HONG KONG MONETARY AUTHORITY
香港金融管理局

Circulars

19 Mar 2010

Supervisory Policy Manual (SPM) CG-5 "Guideline on a Sound Remuneration System"

Our Ref: B1/15C
B1/21C
B9/92C

19 March 2010

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Supervisory Policy Manual (SPM)
CG-5 "Guideline on a Sound Remuneration System"

I am writing to inform you that, following consultation with the two industry associations, the HKMA is issuing the above SPM module as a guidance note today.

The main purpose of this module is to provide AIs with guidance for the development and operation of their remuneration systems, with a view to ensuring that such systems are consistent with and promote effective risk management. The guidance contained in this module reflects the Principles for Sound Compensation Practices and the accompanying Implementation Standards issued by the Financial Stability Board in 2009. It also supplements the SPM module on Corporate Governance of Locally Incorporated Authorized Institutions (CG-1), which provides that Boards of locally incorporated AIs should ensure that their institutions' remuneration policy is consistent with its ethical values, objectives, strategies and control environment.

To promote effective risk management and ensure a level playing field within the local banking sector, the SPM module "Guideline on a Sound Remuneration System" will apply to all AIs including, in the case of locally-incorporated AIs, their overseas branches and subsidiaries subject to the HKMA's consolidated supervision. The HKMA will take into account the potential risks that may arise from an AI's remuneration system as part of its risk-based supervisory process.

AIs should review their existing remuneration systems and take prompt action to bring their remuneration systems into line with this module by the end of this year. To this end, the Boards of all AIs should promptly conduct, or arrange for the conduct of, a review independent of management of their existing remuneration systems[1] (including policies, structures, practices and outcomes) to assess the extent to which they are consistent with the principles set out in this module. AIs should submit to the HKMA the results of their review within the next 4 months. The HKMA will shortly be distributing a template to facilitate this self-assessment exercise. Where an AI encounters any problems in meeting the timeframe for self assessment or bringing its remuneration system into line with the module, it should approach the HKMA to discuss the outstanding issues and likely timeframe required for them to be resolved.

On-line access to the SPM module is available under the icon for "Supervisory Policy Manual" on the HKMA's public (http://www.info.gov.hk/hkma) and private (http://www.stet.finnet.hk/index.htm) websites.

Should you have any questions relating to the module, please feel free to contact Ms Rose Luk at 2878-1638 or Mr W L Cheng at 2878-1683.

Yours faithfully,

Karen Kemp
Executive Director (Banking Policy)

Encl. CG-5 "Guideline on a Sound Remuneration System"

c.c. The Chairman, The Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn: Ms Natalie Li)

[1] In the case of overseas-incorporated AIs, the remuneration system applicable to officers and employees engaged in the conduct of their business and operations in Hong Kong.