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This Annual Report makes reference to documents and other materials available on the HKMA website www.hkma.gov.hk. These references appear as  » in the relevant parts of the Report, followed by navigation guidance from the HKMA homepage.

The full text of this Report is available on the HKMA website in interactive form and on PDF files.

A summary version of this Report is also available.

All amounts in this Report are in Hong Kong dollars unless otherwise stated.

Professional and Corporate Services



The HKMA relies on a range of in-house professional and corporate services to carry out its operations and to ensure that it fulfils its statutory obligations in maintaining monetary and banking stability in Hong Kong. During the year a number of services were improved to keep pace with developments in information technology and to introduce more cost-effective administrative procedures.

THE HKMA IN THE COMMUNITY

The HKMA places great emphasis on promoting an understanding of its policies and work among the general public. This policy of transparency and accessibility is carried out through a variety of channels:

- extensive contacts with the mass media
- regular and special publications
- a large and comprehensive bilingual website
- an annual education programme for students
- frequent meetings with legislators
- a public enquiries service staffed nine hours a day
- public access to the HKMA's library.

These services are co-ordinated by the Corporate Development Division within the Corporate Services Department. The Division is responsible for providing media, publications and public relations services to the HKMA. The Division also provides translation and drafting services and secretarial support to the Exchange Fund Advisory Committee and its sub-committees.

Media relations

The most frequent and extensive channel of communication between the HKMA and the community is the news media. To promote transparency of its policies, the HKMA continued to maintain its ties with the print and electronic media in 2002.

During the year, seven press conferences were held and 176 press releases were issued. Three educational briefings were arranged for reporters and editors, on the subjects of banking supervision, security features of currency notes, and the development of settlement systems in Hong Kong. The number of press enquiries to the

HKMA showed an increase from an average of 38 per day in 2001 to an average of 40 per day in 2002.

The HKMA has strengthened the disclosure of information in its press announcements. For example, the disclosure of statistics relating to residential mortgage lending in negative equity was increased through more frequent issue of press releases on the subject. In addition, there has been greater transparency in the residential mortgage survey results through improved disclosure of the loans associated with co-financing schemes by both the Government and the private sector.

[Information Centre](#) » [Press Releases](#)

Publications

Publications by the HKMA cover monetary, banking and economic issues with the aim of providing information and promoting greater understanding of the work of the HKMA. The HKMA's *Annual Report 2001*, covering the Authority's work for the year, was published with a summary version for wider circulation and a fully interactive web version for easy navigation on the Internet. The report won the Silver Award in the Best Annual Reports Award held by the Hong Kong Management Association and was commended for its excellent disclosure in relation to corporate governance and for a useful summary report.

Taking into account comments from subscribers and readers, a comprehensive review of the scope, contents and format of the two HKMA periodicals, *Monthly Statistical Bulletin* and *Quarterly Bulletin*, was conducted in 2002 with a view to improving their usefulness to readers. As a result of the review, starting from the January 2003 issue (no. 101), the print version of the *Monthly Statistical Bulletin* was replaced by an improved web version with new tables and charts and web links to other statistical resources. *The Quarterly Bulletin* was redesigned

and expanded and made fully bilingual starting from issue no. 34, published in March 2003. New statistical appendices capturing summary statistics on monetary, banking, capital markets and the general economy were added.

In addition to its regular publications, the HKMA produces special publications to address issues of public interest. An information leaflet, *What to do if you have a complaint about banking services*, was published in July 2002. A special leaflet and poster on Hong Kong's new \$10 note were produced to coincide with the issue of the note in September 2002: these were widely circulated at bank branches and other retail outlets.

[Information Centre » Publications](#)



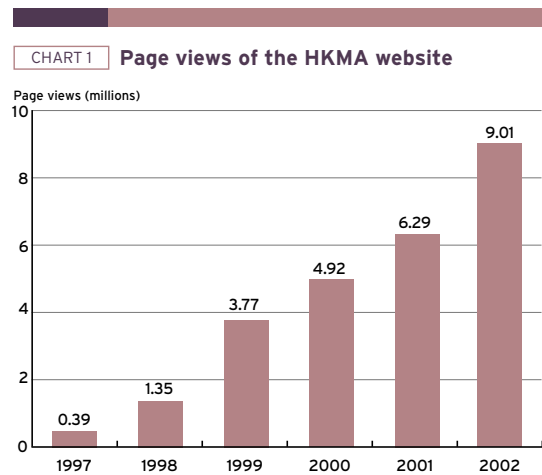
A special leaflet and sticker showing the security features of the new \$10 note.

The HKMA on-line

In 2002 the HKMA website continued to make extensive information instantly accessible to people throughout the world. A total of nine million page views were recorded, representing an increase of 43% over 2001 (chart 1). The HKMA website is one of the most frequently visited websites among the Hong Kong Special Administrative Region Government's websites. In response to a Government initiative, a simplified Chinese character version of the HKMA website was launched in November 2002.

New sections on the website were posted to disseminate topical and timely information. During the year, the addition of special on-line sections included Legislative Council issues, consumer information, the daily release of Exchange Fund Bills and Notes Fixings, Hong Kong's new \$10 note, and the sharing of positive consumer credit data. The section on careers@HKMA was expanded with a detailed description of the HKMA as a workplace. The on-line *Guide to Hong Kong Monetary and Banking Terms* was revised with new terms and linked more closely with definitions in the new on-line *Monthly Statistical Bulletin*. The HKMA published two e-publications during the year: *Prudential Supervision in Hong Kong* and the *Guide to Authorization*. Our news update e-mail service, launched in 2000, now has more than 1,300 subscribers, who receive free daily notification of current events and the latest news about the HKMA.

[Home](#)



Public education programme

The HKMA continued to organise its annual education programme for students, teachers and other groups. In 2002, 14 seminars were organised for more than 4,000 students, teachers and members of various organisations. The Linked Exchange Rate system, monetary development in Hong Kong and the new \$10 note

were the main themes for the seminars.

An education pack, containing useful reference books and a VCD on the work of the HKMA, was distributed to students during the seminars.

Since the launch of the education programme in 1998, more than 20,000 students and teachers have participated in the seminars. The education programme was supplemented by a radio quiz on finance and economics, sponsored by the HKMA on Commercial Radio One in October and November.

Public enquiries

A significant increase in public enquiries was registered in 2002. The HKMA received a total of 7,752 public enquiries during the year (Table 1), representing an increase of 25% over 2001. These enquiries, which were received mainly by telephone, consisted for the most part of requests for statistical or background information on banking, monetary and HKMA-related issues from researchers, industry professionals, students and the general public: they also included complaints and suggestions. The HKMA is committed to delivering a speedy and informed response to all callers.

The HKMA's library, which houses a varied collection of books, periodicals and material on monetary and economic affairs, is open to the public four days a week.



A group of students learn about the security features of the new \$10 note at a seminar organised by the HKMA.

TABLE 1 **HKMA public enquiries service: total number of enquiries**

Nature of enquiries	2001	2002
Request for information	5,613	6,628
Complaints	417	922
Questions	110	140
Suggestions	47	62
Total	6,187	7,752

ADMINISTRATION

The administrative arm of the HKMA provides support services to facilitate line management in accomplishing its work objectives. Its aim is to achieve an efficient allocation of resources, enhance staff productivity and foster good communications between management and staff.

Organisational changes

As part of an overall streamlining of the organisational structure, the responsibilities of the Training Division of the Corporate Services Department were split and redistributed to other divisions in October 2002. Internal training functions were transferred to the Administration Division and the training programme for banking supervisors of the People's Bank of China was taken over by the External Department. A reshuffling of duties within the Corporate Services Department saw the Administration Division renamed as the Human Resources Division and the Finance Division taking on office administration duties with the new name of Finance and Administration Division.

Staffing

In 2002 we achieved savings of 31 posts, or 5% of our total establishment, through re-engineering work processes and re-prioritising our main work areas. This resulted in a reduction in overall establishment from 614 to 583 at the end of 2002. Table 2 gives a breakdown of the HKMA establishment.

TABLE 2 Establishment of the HKMA

Post	Establishment	
	2001	2002
Chief Executive	1	1
Deputy Chief Executive	3	3
Executive Director	9	9
Division Head	30	31
Senior Manager	71	71
Manager	149	143
Manager Trainee	10	6
Assistant Manager	101	94
Technical Officer	105	103
Clerk	51	43
Secretary	74	69
Office Assistant	10	10
Total	614	583

The EFAC Remuneration and Finance Sub-Committee

During 2002 the corporate governance of the HKMA was strengthened, first with a substantial increase in the membership of the Exchange Fund Advisory Committee's (EFAC) Working Group on Terms and Conditions of Service in January, and then, in August, with the conversion of the Working Group into a formal Sub-Committee of EFAC. The new Sub-Committee, which consists of all of the non-banking, non-official members of EFAC, is tasked with making recommendations to EFAC on the HKMA's annual administrative budget, on the annual pay review for HKMA staff, and on other organisational human resources and financial issues.

In 2002 one of the major tasks of the Sub-Committee was to review the recommendations arising from a review conducted by the Hay Group Limited (Hay) for

the Government on the remuneration of senior executives of statutory and other bodies, including the HKMA. In undertaking the review, the Sub-Committee considered it necessary to seek professional and independent advice from human resources consultants on how the Hay recommendations could be developed, applied and implemented in the HKMA. Since the Hay survey was one-off and the pay data from the same sample would not be available in subsequent years, the Sub-Committee also considered it useful to obtain detailed market data series from the human resources consultants which could be used consistently in future reviews.

Taking into account the advice of the consultants, the Sub-Committee recommended application to the HKMA of most of the key recommendations of the Hay Report, many of which already represented the current practice in the HKMA. These practices include targeting the remuneration levels at the median of the financial sector, applying a variable-to-fixed ratio in the remuneration package, using independent pay consultants to monitor levels and trends of remuneration in the financial sector, designating a committee to deal with remuneration issues, following the levels of disclosure provided for in the Companies Ordinance, and exercising flexibility in deciding the remuneration package of individuals, taking into account their background, capability or performance. The implementation framework recommended by the Sub-Committee was endorsed by EFAC and approved by the Financial Secretary in December 2002 for implementation in the annual pay review exercise in March 2003.

As part of the implementation framework, the HKMA has strengthened the disclosure of the remuneration of senior executives by including the remuneration packages of the Chief Executive level, and the averages of the

TABLE 3 Remuneration packages of HKMA senior executives in 2002

HK\$'000	Chief Executive	Deputy Chief Executive (average)	Executive Director (average)
Number of staff	1	3	9
Fixed pay	6,852	4,995	2,942
Variable pay	1,500	688	313
Other benefits ^a	528	373	250

a Other benefits include provident fund, medical and life insurance, and annual leave accrued during the year. There are no other allowances or benefits-in-kind.

remuneration packages for Deputy Chief Executive and Executive Director levels. Table 3 shows the remuneration packages of senior executives in 2002.

Training and development

A more structured and focused approach to staff training has been adopted since the beginning of 2002 to provide a stronger link between the training programme and the career development process. Training is run on two dimensions, with equal weight given to vertical training, which is job-specific, and horizontal training, which is more general in nature and captures the needs common to staff of the same or similar rank.

For horizontal training, two Central Banking Courses were organised to equip participants with knowledge of central banking theories and the functions of the HKMA. External experts and university professors were invited to speak about their own specialised areas. With the assistance

of external trainers, a number of tailor-made training programmes were also arranged in-house for career development of staff and to further improve their language proficiency. Reinforcing our culture and value as a performance-based organisation, a series of performance management workshops were conducted for managerial staff. Other courses were organised in leadership skills, team building, presentation skills and personal computer applications skills.

In vertical training, regular seminars and workshops were arranged during the year to keep the banking supervisors abreast of the latest developments in their field. The topics covered included risk-based supervision, electronic banking, risk management, money laundering and a new regime on capital adequacy. HKMA staff also attended courses conducted by other central banks, multilateral organisations and other institutions. These courses provided valuable opportunities for our staff to share experiences with practitioners from other countries and to broaden their international exposure.

Overall, a total of 4,310 training days were provided for HKMA staff in 2002. Each staff member spent an average of 7.17 days on training.

Office administration

Continuous efforts have been made to streamline the flow of work to ensure efficient delivery of services. A Procurement Office was set up in the Finance and Administration Division in September 2002 to achieve higher cost-effectiveness and to tighten control over procurements. Regular drills were organised in office evacuation and the activation of the back-up facilities to familiarise colleagues with contingency plans and communication arrangements in case of emergency. The contingency plans are kept under constant review and are revised as required.



Since the release of the HKMA Environmental Policy in late 2001, a number of 'green office' measures have been implemented and colleagues have become more conscious of the need to be environmentally friendly.

Waste paper was collected for recycling. Phased out personal computers and other computer equipment and peripherals were donated to charitable organisations. Used printer cartridges were returned to the manufacturer for reuse, with the manufacturer making a donation to the Environmental Protection Fund for each used cartridge collected. Regular campaigns were held to collect unwanted clothes, toys and other reusable items from colleagues for donation to people in need. Table 4 shows some of the achievements in our 'greening' efforts.

Staff activities and voluntary work

During the year the HKMA participated in various community events and fund-raising activities. An HKMA Corporate team competed in the Standard Chartered Hong Kong Marathon on 24 February 2002. In the Green Power Hike held on 2 March 2002, the HKMA Team was the 1st runner-up in the Corporate/Organisation Cup, and one of our colleagues won the Male Individual Champion in the 25 kilometre hike. On

Blood Donation Day arranged by Hong Kong Red Cross on 7 June 2002, 50 colleagues gave blood. Staff also participated enthusiastically in other fund-raising activities, such as the Community Chest's Skip Lunch Day, Green Day and Dress Casual Day.

Members of the HKMA Volunteer Team gave more than 600 hours of their free time after office hours in 2002 to voluntary service. The activities included taking disabled children to see stage performances, making hospital visits and assisting Crossroad International to sort and pack items collected for delivery to countries in need around the world.

The HKMA procured suitable office supplies from a workshop staffed by physically disabled people.



HKMA Volunteer Team visits the patients of Siu Lam Hospital in September 2002.

TABLE 4 A more environmentally friendly office

Item	Unit	2000 Usage	2001 Usage	2002 Usage	Percentage change 2001 vs 2002	Remarks
Electricity	kWh	2,191,127	2,359,853	1,863,587	-21.0%	Greater attention to switching off unused equipment and lighting
Paper	ream	15,450	15,000	14,630	-2.5%	Increased use of single-side used paper and electronic communications
Envelopes	item	25,000	16,800	14,800	-11.9%	Increased reuse of envelopes and use of electronic communications
Christmas cards	item	3,400	3,100	2,700	-12.9%	Increased use of electronic greeting cards
Wooden pencils	item	300	199	182	-8.5%	Provision of mechanical pencils
Printer Cartridges	item	853	927	630	-32.0%	Increased use of electronic communications

OFFICE OF THE GENERAL COUNSEL

The Office of the General Counsel (OGC) advises the HKMA on the legal aspects of all of the HKMA's activities. It is the HKMA's practice to involve the OGC's lawyers at an early stage in the planning and implementation of its projects, initiatives and operations.

In addition to its general operational workload, the OGC was involved in a variety of special projects in 2002. These included:

- **Deposit protection scheme** – The OGC advised the HKMA on the legal issues relating to, and the legislative changes necessary for, the introduction of a deposit protection scheme in Hong Kong. Drafting instructions were issued to the Law Draftsman in the second half of the year for the preparation of the relevant legislation. A Bill is expected to be gazetted in the second quarter of 2003.
- **Euro Clearing System** – The OGC worked closely with colleagues from the HKMA's Monetary Management and Infrastructure Department (Market Systems Division) on the development of the clearing system for the euro in Hong Kong, participating in the selection process for the settlement institution and drafting or reviewing all necessary documentation.
- **New \$10 note** – The OGC advised the HKMA on the legal issues relating to the issuance of the first \$10 currency note by the Government in 2002.
- **Other projects** – The OGC also advised on a number of other projects including supervisory co-operation agreements and memoranda of understanding with other regulators; bank mergers; the automation of the banking supervisory examination system; the preparation and development of legislation

including the Banking (Amendment) Ordinance 2002 and the Bills of Exchange (Amendment) Bill 2003 to facilitate the introduction of new technology to clear cheques; the money laundering regime, particularly in the light of the United Nations (Anti-Terrorism Measures) Ordinance; the establishment of a commercial credit reference agency and the preparatory work for the implementation of the New Capital Accord announced by the Basel Committee on Banking Supervision.

During the year, lawyers from the OGC participated in meetings and symposia of interest to central bankers and their legal advisers covering matters such as money laundering, electronic financial infrastructure and the legal aspects of currency boards. Members of the OGC delivered presentations and speeches on similar topics and other banking issues both overseas and in Hong Kong.

INFORMATION TECHNOLOGY

The Information Technology Division provides reliable and efficient information technology (IT) services to all business units in the HKMA. During 2002 the Division continued its efforts to strengthen the IT systems and infrastructure to facilitate all operations in the HKMA.

Reserves and Monetary Management System

The Reserves and Monetary Management System project was initiated in 2000 to develop fully integrated transaction processing linking all major business processes, covering front, middle and back office functions for the operations and management of the Exchange Fund. The project continued throughout 2002. The development of the system has been completed and is now undergoing user acceptance tests. It is expected to go live in mid-2003.

Disaster recovery planning

In 2002 the HKMA stepped up efforts to prepare for unexpected or sudden disruptions to daily operations by continually examining its disaster recovery plan. Two exercises were held involving all IT systems within the HKMA in areas of reserves and monetary management; banking supervision; internal administration; financial support services and the Real Time Gross Settlement (RTGS) system operated by Hong Kong Interbank Clearing Limited. Another drill was also conducted covering only IT infrastructure services. All exercises went well, and the experience gathered was useful in further refining the disaster recovery plan for the IT support systems and operations.

Enhancement of IT security

By the end of September 2002 all recommendations made by the auditors in the 2001 IT security audit were followed through and implemented. Other IT security enhancement measures were completed. They included upgrading the anti-virus mechanism, tightening up security on all personal computers and the implementation of a new intrusion detection system. In addition, a feasibility study recommended that all portable personal computers be protected with personal firewalls. This will be implemented by April 2003.

Electronic submission of banking returns

The Submission Through Electronic Transmission (STET) system was first introduced in December 1997 to allow authorized institutions (AIs) to submit banking returns to the HKMA in electronic form using digital signature

technology. Since there was no public Certification Authority (CA) in Hong Kong to issue digital certificates at that time, the HKMA acted as a CA to issue certificates to AIs for signing returns.

With the establishment of Hong Kong Post's (HKP) Certification Authority (the first legally recognised public CA in Hong Kong), the HKMA formed an internal working group to consider whether to replace the existing CA by adopting the certificates issued by the HKP in the STET system. The working group considered that adoption of HKP certification would help lower the overall cost and ease the administrative burden of the entire return submission process for both AIs and the HKMA. Subsequent consultations with all AIs proved very supportive. The HKMA proceeded to enhance STET with the HKP e-cert feature and the new system was implemented on 16 October 2002.

Payment system

In view of the increasing business volume of the Hong Kong dollar and US dollar RTGS systems, the HKMA, as a user and the supervisor of the system, has upgraded its network linkage between the offices of the HKMA and the various sites of the system operator. This upgrade enhances the reliability of the network by adding resilience features and eliminating manual switchover steps when the disaster recovery procedure is invoked.

INTERNAL AUDIT

The Internal Audit Division (IAD) was established in 1995 to assist management in controlling risks, monitoring compliance and improving the efficiency and effectiveness of control systems and procedures within the HKMA. The Chief Executive of the HKMA has granted an Internal Audit Charter to the IAD to formalise its role, mission and authority. The Division reports directly to the Chief Executive and the EFAC Audit Sub-Committee.

 » [About the HKMA](#) » [Internal Audit](#)

Audit results in 2002

As in previous years, the IAD continued to operate independently, with the trust and support of the Chief Executive of the HKMA. It met regularly with the Senior Executives' Office and the Audit Sub-Committee to report the progress and results of its work. The results of the audits conducted in 2002 were satisfactory.

In addition to the normal audits on the HKMA's operations, procedures and controls, the IAD also conducted security reviews on major IT systems and advised on various IT development projects. Where applicable, audit software was deployed to enhance the efficiency and effectiveness of audits. During the year, the IAD also conducted Value for Money audits to assess the economy, efficiency and effectiveness of the use of resources. Recommendations for improvement have been well received. Co-operation and assistance from the auditees and other HKMA staff contributed to a successful year for the IAD.

Significant progress was made in the Risk Assessment Methodology (RAM), which was introduced to assist senior management to manage risks and to facilitate the IAD to prioritise its audit resources. A pilot case study was completed in 2002 and the organisation-

wide implementation of RAM is expected to commence in 2003.

The IAD attaches great importance to keeping abreast of internal audit developments and standards in the industry as well as in other central banks. During the year, the IAD visited the Reserve Bank of Australia to exchange audit experience and expertise. We also received central bank internal auditors from Macau, the Mainland and India. In addition, the IAD met with the internal auditors of one of the note issuing banks to exchange ideas on audit approach and practices. From time to time, professional training courses and seminars were arranged for the professional staff of the IAD to update their knowledge and to facilitate their career development.