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Panel on Financial Affairs
Meeting on 2 February 2004

Points of concern and suggestions
on the governance of the Hong Kong Monetary Authority

Purpose

This paper summarizes the points of concern and suggestions raised by Panel members on the governance of the Hong Kong Monetary Authority (HKMA).

Background

2. The purchase of permanent accommodation for HKMA using the Exchange Fund in 2001 aroused public concern about the accountability of HKMA and the transparency of its operations. The concerns raised by members over the need for incurring HK\$3.699 billion to acquire new premises of 340 000 ft² for HKMA and the legality and appropriateness of using the Exchange Fund for the purpose were discussed at three meetings of the Panel between April and November 2001. Members were also concerned that HKMA, being a part of the Government, could be exempted from seeking approval from the Finance Committee for the purchase of its office premises, and that there were other areas of HKMA such as staff remuneration which did not appear to be subject to similar scrutiny and governance as other government departments. At the Panel meeting on 9 April 2002, the Panel decided to examine the governance of HKMA. To facilitate the Panel's deliberation of the subject, the Research and Library Services Division (RLSD) of the LegCo Secretariat was requested to conduct a research comparing the governance of HKMA and comparable authorities in Hong Kong and overseas jurisdictions.

3. On 11 February 2003, the Panel considered RLSD's draft research report on "The Governance of the Hong Kong Monetary Authority and Comparable Authorities in Hong Kong and Overseas Jurisdictions". The draft research report and a list of points raised by members were issued to the

Administration and HKMA for comments. HKMA provided its response at the end of April 2003. The Chief Executive of HKMA (CE/HKMA), academics and relevant organizations were invited to give views on the subject at the Panel meeting on 2 June 2003.

4. At the meeting on 2 June 2003, the Panel deliberated on the governance of HKMA. In view of the various points of concerns and suggestions raised, members decided that the subject should be further discussed at a meeting of the Panel, and that the Financial Secretary (FS) and CE/HKMA should be invited to the meeting. A special meeting was then scheduled to be held on 31 July 2003 for the purpose. Following the resignation of the former FS in mid-July 2003, the Panel decided that the special meeting should be deferred to the 2003-2004 session.

5. A list of papers relevant to the subject is set out in the **Appendix**.

Suggestions made by members on the governance of HKMA

6. In the course of deliberation, members have made various suggestions on the governance of HKMA. A summary of the suggestions is summarized as follows:

Annual Budget

- (a) HKMA should follow the example of the Securities and Futures Commission (SFC) to present its annual budget to the Panel for discussion and to solicit views and comments from Members on revenue/expenditure estimates and other related matters.

It is a standing practice for SFC to present its annual budget to the Panel before the commencement of the financial year. The information provides details of raw revenue/expenditure figures and initiatives to achieve work targets and objectives. HKMA should be asked to provide a breakdown of its expenditure according to its various functions.

- (b) In line with other Government organizations, HKMA as part of the Government should seek LegCo's approval of any capital spending as well as its recurrent expenditure for carrying out its functions other than that related to the management of the Exchange Fund.

HKMA is part of the Government. Apart from performing its duties under the Exchange Fund Ordinance (Cap. 66) and

Banking Ordinance (Cap. 155), it also plays an important role in advising FS in formulating banking policies and implementing new initiatives. This role is no different from that of other Government bureaux which are subject to the normal public funding appropriation mechanism.

Remuneration for senior staff

- (c) The present salaries for the senior staff of HKMA are too high, even higher than those of the Principal Officials including FS to whom CE/HKMA reports to. There should be an immediate review of the remuneration packages for the directorate staff of HKMA.

The 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 CEs/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/HKMA in 2003 is about HK\$3.24 million, roughly comparable to FS's current annual remuneration of HK\$3.74 million.

- (d) The Remuneration and Finance Sub-committee should be an independent committee outside the influence of HKMA and outside the Exchange Fund Advisory Committee (EFAC). Secretariat support (including analysis of research findings and drawing up of proposals) should not come from HKMA.

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 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.

- (e) 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.

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.

- (f) 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.

This should help the public to have a better understanding of the criteria considered when determining HKMA staff members' remuneration package. This arrangement is in line with the practices in the UK and the US.

- (g) The criteria for selection of the CE/HKMA and the terms of service should be publicly available.

This is in line with the practices in the UK and the US.

Powers and functions

- (h) The Government should review the need for putting in place a legislative framework capable of clearly specifying the powers and functions of HKMA. Nevertheless, the legislation should provide room for HKMA to exercise discretionary power when handling contingent situations.

The Exchange Fund Ordinance and the Banking Ordinance do not specify the exact powers and functions of HKMA. This has allowed HKMA a large degree of discretionary power in taking up new functions previously. In order to avoid the possibility of empire-building by HKMA, it is necessary to specify the exact statutory powers and functions of HKMA.

LegCo Panel on Financial Affairs

Governance of Hong Kong Monetary Authority

List of relevant papers

Paper	Paper No.
Information paper provided by HKMA on “Governance of the Hong Kong Monetary Authority”	LC Paper No. CB(1)2606/01-02 <i>(issued on 27 September 2002)</i>
Research report on “The Governance of the Hong Kong Monetary Authority and Comparable Authorities in Hong Kong and Overseas Jurisdictions” prepared by RLSD of LegCo Secretariat	LC Paper No. CB(1)1584/02-03 <i>(issued on 2 May 2003)</i>
HKMA's response to the research report on “The Governance of the Hong Kong Monetary Authority and Comparable Authorities in Hong Kong and Overseas Jurisdictions”	LC Paper No. CB(1)1592/02-03 <i>(issued on 2 May 2003)</i>
Powerpoint presentation material prepared by RLSD	LC Paper No. CB(1)1788/02-03(03) <i>(issued on 29 May 2003)</i>
Powerpoint presentation material provided by Professor Stephen Y L CHEUNG	LC Paper No. CB(1)1788/02-03(04) <i>(issued on 30 May 2003)</i>
Powerpoint presentation material provided by HKMA	LC Paper No. CB(1)1788/02-03(05) <i>(issued on 30 May 2003)</i>
Written submission from Professor Charles GOODHART	LC Paper No. CB(1)1788/02-03(06) <i>(issued on 27 May 2003)</i>
Written submission from Professor Y C JAO	LC Paper No. CB(1)1788/02-03(07) <i>(issued on 27 May 2003)</i>
Written submission from Professor TSANG Shu-ki	LC Paper No. CB(1)1788/02-03(08) <i>(issued on 27 May 2003)</i>

Paper	Paper No.
Written submission from the Bank for International Settlements	LC Paper No. CB(1)1839/02-03(01) <i>(issued on 30 May 2003)</i>
Supplementary information provided by HKMA on the breakdown on the expenditure incurred for operation of its London office and New York office as well as the operation of the Hong Kong Institute for Monetary Research	LC Paper No. CB(1)2144/02-03(01) <i>(issued on 3 July 2003)</i>
RLSD's written response to the comments made by Professor Charles GOODHART on the research report on “the Governance of the Hong Kong Monetary Authority and Comparable Authorities in Hong Kong and Overseas Jurisdictions”	LC Paper No. CB(1)2168/02-03(01) <i>(issued on 7 July 2003)</i>

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