

**【For Immediate Release】**

**63 Percent of People are Dissatisfied with Exchange Fund's Investment Return;  
Middle Class Force Advocates a Stronger Mechanism to Monitor the HKMA's Performance;  
Proposes Giving Legislative Council the Power to Approve  
the HKMA Chief Executive's Appointment**

(May 1, 2006, Hong Kong) The results have been announced of a survey entitled "*Opinion Survey on the Performance of the Monetary Authority (HKMA)*". The survey was commissioned by *Middle Class Force* – a newly established local policy advocacy organisation formed by people from various professional backgrounds – and conducted by the Hong Kong Institute of Asia-Pacific Studies of the Chinese University of Hong Kong. 63 percent of its respondents said they were either "half-and-half" or "dissatisfied" with the Exchange Fund's investment return in 2005. 60 percent said the HKMA should establish mechanisms to punish (by methods such as salary deductions) the HKMA Chief Executive and management if they fail to achieve a reasonable return for the Exchange Fund, such as a return of 5 percent a year. Meanwhile, 68 percent of respondents thought the HKMA should achieve an investment return of at least 5 percent a year for the Exchange Fund, in order to enhance the stability of Government revenues and ease the tax burden on Hong Kong people. In addition, 52 percent said the HKMA Chief Executive should be appointed via an open recruitment process. ***Middle Class Force urged the Government to review the monitoring mechanisms for the HKMA's performance. It also proposed that future Chief Executives of the HKMA be nominated by the Financial Secretary and approved by the Legislative Council.***

Established in 1993, the HKMA plays two roles. On one hand, it maintains the stability of the monetary and banking system. On the other, it acts as the Exchange Fund's manager.

The survey revealed that more than 60 percent of respondents were satisfied with the HKMA's performance in maintaining the stability of the currency and banking system. Nevertheless, they felt the HKMA should improve on the Exchange Fund's investment return, and that the system of rewards and punishments for its management of the Exchange Fund should be strengthened.

## **Reward and Punishment System Proposed to Remedy Low Investment Return, and a Stronger Mechanism for Monitoring the HKMA's Performance**

Comparing the Exchange Fund's performance with US Treasury Bond yields and the performances of MPF funds, *Middle Class Force* says it should be able to earn an investment return of at least 5 percent a year. This would generate at least HK\$50 billion a year in income for the treasury, which would enhance the stability of the SAR Government's revenues and relieve the pressure to increase taxes. 68 percent of the survey's respondents agreed with this idea.

Although the Exchange Fund achieved an investment return of around 3 percent in 2005, 63 percent of respondents thought this was insufficient. Indeed, the returns achieved by other investment tools ranged from 4 percent to 20 percent. For example, the yield of 10-year US Treasury bonds was 4.39 percent, as December 31, 2005. According to the Hong Kong Investment Funds Association, the returns on MPF funds during the 12 months up to January 31, 2006 were between 5 percent and 20 percent. For example:

- Stocks 20-40 percent: average return of 4.68 percent on 27 MPF funds;
- Stocks 40-60 percent: average return of 9.11 percent on 31 MPF funds;
- Stocks 60-80 percent: average return of 14.59 percent on 36 MPF funds; and
- Stocks 80-100 percent: average return of 19.78 percent on 28 MPF funds.

**Announcing the survey results, Mr. Andrew Fung Wai-kwong, the Chairman of Middle Class Force, commented: "Despite the Exchange Fund's low return, the HKMA's management still gets high salaries. At present, the SAR Government applies an accountability system for principal officials. Yet, this does not cover the HKMA. Even though the Exchange Fund Advisory Committee has established subcommittees to monitor the HKMA's work and give it advice, their members come mainly from the HKMA itself, as well as the business and banking sectors. Such a monitoring mechanism is not representative enough to perform its functions properly."**

Another finding of the survey was that 60 percent of respondents thought a system of rewards and punishments should be applied if the HKMA failed to achieve a reasonable investment return (such as a return of 5 percent a year). This would be similar to practices in the funds market.

## **The Legislative Council Should Approve Nominations For Future HKMA Chief Executives, and Their Appointments Should be for Specified Periods**

At present, the Financial Secretary appoints the HKMA Chief Executive. However, the *Exchange Fund Ordinance* does not specify any contract period for this post. 52 percent of the survey respondents felt the Government should consider an open recruitment system for the HKMA Chief Executive, in order to engage a professional with relevant experience.

**Mr. Fung commented: “We urge the Government to amend the *Exchange Fund Ordinance* provisions concerning the appointment of Monetary Authority official, namely the HKMA Chief Executive. We also propose that the Financial Secretary nominates HKMA Chief Executives for the Legislative Council’s approval.”**

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### **About Middle Class Force**

Middle Class Force is a local policy advocacy organisation formed by middle-class citizens from various professional and executive management backgrounds. It gathers and analyses the opinions of the middle class; reflects its concerns and makes recommendations to the Government and general public, with the aims of protecting Hong Kong’s core values and establishing a more desirable living and business environment.

Released by *Middle Class Force*. For further information, please contact:

Mr. Andrew Fung (Tel: 9464-0698) / Ms. Miranda Lui (Tel: 9314-1322)

## 《Appendix 1》

### Opinion Survey on the Performance of the Hong Kong Monetary Authority 2006

**Objectives:** Collect public opinion about the performance of the HKMA in maintaining the stability of the currency and banking systems; and ascertain how satisfied the public is with the HMKA's management of the Exchange Fund.

**Methodology:** The Hong Kong Institute of Asia-Pacific Studies at The Chinese University of Hong Kong was appointed to conduct a random telephone survey by closely supervised interviewers.

**Target Population:** Hong Kong residents aged 21 or above

**Survey Date:** March 22-27, 2006

**Sample Size:** 717

Including :

- 324 members of the middle class  
(families with a monthly income of between HK\$25,000 and HK\$120,000, or Managers and Executives, Professional, Auxiliary Professionals or Workers with a post-secondary educational background)
- 393 non-members of the middle class

**Effective Response Rate:** 51.3 percent

**Standard Error:** Based on a random sample of 717 successful interviews, at a 95%<sup>1</sup> confidence level the standard error of this sample size would be 0.0187, and the maximum estimated margin of sampling error is within the range of plus or minus 3.66%.

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<sup>1</sup> \*A "95% confidence level" means that if we were to repeat a certain survey 100 times, using the same questions each time but with different random samples, we would expect to arrive at a figure within the error margins specified on at least 95 occasions.

## 《Appendix 2》 Survey Results (Tables 1 to 7)

**Table 1.** How satisfied are you with the Hong Kong Monetary Authority's (HKMA's) maintenance of the Hong Kong currency's stability during the past year?

Item	<u>Overall</u>		<u>Middle Class</u>		<u>Non-Middle Class</u>	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
1. Satisfied	466	65.0	217	67.0	249	63.4
2. Half-and-Half	197	27.5	88	27.2	109	27.7
3. Dissatisfied	21	2.9	10	3.1	11	2.8
4. Don't Know / Hard to Say	33	4.6	9	2.8	24	6.1
<b>Total</b>	<b>717</b>	<b>100.0</b>	<b>324</b>	<b>100.0</b>	<b>393</b>	<b>100.0</b>

**Table 2.** How content are you with the HKMA's maintenance of the stability and effective operation of Hong Kong's banking system during the past year?

Item	<u>Overall</u>		<u>Middle Class</u>		<u>Non-Middle Class</u>	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
1. Satisfied	437	60.9	207	63.9	230	58.5
2. Half-and-Half	213	29.7	97	29.9	116	29.5
3. Dissatisfied	29	4.0	12	3.7	17	4.3
4. Don't Know / Hard to Say	38	5.3	8	2.5	30	7.6
<b>Total</b>	<b>717</b>	<b>100.0</b>	<b>324</b>	<b>100.0</b>	<b>393</b>	<b>100.0</b>

**Table 3.** At present, the HKMA manages the total assets of the Exchange Fund, which amount to over HK\$1,000 billion. In 2005, the Exchange Fund achieved an investment return of 3.1%. How content are you with that investment performance?

Item	<u>Overall</u>		<u>Middle Class</u>		<u>Non-Middle Class</u>	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
1. Satisfied	186	25.9	68	21.0	118	30.0
2. Half-and-Half	319	44.5	155	47.8	164	41.7
3. Dissatisfied	135	18.8	85	26.2	50	12.7
4. Don't Know / Hard to Say	77	10.7	16	4.9	61	15.5
<b>Total</b>	717	100.0	324	100.0	393	100.0

**Table 4.** Would you approve if the HKMA devoted part of the Exchange Fund to more aggressive investments (higher potential returns, but also higher risks)?

Item	<u>Overall</u>		<u>Middle Class</u>		<u>Non-Middle Class</u>	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
1. Agree	358	49.9	174	53.7	184	46.8
2. Disagree	248	34.6	112	34.6	136	34.6
3. Don't know/ Hard to Say	111	15.5	38	11.7	73	18.6
<b>Total</b>	717	100.0	324	100.0	393	100.0

**Table 5.** To increase the stability of the Government's income and relieve the pressure to increase taxes, some people propose that the HKMA should earn an investment return of at least 5 percent as a fiscal reserve (i.e., provide HK\$50 billion as a treasury income share). Do you think this is a reasonable proposition?

Item	<u>Overall</u>		<u>Middle Class</u>		<u>Non-Middle Class</u>	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
1. Reasonable	488	68.1	234	72.2	254	64.6
2. Unreasonable	112	15.6	51	15.7	61	15.5
3. Don't Know / Hard to Say	117	16.3	39	12.0	78	19.8
<b>Total</b>	717	100.0	324	100.0	393	100.0

**Table 6.** If the HKMA fails to earn a reasonable return (e.g. 5 percent a year), do you agree a system of rewards and punishments, similar to those that exist in the funds market, should be established, and that deductions should be made from the salaries of the HKMA's Chief Executive and its management if their performances are poor?

Item	<u>Overall</u>		<u>Middle Class</u>		<u>Non-Middle Class</u>	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
1. Agree	431	60.1	211	65.1	220	56.0
2. Not Agree	196	27.3	86	26.5	110	28.0
3. Don't Know / Hard to Say	90	12.6	27	8.3	63	16.0
<b>Total</b>	<b>717</b>	<b>100.0</b>	<b>324</b>	<b>100.0</b>	<b>393</b>	<b>100.0</b>

**Table 7.** Which method of recruiting future Chief Executives of the HKMA do you think would be the best?

Item	<u>Overall</u>		<u>Middle Class</u>		<u>Non-Middle Class</u>	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
1. Open Recruitment	369	51.5	185	57.1	184	46.8
2. Promotion from within the HKMA	219	30.5	92	28.4	127	32.3
3. The Chief Executive should appoint a Government official to the post	82	11.4	37	11.4	45	11.5
4. Don't Know/ Hard to Say	47	6.6	10	3.1	37	9.4
<b>Total</b>	<b>717</b>	<b>100.0</b>	<b>324</b>	<b>100.0</b>	<b>393</b>	<b>100.0</b>

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