions, local and overseas universities, consultants, and training institutions.



The HKMA implements a Continuous Capacity Development Programme to encourage a culture of continuous learning and to maintain the staff's competency. This is in addition to a training sponsorship scheme that supports staff members in pursuing studies relevant to the work of the HKMA. Staff members can also obtain reimbursement of the membership fees of relevant professional bodies.

To enhance work exposure and promote cross-fertilisation of skills and experience, the HKMA encourages staff members to rotate across different job areas, for example, posting to the HKMA's New York Office, or secondment to HKMA-related organisations, other regulatory authorities and the Government. Secondment to international organisations, such as the International Monetary Fund (IMF) and the Bank for International Settlements, is also arranged so that staff members can assist in activities and policy initiatives in which Hong Kong or the HKMA plays a key role. Some staff members are deployed on a full-time or part-time basis to provide support to the Hong Kong Deposit Protection Board and the Hong Kong Academy of Finance.

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Opportunities for Graduates and Students to Join the HKMA

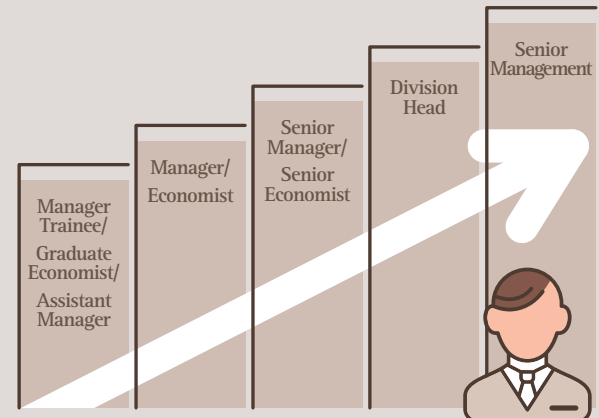
Manager Trainee (MT) and Graduate Economist (GE) Programmes

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 two years.

The MT programme prepares young graduates interested in central banking work to become part of the HKMA's future management team and contribute to the financial stability and prosperity of Hong Kong. Each MT undergoes on-the-job training in two or three departments to acquire hands-on experience in important HKMA functions. The GE programme, on the other hand, offers young graduates interested in economic research the opportunity to harness their research skills in two or three departments to contribute to policy formulation.

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 attend structured foundation courses on central banking, organised both in-house and by leading regional and international organisations. Upon successful completion of the respective programmes, MTs are offered appointments as Managers and GEs as Economists to pursue a professional career in the organisation.

Career prospects



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 Hong Kong's banking system. A small number of AMs work in other functional areas, providing analytical and other forms of support. Young graduates with a keen interest in banking supervision and regulation would find the position of AM a good starting point for a fulfilling career.

Internship Programmes

The HKMA runs summer and winter internship programmes to equip undergraduates with practical work experience and insights about the roles of a central bank. Talks and other activities are also arranged for interns to gain a better understanding of the functions and work of the HKMA.

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Digitalisation Programme

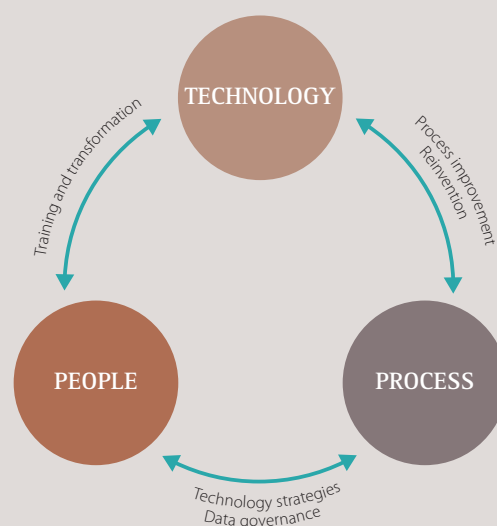
The HKMA started a transformational digitalisation programme in 2019 to enhance the effectiveness and efficiency of its work. It covers five key areas, including banking and anti-money laundering supervision, financial stability surveillance, economic research and reserves management. Following the exploratory consultancy studies conducted in 2019 to chart the digitalisation journey of each area, an implementation road map of initiatives with various complexities was drawn up for execution in the next few years.

In the second half of 2020, the HKMA set up a Digitalisation Office (DO) to implement the roadmap and drive the digitalisation agenda, strategic goals and adoption across the organisation. Other than supporting the multi-year implementation in the five key functional areas, the DO focuses on developing the HKMA's technology strategy, as well as people and process transformation.

To build a foundation that would support the digitalisation journey and help the HKMA become more data-driven, the DO started developing technology strategies on data governance. The strategies aim to ensure that data is collected and shared efficiently, effectively and securely throughout the HKMA to assist with decision-making and the formation of solution blueprints and enterprise architecture, so as to achieve synergy in the use of technologies and applications across the organisation, and in infrastructure and cloud resources to ensure faster time-to-market and sustainable investments.

Recognising that people are equally important in a transformation programme, the DO partnered with the internal training team to provide an in-house digitalisation awareness course for over 430 staff members. At the same time, the HKMA provided online materials and sponsored internet-based courses for staff members interested in acquiring digitalisation skills. In 2021, the DO plans to organise more domain-specific data science courses and transformation training to upskill colleagues in the digital era.

Process improvement and re-engineering are also essential elements in this transformation journey. The HKMA is examining processes critically for possible streamlining and consolidation to reduce complexity and manual intervention. In implementing these initiatives, project management, communication and collaboration are important enablers. In this regard, the HKMA will introduce more tools in these areas to increase the agility of multiple teams working together on issues that cut across team boundaries.



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ADMINISTRATION

The HKMA regularly reviews its corporate resources, including space requirements, to ensure that operational needs are met. To keep its workplaces well-equipped and occupationally safe, the HKMA carries out office repair and maintenance work from time to time. For details about the HKMA's efforts in nurturing a caring workplace and a green office, see the *Corporate Social Responsibility* chapter.

Business continuity plans for the HKMA 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 regularly to ensure the staff are responsive and prepared to carry out business continuity measures. A dedicated team monitors COVID-19 alerts and other infectious diseases to make sure that the necessary precautionary and contingency measures can be taken in a timely manner.

FINANCE

In drawing up the annual budget, the HKMA takes into account ongoing operations, as well as its strategic development as set out in its 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 review whether savings in staffing and expenditure can be achieved. This requires departments to assess critically 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 a headcount proposal, for further scrutiny by senior management. The GSC of EFAC then deliberates on the proposed 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 governed by 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 2020 and the budgeted expenditure for core activities in 2020 and 2021 are shown in Table 3. During 2020, underspending in general operating costs was relatively significant. Actual expenditure in external relations, publicity and training activities was far below the 2020 budget, mainly as a result of the COVID-19 pandemic. The difference between the 2020 actual expenditure and the 2021 budget is mainly due to an increase in staff costs (including the full-year effect of the staff changes and pay review in 2020) and provision for professional and consulting services.

Table 4 shows other expenses that are not related directly to the HKMA's own operations. Expenses related to the provision of financial support (including premises and administrative costs) to international organisations, whose presence in Hong Kong strengthens the city's status as an international financial centre, are expected to remain broadly stable in 2021. Spending on financial infrastructure is related to the operation and continued development of payment and settlement systems to enable Hong Kong's financial 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).

Financial disclosure

The HKMA adopts international standards in financial disclosure insofar as these 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. The Finance Division works with external auditors and other accounting professionals to prepare and present 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*.

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Table 3 HKMA administrative expenditure

HK\$ million	2020 Budget	2020 Actual	2021 Budget
Staff costs	1,665		1,726
Salaries and other staff costs		1,439	
Retirement benefit costs		124	
Premises expenses			
Rental expenses	43	39	43
Other premises expenses (including management fees and utility charges)	81	71	87
General operating costs			
Maintenance of office and computer equipment	151	138	147
Financial information and communication services (including trading, dealing terminals and data link charges)	86	68	93
External relations (including international meetings)	78	12	73
Public education and publicity	51	16	62
Professional, consulting and other services	197	80	182
Training	32	4	32
Others	17	13	23
Total administrative expenditure	2,401	2,004	2,468

Table 4 Additional expenses

HK\$ million	2020 Budget	2020 Actual	2021 Budget
Financial support to international financial organisations in Hong Kong	42	41	41
Service fees for financial infrastructure	110	63	140

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INFORMATION TECHNOLOGY

The Information Technology (IT) Division maintains a reliable and secure IT operational environment that supports the smooth and efficient operation of the HKMA.

In 2020, all time-critical systems of the HKMA maintained full operational uptime.

IT security is a high-priority task of the IT Division. All emerging threats in the cyber space are closely monitored and the IT security system is reviewed regularly. The division also has a business contingency plan that is updated from time to time to ensure continued operation of all critical systems.

In 2020, the work-from-home (WFH) arrangement formed an integral part of our business continuity plan under the pandemic situation. To support the WFH mode, the division enhanced IT facilities while safeguarding cybersecurity.

To ensure continued reliability of the HKMA's IT systems, ageing components have been updated in batches. In order to promote the adoption of digitalisation within the organisation, the IT Division installed an internal cloud system to facilitate various initiatives.

SETTLEMENT SERVICES

The Settlement Section provides reliable and efficient settlement services and operational support to reserves management, monetary operations and other initiatives. In 2020, amid a challenging environment under COVID-19, the Settlement Section maintained a high level of operational resilience and efficiency to meet new settlement service demands. With effective and innovative operation and system controls in place, the funds and assets of the Exchange Fund were transferred accurately and securely. As the financial industry is developing rapidly through technological advancement and innovation, the Settlement Section will continue to respond swiftly to new changes.

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OFFICE OF THE GENERAL COUNSEL

The Office of the General Counsel (OGC) provides legal advice to the HKMA on all aspects of its functions.

In 2020, the OGC worked alongside other HKMA departments on a diverse range of matters and new initiatives including:

- ◆ regulatory measures addressing the exigencies of COVID-19 on banks, their customers and the banking industry;
- ◆ fintech-related developments and the HKMA's digitalisation programme;
- ◆ legislation for the continued implementation of both Basel Committee regulatory standards and requirements under the Financial Institutions (Resolution) Ordinance; and
- ◆ the launch of the WMC pilot scheme in the GBA.

OGC lawyers also provide legal support for the HKMA's participation in international working groups and respond to legislative proposals and consultations on matters which may affect the functions and operations of the HKMA.

INTERNAL AUDIT

The Internal Audit (IA) Division provides independent and objective assurance on the adequacy and effectiveness of the HKMA's control, risk management and governance processes. The IA Division reports directly to the Chief Executive of the HKMA and the Audit Sub-Committee (ASC) of EFAC.

Adopting a risk-based approach, the IA Division conducts operational and information system audits to review all significant risk areas of the HKMA. During the year, 33 audits were conducted on the HKMA's reserves management, banking supervision, monetary and financial development, IT and other corporate functions. The audit results showed that adequate and effective control activities were in place to manage risks to the achievement of the HKMA's business objectives.

The IA Division also advises on major system development projects and internal control issues in response to requests from the senior executives and management. It provides risk updates to the Risk Committee regularly, while audit progress and key internal control matters are reported to the senior executives and the ASC every quarter.

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RISK MANAGEMENT

One of the HKMA's most important tasks 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 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, which 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
- ◆ 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 engages in, and the increasing public expectations of its work, a robust operational risk management process is in place. The framework covers organisational risks at two levels: the entity level and the 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 and emerging risks identified by business units, and the adequacy of the control measures and mitigating strategies they devise, are reviewed and reported every quarter. 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. The Risk Committee discusses these assessments and decides on appropriate follow-up actions.