

立法會
Legislative Council

LC Paper No. CB(1)1595/08-09

Ref: CB1/PL/FA

Panel on Financial Affairs
Special meeting on 21 May 2009

Background Brief
on the remuneration policies of the Hong Kong Monetary Authority and the
remuneration levels of its senior executives

Purpose

This paper sets out the remuneration policies of the Hong Kong Monetary Authority (HKMA) and the remuneration levels of its senior executives. 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

Consultancy study commissioned by the Administration in 2002

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, there was concern 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/variable pay 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 Council 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.

3. In January 2002, the Administration appointed the Hay Group Limited to conduct a consultancy study on the remuneration of the senior executives of 11

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.

selected statutory and other bodies, including HKMA. The main tasks of the consultancy study were:

- (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.

4. The Chief Secretary for Administration made a statement on the findings and recommendations of the consultancy study at the Council meeting on 26 June 2002. The Panel on Public Service (PS Panel) held two meetings on 3 July 2002 and 15 December 2003 to discuss the findings and recommendations of the consultancy study. A summary of HKMA's response to the consultant's recommendations provided by the Administration in November 2003 is in **Appendix I**.

Relevant recommendations of the Subcommittee on West Kowloon Cultural Development

5. 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.

6. The Subcommittee was of the view that there was 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's recommendations were subsequently referred to the PS Panel. At the request of

the PS Panel, the Administration provided a written response on the subject on 28 April 2006, a copy of which is in **Appendix II**.

Discussions at the Panel on Financial Affairs

7. 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 examined the remuneration policies for senior executives of HKMA and the Securities and Futures Commission at the Panel meeting on 4 May 2006. Panel members have, from time to time, expressed concern about the high remuneration levels of senior executives of HKMA, notably that of the Chief Executive of HKMA (CE/HKMA), during the regular briefings on the work of HKMA.

Remuneration policies of HKMA and remuneration packages of its senior executives

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)² 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.

² GSC is made up entirely of the non-official, non-banking members of EFAC. It was formerly known as the Remuneration and Finance Sub-Committee.

- (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. The Chairman of GSC, in his reply to the FA Panel on 30 June 2006, advised that when HKMA was established in 1993, a conscious decision was made that it should recruit staff on different terms from those of the civil service. As HKMA recruited the great majority of its staff from the private sector, pay levels were set with a view to recruiting and retaining suitable staff. GSC believed that it was essential to attract the best qualified candidate, and that salaries had to be comparable to and competitive with those offered in the financial sector.

11. The remuneration packages of HKMA senior staff in 2006 to 2008 are summarized in **Appendix III**.

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

12. Members' major views expressed at previous meetings of LegCo and its committees 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. The remuneration level of CE/HKMA is much higher than those of the heads of other central banking institutions and even higher than that of FS to whom he reports.
- (b) GSC should be an independent committee outside the influence of HKMA and outside EFAC. Secretariat support to GSC (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 and financial regulators of overseas jurisdictions.
- (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.

Recent developments

Questions raised and motion moved at Council meetings

13. At the Council meeting on 4 February 2009, Hon Joseph LEE raised a question on the awarding of variable pay to HKMA staff. Mr LEE sought information on the variable pay awarded to HKMA staff in the past five years, criteria for reviewing the amount of variable pay, and whether FS would take into account a number of factors in considering the variable pay to be awarded to HKMA staff (including HKMA's recent performance in the handling of the Lehman Minibonds Incident, the rate of return on investments of the Exchange Fund, as well as the supervision of banks).

14. At the Council meeting on 11 March 2009, Hon CHEUNG Man-kwong raised a question on the formulation of a new piece of legislation to prescribe the status and organization structure of HKMA, as well as to provide for the selection process, tenure of office, removal procedure and remuneration arrangement etc. of CE/HKMA.

15. At the LegCo meeting on 6 May 2009, Hon Albert CHAN moved a motion on demanding a comprehensive reform of HKMA, which included devising reasonable remuneration packages. The motion and the amendments proposed by Hon James TO, Hon WONG Yuk-man and Hon Ronny TONG were all negated.

Pay review 2009 for HKMA staff

16. On 27 March 2009, HKMA announced the result of the pay review 2009 approved by FS on the advice of EFAC and the recommendations of GSC, as follows:

- (a) fixed pay of HKMA staff will be frozen in 2009;
- (b) variable pay averaging two months' fixed pay will be paid (compared with 2.9 months approved in 2008) to staff according to their performance in the previous year; and
- (c) the 2009 pay review results in a reduction of 3.4% in the total payroll of HKMA.

17. Noting the substantial upward adjustment of CE/HKMA's remuneration in 2008 upon the publication of HKMA's 2008 Annual Report, some Members expressed concerns about the remuneration policies of HKMA, determination of the remuneration packages and annual pay reviews for HKMA staff. The subject will be discussed at the special meeting of the FA Panel on 21 May 2009.

References

18. A list of relevant papers is in **Appendix IV**.

Council Business Division 1
Legislative Council Secretariat
18 May 2009

Review of Remuneration of Senior Executives of Statutory and Other Bodies
Responses of the Hong Kong Monetary Authority (HKMA) and Relevant Bureau
(November 2003)

BODY	HKMA
BUREAU	Financial Secretary's Office (FSO)
<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>	<u>Adopt</u>
<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 style="text-align: center;"><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>

BODY	HKMA
BUREAU	Financial Secretary's Office (FSO)
<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></p> <p><u>1st tier – 80:20</u></p> <p><u>2nd tier – 85:15</u></p> <p><u>3rd tier – 85:15</u></p> <p><u>Modified approach</u></p> <p>HKMA will adopt the following mix:</p> <p>1st tier – 80:20</p> <p>2nd tier – 80:20</p> <p>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>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>

BODY	HKMA
BUREAU	Financial Secretary's Office (FSO)
<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>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>	<p><u>Adopt</u></p>
<p>6. <u>Objectivity of process</u></p> <p>To have a dedicated committee to deal with remuneration issues.</p>	<p><u>Adopt</u></p>

BODY	HKMA
BUREAU	Financial Secretary's Office (FSO)
<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.	<p><u>Adopt</u></p>
<p>8. <u>Flexibility in implementation</u></p> <ul style="list-style-type: none">- 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></p>
<p>9. <u>Implementation Timeframe</u></p>	<p>Started from annual pay review exercise in March 2003.</p>

(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).)

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)

Appendix III

Summary of remuneration packages of HKMA's senior staff in 2006 to 2008

HK\$'000	Chief Executive			Deputy Chief Executive (average)			Executive Director (average)		
	2006	2007	2008	2006	2007	2008	2006	2007	2008
Number of staff	1	1	1	3	4	3	12	11	13
Fixed pay	6,801	7,181	7,783	4,215	4,537	4,957	2,880	3,021	3,203
Variable pay	2,550	2,741	3,176	1,267	1,387	1,498	582	639	672
Other benefits	223	415	974	508	509	583	296	318	330
Total remuneration	9,574	10,337	11,933	5,990	6,433	7,038	3,758	3,978	4,205

Note

1. Except for annual leave accrued, the actual remuneration received by staff not serving a full year is annualized for the purpose of calculating the average and annual package for the rank.
2. The number of staff at the Deputy Chief Executive (DCE) and Executive Director (ED) ranks reflects staff movements during the years. The established number of posts at the DCE level is three and at the ED level is eleven (including the Chief Executive Officer of the Hong Kong Mortgage Corporation).
3. 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.

(Source: HKMA Annual Reports)

Remuneration policies of Hong Kong Monetary Authority and the remuneration levels of its senior executives

List of relevant papers

Meeting	Paper	LC Paper No.
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 http://www.legco.gov.hk/yr01-02/english/panels/ps/papers/ps0703cb1-2150-1e.pdf</p> <p>Minutes of meeting http://www.legco.gov.hk/yr01-02/english/panels/ps/minutes/ps020703.pdf</p>	<p align="center">—</p> <p>CB(1)2150/01-02(01)</p> <p>CB(1)171/02-03 — Agenda Item I</p>
FA Panel meeting on 2 June 2003	<p>Research Report on “The Governance of HKMA and Comparable Authorities in Hong Kong and Overseas Jurisdictions” http://www.legco.gov.hk/yr02-03/english/panels/fa/papers/facb1-1584-e.pdf</p> <p>HKMA’s responses to the Research Report on “The Governance of HKMA and Comparable Authorities in</p>	<p>CB(1)1584/02-03</p> <p>CB(1)1592/02-03</p>

Meeting	Paper	LC Paper No.
	<p>Hong Kong and Overseas Jurisdictions” http://www.legco.gov.hk/yr02-03/english/panels/fa/papers/facb1-1592-e.pdf</p> <p>Minutes of meeting http://www.legco.gov.hk/yr02-03/english/panels/fa/minutes/fa030602.pdf</p>	<p>CB(1)2295/02-03 — Agenda Item IV</p>
<p>PS Panel meeting on 15 December 2003</p>	<p>Paper provided by the Administration http://www.legco.gov.hk/yr03-04/english/panels/ps/papers/ps1117cb1-296-4e.pdf</p> <p>Minutes of meeting http://www.legco.gov.hk/yr03-04/english/panels/ps/minutes/ps031215.pdf</p>	<p>CB(1)296/03-04(04)</p> <p>CB(1)771/03-04 — Agenda Item III</p>
<p>FA Panel meeting on 2 February 2004</p>	<p>Paper on “Points of concern and suggestions on the governance of HKMA” prepared by the LegCo Secretariat http://www.legco.gov.hk/yr03-04/english/panels/fa/papers/fa0202cb1-595-e.pdf</p> <p>Paper provided by the Administration http://www.legco.gov.hk/yr03-04/english/panels/fa/papers/fa0202cb1-847-5e.pdf</p> <p>Reply dated 12 January 2004 from the Director of Administration to the Clerk to PS Panel http://www.legco.gov.hk/yr03-04/english/panels/ps/papers/ps1215cb1-772-1e.pdf</p>	<p>CB(1)595/03-04</p> <p>CB(1)847/03-04(05)</p> <p>CB(1)772/03-04(01)</p>

Meeting	Paper	LC Paper No.
	Minutes of meeting http://www.legco.gov.hk/yr03-04/english/panels/fa/minutes/fa040202.pdf	CB(1)1394/03-04 — Agenda Item VI
FA Panel meeting on 4 May 2006	<p>Letter dated 9 February 2006 from Clerk to Panel to Chairman of Governance Sub-Committee http://www.legco.gov.hk/yr05-06/english/panels/fa/papers/facb1-1092-1e.pdf</p> <p>Reply dated 15 March 2006 from Chairman of Governance Sub-Committee http://www.legco.gov.hk/yr05-06/english/panels/fa/papers/facb1-1092-2e.pdf</p> <p>Letter dated 9 February 2006 from Clerk to Panel to SFC Chairman http://www.legco.gov.hk/yr05-06/english/panels/fa/papers/facb1-1186-1e.pdf</p> <p>Reply dated 27 March 2006 from the Commission Secretary of SFC http://www.legco.gov.hk/yr05-06/english/panels/fa/papers/facb1-1186-3e.pdf</p> <p>Follow-up to the meeting http://www.legco.gov.hk/yr05-06/english/panels/fa/papers/fa0504cb1-1938-1e.pdf</p> <p>Minutes of meeting (Paragraphs 55 to 57) http://www.legco.gov.hk/yr05-06/english/panels/fa/minutes/fa060504.pdf</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> <p>CB(1)1938/05-06(01)</p> <p>CB(1)2165/05-06</p>

Meeting	Paper	LC Paper No.
Council meeting on 4 February 2009	Hon Joseph LEE's question on Hong Kong Monetary Authority awarding variable pay to its staff http://www.info.gov.hk/gia/general/200902/04/P200902040106.htm	
Council meeting on 11 March 2009	Hon CHEUNG Man-kwong's question on legislation on the Hong Kong Monetary Authority http://www.info.gov.hk/gia/general/200903/11/P200903110129.htm	
	Press release on HKMA Pay Review 2009 http://www.info.gov.hk/hkma/eng/press/2009/20090327e5.htm	