



25 June 2003

To: The Monetary Authority

### Functions and Responsibilities in Monetary and Financial Affairs

This letter sets out the division of functions and responsibilities in monetary and financial affairs between the Financial Secretary and the Monetary Authority.

#### Legal Framework

2. The Exchange Fund Ordinance establishes the Exchange Fund under the control of the Financial Secretary. The Fund shall be used primarily for affecting the exchange value of the Hong Kong dollar. The Financial Secretary may also use the Fund for maintaining the stability and the integrity of the monetary and financial systems of Hong Kong, with a view to maintaining Hong Kong as an international financial centre. The Financial Secretary's control of the Exchange Fund shall be exercised in consultation with the Exchange Fund Advisory Committee (EFAC).
3. The Banking Ordinance provides the Monetary Authority with the legal basis for the regulation and supervision of banking business and the business of taking deposits.
4. Section 5A of the Exchange Fund Ordinance provides the authority for the Financial Secretary to appoint a person to be the Monetary Authority and specifies the functions of the Monetary Authority. Section 5B of the Ordinance provides that the Financial Secretary may delegate to the Monetary Authority the powers and duties conferred or imposed on the Financial Secretary under the Ordinance. The Monetary Authority is a person appointed under the Ordinance. The office of the Monetary Authority is known as the Hong Kong Monetary Authority and the Monetary Authority as the Chief Executive of the Hong Kong Monetary Authority.
5. Under this legal framework, the division of functions and responsibilities in monetary and financial affairs between the Financial Secretary and the Monetary Authority is set out below.

#### Monetary Policy

6. The Financial Secretary shall be responsible for determining the monetary policy objective and the structure of the monetary system of Hong Kong. The Monetary Authority shall on his own be responsible for achieving the monetary policy objective, including determining the strategy, instrument and operational

means for doing so, and for maintaining the stability and integrity of the monetary system of Hong Kong.

#### Stability and Integrity of the Financial System

7. The Financial Secretary, assisted by the Secretary for Financial Services and the Treasury, shall be responsible for policies for the maintenance of the stability and integrity of the financial system of Hong Kong.

8. In support of these policies, the Monetary Authority shall be responsible for:

- (a) providing a measure of protection to depositors and promoting the general stability and effective working of the banking system through the regulation of banking business and the business of taking deposits, and the supervision of Authorized Institutions as provided for in the Banking Ordinance;
- (b) determining on his own prudential policies, and standards and guidelines relating to the regulation of banking business and the business of taking deposits;
- (c) considering and proposing reforms of the law relating to the regulation of banking business and the business of taking deposits;
- (d) co-operating with other relevant authorities in the supervision of business conducted by Authorized Institutions (other than banking business or the business of taking deposits);
- (e) the development of the debt market in co-operation with other relevant authorities and organisations;
- (f) matters relating to the issuance and circulation of legal tender notes and coins;
- (g) promoting the safety and efficiency of the financial infrastructure through the development of domestic wholesale and retail payment, clearing and settlement systems involving Authorized Institutions and, where appropriate, the operation of these systems; and
- (h) other operations and schemes as appropriate.

#### Maintenance of the Status of Hong Kong as an International Financial Centre

9. The Financial Secretary, assisted by the Secretary for Financial Services and the Treasury, shall be responsible for policies for the maintenance of the status of Hong Kong as an international financial centre.

10. In support of these policies, the Monetary Authority, when discharging his responsibilities for maintaining the stability and integrity of the monetary and financial systems of Hong Kong, shall, in co-operation with other relevant authorities and organisations, seek to promote:

- (a) the development of payment, clearing and settlement systems to facilitate the safe and efficient conduct of international and cross-border financial activities in Hong Kong;
- (b) confidence in Hong Kong's monetary and financial systems through active participation in international financial and central banking forums; and
- (c) appropriate market development initiatives that help strengthen the international competitiveness of Hong Kong's financial services.

#### Exchange Fund

11. The Exchange Fund shall be under the control of the Financial Secretary, as provided for in the Exchange Fund Ordinance.

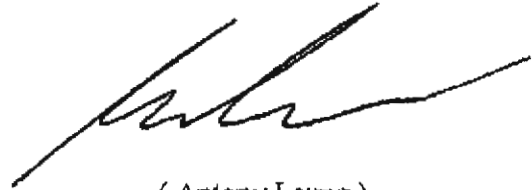
12. The Monetary Authority, under the delegated authority of the Financial Secretary and within the terms of the delegation, shall be responsible to the Financial Secretary for the use of the Exchange Fund, and for the investment management of the Exchange Fund.

#### Delegation of Powers

13. In order that the Monetary Authority has the necessary statutory powers, in addition to those already vested in him, to perform the functions and responsibilities set out in this letter, the Financial Secretary has delegated certain of his powers to the Monetary Authority. The delegations (excluding information that the Financial Secretary considers, after consultation with the Monetary Authority, to be market sensitive) are set out at Annex. If the Financial Secretary has chosen to override the Monetary Authority by giving him instructions, or has himself exercised those powers delegated to the Monetary Authority, the Financial Secretary shall disclose publicly why he has chosen to do so, unless he considers, after consultation with the Monetary Authority, that such disclosure is prejudicial to the stability and integrity of the monetary and financial systems of Hong Kong. Such disclosure shall be made within three months of the giving of such instructions or the exercising of such powers delegated to the Monetary Authority.

14. This letter shall be made public in the spirit of transparency and to further enhance the credibility of policies and efficiency of operations in monetary and financial affairs. Any future changes to the contents of this letter, and any additional delegations or changes to existing delegations (excluding information that the Financial Secretary considers, after consultation with the Monetary Authority, to be market sensitive), shall also be made public.

15. Please acknowledge receipt of this letter and signify your understanding of and agreement to the contents therein by signing and returning the duplicate of this letter to me.



( Antony Leung )  
Financial Secretary

c.c. Secretary for Financial Services and Treasury

To: The Financial Secretary

I acknowledge receipt of this letter and understand and agree to the contents therein.



( Joseph Yam )  
Monetary Authority

Statutory Powers Delegated by  
the Financial Secretary (FS) to the Monetary Authority(MA)

Ordinance	Delegated Powers
Exchange Fund Ordinance	<p>Section 3(1) Specifically to conduct HK\$/US\$ transactions, subject to limits determined from time to time by FS, and to carry out money market operations.</p> <p>Section 3(1A) the exercise of which is subject to section 3(1B)</p> <p>Section 3(2) except FS' powers of approval of the type of securities and other assets in which the Exchange Fund may be invested</p> <p>(FS also delegates to MA his powers under section 3(1), (1A) and (2) insofar as borrowings for the account of the Exchange Fund are concerned)</p> <p>Section 3A(1) and (2)</p> <p>Section 4(1) except FS' powers to determine the foreign exchange and the rate of exchange applicable in that subsection</p> <p>Section 4(2) except FS' powers to determine the foreign exchange and the rate of exchange applicable in that subsection</p> <p>Section 4(3)</p> <p>Section 5A(3) subject to condition that MA's delegation is in respect of officers below the rank of executive directors subject to the constraints of the annual budgets of the HKMA</p>

Ordinance	Delegated Powers
	Section 6(a) subject to condition that MA may only approve appointments and terms and conditions which do not exceed the charge on the Exchange Fund in respect of the same in the HKMA's budget
Legal Tender Notes Issue Ordinance	Section 3(5) subject to condition that MA is satisfied that the amendments proposed in relation to a particular bank will be in accordance with the relevant legislation/constitutional documents of the bank
The Hong Kong Association of Banks Ordinance	Section 12(1)