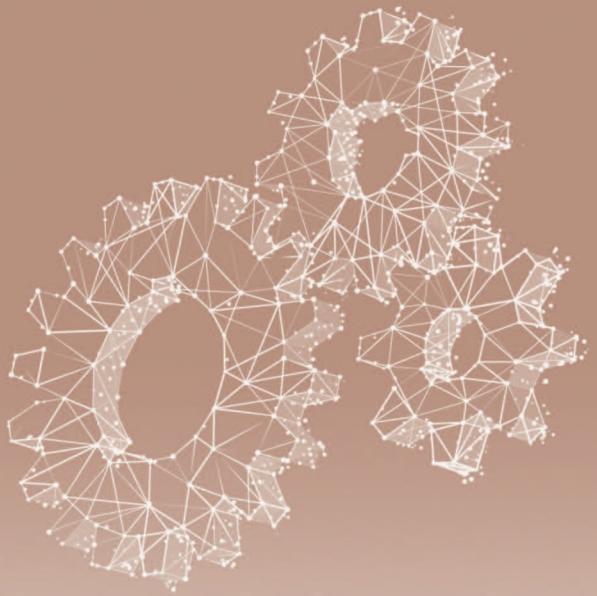


Corporate Functions



The HKMA maintains effective communication with the community and the market through the traditional media, social media platforms, its website, the Information Centre and various other channels to facilitate public understanding about its policies and operations. Within the institution, conscientious efforts are made to improve the HKMA's 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 work. During the year, 125 open press events were held, comprising 10 press conferences, 12 stand-up interviews and 103 other public functions. A further 25 media interviews were arranged. A total of 466 bilingual press releases were issued and a large number of media enquiries were handled every day.

To raise awareness of the HKMA's key functions, the HKMA organised media briefings and educational workshops for local and overseas media as well as key opinion leaders in the community to facilitate understanding on a wide range of topics, such as the Linked Exchange Rate System (LERS), virtual banking, green finance, and Hong Kong as a competitive international financial centre.

Since July 2018, the HKMA has launched various social media channels to strengthen public education and communication. Five social media channels are currently in operation: Facebook, Instagram, LinkedIn, Twitter and YouTube, reaching out to a total of over 45,000 followers as at end-December 2019. Amid the social incidents in the second half of 2019, the HKMA made use of social media to rebut unfounded rumours regarding banking operations and financial stability, a move which proved to be highly effective in disseminating facts and preventing the rumours from spreading further.



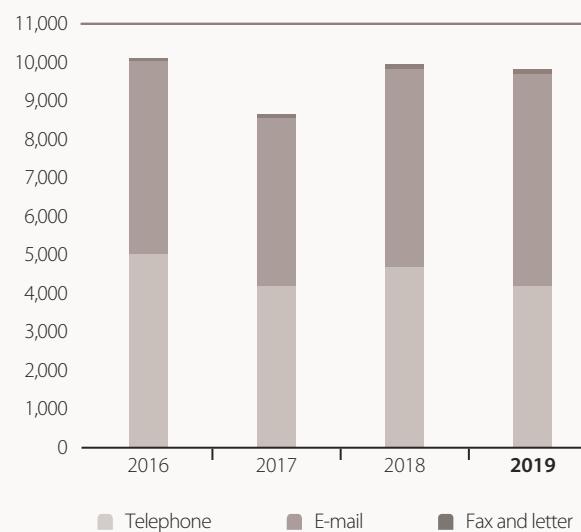
HKMA Chief Executive, Mr Eddie Yue, speaks at the Hong Kong Association of Banks Distinguished Speaker Luncheon.

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 9,742 enquiries were handled in 2019, about half of which were related to banking policies and regulations, consumer banking, and notes and coins. Some of the notable enquiries raised were about the Coin Collection Programme, banking products and services, banking-related guidelines and circulars, the Faster Payment System (FPS), and monetary and economic statistics.

Chart 1 shows the number of public enquiries received since 2016 and Chart 2 provides a breakdown by enquiry nature in 2019.

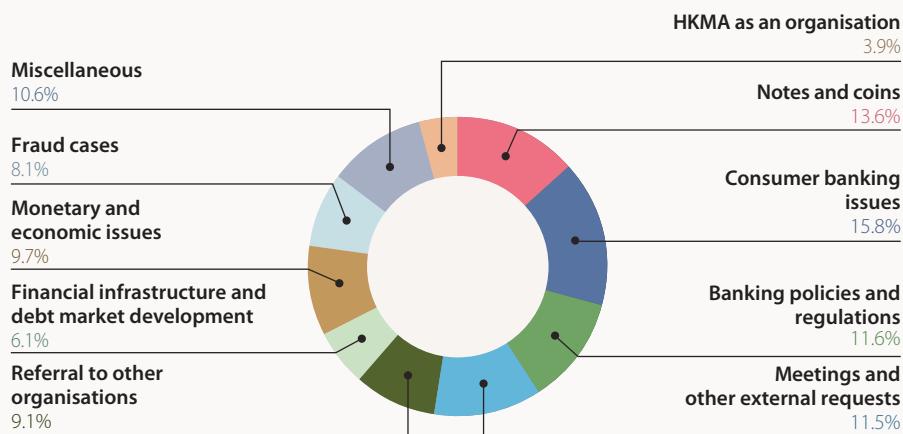
Chart 1 Total number of public enquiries



HKMA Chief Executive, Mr Eddie Yue (left), and HKMA's then Chief Executive, Mr Norman Chan, meet with media after the announcement of the appointment of Mr Eddie Yue as the next Chief Executive of the HKMA.

Corporate Functions

Chart 2 Nature of enquiries received in 2019



Publications

Apart from the *HKMA Annual Report*, in 2019 the HKMA published two issues of the *Half-Yearly Monetary and Financial Stability Report*, four issues of the *Quarterly Bulletin*, and 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 published 19 *inSight* articles, covering various topics related to its work. The *inSight* articles provide a useful channel for the HKMA to elucidate the rationale behind its major new initiatives or policies, and provide timely response to topical issues which are of interest to the public.

HKMA website

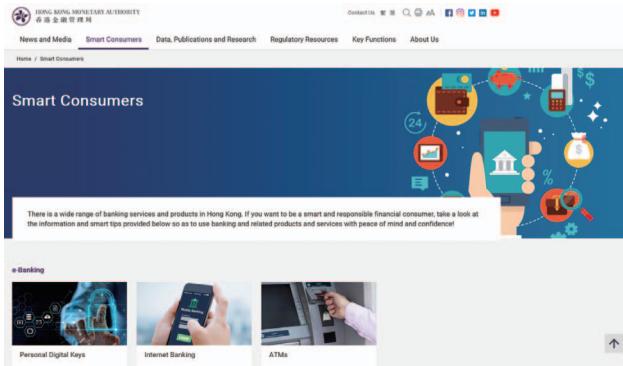
The HKMA official website (www.hkma.gov.hk) presents more than 40,000 pages of content in English and traditional and simplified Chinese, and is the public access gateway to up-to-date information about the HKMA. It also contains the register of authorized institutions (AIs) and local representative offices and the register of the 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 official website underwent a major revamp and was relaunched in September with a new design layout, enriched content, an enhanced navigation structure, and more convenient search functions. The revamped website enables users to search information more easily and conveniently based on their own preferences. In particular, the revamped website carries a new section on "Smart Consumers", where the public can find useful information and smart tips on a wide range of banking and related products or services. This is in line with the HKMA's long-standing efforts to promote "smart and responsible" use of banking services.



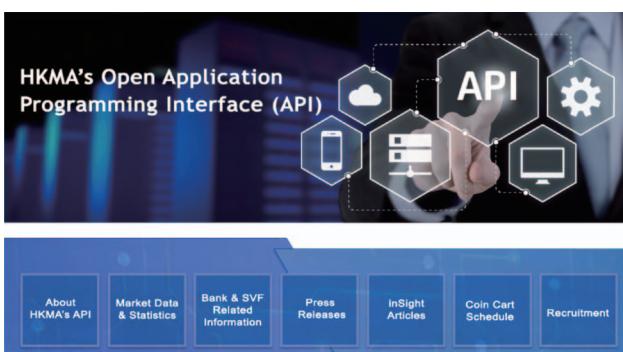
The HKMA launches its revamped website.

Corporate Functions



The revamped HKMA website carries a new section on "Smart Consumers".

The HKMA has been opening up financial data and important information published on its website via Open Application Programming Interface (Open API) by phases since 2018. By 2019, the HKMA has opened up 130 sets of Open APIs on the HKMA's website as originally planned.



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 resource 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 describes the HKMA's work 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 HKMA completed the last phase of revamp of its Information Centre — the Historical Timeline — during the year. The revamped Historical Timeline, featuring multimedia and digital display panels for visitors to review the major monetary and financial events in Hong Kong and globally in a more interactive manner, was re-opened to the public in October.



The first section of the Historical Timeline is made up of a multimedia display panel presenting major events from 1842 to 1993.

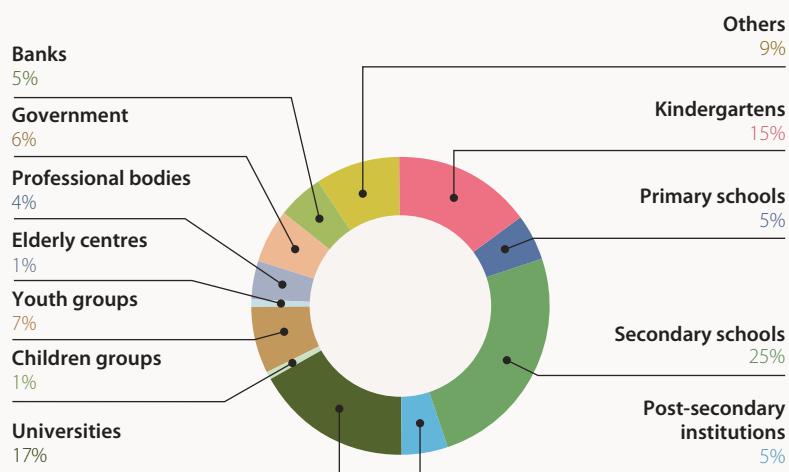


The second section of the Historical Timeline is a digital display panel presenting major events from 1993, when the HKMA was established, to the present.

The Information Centre organises guided tours for visitors. During the year, it received more than 48,000 visitors and hosted over 480 guided tours for schools and other groups (Chart 3). More than 753,000 people have visited the Information Centre since it opened in December 2003.

Corporate Functions

Chart 3 Type of group visits to the Information Centre in 2019



Guided tours of the Information Centre are organised for schools and other group visitors.

The library, situated next to the exhibition area, houses more than 26,000 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.

Public and consumer education

To reach out to the community and raise public awareness of the HKMA's work, the HKMA organised a public education seminar for over 400 secondary school students and teachers in 2019. Topics covered in the seminar included an introduction to the work of the HKMA, Hong Kong's banknotes, the FPS, SVFs, fintech and the Deposit Protection Scheme. More than 60,000 teachers and students have participated in this programme since its launch in 1998.



Students and teachers from secondary schools in different districts attend the 2019 public education seminar.

Corporate Functions

The focus of the HKMA's consumer education initiatives during the year was on educating the public to protect their "personal digital keys", a concept introduced to help the public visualise the significance of safeguarding information for accessing their online accounts. The central message was that in the digital world, account login details and personal information related to internet banking and other digital financial services were as important as the keys to their home, and should be well protected. Extensive promotion was arranged across different media, including the TV, radio, mobile applications, social media, and other digital and out-of-home platforms, to highlight smart tips on how to protect personal digital keys.



The Flagship Campaign on Personal Digital Keys is conducted via extensive cross-media promotion.

Sustained initiatives were also carried out to educate the public to be smart and responsible financial consumers. For example, members of the public were urged to stay vigilant of bogus phone calls purportedly from banks, and of investment scams promoted on social media. Issues to note when handling personal credit products, in particular personal loans taken out during the tax season, were also promoted.

To enhance financial literacy among secondary school students, the HKMA co-organised the "Hong Kong Liberal Studies Financial Literacy Championship" with various stakeholders for the fifth year. Infographics were newly used in the Championship this year to help students better understand sophisticated financial concepts. An online quiz was conducted, attracting 10,450 submissions and culminating in the grand final competition, which was held at the HKMA for the first time.

Corporate Functions



The Championship, attracting over 10,000 online submissions, ends with a live competition at the HKMA.

During the year, the HKMA kicked off the Second Phase of its Cross-generation Outreach Educational Programme, which was organised jointly with an education institution. The programme comprised bank simulation games, parents' talks and train-the-trainer workshops, targeting kindergarten pupils, their parents and teachers, as well as young adults. Other initiatives on youth education included producing comic storybooks for primary school students and parents jointly with a professional association, as well as delivering talks to tertiary school students.

The HKMA continued to support the Investor and Financial Education Council in promoting financial literacy and capacity in Hong Kong, and will explore further collaboration with different stakeholders to maximise the impact of consumer education.



The Achievement Ceremony for the First Phase of the Cross-generation Outreach Programme is held alongside the launch of the Second Phase.



Kindergarten pupils participate in the bank simulation game.



Comic storybooks are produced jointly with a professional association to disseminate smart tips on using banking and financial services to primary school students and their parents.

Corporate Functions

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 2019 was 1,005. During the year, the HKMA conducted a cross-departmental re-engineering exercise to enhance the efficiency of various work processes and redeploy existing resources to support new initiatives. As a result of this rigorous exercise, the overall establishment of the HKMA in 2020 remains unchanged at 1,005. Resources have been redeployed to undertake the following new tasks:



Banking and Financial Stability

- Develop and implement a supervisory regime for virtual banks and cope with the increasingly complex prudential supervision standards
- Enhance supervisory capacity for the new regulatory regime for insurance intermediaries
- Step up ongoing monitoring of banks' culture reform, and conduct ongoing supervision of banks and other relevant entities providing trust services



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 reforms that enhance the international competitiveness of Hong Kong's tax regime regarding different financial services sectors
- Enhance the daily qualitative market surveillance and analyses of Trade Repository data

Corporate Functions

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

Table 1 Establishment and strength of the HKMA on 1 January 2020

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	88	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	47	44
Banking Supervision	To supervise operations of AIs	1	1	180	169
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	100	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	88
Risk and Compliance*	To oversee all risk-generating activities, including investment risks and other non-investment related corporate risks of the HKMA	1	1	45	41
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	54	48
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 the settlement function, and ensure an adequate supply of banknotes and coins	1	1	54	50
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	50	46
Research	To conduct research and analyses on economic and financial market developments in Hong Kong and other economies	1	1	40	36
Office of the General Counsel	To provide in-house legal support and advice	1	1	28	26
Corporate Services	To provide support services in the form of administrative, finance, human resources, information technology and secretariat services, handle media and community relations, and consumer education	1	0	167	157
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	9
Total		16	15	989	910

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

Corporate Functions

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 2019 are shown in Table 2.

Table 2 Remuneration packages of HKMA senior staff members in 2019¹

	Deputy Chief		Executive/ Senior Director	Executive Director (average)
	Chief Executive ² Norman Chan	Eddie Yue		
HK\$'000				
Number of staff members ³	1	1	5	13
Annualised pay				
Fixed pay	7,396	7,000	5,910	4,064
Variable pay ²	2,869	–	1,935	1,102
Other benefits ⁴	1,299	956	762	557

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. Mr Eddie Yue took over from Mr Norman Chan as Chief Executive of the HKMA on 1 October 2019. The actual variable pay corresponding to Mr Chan's services between January and September 2019 was HK\$2.35 million.
3. 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, the Commissioner of the Resolution Office, and the Chief Operating Officer of the Exchange Fund Investment Office.
4. 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.

Corporate Functions

Conduct and discipline

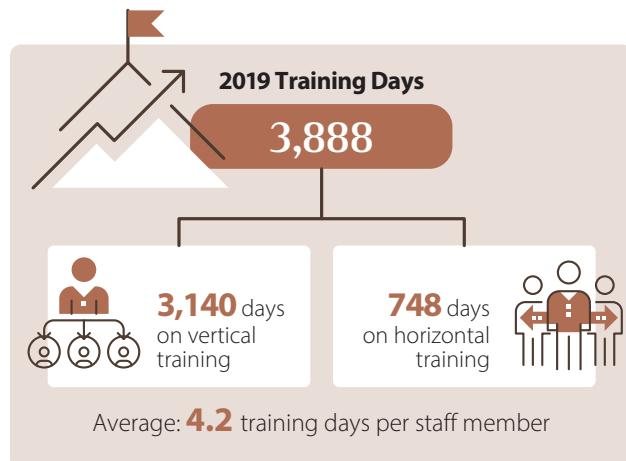
The HKMA places great emphasis on the integrity and conduct of its staff, and expects them to observe an exemplary standard of personal conduct and integrity and to act in the best interests of the HKMA. A Code of Conduct is available to provide guidance to staff on their ethical and legal responsibilities.

Continuous efforts are made to maintain the staff's awareness of conduct-related rules and regulations. Since 2018, a series of weekly email alerts were issued to staff to enhance their awareness of a number of important conduct issues related to the avoidance of conflict of interest, prevention of corruption, personal data protection, and anti-discrimination. During the year, an online testing platform was developed to deepen staff's understanding of the relevant policies, rules and regulations.

Staff development

The HKMA accords priority to developing its staff's capabilities to cater for operational needs and career development, and to increase the staff's adaptiveness 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, such as banking supervision, financial technology and investment management. 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 included briefings on responsible investment and Environmental, Social and Governance (ESG) issues, green finance, fintech developments, data analytics, cybersecurity, and bank culture and conduct. A new Leadership Training Programme was launched during the year to strengthen the managerial capability of staff members, especially on strategic agility and people management. The training programmes were organised in-house or by the Government, other central banking institutions, local and overseas universities, consultants, and training institutions.



An internal briefing on "Big Data Analytics".



The new Leadership Training Programme.

Corporate Functions

A Continuous Capacity Development Programme is implemented to encourage a culture of continuous learning and to maintain the competency level of HKMA staff. This is in addition to a training sponsorship scheme that supports staff members in pursuing studies relevant to the work of the HKMA. The HKMA also provides reimbursement of membership fees of relevant professional bodies to its staff members.

To enhance work exposure of the staff and promote cross-fertilisation of skills and experience, the HKMA encourages staff members to rotate across different job areas and offers secondment opportunities to the HKMA's New York Office, HKMA-related organisations, other regulatory authorities and the Government. Secondment to international and local organisations, such as the International Monetary Fund (IMF) and the Financial Services Development Council, 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 Treasury Markets Association.

Corporate Functions

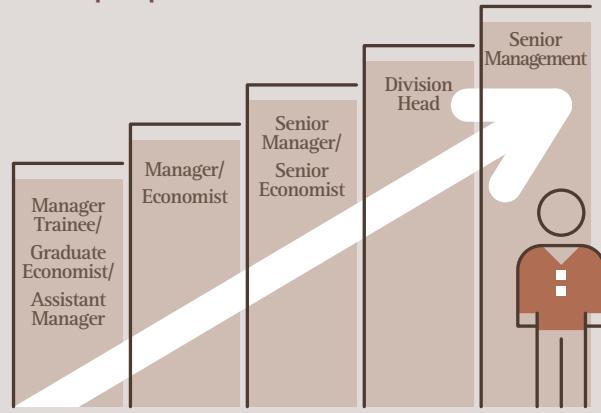
Manager Trainee (MT) and Graduate Economist (GE) Programmes

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 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 the important functions of the HKMA. 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 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 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 for undergraduates to equip them with practical work experience and insights about the roles of a central bank. Talks, training sessions and guided tours at the Information Centre are provided to give the interns a better understanding of the functions and work of the HKMA.

Internship events



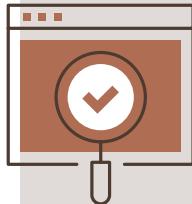
A sharing session on the work of the Exchange Fund Investment Office.



A talk on fintech trends and developments.

Corporate Functions

HKMA's Digitalisation Programme



Fintech has been one of the HKMA's work priorities in recent years. While encouraging banks to adopt fintech to improve the quality of banking products and services, the HKMA, as a financial regulator, is also embracing digital transformation to enhance the effectiveness and efficiency of its work.

Indeed, the HKMA has always been using and analysing various types of data. Nonetheless, with substantial improvements in computing power and rapid reductions in data storage cost, many institutions have begun to explore ways to enhance effectiveness by applying data science. The HKMA is no exception. It embarked on a series of studies during the year on how to make use of new technologies.

The HKMA's digitalisation programme covers multiple functions, including banking supervision, anti-money laundering, financial stability surveillance, economic research and reserves management.



An industry session with banks on Granular Data Reporting.

On banking supervision, through the use of supervisory technology, the HKMA can automate supervisory processes and use data science and network analytics applications to help identify emerging risks and trends in a more forward looking manner. The HKMA is also carrying out a pilot project to collect more granular data from banks. It facilitates the regulatory reporting of data by banks on a transaction basis, thereby providing richer data that could be used flexibly by the HKMA to analyse the complex interconnectedness, concentration and distribution of various risks in the financial system. This project could have the potential of replacing many template-based regulatory reports and lessening the reporting burden on banks.

To take forward the digitalisation programme, the HKMA will set up a Digitalisation Office to formulate a long-term digital strategy and oversee the entire digital transformation process to help the HKMA become a more data-driven organisation. At the same time, various efforts are underway to gear up staff's awareness and capabilities. These include a series of Finnotalks and training opportunities to support staff in acquiring necessary knowledge and skills in the digitalisation journey.



Finnotalk on artificial intelligence.

Corporate Functions

ADMINISTRATION

The HKMA regularly reviews its corporate resources, including space requirements, to ensure that its 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 work on 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 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 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 its ongoing operations, as well as its strategic development as set out in its 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 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 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 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 2019 and the budgeted expenditure for core activities in 2020 are shown in Table 3. The difference between the 2019 actual expenditure and the 2020 budget is mainly due to an increase in staff costs, including the full-year effect of the staff changes and pay review in 2019, and increases in provisions for external relations and professional 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 2020. 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).

Corporate Functions

Table 3 HKMA administrative expenditure

HK\$ million	2019 Budget	2019 Actual	2020 Budget
Staff costs	1,589		1,665
Salaries and other staff costs		1,347	
Retirement benefit costs		118	
Premises expenses			
Rental expenses	31	31	43
Other premises expenses (including management fees and utility charges)	73	66	81
General operating costs			
Maintenance of office and computer equipment	130	116	128
Financial information and communication services (including trading, dealing terminals and data link charges)	79	63	86
External relations (including international meetings)	63	31	78
Public education and publicity	28	17	51
Professional and other services	114	67	197
Training	18	9	32
Others	16	12	17
Total administrative expenditure	2,141	1,877	2,378

Table 4 Additional expenses

HK\$ million	2019 Budget	2019 Actual	2020 Budget
Financial support to international financial organisations in Hong Kong	41	41	42
Service fees for financial infrastructure	200	79	110

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*.

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 2019, all time-critical systems of the HKMA maintained full operational uptime.

Corporate Functions

IT security is a high-priority task of the IT Division. All emerging threats in cyber space are monitored closely and the IT security system is reviewed regularly. A business contingency plan is in place and updated from time to time to ensure uninterrupted operation of all critical systems. To ensure continued reliability of the HKMA's IT systems, ageing components of the IT infrastructure have been updated in batches.

SETTLEMENT SERVICES

The Settlement Section provides reliable and efficient settlement services and operational support to reserves management, monetary operations and other initiatives undertaken by the HKMA. In 2019, the Settlement Section further enhanced the security of its processes by implementing effective and innovative operational and system controls. Different measures were adopted to ensure the funds and assets of the Exchange Fund would be 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.

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 the course of providing legal support, the OGC assists in the planning and implementation of specific projects and initiatives involving complex issues of commercial, regulatory and administrative law. Examples of the OGC's involvement in 2019 include:

- ◆ advice rendered in relation to the authorisation of banks proposing to operate as virtual banks and in relation to the updated Liquidity Facilities Framework for Banks
- ◆ a review of the Operational Agreement for the Bank for International Settlements (BIS) Innovation Hub Centre in Hong Kong

- ◆ ongoing implementation of the Basel Committee on Banking Supervision standards through the making of the Banking (Liquidity) (Amendment) Rules 2019 and the issuance of the Code of Practice relating to provisions of the Banking (Exposure Limits) Rules
- ◆ continued development of the resolution regime in Hong Kong for banking sector entities, including resolution planning for systemically important AIs; and preparatory work on the development of standards for operational continuity in resolution and stays on contractual termination rights.

The OGC also provides commentary to government bureaux on significant legislative proposals, and responds to consultations, about matters which may impact the functions or mandates of the HKMA.

OGC lawyers provide legal support for the HKMA's participation in various international working groups and attend seminars, meetings and conferences for legal experts, central bankers, financial regulators and the banking community to keep abreast of topical developments and to discuss and resolve issues of current legal concern.

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 the EFAC.

Adopting a risk-based approach, the IA Division conducts operational and information system audits to cover all significant risk areas of the HKMA. It also advises on major system development projects and internal control issues in response to requests from senior executives and management. Risk updates are provided to the Risk Committee regularly, while audit progress and key internal control matters are reported to the senior executives and the ASC on a quarterly basis.

Corporate Functions

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
- ◆ 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 the organisation's 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 on a quarterly basis. 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 decides on appropriate follow-up actions.