

15 March 2006

Clerk to the Legislative Council Panel on Financial Affairs
Legislative Council Building
8 Jackson Road
Central, Hong Kong
(Attn : Miss Salumi Chan)

Dear Miss Chan,

Thank you for your letter of 9 February, in which you invite the Governance Sub-Committee of the Exchange Fund Advisory Committee (EFAC) to consider the views expressed by Members of the Legislative Council Panel on Financial Affairs at their meeting on 6 February on the following subjects.

Policies on remuneration of senior executives of the Hong Kong Monetary Authority

2. As Members of the Panel will be aware, the Governance Sub-Committee is an advisory body made up of the non-official, non-banker members of EFAC which, among its other functions, makes recommendations to the Financial Secretary through EFAC on the remuneration and human resources policies of the HKMA and on remuneration of HKMA staff. As members of the Sub-Committee, we offer advice and make recommendations on these subjects to the best of our abilities and knowledge. The decisions, however, are for the Financial Secretary to make.

3. In carrying out its advisory functions, the Governance Sub-Committee is very happy to take into consideration views expressed by the Panel, and by any other body. We are also happy, in response to the request in your letter, to provide the Panel with the following information on the remuneration policies applicable to the HKMA, the mechanism of the annual pay review for the HKMA, and the criteria the Sub-Committee takes into account in determining remuneration packages.

4. To be able to attract and retain high-calibre staff with the right experience and expertise, the HKMA employs and remunerates staff on terms that are entirely different from those of the civil service. Since the 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. Over the years, the Governance Sub-Committee (and the former Remuneration and Finance Sub-Committee and the former Working Group on Terms and Conditions of Service) has advised on a remuneration system that we believe is effective in providing the HKMA with the kind of staff that it needs to carry out its highly specialised, and constantly evolving, tasks. We also believe that this arrangement has contributed greatly to the success with which the HKMA has been performing those tasks.

5. The structure and content of the pay packages, and the review mechanisms and transparency arrangements for these packages, of the top three levels of staff (including CE/HKMA) were thoroughly reviewed by the Remuneration and Finance Sub-Committee in 2003 in the light of the recommendations of the Hay Report on the Review of Remuneration of Senior Executives of Statutory and Other Bodies 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.

6. HKMA pay packages are total cash packages: except for medical benefits and overtime allowances for junior staff, there are no allowances or benefits (such as housing or education allowances) in addition to basic pay; instead of a pension system, the HKMA operates a Provident Fund Scheme. HKMA pay is performance-based and benchmarked against the median of total remuneration in the financial sector. It consists of Fixed Pay, which is payable monthly, and Variable Pay, which is payable in a lump sum once a year according to individual performance, the performance of the HKMA as a whole, and trends in Variable Pay in the private sector in Hong Kong. Awards of Variable Pay and any increases in Fixed Pay are based on the Sub-Committee's assessment of the performance of the HKMA, pay trends in Hong Kong as advised by independent consultants, and the performance of individual staff.

7. Pay for HKMA staff is reviewed annually by the Governance Sub-Committee in light of the factors in paragraph 6. As with all other advice given by the Sub-Committee, the recommendations on pay are subject to the endorsement of EFAC. The final decision rests with the Financial Secretary.

8. We shall continue to keep the pay policies of the HKMA under review, particularly during this period of increased staff turnover and competition from the private sector. For the time being, we consider that the present performance-based and market-based system is appropriate for

an organisation that recruits the majority of its staff from the private sector. We are, nevertheless, open to views expressed by the Panel and shall continue to take them into account in formulating our advice.

Policies on post-termination employment of senior executives of the Hong Kong Monetary Authority

9. Panel Members will be aware that the GSC is reviewing the post-termination employment rules applicable to HKMA staff. We expect to have completed this review by about the middle of this year, when we will make recommendations to the Financial Secretary through EFAC. Until the review is completed, the view of the GSC remains open and we shall certainly take into account the views expressed by Panel Members set out in your letter. As requested, I attach a copy of the current HKMA rules on post-termination employment for the information of the Panel.

Yours sincerely,

(Marvin Cheung)
Chairman, Governance Sub-Committee
of the Exchange Fund Advisory Committee

Encl.

Current HKMA rules on post-termination employment

Extract from Staff Handbook

1.3 Termination

- (4) An employee of HKMA at the level of Senior Manager or above must obtain the prior approval of the Chief Executive before he can:
- (a) enter business on his own account;
 - (b) become a partner of a partnership;
 - (c) become a director of a company; or
 - (d) become an employee of another organisation/corporation/firm, whether or not on a full time basis

in Hong Kong within the six months from the termination of his/her employment with the HKMA. The Chief Executive may, at his own discretion, impose a sanitisation period up to the end of those six months and attach any reasonable conditions thereto. Any person aggrieved by the Chief Executive's decision may appeal to the Financial Secretary whose decision shall be final.