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Panel on Financial Affairs
Meeting on 4 May 2006

Background Brief
on the remuneration policies for senior executives of the
Hong Kong Monetary Authority and Securities and Futures Commission

Purpose

This paper sets out the remuneration policies for senior executives of the Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC). It also summarizes the major views and concerns expressed by Members on the subject at meetings of the Legislative Council (LegCo) and its committees.

Background

2. The remuneration policies of HKMA¹ and statutory public bodies have all along been an issue of concern to the public and LegCo Members. In particular, concern has been raised on whether senior executives of HKMA and some statutory public bodies are overpaid; whether objective criteria are in place for determining pay increases for and the grant of bonuses to the senior executives; and whether the transparency of the pay adjustment mechanisms of these bodies and the arrangements for disclosure of remuneration information could be enhanced. In this connection, a motion was passed at the LegCo meeting on 12 December 2001, urging the Government to expeditiously review the existing mechanisms for adjusting the pay and fringe benefits of senior executives of HKMA and statutory public bodies, and consider devising for these bodies an adjustment mechanism which is clear, transparent and acceptable to the public. In response to these concerns, the Chief Secretary for Administration (CS) announced on 4 January 2002 the Administration's decision to commission a consultancy study on the remuneration of senior executives of selected statutory and other bodies. CS then made a statement on the findings and recommendations of the consultancy study at the LegCo meeting on 26 June

¹ HKMA is not a statutory body. It is the office of the Monetary Authority who is appointed by the Financial Secretary under the Exchange Fund Ordinance.

2002. The Panel on Public Service (PS Panel) held two meetings on 3 July 2002 and 15 December 2003 to discuss the related issues.

3. The remuneration levels of the senior executives of HKMA have remained a concern of the Panel on Financial Affairs (FA Panel). In this connection, the FA Panel has decided to study in detail the remuneration policies for senior executives of HKMA and another regulator, SFC; and that the subject be discussed at the Panel meeting on 4 May 2006.

Consultancy study commissioned by the Administration in 2002

4. The Administration appointed the Hay Group Limited to conduct the consultancy study in 2002. The scope of the study covered the top three tiers of senior executives in 11 selected bodies, including HKMA and SFC. The main tasks of the consultancy study are:

- (a) to determine whether the existing remuneration packages of the senior executives in the bodies under study are in line with those holding comparable positions in the private sector in Hong Kong, and to establish for them comparable and competitive remuneration packages;
- (b) to formulate different sets of guidelines on remuneration policy and practices for use by these bodies; and
- (c) to advise on effective adjustment mechanisms and suitable arrangements for disclosure of remuneration information for these bodies.

Consultant's recommendations

5. The consultant's recommendations are summarized as follows:

- (a) Target remuneration level
To use the median of total remuneration of relevant private sector comparison group as starting point for determining the target remuneration level.
- (b) Adjustment for qualitative factors
To adjust the target total remuneration level having regard to qualitative factors such as recognition, prestige and exposure to public scrutiny. The consultant examined a number of qualitative factors pertaining to the positions under review and came to the view that some of these factors would be justification for higher salaries while others could work to reduce the rewards levels. The only two positions for which the consultant proposed a downward

adjustment of 10% for qualitative factors were the Chief Executive of HKMA (CE/HKMA) and the Chairman of SFC.

(c) Remuneration mix

To adopt the proposed remuneration mix appropriate to the body's business nature (commercial vs. regulatory) having regard to prevailing market practices. The recommended remuneration mixes (expressed in fixed pay : variable pay) for HKMA and SFC are as follows:

	<u>HKMA</u> ²	<u>SFC</u> ³
1 st tier	80:20	85:15
2 nd tier	85:15	85:15
3 rd tier	85:15	85:15

(d) Conversion factor

To use a 1.5 conversion factor (i.e. \$1.5 variable pay will convert to \$1 fixed pay) to derive the corresponding remuneration level if a selected body adopts a different remuneration mix in item (c) above.

(e) Adjustment process

To track levels and trends in relevant sectors and adjust the fixed and variable remuneration targets accordingly.

(f) Objectivity of process

To have a dedicated committee to deal with remuneration issues.

(g) Transparency

- (i) At a minimum, all selected bodies should follow the levels of disclosure provided for in the Companies Ordinance (Cap. 32) and as shown in the annual reports of companies listed on the Stock Exchange of Hong Kong; and
- (ii) In line with trends in countries such as the United Kingdom, full disclosure of remuneration of top executives is to be encouraged. Remuneration details of chief executive officers (CEOs), as well as aggregate or average information of executives in the 2nd and 3rd tiers, should be made public. Disclosure of information should include salary and salary adjustments, variable remuneration, and major benefits and perquisites.

² The first three tiers of HKMA are its Chief Executive, Deputy Chief Executives and Executive Directors.

³ The first three tiers of SFC are its Chairman, Executive Directors and Senior Directors.

(h) Flexibility in implementation

To allow the governing boards or approving authorities of the selected bodies to retain the discretion to implement the recommendations appropriately for the bodies concerned. In brief:

- (i) for CEOs, the governing boards or approving authorities could exceed the recommended remuneration levels if the background, capability or performance of the CEOs clearly justifies a higher level of remuneration; and
- (ii) for senior executives in the 2nd or 3rd tiers, a range of plus or minus 25% of the recommended remuneration levels is allowed.

6. Relevant extracts from the consultant's final report published in June 2002 are attached in the following appendices:

Appendix I	Comparison companies for HKMA
Appendix II	Comparison companies for SFC
Appendix III	Recommended remuneration mix for the top three tiers of senior executives of HKMA and SFC
Appendix IV	Remuneration recommendations for the top three tiers of senior executives of HKMA
Appendix V	Remuneration recommendations for the top three tiers of senior executives of SFC
Appendix VI	Remuneration practices in overseas central banks and financial regulators

Responses of HKMA and SFC to the consultant's recommendations

7. A summary of the responses of HKMA and SFC to the consultant's recommendations provided by the Administration in November 2003 is in **Appendix VII**.

Remuneration policies for senior executives of HKMA

Basic principles for the remuneration policies

8. Under section 5A of the Exchange Fund Ordinance (EFO) (Cap. 66), the Financial Secretary (FS) shall appoint a person to be the Monetary Authority on such terms and conditions as he thinks fit, and FS may appoint, on such terms and conditions as he thinks fit, persons to assist the Monetary Authority in the performance of his functions. Section 6 of EFO stipulates that the emoluments

payable to, and other staff costs relating to, the persons employed in connection with the purposes of the Exchange Fund shall be charged to the Exchange Fund. Currently, CE/HKMA is vested with the functions of the Monetary Authority.

9. HKMA's basic remuneration policies, which are published on its website, are as follows:

- (a) Pay and conditions of service for HKMA staff are determined by FS on the advice of the Exchange Fund Advisory Committee (EFAC) and its Governance Sub-Committee (GSC) (i.e. the former Remuneration and Finance Sub-Committee) having regard to prevailing market rates and practices.
- (b) Remuneration package is a total cash package with minimum benefits in kind. HKMA operates a Provident Fund Scheme.
- (c) HKMA pay package consists of two elements: fixed pay, which is payable monthly, and variable pay, which may be awarded to individual staff as a lump sum once a year depending on the performance of the staff.
- (d) Pay for HKMA staff is reviewed annually by FS on the advice of EFAC and its GSC, taking into account the findings of independent consultants on pay trends and pay levels in the financial sector, and assessments of the performance of HKMA, and other factors considered appropriate. The performance of individual staff members is taken into account in distributing any approved overall pay awards to staff.

10. GSC is made up entirely of the non-official, non-banking members of EFAC. The Chairman of GSC, in his reply dated 15 March 2006 to the Clerk to FA Panel, has advised that since HKMA competes with the private sector for staff resources, pay packages are pitched so that they are comparable to, and competitive with, pay for comparable positions in the private sector. The structure and content of the pay packages, and the review mechanisms and transparency arrangements for these packages, of the top three tiers of staff were thoroughly reviewed by the former Remuneration and Finance Sub-Committee in 2003 in the light of the recommendations of the Hay Report on the advice of two independent consulting firms appointed to study the Hay recommendations. The Hay Report specifically recommended that the remuneration packages of senior executives should contain a mix of fixed and variable pay. It is also stated in the reply that GSC will continue to keep the pay policies of HKMA under review, particularly during this period of increased staff turnover and competition from the private sector. For the time being, GSC considers that the present performance-based and market-based system is appropriate for an organization that recruits the majority of its staff from the private sector.

Remuneration packages (2003, 2004 and 2005)

11. According to HKMA Annual Reports, the remuneration packages of senior executives of HKMA in 2003, 2004 and 2005 are as follows:

HK\$'000	CE			Deputy CE (average)			Executive Director (average)		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
Number of staff	1	1	1	4	3	4 (a)	9	10	13 (a)
Fixed pay	6,583	6,493	6,724	4,686	4,102	3,981	2,902	2,832	2,728
Variable pay	1,725	1,918	2,550	740	822	1,380	350	394	522
Other benefits	428	488	701	124	488	477	215	204	203
Total remuneration	8,736	8,899	9,975	5,550	5,412	5,838	3,467	3,430	3,453

Note

- (a) The number of staff for 2005 at the Deputy Chief Executive (DCE) and Executive Director (ED) ranks reflects staff movements during the year and includes, among the EDs, the Chief Executive Officer of the Hong Kong Mortgage Corporation. The established number of posts at the DCE level is three and at the ED level eleven (including the CEO of the Hong Kong Mortgage Corporation).
- (b) "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 depending on individual terms of service.

Pay review 2006

12. On 31 March 2006, HKMA announced the result of the pay review 2006 approved by FS on the advice of EFAC and the recommendations of GSC, as follows:

- (a) Following the market pay trend, the fixed pay of HKMA staff will be increased by an average of 4.2%. The actual increase for individual staff will be awarded according to performance; and
- (b) Variable pay averaging 2.4 months' salary will also be paid to staff according to their performance in the previous year. Variable pay

is a one-off payment payable to staff who have attained or exceeded the required level of performance.

13. Although the GSC's recommendations on pay adjustment apply to staff at all levels, CE/HKMA requested, and FS agreed, that his own fixed and variable pay for 2006 should be frozen at the 2005 level.

Remuneration policies for senior executives of SFC

14. SFC is an independent statutory body. Part XVI of the Securities and Futures Ordinance (SFO) (Cap. 571) provides that SFC may be financed by transaction levies, fees and charges on services rendered to market operators and participants. Section 14 of SFO further provides that the Government shall provide funding to SFC as appropriated by LegCo. In practice, SFC has not requested for appropriation from LegCo since 1993-94, and its funding basically comes from the market in the form of levies, fees and charges. FS determines the remuneration packages of SFC senior executives under the delegated authority of the Chief Executive, taking into consideration recommendations made by the Remuneration Committee, which comprises all non-Executive Directors of SFC. The remuneration policies of SFC are as follows:

- (a) SFC draws reference from market rates to determine the pay level of the first three tiers of its senior executives including the Chairman, the Executive Directors (EDs) and Senior Directors.
- (b) The pay packages comprise an annual fixed pay and a performance-related variable pay. SFC provides retirement benefits to its staff through a defined contribution scheme under the Occupational Retirement Scheme Ordinance (Cap. 426) and a Mandatory Provident Fund Scheme.
- (c) Every year, SFC conducts pay reviews with reference to the findings of pay level and pay trend surveys conducted by independent pay consultants. The remuneration of SFC senior executives is reviewed annually by the Remuneration Committee. In formulating pay review proposals, SFC's financial position, prevailing market conditions and the performance of the organization and individual staff will be considered. Other factors such as recruitment experience, staff retention and turnover rates are also taken into account.

Remuneration packages (2002-03, 2003-04 and 2004-05)

15. According to SFC Annual Reports, the remuneration packages of senior executives of SFC in 2002-03, 2003-04 and 2004-05 are as follows:

	Chairman			Executive Director (average)			Senior Director (average)		
HK\$'000	2002-03	2003-04	2004-05	2002-03	2003-04	2004-05	2002-03	2003-04	2004-05
Number of staff	1	1	1	4	5	5	7	7	7
Fixed pay	6,750 (a)	6,750 (b)	6,750 (b)	—	—	3,581	—	—	2,571
Variable pay	— (a)	— (a)	— (a)	—	—	440	—	—	390
Other benefits	50 (c)	50 (c)	50 (c)	—	—	296 (d)	—	—	44 (c)
Total emoluments	6,800	6,800	6,800	4,165 (e)	4,077 (e)	4,317	2,613 (e)	2,773 (e)	3,005

Note

- (a) In his employment contract up to 30 September 2003, the Chairman's annual remuneration comprised a fixed pay of \$7,500,000 and a variable pay of up to \$375,000. Since 1 October 2001, the Chairman had voluntarily reduced his fixed pay to \$6,750,000 and offered to forego all his variable pay.
- (b) In his new employment contract effective from 1 October 2003, the Chairman's annual remuneration package comprised a fixed pay of \$6,750,000 and a variable pay of up to \$337,500.
- (c) "Other benefits" for the Chairman and Senior Directors include retirement benefits.
- (d) "Other benefits" for Executives Directors include retirement benefits and leave pay.
- (e) While the average of the total emoluments for Executive Directors and that for Senior Directors are provided in the 2002-03 and 2003-04 Annual Reports, a breakdown of the average of the total emoluments by components (i.e. fixed pay, variable pay and other benefits) is not set out in the Annual Reports.

Pay adjustment for 2006

16. According to SFC, there has not been any general salary increase for its staff since April 2001, and no variable pay has been awarded to its staff in 2001-02 and 2002-03. Owing to the steady recovery of the economy and improved market conditions, SFC has been experiencing staff turnover problem since early 2004. The overall staff turnover in 2005 was 14.11% as compared with 11.1% for the same period in 2004. The turnover rate in 2005 for executive and non-executive staff was 16.21% (12.66% for 2004) and 10.24% (10.28% for 2004) respectively. The problem was more serious at Manager and Assistant Manager ranks, with a turnover rate ranging from 13% to 29%. Having regard to the high turnover rates, SFC has made provision in the budget for 2006-07 for –

- (a) an average fixed pay adjustment of 3% (\$10.7 million) to bring the pay package in line with the market trends; and
- (b) the award of variable pay up to \$29.5 million, which is equivalent to about 8% of the remuneration budget for 2006-07.

17. The provisions for the variable pay and fixed pay adjustments are for budgetary purpose only. The actual number of staff eligible for variable pay and salary adjustment, as well as the actual percentage of variable pay and salary adjustment, will be subject to the approval of the Remuneration Committee and the SFC Board.

Major views expressed by Members at meetings of LegCo and its committees

18. Members' major views expressed at previous meetings of LegCo, PS Panel and FA Panel on the remuneration for senior executives of HKMA are summarized as follows:

- (a) The remuneration levels of the senior staff of HKMA are too high, and the remuneration level of CE/HKMA is even higher than that of FS to whom he reports;
- (b) The Remuneration and Finance Sub-committee (i.e. the present GSC) should be an independent committee outside the influence of HKMA and outside the EFAC. Secretariat support (including analysis of research findings and drawing up of proposals) should not come from HKMA;
- (c) When reviewing HKMA's staff remuneration packages, the independent committee should also take into account the remuneration packages of comparable positions in overseas financial services markets, including the central bankers of overseas jurisdictions; and
- (d) There should be greater transparency of the remuneration policy (e.g. criteria considered, comparable performance indicators, and findings of the consultants when proposing appropriate salary levels). Such information should be published in HKMA's website and annual report.

19. A summary of Members' major views, and HKMA's responses provided in January 2004, are summarized in **Appendix VIII**.

20. On the concern about the perceived high level of remuneration for CE/HKMA, FS advised at the FA Panel meeting on 2 February 2004 that the Remuneration and Finance Sub-committee and EFAC had considered the matter

and decided that the existing remuneration level for the post should be maintained. In making the decision, the Sub-committee and EFAC had taken into account qualitative factors such as the special skills, capabilities and performance of the present incumbent of the post, and the fact that the existing remuneration package had included other fringe benefits like retirement benefit and accommodation allowance.

21. The relevant extracts of minutes of the FA Panel meetings on 2 June 2003, 2 February 2004 and 6 February 2006 are in **Appendices IX, X and XI** respectively.

Relevant recommendations of the Subcommittee on West Kowloon Cultural Development

22. The Subcommittee on West Kowloon Cultural Development (the Subcommittee), in its Phase II Report published in January 2006, recommended the establishment of a statutory body immediately to spearhead the West Kowloon Cultural District Development. In this connection, the Subcommittee called for the establishment of –

- (a) a mechanism to determine the remuneration packages for senior executives of statutory bodies; and
- (b) a mechanism for disclosure of their remuneration packages to enhance transparency and facilitate monitoring by LegCo and members of the public.

23. The Subcommittee is of the view that there is an immediate need to set up an independent panel to review comprehensively the remuneration packages of the staff of existing statutory bodies and to propose a mechanism for determining their remuneration, in particular the remuneration of executive heads. The review should also include what should be the proper authority for approving and making adjustment to the mechanism. The Subcommittee has, before finalizing its Phase II Report, forwarded the draft report to the Administration for comments. On the recommendations mentioned above, the Administration referred the Subcommittee to the consultancy study conducted in 2002 on the remuneration of senior executives of 11 statutory and other bodies. However, the Subcommittee considers that the consultancy study only aimed at examining the remuneration of the senior executives of those bodies, many of which are under constant criticism for lack of transparency in this respect. The Subcommittee is more concerned about the absence of a mechanism for determining remuneration which is applicable to all statutory bodies. The Subcommittee has subsequently decided to refer its recommendations to the PS Panel for follow-up actions. To facilitate the PS Panel to consider how the matter should be taken forward, the Chairman of the Panel invited the Administration to provide its written response to the Subcommittee's recommendations. The Administration's written response provided on 28 April

2006 is in **Appendix XII**.

References

24. A list of relevant papers is in **Appendix XIII**.

Council Business Division 1
Legislative Council Secretariat
2 May 2006

Final Report – Review of Remuneration

HKMA

The comparison companies comprise a representative group of nine banks, which are regulated by HKMA; five asset management firms, as HKMA is engaged in substantial asset management activities; and two professional services firms, from which some executives may also be recruited. The commercial banks (including two additional banks, for a total of eleven) also serve as the comparison group for Chief Executive - HKMC, whilst ten asset management firms form the comparison group for Chief Executive - EFIL.

Table 3 (a): Comparison Table for HKMA

Comparison Companies	Nature of Business
Asset management	
Citigroup Asset Management	Asset management
Dresdner RCM Global Investor	Asset management
INVESCO Asia Limited	Asset management and sales
Schroder Investment Management	Asset management and sales
Templeton Investment Management	Asset management and sales
Corporate and retail banking	
ABN-Amro ¹	Corporate banking, equities, and investment banking
Bank of America ¹	Corporate and retail banking
Bank of Bermuda ²	Trustee and custodial
Bank of East Asia ¹	Corporate and retail banking
BNP Paribas ¹	Corporate banking, equities, and investment banking
Citibank ¹	Corporate, retail and private banking
Fortis ¹	Corporate, retail, private banking and capital markets
HSBC ¹	Corporate, retail and private banking, trustee
JP Morgan Chase ¹	Corporate and investment banking
Shanghai Commercial Bank ²	Commercial and retail banking
Standard Chartered Bank ¹	Corporate and retail banking
Professional Services	
KPMG	Accounting firm
Kwok & Yih	Law firm
EFIL Comparison Group – Asset Management	
ABN Amro Asset Management	Asset management and sales
AXA Investment Managers	Asset management
Citigroup Asset Management	Asset management
Credit Agricole Asset Management	Asset management
Dresdner RCM Global Investor	Asset management
Fortis Asset Management	Asset management
INVESCO Asia Limited	Asset management and sales
Manulife Financial	Asset management and sales
Schroder Investment Management	Asset management and sales
Templeton Asset Management	Asset management and sales

¹ Member of comparison group for HKMC

² Member of comparison group of HKMC but not HKMA

(Source: Hay Group Limited's Final Report on Review of Remuneration of Senior Executives in Statutory and Other Bodies, 17 June 2002.)

Final Report – Review of Remuneration

SFC

The comparison companies comprise a representative group of ten investment banks and seven asset management firms, as well as two professional services firms. Investment banks and asset management firms engage in various corporate finance, dealing, and advisory services and operate in the markets that the SFC regulates.

Table 3 (b): Comparison Companies for SFC

Comparison Companies	Nature of Business
Investment Banks	
ABN-Amro	Corporate banking, securities dealing, and investment banking
BNP Paribas	Corporate banking, securities dealing and investment banking
HSBC Investment Bank	Investment banking and securities dealing
Indosuez W I Carr Securities	Investment banking and securities dealing
ING Barings	Investment banking and securities dealing
JPMorgan Chase	Corporate, investment banking and securities dealing
Lehman Brothers	Investment banking and securities dealing
Morgan Stanley Dean Witter	Investment banking and securities dealing
Nomura Securities	Investment banking and securities dealing
Salomon Smith Barney	Investment banking and securities dealing
Asset Management	
ABN Amro Asset Management	Asset management and sales
Citigroup Asset Management	Asset management
Credit Agricole Asset Management	Asset management
Dresdner RCM Global Investor	Asset management
INVESCO Asia Limited	Asset management and sales
Schroder Investment Management	Asset management and sales
Templeton Asset Management	Asset management and sales
Professional Services	
KPMG	Accounting firm
Kwok & Yih	Law firm

(Source: Hay Group Limited's Final Report on Review of Remuneration of Senior Executives in Statutory and Other Bodies, 17 June 2002.)

Table 4. Recommended Mix of Remuneration by Body

Body	Mix (by level)	Rationale
HKMA	CEO: 80% - 20% (fixed – variable) Other: 85% - 15%	<ul style="list-style-type: none"> Regulatory body, but some commercial activity (fund management) Minimal level of variable remuneration for motivation and flexibility to recognize performance CEO variable proportion higher because of responsibility for management of Exchange Fund
SFC	All levels: 85% - 15%	<ul style="list-style-type: none"> Pure regulatory body; minimum level of variable remuneration Performance measurement is primarily non-financial and often qualitative
MPFA	All levels: 85% - 15%	<ul style="list-style-type: none"> Pure regulatory body; minimum level of variable remuneration Performance measurement is primarily non-financial and often qualitative
MTRCL	Chairman and CEO: 60% - 40% Executive Directors: 70% - 30%	<ul style="list-style-type: none"> Primarily commercial; recommendation is similar to private sector remuneration mix Performance measurement is mainly quantitative and profitability can be a key assessment factor
KCRC	CEO: 60% - 40% Directors and Senior Directors: 70% - 30%	<ul style="list-style-type: none"> Primarily commercial; recommendation is similar to private sector remuneration mix Performance measurement is mainly quantitative and profitability can be a key assessment factor
AAHK	CEO: 60% - 40% Directors: 70% - 30%	<ul style="list-style-type: none"> Primarily commercial; recommendation is similar to private sector remuneration mix Performance measurement is mainly quantitative and profitability can be a key assessment factor
URA	MD: 75% - 25% Other: 80% - 20%	<ul style="list-style-type: none"> Commercial activities with social mission Measured in part on profitability of operations but other aspects of organization's mission may outweigh profit considerations; therefore, recommended mix is less variable than private sector practice
HKSTP	CEO: 75% - 25% Other: 80% - 20%	<ul style="list-style-type: none"> Mix of commercial and other promotional or developmental activities Performance measurement includes both quantitative and qualitative assessments Therefore, recommended mix is less variable than private sector practice
HKTB	ED: 80% - 20% Other: 85% - 15%	<ul style="list-style-type: none"> Engaged in promotional activities funded by government Measured on quantitative and qualitative factors, but not on direct profitability – therefore recommended mix is significantly less variable than private sector practice
HKTDC	ED: 75% - 25% Other: 80% - 20%	<ul style="list-style-type: none"> Mix of commercial and other promotional or developmental activities Performance measurement includes both quantitative and qualitative assessments Therefore, recommended mix is less variable than private sector practice

Table 6(a). Median Remuneration for Comparison Group of Hong Kong Monetary Authority

Comparison Group Median:	Base Salary (HK\$000)	Allowances (HK\$000)	Fixed Remuneration (HK\$000)	Short-Term Incentives (HK\$000)	Total Earnings (HK\$000)	Long-Term Incentives (HK\$000)	Total Direct Compensation (HK\$000)
Chief Executive Officer – HKMA	2,262	600	3,463	3,639	6,780	1,363	9,558
Deputy Chief Executive Officer	1,907	834	2,854	1,357	4,697	343	5,011
Executive Director	1,568	272	1,810	601	2,382	373	3,280
Chief Executive Officer – HKMC	1,823	876	2,585	1,336	3,927	317	3,986
Chief Executive Officer – EFIL	2,015	686	2,640	947	3,369	380	4,170

Table 6(b). Remuneration Recommendations - Hong Kong Monetary Authority

	Chief Executive Officer	Deputy CEO	Executive Director	CEO - HKMC	CEO - EFIL
Comparison Group Median	9,558	5,011	3,280	3,986	4,170
Qualitative Factor	-10%	0%	0%	0%	0%
Adjusted Median (at Market Mix)	8,602	5,011	3,280	3,986	4,170
Market Mix (% variable)	64%	42%	45%	35%	37%
Proposed Mix (% variable)	20%	15%	15%	25%	25%
Total Remuneration (at Proposed Mix)	7,250	4,536	2,935	3,841	3,988
Fixed Remuneration (at Proposed Mix)	5,800	3,856	2,495	2,881	2,991
Variable Remuneration (at Proposed Mix)	1,450	680	440	960	997
Maximum Remuneration (+25%)	N/A.	5,670	3,668	4,801	4,985
Minimum Remuneration (-25%)	N/A.	3,402	2,201	2,881	2,991

HayGroup

Table 7(a). Median Remuneration for Comparison Group of Securities & Futures Commission

Comparison Group Median:	Base Salary (HK\$000)	Allowances (HK\$000)	Fixed Remuneration (HK\$000)	Short-Term Incentives (HK\$000)	Total Earnings (HK\$000)	Long-Term Incentives (HK\$000)	Total Direct Compensation (HK\$000)
Chairman	2,100	1,122	3,168	3,832	6,780	658	9,558
Executive Director	1,781	774	2,580	1,916	4,143	344	4,734
Senior Director	1,350	344	1,795	669	2,474	101	2,734

Table 7(b). Remuneration Recommendations – Securities & Futures Commission

	Chairman	Executive Director	Senior Director
Comparison Group Median	9,558	4,734	2,734
Qualitative Factor	-10%	0%	0%
Adjusted Median (at Market Mix)	8,602	4,734	2,734
Market Mix (% variable)	67%	46%	34%
Proposed Mix (% variable)	15%	15%	15%
Total Remuneration (at Proposed Mix)	7,033	4,219	2,552
Fixed Remuneration (at Proposed Mix)	5,978	3,586	2,169
Variable Remuneration (at Proposed Mix)	1,055	633	383
Maximum Remuneration (+25%)	N/A.	5,274	3,190
Minimum Remuneration (-25%)	N/A.	3,164	1,914

HayGroup

Table A3.1. Remuneration Practices in Overseas Central Banks and Financial Regulators

Organization	Practices
Securities and Exchange Commission (US)	<p>Unlike other financial regulators like Federal Reserve Bank of Federal Depository Insurance Corporation, SEC currently pays at civil service levels. Commissioners are paid less than US\$140,000 per annum, according to a scale that establishes relativities between Vice President, cabinet secretaries, members of Congress and commissioners in independent agencies.</p> <p>The current pay scale for other executives follows the civil service practice. However, Congress has approved the introduction of higher pay scales that would be more in line with practices at other regulators. However, the funding for the new pay scales has not in fact been approved and are therefore not implemented. In the proposed pay scale, the top pay would reach to about US\$184,000 per annum. This new pay scale would not affect commissioners, who would remain at the same, lower pay level.</p> <p>While the new pay scale would be competitive with other regulators, these pay levels are known to be significantly lower than prevail in the private sector (banks, exchanges, securities firms, law firms). Retention is a major issue, hence the effort to implement the new pay scale. However, service in SEC and other regulators is viewed by many as a positive career step that increases the value of the employee within financial services industry as well as with law firms.</p> <p>SEC does not use variable remuneration at this time.</p> <p>All pay scales are public.</p>
Federal Reserve (US)	<p>The Chairman of the Federal Reserve bank is paid less than US\$140,000 per year. Other employees are paid on a scale that is higher than the civil service, but significantly lower than market practices. The pay scale is roughly competitive with the new scale being proposed for SEC.</p> <p>Federal Reserve does not use variable remuneration at this time. All pay scales are public.</p>

Table A3.1. Remuneration Practices in Overseas Central Banks and Financial Regulators - continued

<p>Financial Service Authority (UK)</p>	<p>This is the super-regulator of banks, securities firms and the insurance industry. It is a private company, but government owned. They do not view their pay as fully competitive with the private sector, and many of their executives took pay cuts to serve with FSA.</p> <p>The Chairman's remuneration (2000-2001) was £290,000, whilst the Managing Directors were paid £235,000. They are eligible for bonuses of up to 15% on generally qualitative measures. The next level of executives are paid around £155,000.</p> <p>Pay of the three top executives is published in detail in annual reports.</p>
<p>Financial Services Agency (Japan)</p>	<p>This financial regulator pays on civil service terms and conditions. The head of the agency would be paid below the level of a minister so Hay Group's estimate of the remuneration would be in the area of US\$200,000 or more. There is no variable remuneration.</p> <p>Transparency of remuneration information is low.</p>
<p>Bank of Japan</p>	<p>The Bank of Japan in the past paid competitively with major Japanese banks. It is Hay Group's estimate that, in the past, CEOs of Japanese banks were paid approximately US\$600,000 - US\$700,000 per year, and that this would have been the remuneration of the Chairman of the Bank. However, due to the banking crisis in Japan, it is believed that salaries of top executives in the banking sector have been cut by approximately half.</p> <p>Three years ago, a new law was introduced that set the pay for the Chairman of the Bank of Japan to be equivalent to the pay of a minister such as Finance Minister, or about US\$300,000. Pay for other levels of executives must be lower than this amount but competitiveness should be maintained with Japanese banks to the extent possible within this limitation.</p> <p>Because of the reduction in banking salaries, current Bank of Japan remuneration is probably competitive with the private sector. However, this may not remain the case once pay of Japanese banking executives is restored to earlier levels.</p> <p>There is no variable remuneration, and transparency of remuneration information is low.</p>

Review of Remuneration of Senior Executives of Statutory and Other Bodies

Responses of the Hong Kong Monetary Authority (HKMA), Securities and Futures Commission (SFC) and Relevant Bureau
(November 2003)

BODY	HKMA	SFC
BUREAU	Financial Secretary's Office (FSO)	Financial Services and the Treasury Bureau (FSTB)
<u>RECOMMENDATION</u>		
<p>1. <u>Target remuneration level</u></p> <p>To use the median of total remuneration of relevant private sector comparison group as starting point for determining the target remuneration level.</p>	<p><u>Adopt</u></p>	<p><u>Adopt</u></p>
<p>2. <u>Qualitative factor</u></p> <p>To adjust the target total remuneration level having regard to qualitative factors such as recognition, respect as well as greater public scrutiny.</p>	<p><u>Adopt</u></p> <p>In adopting the qualitative factor, the Financial Secretary (FS), on the advice of Exchange Fund Advisory Committee and its Remuneration and Finance Sub-Committee, will also take account of the practicalities in attracting candidates of the right calibre, expertise and experience.</p>	<p><u>Adopt</u></p> <p>In adopting the qualitative factor, the Chief Executive, on the advice of the governing body and the Remuneration Committee of the SFC, will also take account of the practicalities in attracting candidates of the right calibre, expertise and experience.</p>

BODY	HKMA	SFC
BUREAU	Financial Secretary's Office (FSO)	Financial Services and the Treasury Bureau (FSTB)
<p>3(a). <u>Remuneration mix</u></p> <p>To adopt the proposed remuneration mix appropriate to the body's business nature (commercial vs. regulatory) having regard to prevailing market practices.</p> <p>(Remuneration mix expressed in fixed pay : variable pay)</p>	<p><u>Recommendation:</u> <u>1st tier – 80:20</u> <u>2nd tier – 85:15</u> <u>3rd tier – 85:15</u></p> <p><u>Modified approach</u></p> <p>HKMA will adopt the following mix: 1st tier – 80:20 2nd tier – 80:20 3rd tier – 85:15</p> <p>HKMA's current arrangement involves a higher variable pay portion for the 2nd tier which enhances the performance-based element of this tier.</p> <p>FSO considers the approach acceptable.</p>	<p><u>Recommendation:</u> <u>1st tier – 85:15</u> <u>2nd tier – 85:15</u> <u>3rd tier – 85:15</u></p> <p><u>Modified approach</u></p> <p>SFC will implement the 85:15 mix for all new recruits and upon renewal of existing contracts subject to negotiation and agreement.</p> <p>FSTB sees the need for flexibility to implement the recommendation.</p>

BODY	HKMA	SFC
BUREAU	Financial Secretary's Office (FSO)	Financial Services and the Treasury Bureau (FSTB)
<p>3(b). <u>Conversion factor</u></p> <p>To use a 1.5 conversion factor (i.e. \$1.5 variable pay will convert to \$1 fixed pay) to derive the corresponding remuneration level if a body adopts a different remuneration mix in 3(a) above.</p>	<p><u>Adopt</u></p>	<p><u>Modified Approach</u></p> <p>SFC will primarily draw reference from the actual pay level of the market, including the variable pay. The conversion factor would be applied to double check the comparability of the total pay with the market. SFC will compare the actual pay of their senior executives with the results of the actual market pay levels in the annual survey report sensitively.</p> <p>FSTB considers SFC's approach acceptable as it also achieves the objective of ensuring a fair comparison.</p>

BODY	HKMA	SFC
BUREAU	Financial Secretary's Office (FSO)	Financial Services and the Treasury Bureau (FSTB)
<p>4. <u>Leave and retirement benefits</u></p> <ul style="list-style-type: none"> - <u>Retirement benefits</u> To adjust “fixed remuneration” to offset contribution rates or gratuity payments that are relatively high or low compared to the market practice. - <u>Leave benefit</u> To place an estimated annualized value on leave beyond the recommended standard that can be carried forward and ultimately encashed upon termination of employment. 	<p><u>Retirement benefits:</u></p> <p><u>Modified Approach</u></p> <p>HKMA follows a total remuneration approach in benchmarking with the private sector.</p> <p><u>Leave benefit:</u></p> <p><u>Modified Approach</u></p> <p>HKMA follows a total remuneration approach in benchmarking with private sector.</p> <p>FSO considers the explanation acceptable.</p>	<p><u>Retirement benefits:</u></p> <p><u>Adopt</u></p> <p><u>Leave benefit:</u></p> <p><u>Modified Approach</u></p> <p>SFC adopts a total remuneration approach comprising major benefit items in benchmarking with the private sector. Since the pay level for the Senior Director posts at 3rd tier is well in line with the market and will not be affected by the negligible amount of adjustment for annual leave, SFC decides that no adjustment to the remuneration is necessary.</p> <p>FSTB considers SFC's explanation acceptable.</p>

BODY	HKMA	SFC
BUREAU	Financial Secretary's Office (FSO)	Financial Services and the Treasury Bureau (FSTB)
<p>5. <u>Adjustment process</u></p> <p>To track levels and trends in relevant sectors and adjust the fixed and variable remuneration targets accordingly.</p>	<u>Adopt</u>	<u>Adopt</u>
<p>6. <u>Objectivity of process</u></p> <p>To have a dedicated committee to deal with remuneration issues.</p>	<u>Adopt</u>	<u>Adopt</u>
<p>7. <u>Transparency</u></p> <ul style="list-style-type: none"> - To disclose remunerations of the top five executives in 2002. - To report annually the detailed remuneration arrangements for senior executives and the compliance of such arrangements with the established principles from 2003. 	<u>Adopt</u>	<u>Adopt</u>

BODY	HKMA	SFC
BUREAU	Financial Secretary's Office (FSO)	Financial Services and the Treasury Bureau (FSTB)
<p>8. <u>Flexibility in implementation</u></p> <p>- To allow the governing body or approving authority retain the discretion to determine the rate for the job (on a discretionary basis for Chief Executive Officer and a range of +/- 25% for 2nd and 3rd tiers)</p>	<u>Adopt</u>	<u>Adopt</u>
<p>9. <u>Implementation Timeframe</u></p>	Started from annual pay review exercise in March 2003.	Upon expiry of current contracts or new appointment.

(Source: Annex A to the paper provided by the Administration for the Public Service Panel meeting on 15 December 2003, LC Paper No. CB(1)296/03-04(04).)

Remuneration for senior executives of the Hong Kong Monetary Authority (HKMA)

Summary of Members' major views and HKMA's responses

Item	Members' major views	HKMA's responses
1	<p><u>The remuneration levels of the senior staff of HKMA are too high, and the remuneration level of the Chief Executive of Hong Kong Monetary Authority (CE/HKMA) is even higher than that of the Financial Secretary (FS) to whom he reports.</u></p> <p>CE/HKMA reports to FS. The remuneration for CE/HKMA in 2003 is HK\$8.22 million, which is about 2.2 times of that of FS. The remuneration for each of the two Deputy Chief Executives of HKMA in 2003 is about HK\$5.21 million, which is about 1.4 times of that of FS. The remuneration for each of the nine Executive Directors of HKMA in 2003 is about HK\$3.24 million, roughly comparable to FS's annual remuneration of HK\$3.74 million.</p>	<p><u>HKMA's written response provided in January 2004 (LC Paper No. CB(1)847/03-04(05))</u></p> <p>The Exchange Fund Advisory Committee (EFAC) Remuneration and Finance Sub-Committee (i.e. the present Governance Sub-Committee) is responsible for making recommendations to EFAC on the remuneration of HKMA staff, taking into account the findings of independent consultants on pay trends and pay levels in the private sector, and assessments of the performance of HKMA. The Sub-Committee is made up entirely of the non-official, non-banking members of EFAC, who are independent in their status and approach. FS, with the advice of EFAC, determines remuneration on the basis of the Sub-Committee's recommendations. HKMA provides secretarial support to the Sub-Committee in the form of organising meetings and taking minutes. The collection and analysis of the relevant data and the drawing up of recommendations are carried out independently by the consultants and the Sub-Committee respectively. HKMA staff take no part in the deliberations of the Sub-Committee and are not present when their pay is discussed.</p> <p>In 2002 the EFAC Remuneration and Finance Sub-Committee considered the application to HKMA of the recommendations</p>

Item	Members' major views	HKMA's responses
		<p>arising from a review conducted by the Hay Group Limited for the Government on the remuneration of senior executives of statutory and other bodies, including HKMA (the "Hay Report"). Taking into account the advice of independent consultants, the Sub-Committee advised application to HKMA of the key recommendations, many of which already represented the current practice in HKMA. These practices include targeting the remuneration levels at the median of the financial sector, applying a variable-to-fixed ratio in the remuneration package, using independent pay consultants to monitor levels and trends of remuneration in the financial sector, designating a committee to deal with remuneration issues, following the levels of disclosure provided for in the Companies Ordinance, and exercising flexibility in deciding the remuneration package of individuals, taking into account their background, capability or performance. The implementation framework was endorsed by EFAC and approved by FS in December 2002 for implementation in the HKMA annual pay review exercise starting in March 2003.</p>
2	<p><u>The Remuneration and Finance Sub-committee (i.e. the present Governance Sub-Committee) should be an independent committee outside the influence of HKMA and outside the EFAC. Secretariat support (including analysis of research findings and drawing up of proposals) should not come from HKMA.</u></p> <p>HKMA is undertaking a wide range of duties. The management of the Exchange Fund is only a small part of its duties. It is not appropriate for a subcommittee of the EFAC to determine remuneration proposals</p>	<p><i>(Same as above)</i></p>

Item	Members' major views	HKMA's responses
	<p>coming from HKMA staff. By making the remuneration committee independent of HKMA and EFAC, there will be more objective assessment of the salary levels and conditions of service.</p>	
3	<p><u>When reviewing HKMA's staff remuneration packages, the independent committee should also take into account the remuneration packages of comparable positions in overseas financial services markets, including the central bankers of overseas jurisdictions.</u></p> <p>HKMA commissions local consulting firms to conduct annual salary survey which serves as input to EFAC when considering salary adjustment of HKMA staff members, including the Monetary Authority. A more appropriate approach is to expand the universe of comparison to include the central bankers in overseas jurisdictions, thereby ascertaining the reasonableness of the remuneration for HKMA staff members, especially the CE/HKMA and other senior directorate staff.</p>	<p><u>HKMA's written response provided in January 2004</u> (LC Paper No. CB(1)847/03-04(05))</p> <p>The remuneration of central bank governors reflects a large number of factors, some economic, some political, and some historical. The characteristics of job markets in different economies vary considerably, reflecting the circumstances of individual markets. It is not helpful to compare the levels of remuneration across different central banking institutions, nor is such a comparison among the recommendations in the Hay Report.</p>
4	<p><u>There should be greater transparency of the remuneration policy (e.g. criteria considered, comparable performance indicators, and findings of the consultants when proposing appropriate salary levels). Such information should be published in HKMA's website and annual report.</u></p> <p>This should help the public to have a better understanding of the criteria considered when</p>	<p><u>HKMA's written response provided in January 2004</u> (LC Paper No. CB(1)847/03-04(05))</p> <p>As part of the implementation framework, the HKMA has strengthened the disclosure of the remuneration of senior executives by including the remuneration packages of the Chief Executive level, and the averages of the remuneration packages for Deputy Chief Executive and Executive Director levels. Details are available in the HKMA Annual Report 2002.</p>

Item	Members' major views	HKMA's responses
	determining HKMA staff members' remuneration package. This arrangement is in line with the practices in the United Kingdom and the United States.	

Council Business Division 1
Legislative Council Secretariat
2 May 2006

**Extract from the minutes of meeting
of the Panel on Financial Affairs on 2 June 2003**



Discussion with members

Staff remuneration arrangements

9. Referring to paragraph 7 of the written views from Prof Y C YAO, Ms Emily LAU shared the concern expressed by Prof YAO on the high pay packages for senior staff of HKMA. She noted that the same issue was raised in paragraph 13.7 of the Research Report, which pointed out that the pay package of the Chief Executive of HKMA in 2001 was higher than the level of remuneration proposed by the Hay Group Report (the consultant report to the Administration on Review of Remuneration of Senior Executives in Statutory and Other Bodies) published in June 2002. She considered that the high pay packages unjustified and sought explanation in this regard.

10. The Chief Executive of HKMA (CE/HKMA) explained that the Remuneration and Finance Sub-committee conducted annual review on remuneration for HKMA staff, taking into account the findings of independent consultants on pay trends and levels in the private sector, and assessment on the performance of HKMA. The remuneration policy of providing pay packages that were comparable to, and competitive with that in the financial services sector was appropriate in order to attract and retain suitable talents.

11. ED/HKMA added that the current remuneration policy of HKMA was in line with the recommendations of the Hay Group Report. He also advised that the Remuneration and Finance Sub-committee had considered the recommendations of the Hay Group Report and provided its feedback to the Director of Administration. He believed that the Administration would brief the Panel on Public Service on the consolidated return from the statutory and other bodies studied under the Hay Group Report in due course. In response to request for disclosure of remuneration information, HKMA had enhanced the disclosure of pay information by publishing relevant information in its 2002 Annual Report. Moreover, HKMA was currently working on arrangements to increase transparency in its remuneration policies.

12. Mr James TIEN opined that under the Linked Exchange Rate System, HKMA's work in maintaining the stability of Hong Kong dollar was relatively straightforward. He considered the remuneration packages for senior executives of HKMA on the high side, except for that of CE/HKMA who was over-qualified

for the job. He doubted whether the Remuneration and Finance Sub-committee was effective in making recommendations on the pay packages of HKMA staff, and enquired whether staff of HKMA were responsible for preparing the papers for submission to the Subcommittee and the minutes.

Admin

13. CE/HKMA confirmed that the secretariat support for the Subcommittee was provided by staff of HKMA. He drew members' attention to the reduction in the number of Deputy Chief Executives (DCE) from three to two in early 2003, which substantially reduced expenditure on personal emolument. CE/HKMA also stressed that the Remuneration and Finance Sub-committee was composed of six non-official non-banking members with expert knowledge in corporate governance. As these members were appointed by FS, CE/HKMA undertook to reflect members' view to FS for considering others means to enhance credibility of the Sub-committee.

Admin

14. Mr James TIEN also pointed out that members of EFAC did not receive any remuneration. No matter how independent the non-banking members were supposed to be, these members could not devote much time for the work of EFAC, hence had to rely heavily on the recommendations of HKMA staff, including those related to staff remuneration. He asked Prof Stephen CHEUNG in what manner could more transparency be introduced under the Board of Directors structure. Prof CHEUNG explained that while the appointment criteria of members of the Board of Directors and the pay policy adopted by the Remuneration and Finance Sub-committee should be disclosed, due care should be exercised to prevent disclosure of sensitive information during the early stage of discussion. As regards Mr James TIEN's suggestion of providing reasonable remuneration to non-officials as recognition of their service, CE/HKMA undertook to convey Mr TIEN's views to FS.

15. Mr Albert HO opined that instead of making the pay package of HKMA staff comparable to that in the financial services sector in Hong Kong, comparison should be made with other central banks in overseas jurisdictions. He highlighted that the remuneration of CE/HKMA at over HK\$9 million per annum was even higher than that of the Governor of the Bank of England (equivalent to HK\$2.8 million) and the Chairman of US Federal Reserve Board (equivalent to HK\$1.3 million). In response, CE/HKMA explained that as HKMA had to compete in the local market for quality talents, pay packages comparable with that in the local market would be appropriate. He stressed that HKMA would endeavour to recruit staff from the local market. Failing that, it would pursue overseas recruitment. He advised members that one of the two existing DCEs was recruited from UK who had worked in the Bank of England before.



**Extract from the minutes of meeting
of the Panel on Financial Affairs on 2 February 2004**



Remuneration for senior staff of HKMA

49. Mr LEE Cheuk-yan pointed out the public concern that the present remuneration levels of the senior staff of HKMA were on the high side. In fact, the remuneration of CE/HKMA was much higher than that of FS. According to the Report on “Review of Remuneration of Senior Executives in Statutory and Other Bodies” prepared by the Hay Group Limited (Hay Group Report), the Government’s consultant, in June 2002, the remuneration of CE/HKMA was much higher than that of the Chairman of the Federal Reserve in the United States (less than US\$140,000 per year) and that of the Chairman of the Financial Service Authority in UK (£ 290,000 for the year 2000-01). The Hay Group Report had made a number of recommendations, including downward adjustment of the remuneration of CE/HKMA and adoption of qualitative factors in determining the remuneration packages of the senior staff of the bodies covered by the Report. Noting that the Administration had accepted the recommendations of the Hay Group Report, Mr LEE enquired about the measures taken in implementing the recommendations relating to HKMA.

50. FS advised that the Hay Group Report was prepared in connection with the consultancy study commissioned by the Administration in early 2002 to study the remuneration of senior executives of ten selected statutory and other bodies. The main tasks of the consultancy study were to determine whether the remuneration packages of the senior executives in the selected bodies were in line with those holding comparable positions in the private sector, and to establish for them comparable and competitive remuneration packages. In the Hay Group Report, the consultant had specified benchmarks rather than ceilings on the remuneration of senior executives, which should serve as references for the selected bodies in determining the remuneration packages of the senior executives. The governing boards of the selected bodies could make adjustment in the remuneration levels taking into account the qualitative factors, such as the size and complexity of the organizations, their certainty of availability of resources, job security, exposure to public scrutiny, and prestige and honour of the senior positions. FS also advised that the Administration had accepted the Hay Group Report and invited the governing boards of the selected bodies to carefully consider the recommendations therein. The selected bodies had been requested to advise the relevant Directors of Bureaux on

their acceptance of the study recommendations and submit annual reports thereafter on the detailed implementation of the various recommendations.

51. As regards application of the recommendations of the Hay Group Report to HKMA, FS pointed out that the Remuneration and Finance Sub-committee had considered the recommendations and noted that most of the recommendations already represented the existing practices of HKMA. These practices included targeting the remuneration levels at the median of the financial sector, applying a variable-to-fixed ratio in the remuneration package, using independent pay consultants to monitor levels and trends of remuneration in the financial sector, designating a committee to deal with remuneration issues, following the levels of disclosure provided for in the Companies Ordinance, and exercising flexibility in deciding the remuneration package of individuals to take into account their background, capability or performance. FS said that the implementation framework was endorsed by EFAC and approved by the then FS in December 2002 for implementation in HKMA annual pay review exercise starting in March 2003. FS stressed that HKMA annual pay review exercise was conducted independently by consultants on the basis of surveys on pay trends and pay levels in the private sector, and assessments of the performance of HKMA. Recommendations on pay review were then considered by the Remuneration and Finance Sub-committee and endorsed by EFAC before approval by FS. HKMA staff took no part in the deliberations of the Sub-committee and were not present at such discussions.

52. On the concern about the perceived high level of remuneration for CE/HKMA, FS advised that the Remuneration and Finance Sub-committee and EFAC had considered the matter and decided that the existing remuneration level for the post should be maintained. In making the decision, the Sub-committee and EFAC had taken into account qualitative factors such as the special skills, capabilities and performance of the present incumbent of the post, and the fact that the existing remuneration package had included other fringe benefits like retirement benefit and accommodation allowance.

53. Mr CHAN Kam-lam considered the present remuneration level of CE/HKMA appropriate and that it was inappropriate to compare the level with that of FS.

54. Given the unique functions of HKMA, Mr LEE Cheuk-yan considered it inappropriate to compare the remuneration levels of the senior executives of HKMA with those of comparable positions in the local financial services sector. In this connection, Ms Emily LAU considered that the remuneration levels of the senior executives should be comparable to those of comparable positions in overseas financial markets, such as the central bank governors.

55. In reply, FS maintained that the present arrangements for determining the remuneration of the senior executives of HKMA were appropriate. As the majority of work of HKMA was carried out in Hong Kong, it was justified and necessary for HKMA to compete for talents with companies in the local financial services sector.

FS however considered it not appropriate or meaningful to compare remuneration across different central banks given that they operated in different economies and the situations in their job markets also varied considerably. In this connection, FS pointed out that the remunerations of many US Federal Reserve employees, including that of DCE/HKMA who was formerly a staff, were higher than that of the Chairman of the Federal Reserve. This example illustrated the complexity of the factors involved in setting the remuneration levels of quality staff in the financial services sector.

56. Mr NG Leung-sing remarked that the Hay Group Report was compiled by an independent consultant with market data collected in early 2002. The methodology and recommendations of the Report should be respected. He was pleased to note that the selected bodies covered by the Report had responded positively to the recommendations by incorporating them into their arrangements for determining remuneration for staff as appropriate.



**Extract from the minutes of meeting
of the Panel on Financial Affairs on 6 February 2006**



Policies on remuneration for and post-termination employment of HKMA's senior executives

35. Noting from CE/HKMA's written reply dated 27 January 2006 that the Governance Sub-Committee of EFAC was currently reviewing the rules on post-termination employment for HKMA staff, Ms Emily LAU enquired about the target date for completing the review. In reply, CE/HKMA assured members that HKMA would provide any information and assistance as required by the Governance Sub-Committee to facilitate the conduct of the review. Nevertheless, he was not in a position to decide on the target completion date on behalf of the Sub-Committee.

36. Noting the four objectives of the review set out in CE/HKMA's written reply, Ms Emily LAU considered that the objectives of the review should be confined to that adopted by the Administration in conducting the review of the policy governing post-service employment of former directorate civil servants, i.e. to ensure that former directorate civil servants would not enter into business or take up employment which might constitute conflict of interest (real, potential or perceived) with their former government duties or cause negative public perception embarrassing the Government and affecting the image of the civil service. Ms LAU also opined that the existing arrangements governing the post-termination employment of HKMA senior staff were inadequate in safeguarding against conflict of interests. She urged the Governance Sub-Committee to expedite the review of the existing arrangements with a view to strengthening the control in this regard. In particular, reference should be made to the improvement measures introduced for the civil service on 1 January 2006, which were finalized after consultation and detailed consideration. For example, former directorate civil servants at D4 or above (or equivalent) would be subject to a minimum 12-month sanitization period so as to forestall real or potential conflict of interest and/or negative public perception by instituting a 12-month break between the officer's government duties and outside work.

37. CE/HKMA undertook to convey Ms Emily LAU's concern to the Governance Sub-Committee. He nevertheless pointed out that in reviewing the rules on post-termination employment for HKMA staff, it was important to take into consideration that any revised arrangements should not undermine the mobility of

skills in the financial services sector and other sectors that were of benefit to achieving the objectives of HKMA.

38. Referring to Annex 4 to the Administration's reply to the oral question raised by Hon KWONG Chi-kin at the LegCo meeting on 14 December 2005, Mr SIN Chung-kai noted that an employee of HKMA at the level of Senior Manager to Deputy Chief Executive must obtain prior approval of the Monetary Authority (CE/HKMA), and in the case of the Monetary Authority he must obtain approval of FS, before he/she could become an employee of another organization/corporation/firm in Hong Kong within six months from the termination of his/her employment with HKMA. Mr SIN suggested that all senior executives at the levels of Executive Director and Deputy Chief Executive should be required to obtain prior approval from the Governance Sub-Committee before taking up new employment within the control period. CE/HKMA undertook to convey Mr SIN's suggestion to the Governance Sub-Committee for consideration.

39. On remuneration policies, Mr LEE Cheuk-yan reiterated his view expressed at previous Panel meetings that the present remuneration level of CE/HKMA was on the high side. In particular, Mr LEE was concerned that the remuneration level of CE/HKMA was much higher than that of FS, to whom he reported, and that of the Chairman of the US Federal Reserve Board. In this connection, Mr LEE requested that the Governance Sub-Committee be invited to provide information on the remuneration policies applicable to senior executives of HKMA, including the criteria and factors for consideration in determining the remuneration package for CE/HKMA and other senior executives of HKMA, and the mechanism for pay review. The Governance Sub-Committee should also be invited to consider his suggestion that in line with civil service pay policy, the remuneration for CE/HKMA should be set at a fixed level, and the variable pay component should be removed.

40. CE/HKMA explained that his remuneration package and those of other senior executives of HKMA were determined by FS on the advice of EFAC and the recommendations of the Governance Sub-Committee. A mechanism was in place for setting and reviewing the remuneration levels of HKMA's staff, with reference to the remuneration levels of the financial sector. As to whether the present remuneration levels of senior executives of HKMA were on the high side, CE/HKMA said that he would not make any comment on this. However, as a matter of fact, HKMA was experiencing the loss of talent and recruitment difficulties.

41. Mr LEE Cheuk-yan suggested that the Governance Sub-committee be invited to a meeting of the Panel to discuss with members on the policies on remuneration for and post-termination employment of senior executives of HKMA. To facilitate the Panel to consider how the matter should be taken forward, the Chairman suggested and members agreed that the Governance Sub-Committee be invited to consider the views expressed by members at the meeting and provide the information requested by members. The Panel would consider the way forward after receipt of the Governance Sub-Committee's reply.

(Post-meeting notes:

- (a) The Clerk to Panel's letter to the Chairman of the Governance Sub-Committee and the reply from the Chairman were issued to members on 16 March 2006 vide LC Paper Nos. CB(1)1092/05-06(01) and (02) respectively; and
- (b) During the discussion on Agenda Item V of this meeting, members agreed that SFC should also be invited to provide information on the policies on remuneration for and post-termination employment of its senior executives. On post-termination employment, SFC should be invited to consider the need to review the existing policy in the light of the new arrangements for post-service employment of former directorate civil servants promulgated in January 2006.)

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Miss Salumi Chan
Clerk to Panel
Panel on Public Service
Legislative Council
8 Jackson Road
Hong Kong

Dear Miss Chan,

**Remuneration packages for senior executives
of statutory bodies**

Thank you for your letter of 3 April 2006. We have carefully considered the views of the Subcommittee on West Kowloon Cultural District Development (the Subcommittee) as set out in paragraphs 4.37 to 4.39 and 6.30 of the Phase II Report of the Subcommittee. However, we do not consider it appropriate to set up an independent panel to review comprehensively the remuneration packages of the staff of existing statutory bodies and to propose a mechanism for determining the remuneration of their executive heads. The reasons are set out in the following paragraphs.

Comprehensive review conducted in 2002

In January 2002, the Government commissioned the Hay Group Limited to conduct a consultancy study on the remuneration of the senior executives of 11 selected statutory and other bodies. This study covered all the major statutory bodies which had to compete with the private sector for managerial staff with special experience and expertise and to operate under prudent commercial principles. The recommendations of the consultancy study were deliberated at the Public Service Panel at its meeting on 3 July 2002.

Apart from examining and recommending the remuneration packages of the senior executives of these statutory bodies, the consultancy study recommended a consistent set of principles to guide the governing boards of each body in determining remuneration of their senior executives and conducting periodic reviews of the remuneration packages in the future. It also proposed an adjustment mechanism to enable the community to monitor the long-term comparability between the remuneration packages of the selected bodies with their private sector counterparts.

To achieve greater consistency and objectivity in the organizations' remuneration arrangements, the consultant proposed and the Government accepted that each organization should have a designated committee to deal with remuneration issues including setting the remuneration policy for the senior executives, reviewing the market pay levels and trends, and formulating its remuneration recommendations to the relevant governing boards or approving authorities.

To enhance transparency, the Government also accepted the general framework recommended by the consultant for regular disclosure of the remuneration arrangements of the selected bodies to the responsible Directors of Bureaux and the community in general. The governing bodies were required to disclose the full remunerations packages of their chief executives, and the aggregate or average remuneration data for the second and third tier executives. At a minimum, an organization should comply with the Companies Ordinance and disclose total remuneration in ranges, as required in the annual reports of companies listed in the Hong Kong Stock Exchange.

Following the completion of the findings of the study in June 2002, the Administration briefed the Public Service Panel on the findings at its meeting on 3 July 2002 and provided an update to the Panel at its meeting on 15 December 2003. The Administration informed the Panel that the selected bodies had responded positively to the consultant's recommendations. The remuneration of senior executives of the selected bodies and their compliance with the established principles in the study would be subject to annual review under the new reporting mechanism between the selected bodies and relevant bureaux. At the Public Service Panel's meeting on 15 December 2003, the Chairman concluded that since the selected bodies were all committed to report to the bureaux concerned annually on the detailed remuneration arrangements and the implementation of the consultant's recommendations, Members who would like to follow up the issue could do so by inviting the bureaux concerned to report progress to the relevant Panels.

No one-size-fit-all formula

Following the 2002 review, the Government has already put in place a system for the effective control and monitoring of the remuneration of senior executives of statutory bodies. These measures have greatly enhanced the objectivity and transparency of the remuneration policies and adjustment mechanisms of these statutory bodies.

As each statutory body is different in its nature and has its own operational needs and requirements for talents, it would not be practicable to devise a single mechanism for determining remuneration which is applicable to all statutory bodies. Remuneration packages for statutory bodies have to be decided on an individual case basis and there is no one-size-fit-all formula.

These statutory bodies have their own independent governing boards or committees to oversee their management and operations. We should give due recognition to the role played by the governing boards or committees of the statutory bodies in overseeing the propriety and transparency of the remuneration policies and arrangements, and formulating their recommended remuneration packages to the relevant authorities for approval. It would not be appropriate for the Administration to prescribe or mandate the salary levels for their senior staff on behalf of the governing boards. After all, the governing boards should know better than the Administration or any independent panel as to the relevant market pay condition as well as the qualifications, experience, competence and performance of their top executives. Hence, they should make fair and proper judgment on remuneration issues pertaining to the respective organizations.

Yours sincerely,

(Miss Shirley Yung)
for Director of Administration

cc Hon TAM Yiu-chung, GBS, JP (Chairman of Public Service Panel)

**Remuneration policies for senior executives of the
Hong Kong Monetary Authority and Securities and Futures Commission**

List of relevant papers
(Position as at 2 May 2006)

Meeting	Paper	LC Paper No.
<p><u>Council meeting on 12 December 2001</u></p> <p>Motion debate on “Reviewing the pay adjustment mechanisms of statutory bodies and the Hong Kong Monetary Authority”</p>	Hansard	—
—	Information note on “Governance of HKMA” provided by HKMA	CB(1)2606/01-02 issued to FA Panel members in September 2002
PS Panel meeting on 3 July 2002	<p>LegCo Brief on “Review of Remuneration of senior executives of statutory and other bodies” issued by the Administration Wing (CSO/ADMCR3/1136/02)</p> <p>Statement made by the Chief Secretary for Administration at the Council meeting on 26 June 2002</p> <p>Minutes of meeting</p>	<p style="text-align: center;">—</p> <p>CB(1)2150/01-02(01)</p> <p>CB(1)171/02-03 — Agenda Item I</p>

Meeting	Paper	LC Paper No.
FA Panel meeting on 2 June 2003	Research Report on “The Governance of HKMA and Comparable Authorities in Hong Kong and Overseas Jurisdictions”	CB(1)1584/02-03
	HKMA’s responses to the Research Report on “The Governance of HKMA and Comparable Authorities in Hong Kong and Overseas Jurisdictions”	CB(1)1592/02-03
	Powerpoint presentation material provided by Professor Stephen Y L CHEUNG	CB(1)1788/02-03(04)
	Powerpoint presentation material provided by HKMA	CB(1)1788/02-03(05)
	Submission from Professor Charles GOODHART	CB(1)1788/02-03(06)
	Submission dated 24 May 2003 from Professor Y C JAO	CB(1)1788/02-03(07)
	Submission dated 26 May 2003 from Professor TSANG Shu-ki	CB(1)1788/02-03(08)
	Submission from the Bank for International Settlements	CB(1)1839/02-03(01)
Minutes of meeting	CB(1)2295/02-03 — Agenda Item IV	

Meeting	Paper	LC Paper No.
PS Panel meeting on 15 December 2003	<p>Paper provided by the Administration</p> <p>Minutes of meeting</p>	<p>CB(1)296/03-04(04)</p> <p>CB(1)771/03-04 — Agenda Item III</p>
FA Panel meeting on 2 February 2004	<p>Paper on “Points of concern and suggestions on the governance of HKMA” prepared by the LegCo Secretariat</p> <p>Paper provided by the Administration</p> <p>Reply dated 12 January 2004 from the Director of Administration to the Clerk to PS Panel</p> <p>Minutes of meeting</p>	<p>CB(1)595/03-04)</p> <p>CB(1)847/03-04(05)</p> <p>CB(1)772/03-04(01)</p> <p>CB(1)1394/03-04 — Agenda Item VI</p>
FA Panel meeting on 6 February 2006	Minutes of meeting	CB(1)1178/05-06 — Agenda Item IV
FA Panel meeting on 4 May 2006	<p>Letter dated 9 February 2006 from Clerk to Panel to Chairman of Governance Sub-Committee</p> <p>Reply dated 15 March 2006 from Chairman of Governance Sub-Committee</p> <p>Letter dated 9 February from Clerk to Panel to SFC Chairman</p> <p>Reply dated 27 March 2006 from the Commission Secretary of SFC</p>	<p>CB(1)1092/05-06(01)</p> <p>CB(1)1092/05-06(02)</p> <p>CB(1)1186/05-06(01)</p> <p>CB(1)1186/05-06(03)</p>