



HONG KONG MONETARY AUTHORITY

**Briefing to the Legislative Council
Panel on Financial Affairs**

4 November 2002



DISCUSSION TOPICS

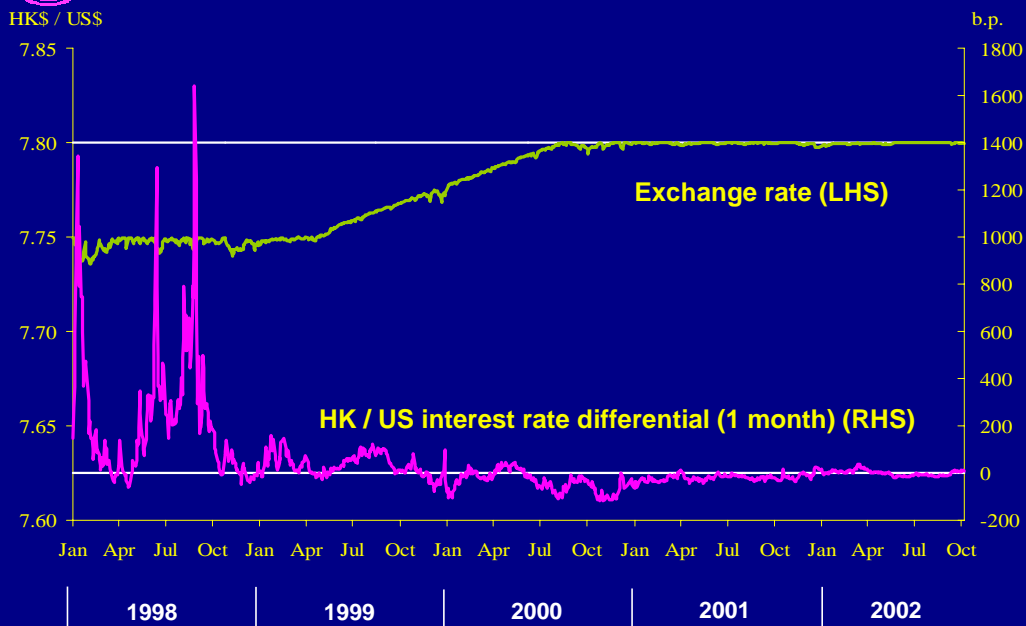
- **Currency**
- **Banking**
- **Financial Infrastructure**
- **Exchange Fund**

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- This presentation will cover the four key responsibilities of the HKMA:
 - to maintain the stability and integrity of the monetary system of Hong Kong;
 - to promote the general stability and effective working of the banking system;
 - to enhance the safety and efficiency of the financial infrastructure, particularly payment and settlement arrangements; and
 - to manage the Exchange Fund in a sound and prudent manner.



CURRENCY STABILITY



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- The Hong Kong dollar continues to stay close to the linked rate.
- The interest rate differential against the US dollar remains low, despite some recent widening due to market rumours about the Link, weakness in the yen, and concerns about the fiscal deficit.



CURRENCY - MARKET EXPECTATIONS



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- The 12-month Hong Kong dollar forward points gradually declined after the subsidence of the Asian financial crisis and the introduction of the technical measures to strengthen the Currency Board system in August 1998.
- While the forward points have risen lately to about 300 pips, they remain at a relatively low level historically.



CURRENCY - MARKET EXPECTATIONS



- Fuelled by market rumours and speculations about the Link, renewed concerns about the fiscal deficit and weakness of the yen, the 12-month forward points has risen significantly since early September this year.

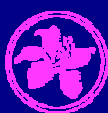


CURRENCY - RISKS & VULNERABILITIES

- **Latin America -- less of a risk factor to Hong Kong**
- **Exchange rates of the yen and other Asian currencies -- on the weak side**
- **Public finances in Hong Kong -- increased public and international attention**
- **Confidence in the Link -- sensitive to rumours**
- **Hong Kong markets used as proxy hedge against Asian risks -- no detectable activity but the risks remain**

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- In Brazil, market worries about the leading presidential candidate's economic policies have led to a continuous fall in the real by over 40% this year. Argentina has yet to restore financial and economic stability after abandoning the currency board arrangements in January, with the peso devalued by over 70% and prices rising by a year-on-year 40%. Nevertheless, in the absence of significant economic links between Hong Kong and Latin America, the problems have had little effect on our markets.
- The Japanese yen and other Asian currencies have weakened recently alongside concerns on banking problems in Japan and the bombing on Bali.
- Domestically, the recently released fiscal data suggest a possible widening of the budget deficit in the current financial year and have triggered renewed concerns about the state of public finances in Hong Kong.
- In the midst of a sluggish economy and concerns about the fiscal deficit, market sentiment has been sensitive to rumours and speculations about the Link.
- In the absence of capital controls, our liquid financial markets are popular amongst investors as a proxy hedge for their investment in regional economies, which impose various degrees of controls, and do not have a fully convertible currency or an active forward market.



BANKING SECTOR PERFORMANCE

Capital adequacy ratio¹	: 16.20% (Jun 02)	16.70% (Mar 02)
Liquidity ratio²	: 45.60% (Jun 02)	45.60% (Mar 02)
Net interest margin²	: 2.15% (Q2 02 annualised)	2.06% (Q1 02 annualised)
Classified loans²	: 5.46% (Jun 02)	6.37% (Mar 02)
Mortgage - delinquency ratio³	: 1.09% (Aug 02)	1.18% (Mar 02)
Mortgage - rescheduled loan ratio³	: 0.47% (Aug 02)	0.38% (Mar 02)
Credit card - charge-off ratio³	: 13.63% (Q2 02 annualised)	9.04% (Q1 02 annualised)
Growth of total HK dollar deposits⁴	: -1.60% (Aug 02 yoy)	-0.70% (Mar 02 yoy)
Growth of total domestic lending⁴	: -3.20% (Aug 02 yoy)	-3.40% (Mar 02 yoy)

- 1 *Locally incorporated authorized institutions*
2 *Retail banks*
3 *Surveyed AIs*
4 *All AIs*

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- The capital and liquidity positions of the banking sector have remained strong and well above the international minimum standards.
- The widening in interest spread resulted in retail banks' annualised net interest margin rising to 2.15% in Q2 2002 from 2.06% in Q1 of 2002. Overall, retail banks' annualised net interest margin rose to 2.11% in the first half of 2002 from 2.02% in the first half of 2001. However, the pre-tax operating profits in respect of their Hong Kong offices fell in the first half of 2002 compared with the first half of 2001. The fall was largely due to increased provisions and a decline in other operating income.
- The asset quality of retail banks improved in the second quarter, influenced by write-offs made at the half year and the disposal of problem loans by some banks. The asset quality of the mortgage portfolio continued to hold up well (see slide 11). In contrast, there was continued deterioration in the quality of credit card receivables (see slides 8-10).
- Total Hong Kong dollar deposits fell at a faster year-on-year rate of 1.6% in August compared with 0.7% in March. In the first eight months of 2002, Hong Kong dollar deposits fell by 1.7%. The decline was due partly to the historically low interest rate environment.
- Total domestic lending remained weak. It fell by a year-on-year rate of 3.2% in August. In the first eight months of 2002, total domestic lending fell by 1.7%.



BANKING STABILITY

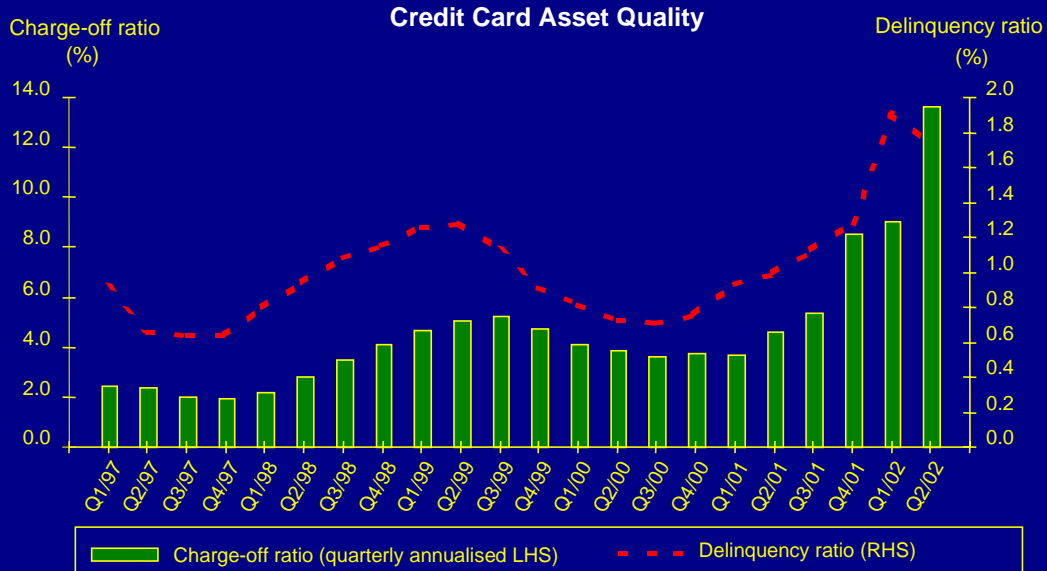


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- In the third quarter of this year, the number of bankruptcy petitions presented was 6,930, compared with 6,996 in the second quarter of 2002. This was against a backdrop of rising unemployment and weaknesses in the economy. However, at least the figure stabilised in the third quarter.
- Overall, the number of bankruptcy petitions presented was 19,949 in the first nine months of 2002, compared with 13,186 in the first nine months of 2001.



BANKING STABILITY

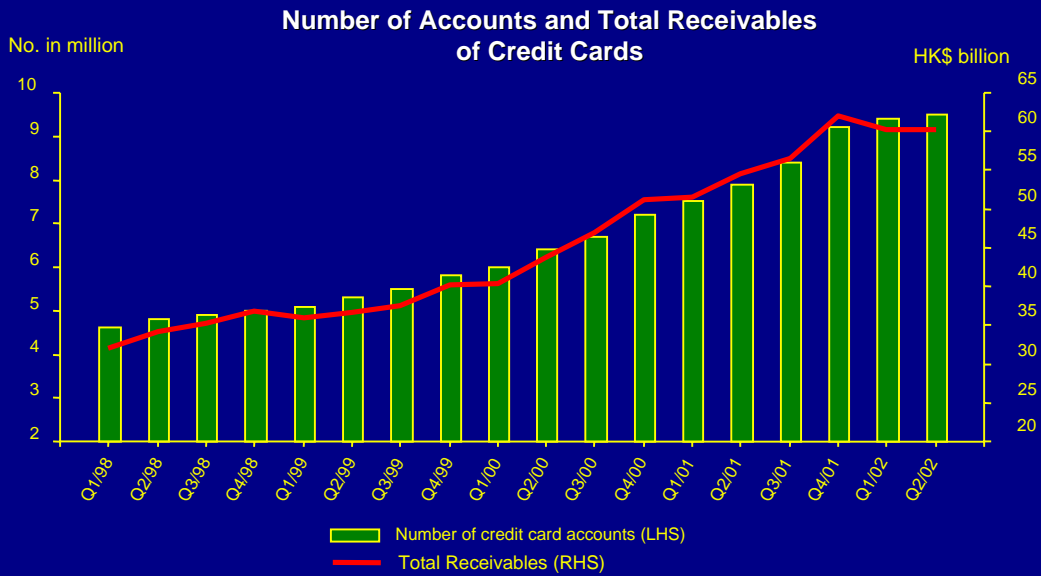


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- There was continued deterioration in the quality of credit card receivables. While the credit card delinquency ratio declined to 1.73% at end-June from 1.90% at end-March, this was due not to an improvement in the performance of AIs' credit card portfolios, but rather a sharply higher level of charge-offs. The amount charged off in the second quarter was HK\$2.06 billion or 3.41% of average receivables. If this rate of charge-off were to be maintained for the next three quarters, the "annualised" amount of charge-offs would be HK\$8.22 billion or 13.63% of average receivables. This compares with 9.04% in the previous quarter. The annualised ratio was, however, somewhat distorted by the effects of a change in the charge-off policies of some institutions, which have begun to write off accounts earlier (when a bankruptcy petition is presented). Adjusted for this, the quarterly annualised charge-off ratio for the second quarter would have been 12.68%.
- The delinquency ratio is measured by the total amount of credit card receivables overdue for more than 90 days and remaining unpaid at the last day of the reporting month as a percentage of total credit card receivables. Charge-off ratio refers to the total amount of credit card receivables written off during a period as a percentage of the total credit card receivables at the end of that period. The charge-off policy may vary among AIs.
- The delinquency ratio provides an early indication of the quality of the credit card portfolio while the charge-off ratio measures the gross credit loss of that portfolio to an AI over a specified period of time.



BANKING STABILITY



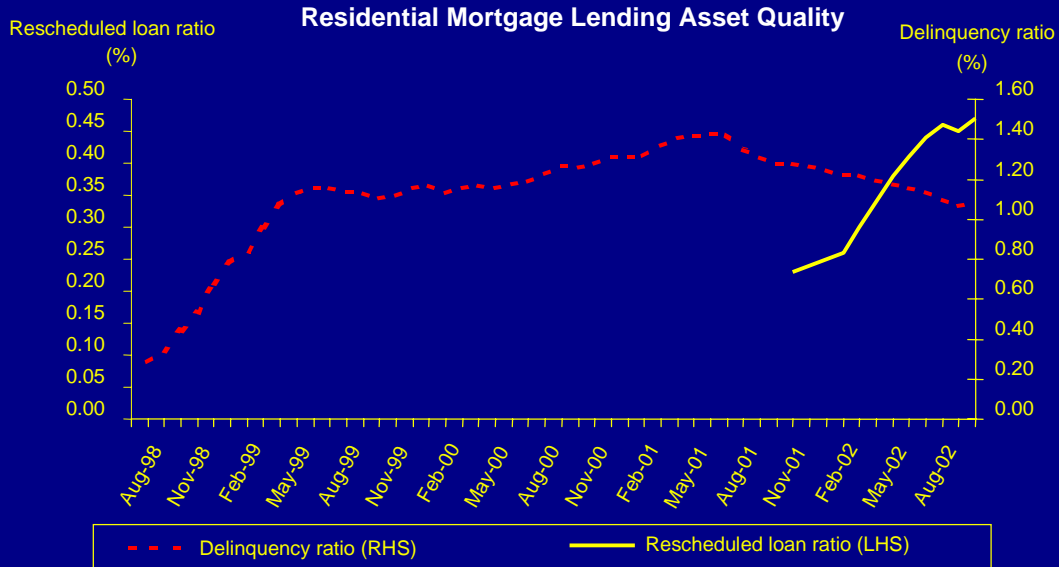
Note: There is a break in series at Q4 2001 owing to an increase in the number of surveyed institutions.

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- The total outstanding amount of credit card receivables has reduced since the end of 2001, reflecting write-offs and a tightening of lending policies by the institutions. Increase in the number of cards issued has also slowed down significantly in the last two quarters.



BANKING STABILITY



Note: There is a break in series at December 2000 owing to an increase in the number of surveyed institutions.

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- The asset quality of the mortgage portfolio continued to hold up well. Based on the monthly survey on residential mortgage lending, the mortgage delinquency ratio (measured by the amount overdue for more than three months as a percentage of the total mortgage portfolio) decreased to 1.07% at end-July, the lowest level since March 1999, then edged up slightly to 1.09% at end-August. The decrease was in part due to more loan rescheduling and write-offs at the half year. The rescheduled loan ratio (measured by the ratio of rescheduled mortgage loans to total outstanding mortgage loans) rose to 0.47% from 0.38%, reflecting banks' responsiveness to assist borrowers in financial difficulties.



BANKING STABILITY

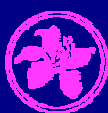
Residential Mortgage Loans in Negative Equity

	<u>Mar 2002</u>	<u>Dec 2001</u>	<u>Sep 2001</u>
Total number	67,500	73,000	65,000
Total outstanding value	\$115 bn	\$125 bn	\$127 bn
Percentage priced below Best Lending Rate	58%	56%	51%
Average interest rate charged	0.60% below BLR	0.57% below BLR	0.27% below BLR

Source: HKMA surveys on residential mortgage loans in negative equity

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- It is estimated that the total number of residential mortgage loans (RMLs) in negative equity in the banking sector was about 67,500 or 14% of total mortgage borrowers at end-March 2002, with an aggregate value of about HK\$115 billion, or 21% of total outstanding RMLs. These compared with 73,000 cases valued at HK\$125 billion at end-December 2001. The decline in number of RMLs in negative equity in the first quarter was due to a number of factors: the stabilisation of property prices, continued instalment repayments by homeowners, pay-downs by customers who sought refinancing or restructuring of their loans and some disposals of repossessed properties.
- 58% of negative equity homeowners were being charged at below the best lending rate (BLR), compared to 56% at end-December 2001. The average interest rate being charged to negative equity homeowners reduced by another 3 basis points to 0.60% below BLR from that in the December survey.
- In addition to the 2,500 RMLs in negative equity that were refinanced or restructured by the banks in the fourth quarter of 2001, another 2,300 were estimated to have been restructured or refinanced in the first quarter of 2002. About 60% of the loans restructured had interest rates reduced.
- The HKMA is in the process of updating the figures, which will be announced shortly.



BANKING REFORMS & CONSUMER ISSUES

- **Positive consumer credit data sharing**
 - response to PCO's consultation paper issued
 - stand ready to back up positive data sharing by issuing supervisory guidelines to AIs if necessary
- **Commercial credit reference agency**
 - industry's Working Party to finalise framework for a voluntary participation scheme

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Positive consumer credit data sharing

- The Bankruptcy Working Group, composed of the four industry associations, has been working on a Debt Relief Plan which would facilitate the resolution of existing cases of over-extension and provide borrowers with an alternative to bankruptcy. The HKMA will lend its strong support to the Plan. We are prepared to back this up with appropriate supervisory guidelines, though these would formally apply only to AIs.
- On positive consumer credit data sharing, the PCO released a consultation paper in August 2002. The consultation period ended on 25 October. The HKMA is fully aware of the possibility that implementation of positive data sharing might have some transitional impact on over-extended borrowers. In principle, we support the implementation safeguards proposed by the PCO. Regarding the appropriate length of the transitional period, we understand that there are different views on how long this should be. While we appreciate the need to try to achieve a soft landing for over-extended borrowers, it can be argued that this will delay resolution of the debt problem and postpone the full benefits of positive data sharing.
- We note the PCO's proposal for a transitional period of twenty-four months against the industry's initial suggestion of twelve months. One way of achieving a compromise might be to include a provision which would reserve to the PCO the discretion to decide on whether to uplift the moratorium after twelve months or to extend it for no more than a further 12 months (i.e. making twenty four months in all). This decision would be based on a review to be conducted by the PCO based on the prevailing economic and social environment.

Commercial credit reference agency

- The Working Party formed by the Hong Kong Association of Banks and the Deposit-taking Companies Association in May 2002 to follow up on the implementation details of the scheme has made good progress on a number of issues, including the precise scope of data to be shared, the detailed definition of SMEs and a leaflet to promote the scheme. However, there are still different views on the issue of how banks should obtain customers' consent for their data to be shared. The HKMA is discussing this issue with the industry with a view to reaching a consensus as soon as possible.



BANKING REFORMS & CONSUMER ISSUES

- **Deposit insurance scheme**
 - **draft legislation ready by end-2002**
- **Banking consumer protection**
 - **revised complaint handling procedures implemented**
 - **educational leaflet issued**
 - **Panel on Financial Affairs to review the issue again in due course**

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Deposit insurance scheme

- The HKMA received 20 submissions from the banking industry, insolvency practitioners, the Consumer Council and other interested parties during the second public consultation carried out in April-May 2002. Comments raised have been taken on board as appropriate and have been incorporated into the draft bill being prepared. The industry and interested parties will be consulted again when the draft bill is in a reasonable shape.

Banking consumer protection

- In June 2002 the HKMA briefed the Panel on the operation of the revised Code of Banking Practice and the recent efforts of the HKMA and the banking industry to further enhance banking consumer protection. The Panel was generally content with the existing role of the HKMA in handling customer complaints, and requested it to report progress again around the end of 2002.
- The HKMA's Guideline on banks' complaint handling procedures took full effect on 1 July 2002. This meant that all AIs should have put in place systems to ensure that customer complaints are promptly and fully investigated and resolved in a satisfactory manner. We have also reviewed our own complaint handling procedures so that we will only deal with complaints that cannot be resolved by AIs' own procedures. Following the new complaint handling procedures, the number of complaint cases handled by the HKMA in the third quarter reduced significantly from 497 cases in Q2/2002 to 120 cases in Q3/2002.
- A leaflet has been published to provide guidance to the public on the way to lodge a complaint. The leaflet advises customers who have a complaint to first try to resolve their dispute with the AI concerned. If the matter remains unresolved after the AI has dealt with the complaint or the AI has failed to give a final response within a reasonable period, they may seek assistance from the HKMA.



FINANCIAL INFRASTRUCTURE FOR DOMESTIC FINANCIAL ACTIVITIES

- **Domestic linkages of financial infrastructure**
 - the missing link between CCASS and CMU
- **Technical upgrade of financial infrastructure**
 - feasibility of migration to SWIFT platform
 - straight-through processing for CMU transactions
 - cheque imaging and truncation (Bills of Exchange (Amendment) Bill)
- **Inclusion of Hong Kong dollar in global payment system (CLS system)**
 - Clearing and Settlement Systems Bill

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- Domestic linkages of financial infrastructure. The HKMA is working with HKEx to establish a link from CMU to CCASS, enabling CMU members to hold and settle equities and facilitating cross-collateralisation.
- Technical upgrade of financial infrastructure. The HKMA will initiate a feasibility study of a revamp of the existing RTGS systems onto the SWIFTNet platform. The HKMA has also announced that it has granted a license to a commercial company to provide a direct electronic clearing and settlement linkage using a system interface with CMU. This will facilitate straight-through processing (STP) for over-the-counter debt securities transactions which are cleared through the CMU. The HKMA and the Hong Kong Association of Banks are working on a cheque imaging and truncation project to be implemented by the HKICL in mid-2003. This would obviate the need for physical presentation of cheques for clearing and would improve cheque clearing efficiency and security and reduce costs.
- Inclusion of Hong Kong dollar in global payment system. The HKMA is preparing Draft Drafting Instructions with the Financial Services and the Treasury Bureau for a Clearing and Settlement Systems Bill in the 2002-03 legislative programme to cater for, among other things, Hong Kong dollar's participation in the Continuous Linked Settlement (CLS) System.



FINANCIAL INFRASTRUCTURE FOR DOMESTIC FINANCIAL ACTIVITIES

- **Bond market development**
 - retail bond issues by Hong Kong Mortgage Corporation
- **Retail payment systems**
 - codes of practices on credit cards, debit cards and stored-value cards being drawn up. Consumer Council being consulted
 - implications of further development of e-money being considered
 - review on design and security of new generation of banknotes in progress

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Bond market development

- The Hong Kong Mortgage Corporation has devoted substantial resources to promoting its debt securities to retail investors. This provides the general public with an additional and relatively safe investment choice, and developing the Hong Kong bond market.
- Since the HKMC launched the new mechanism of offering bonds to retail investors in October 2001, 15 companies and banks have raised over HK\$20 billion through 65 issues of retail bonds and retail certificate of deposits in 2002 to date. This amount accounts for a significant 13% of the HK\$150 billion of Hong Kong dollar debt securities issued during the same period.

Retail payment systems review

- The HKMA has been implementing the review recommendations in phases. It adopts a progressive approach to encourage the industry to draw up codes of practices to improve self-regulation and public accountability. The HKMA has briefed the Consumer Council on the work of the working groups that it convened and is seeking their comments from the perspectives of the consumers and retailer groups.
- In consultation with the Government the HKMA has been considering the implications of the rapid development of e-money in Hong Kong for a number of important issues, such as regulatory needs, seignorage leakage and competition policy, and how they should be addressed.
- The review on the design and security of the full range of currency notes of the note-issuing banks is making good progress and is near completion.



FINANCIAL INFRASTRUCTURE FOR INTERNATIONAL FINANCIAL ACTIVITIES

- **Development of foreign currency payment systems**
 - **US dollar and euro RTGS payment systems**
- **Payment system linkages with cities in the Mainland**
 - **cheque clearing between Hong Kong and Guangdong**
 - **Hong Kong dollar RTGS access for banks in Mainland**
- **Hong Kong as a regional settlement hub**
 - **links from CMU to Euroclear and Clearstream**
 - **CMU clearing of US treasuries**
 - **link from CMU to the Mainland's Government Securities Book-Entry System**

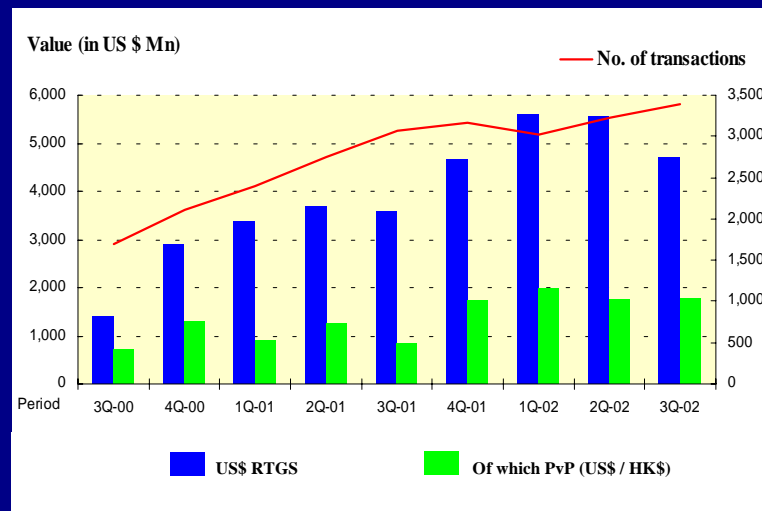
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- The HKMA has been very active in the development of clearing and settlement systems and linkages. Given the small Hong Kong economy, the HKMA's strategy has been to leverage on its ability and positioning to serve not only the domestic economy but also the Mainland, the rest of the region and beyond. It is against this backdrop that Hong Kong aims to develop into a financial hub by providing, through its clearing and settlement infrastructure, market access and investment opportunities in a highly robust, efficient and cost-effective manner.
- Development of US dollar and euro RTGS payment systems in Hong Kong. This helps financial institutions in Hong Kong to tap further international liquidity and also to enhance Hong Kong's role as a regional clearer of foreign currency settlement activities.
- Establishment of payment linkages with cities in the Mainland. In particular, with a view to expediting cross-border Hong Kong dollar payments between banks in Hong Kong and Shenzhen, the HKMA and the People's Bank of China Shenzhen have arrived at a scheme for the Shenzhen Financial Electronics Settlement Centre to develop a Hong Kong dollar RTGS system in Shenzhen for implementation in December 2002.
- Development of Hong Kong as a regional hub. CMU is working on a number of linkages to facilitate cross-border holding and trading in international debt securities.



FINANCIAL INFRASTRUCTURE FOR INTERNATIONAL FINANCIAL ACTIVITIES

US Dollar RTGS Turnover (daily average)



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- Hong Kong's US dollar RTGS system has been operating smoothly since its implementation in 2000. Turnover has been growing steadily. In January-September 2002, the daily RTGS turnover increased to over 3,200 transactions, with a daily value of US\$5.2 billion. About 1,500 US dollar cheques are being cleared daily.



FINANCIAL INFRASTRUCTURE FOR INTERNATIONAL FINANCIAL ACTIVITIES

APEC Initiative on Development of Securitisation and Credit Guarantee Markets

- **Hong Kong, Korea and Thailand are co-leading the new APEC Initiative. The objectives are:**
 - **to promote the understanding of the importance of securitisation and use of credit guarantees to regional bond market development, and**
 - **to assist APEC economies to identify and remove the impediments to development of securitisation and credit guarantee markets**
- **securitisation and the use of credit guarantees can enhance the credit quality of Asian bonds and the efficiency of financial intermediation in the Asian economies.**

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- East Asian economies have accumulated large foreign exchange reserves. These are mainly invested in financial assets issued in the G7 economies because managers of official reserves face a limited supply of investment grade securities from within the region. Institutional investors such as mutual funds and insurance companies face similar constraints.
- Amongst the many structural factors hindering the development of bond markets in the region, the one that has drawn relatively little attention is the credit quality gap between the generally low credit ratings of issuers and the minimum credit quality requirement of investors.
- Securitisation coupled with credit guarantee is one solution. Securitisation enables borrowers to issue asset-backed securities that can enjoy a credit rating higher than what a borrower can get on its own. When combined with credit enhancement and guarantee arrangements, these securities could attain a credit quality acceptable to investment managers by qualifying for an investment grade rating from the international rating agencies. Securitisation would also enable smaller corporate entities to access bond markets and reduce reliance on short-term commercial bank finance. Hong Kong has therefore proposed, and currently co-leads with Korea and Thailand, an initiative to promote securitisation and develop securitisation and credit guarantee markets in APEC economies.



EXCHANGE FUND ABRIDGED BALANCE SHEET

(HK\$ billion)	30 Sep 02 ²	30 Jun 02 ²	31 Dec 01 ¹
ASSETS			
Deposits	82.8	62.9	99.2
Debt securities	731.8	759.2	732.7
Hong Kong equities	54.7	71.6	85.9
Other equities	58.8	47.8	35.3
Other assets	<u>28.3</u>	<u>34.5</u>	<u>26.0</u>
Total assets	956.4	976.0	979.1
LIABILITIES AND ACCUMULATED SURPLUS			
Certificates of Indebtedness	114.3	113.3	107.5
Government-issued currency notes & coins in circulation	5.8	5.6	5.7
Balance of banking system	0.3	1.1	0.7
Exchange Fund Bills and Notes	123.3	118.1	118.1
Placements by other HKSAR government funds	309.7	353.2	380.6
Other liabilities	<u>91.9</u>	<u>70.7</u>	<u>63.9</u>
Total liabilities	645.3	662.0	676.5
Accumulated surplus	<u>311.1</u>	<u>314.0</u>	<u>302.6</u>
Total liabilities and accumulated surplus	956.4	976.0	979.1

1 Audited figures; 2 Unaudited figures

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- The total assets of the Exchange Fund amounted to HK\$956.4 billion at the end of September 2002, compared with HK\$979.1 billion at the end of December 2001.
- For the first nine months of 2002, there was a net drawdown of the fiscal reserves amounting to HK\$70.9 billion.



EXCHANGE FUND PERFORMANCE

(HK\$ billion)	2002 Jan-Sep ²	2002 Jul-Sep ²	2002 Jan-Jun ²	2001 Full Year ¹
Gain/(Loss) on Hong Kong equities*	(13.4)	(8.8)	(4.6)	(27.1)
Exchange gain/(loss)	17.1	(0.3)	17.4	(13.0)
Total return on bonds, etc	<u>17.0</u>	<u>7.0</u>	<u>10.0</u>	<u>47.5</u>
Investment income	20.7	(2.1)	22.8	7.4
Other income	0.1	0.0	0.1	0.2
Interest and expenses	<u>(5.0)</u>	<u>(1.7)</u>	<u>(3.3)</u>	<u>(10.5)</u>
Net investment income	15.8	(3.8)	19.6	(2.9)
Treasury's share	<u>(7.3)</u>	<u>0.8</u>	<u>(8.1)</u>	<u>(1.6)</u>
Increase/decrease in EF accumulated surplus	8.5 ===	(3.0) =====	11.5 =====	(4.5) ===

* Including dividends

1 Audited figures; 2 Unaudited figures

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- Market conditions have been very volatile in recent months. For the first nine months of 2002, the Exchange Fund recorded a positive investment income of HK\$20.7 billion (an investment gain of HK\$22.8 billion in the first six months of 2002 and a loss of HK\$2.1 billion in the third quarter of this year).
- After deducting interest and other costs, and the sharing of investment income with the fiscal reserves placed with the Exchange Fund, the accumulated surplus recorded an increase of HK\$8.5 billion.
- Return to the fiscal reserves placed with the Exchange Fund for the first nine months of 2002 amounted to HK\$7.3 billion.
- Quarterly returns to fiscal reserves under the return sharing arrangement, started on 1 April 1998, are as follows:

	(HK\$billion)				
	1998	1999	2000	2001	2002
Q1	n.a.	5.2	2.6	(6.1)	(1.6)
Q2	4.1	18.0	(4.2)	(1.0)	9.7
Q3	6.9	(0.5)	7.7	4.0	(0.8)
Q4	<u>15.0</u>	<u>22.7</u>	<u>12.0</u>	<u>4.7</u>	
	26.0	45.4	18.1	1.6	

It is up to the Treasury to decide when to settle the return to the fiscal reserves placed with the Exchange Fund.



EXCHANGE FUND HONG KONG EQUITY PORTFOLIO

	(HK\$ billion)
Cost of shares purchased in August 1998	118.1
Shares transferred from Land Fund (November 1998)	9.0
Proceeds from disposal of Hong Kong stocks	
i) Initial public offering of TraHK	33.3
ii) Tap facility (Q4 1999 - Q4 2002)	<u>107.1</u>
	140.4
Dividend and other income	24.6
Total disposal and other income	165.0
Long-term Hong Kong equity portfolio (as at 24 October 2002)	52.8*

* about 5.5 per cent of the total assets of the Exchange Fund

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- The disposal programme for the Exchange Fund's Hong Kong equity portfolio was completed when the Q4 2002 Tap Issue Limit was exhausted on 15 October 2002.
- Through the offer of the Tracker Fund and the subsequent Tap Facility, we have managed to dispose of a substantial portion of Hong Kong stocks without any noticeable effect on the market. The total proceeds from disposal of Hong Kong stocks and other income are \$165.0 billion.
- About \$52.8 billion of Hong Kong equities will be retained by the Exchange Fund as a long term investment. The Hong Kong equity holding represents about 5.5% of the total size of the Exchange Fund, a very slight overweight position from the 5% allocation to Hong Kong equities in the Exchange Fund's Investment Guidelines. We do not intend to change this slight overweight position in Hong Kong equities in any material manner in the foreseeable future.



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**Briefing to the Legislative Council
Panel on Financial Affairs**

4 November 2002

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