

Remuneration Policies of the Hong Kong Monetary Authority (HKMA) and Remuneration Levels of its Senior Staff

In order to carry out its policy objectives effectively and respond flexibly to changing work priorities, the HKMA must be able to recruit, develop and maintain a professional and highly qualified workforce. While it is an integral part of the Government, the HKMA is able to employ staff on terms different from those of the civil service in order to attract personnel of the right experience and expertise. Since the HKMA competes with the private sector for staff, pay packages are designed to be comparable to, and competitive with, pay for comparable positions in the private sector.

2. HKMA pay packages are total cash packages with minimal benefits in addition to basic pay. HKMA pay is performance-based and is benchmarked against median pay for comparable positions in the financial market (which includes the banking sector). It consists of Fixed Pay, which is payable monthly, and Variable Pay, which may be payable in the form of a lump sum once a year and is dependent upon performance. Both Fixed Pay and Variable Pay are reviewed annually.

3. The pay of HKMA staff, including senior staff, is reviewed annually by the Governance Sub-Committee (GSC) of the Exchange Fund Advisory Committee (EFAC). The GSC comprises non-official and non-banking-sector Members of EFAC. Among its other functions, the GSC makes recommendations to the Financial Secretary through EFAC on the remuneration and human-resource policies of the HKMA and the remuneration of HKMA staff.

4. The GSC undertakes the annual review of HKMA pay, taking into account pay surveys conducted by two independent firms of consultants on the Hong Kong financial market with which the HKMA competes for staff. Based on the findings of the two consultants, the pay-trend results for 2008 and 2009 which reflected the pay adjustments in the financial market are shown in the **Annex**.

5. As part of the annual review, the GSC also assesses the performance of the HKMA as a whole during the previous year. This assessment covers the HKMA's performance in all of its policy areas and not merely in the management of the Exchange Fund, which is only one area of the HKMA's work.

6. Awards of Variable Pay and any adjustments to Fixed Pay take into account pay data provided by the independent consultants, the GSC's assessment of the performance of the HKMA, the performance of individual staff, and other factors such as the approved target ratio of Variable Pay to Fixed Pay for the respective ranks.¹

7. To allow the GSC to determine the individual pay of senior staff apart from the Chief Executive of the HKMA (CE/HKMA), the CE/HKMA provides the GSC with their performance ratings. He makes no recommendation on his own pay. Neither CE/HKMA nor the other senior staff are present during discussions of their own pay by the GSC.

8. The structure and content of the pay packages, and the review mechanisms and transparency arrangements for these packages, of the top three levels of HKMA staff (including CE/HKMA) were comprehensively reviewed by the then Remuneration and Finance Sub-Committee of EFAC (the predecessor of the GSC) in 2002 on the advice of two independent consulting firms based on the Report on the Review of Remuneration of Senior Executives of Statutory and Other Bodies, which was prepared by the Hay Group Limited (Hay) for the Government. The Hay report specifically recommended that the remuneration packages of senior staff should contain a mix of Fixed and Variable Pay.

9. The remuneration packages of the top three levels of HKMA staff are disclosed in the relevant HKMA's Annual Report published after all the Exchange Fund financial statements are audited after the close of the financial year. Hence, the remuneration information for 2008, which is contained in the *2008 HKMA Annual Report* published in April 2009, reflects the performance of the HKMA as a whole and of individuals in 2007.

10. The pay system of the HKMA and the annual pay-review mechanism have proved effective in providing the HKMA with the staff it needs to carry out effectively its highly specialised and constantly evolving tasks. The Financial Secretary, taking into account the advice of the GSC, will continue to keep the HKMA's pay system under review with the aim of ensuring that it enables the HKMA to recruit and retain staff of the right calibre to carry out its policy objectives effectively.

Financial Secretary's Office
May 2009

¹ The approved target VP:FP ratios (excluding merit loading) for the top three levels are 20:80 for Chief Executive/HKMA and Deputy Chief Executives, and 15:85 for Executive Directors.

Information on the pay trend in the financial market for 2008 and 2009

A. Market trends for basic pay

The market trends for basic pay for 2008 and 2009 based on an average of the two consultants' findings are as follows:

Year	Average
2008	5.85%
2009	0.50%

B. Market trends for incentive pay

The market trends for award of incentive pay are based on a weighted average for the past three years in order to avoid large swings in Variable Pay for the HKMA. The relevant market trends based on the findings of the two consultants are as follows:

Year	Three-year weighted-average*
2008	19.96%
2009	-17.68%

* Weightings are 60% for the current year, 30% for the previous year, and 10% for the second previous year.