

By fax: 2509 9159

CB1/PL/FA
2869 9244
2869 6794

9 February 2006

Dr Hon Marvin CHEUNG Kin-tung, DBA Hon., SBS, JP
Chairman
Governance Sub-Committee of the Exchange Fund Advisory Committee
55th Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Dear Dr CHEUNG,

Panel on Financial Affairs

**Policies on remuneration for and post-termination employment of
senior executives of the Hong Kong Monetary Authority**

On behalf of Hon Bernard CHAN, Chairman of the Panel on Financial Affairs, I write to invite the Governance Sub-Committee to consider the views expressed by members of the Panel on the above subjects at the meeting on 6 February 2006 and provide the information requested by the Panel.

On remuneration policies, some members reiterate their view that the present remuneration level of the Chief Executive of the Hong Kong Monetary Authority (CE/HKMA) is on the high side. In particular, they are concerned that the remuneration level of CE/HKMA is much higher than that of the Financial Secretary (FS), to whom he reports, and that of the Chairman of the Federal Reserve Board in the United States. In this connection, the Panel recalls that the former Remuneration and Finance Sub-Committee and the Exchange Fund Advisory Committee have previously considered the matter and decided that the then remuneration level for CE/HKMA should be maintained. To facilitate the Panel to consider how the matter should be taken forward, the Governance Sub-Committee is 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 is also invited to consider a member's 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.

As regards the policy governing post-termination employment of senior executives of HKMA, the Panel would like to invite the Governance Sub-Committee to provide details about the existing policy, including the control period, sanitization period, approving criteria and authority, and sanctions (if any). In this connection, the Panel notes that the Sub-Committee is currently reviewing the rules on post-termination employment in the light of the new arrangements introduced for the civil service on 1 January 2006. The Sub-Committee is invited to take into consideration the following views expressed by some members:

(a) Objectives of the review

Noting the four objectives of the review as set out in the reply dated 27 January 2006 from CE/HKMA (*copy attached*), a member considers 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 will not enter into business or take up employment which may 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.

(b) Improvement measures

- (i) Reference should be made to the improvement measures introduced by the Administration on 1 January 2006, which are finalized after consultation and detailed consideration. In particular, former directorate civil servants at D4 or above (or equivalent) will 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; and
- (ii) A member suggests 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 (instead of CE/HKMA as required under the current arrangement) before taking up new employment within the control period.

The Panel would also like to invite the Governance Sub-Committee to advise on the target date for completing the review.

I should be grateful if you would let me have your reply with the relevant information (in both Chinese and English) by 15 March 2006. Please forward the soft copy of your reply and the information to Ms May LEUNG at mleung@legco.gov.hk.

Please note that unless you raise objection, the information provided to the Panel will be made available to the media and public and placed in the Library of the Legislative Council. The information may also be made available on the Web Site of the Council on the Internet.

Yours sincerely,

(Miss Salumi CHAN)
Clerk to Panel

Encl.

c.c. Hon Bernard CHAN, JP
Chairman
LegCo Panel on Financial Affairs

Mr Henry TANG, GBS, JP
Financial Secretary
(Fax: 2840 0569)

Mr Frederick MA Si-hang, JP
Secretary for Financial Services and the Treasury
(Fax: 2537 1736)

Mr Joseph YAM, GBS, JP
Chief Executive
Hong Kong Monetary Authority
(Fax: 2878 8190)



27 January 2006

Miss Salumi Chan
Clerk to Panel
Legislative Council Panel on Financial Affairs
Legislative Council
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Miss Chan,

**Panel on Financial Affairs
Meeting on 6 February 2006**

Thank you for your letter dated 5 January 2006 inviting the Chief Executive of the Hong Kong Monetary Authority (HKMA) to brief the Panel on the work of the HKMA at the meeting to be held on 6 February 2006.

In accordance with the normal practice for these regular briefings, the presentation materials for the meeting are being sent to you separately. However, we would like to take this opportunity to address the three points raised in paragraph 2 of your letter.

(a) Closure of local branches by banks and the impact on the public. The increased competition among banks following the full liberalisation of interest rates in July 2001 has been of benefit to the majority of people in Hong Kong with borrowers, especially mortgage borrowers, generally paying substantially less interest and depositors receiving more for their savings than would otherwise have been the case. At the same time, increased competition has obliged banks to pay greater attention to their costs and this, together with the introduction of new technology, has led to some consolidation of bank branches. The HKMA has no statutory authority, nor is it our function, to give direction to the banks on what is essentially a commercial decision. Nevertheless, we are ready to assist in communication on this subject between the banking industry and the community. The HKMA facilitated a meeting

among several LegCo Members and the Hong Kong Association of Banks (HKAB) to exchange views on this issue on 23 November 2005. We believe that this meeting helped the banks understand more about the needs and concerns of certain sectors of the community. The Chairman of the HKAB has recently announced that the Association is establishing a group to look into ways to alleviate the effects of branch closures and facilitate access to services.

(b) Policy and arrangement governing post-termination employment of the HKMA's senior staff. Currently, HKMA staff at the Senior Manager level and above are required to obtain prior approval from the Chief Executive of the HKMA (or, in the case of Chief Executive himself, from the Financial Secretary) before taking up new employment in Hong Kong within six months from the termination of their employment with the HKMA. The Chief Executive may impose a sanitisation period up to the end of those six months and attach any reasonable conditions. There are in addition a number of legal provisions governing the secrecy of certain types of information which staff may have obtained in the course of their work with the HKMA, and the prevention of bribery, which apply to staff after they have left the HKMA.

The Governance Sub-Committee (GSC) of the Exchange Fund Advisory Committee (EFAC) is currently reviewing the rules on post-termination employment for HKMA staff in the light of the new arrangements introduced for the Civil Service on 1 January 2006, and taking into account the circumstances of the HKMA. The objectives of the review are to ensure that the rules

- (i) properly address real or potential conflicts of interest arising from a person's former duties at the HKMA and his or her proposed new employment;
- (ii) are practical, effective, and enforceable;
- (iii) do not unreasonably restrict a person's right to earn a living in his or her chosen profession; and
- (iv) do not impair the HKMA's ability to attract high-quality staff or undermine the mobility of skills in the financial services and other sectors that are of benefit to furthering the objectives of the HKMA.

(c) The HKMA's annual budget. As in previous years, the HKMA's 2006 administrative budget will be included in the 2005 Annual Report to be published in April. The annual budget is carefully scrutinised by EFAC and the GSC before approval. In January 2005 the Financial Secretary confirmed that the current arrangements for approval of the HKMA's budget have been effective in allowing sufficient flexibility in resource deployment for the HKMA and in providing checks and controls, while at the same time ensuring that the HKMA's operations are free from political interference.

The GSC has recently reviewed disclosure on the HKMA's administrative expenditure, taking into account the disclosure practices of comparable organisations, accounting standards and other relevant factors. The advice of the GSC is that the current disclosure arrangements for the annual budget are both broadly consistent with the best practices of comparable organisations and in line with the governance arrangements of the HKMA.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'T. Keen', with a stylized flourish at the end.

(Trevor Keen)
for Chief Executive
Hong Kong Monetary Authority