



HONG KONG MONETARY AUTHORITY
香港金融管理局

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

23 November 2011

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Disclosure on remuneration

As you may be aware, the Basel Committee on Banking Supervision published a paper on *Pillar 3 disclosure requirements for remuneration* in July 2011¹. This followed a public consultation earlier in the year to which the two industry associations in Hong Kong responded.

The Basel Committee's paper sets out more specific requirements in furtherance of the general premise, in the Basel Committee's Supplemental Pillar 2 guidance of July 2009², that "Firms must disclose clear, comprehensive and timely information about their compensation practices to facilitate constructive engagement by all stakeholders.....". The Basel Committee's paper is an international standard that to some extent reflects, and to some extent goes beyond, the disclosure provisions currently in Section 3 of the HKMA's supervisory policy manual module a *Guideline on a Sound Remuneration System* (CG-5). Authorized Institutions (AIs) are therefore strongly encouraged to follow the disclosure provisions set out in the Basel Committee's paper, so far as applicable to them, and insofar as they reasonably can on a proportionate basis, having regard to the extent to which they use incentives-based compensation arrangements and the size, scope, nature and complexity of their business. AIs are encouraged to make the relevant disclosures at least on an annual basis, with effect from the financial year 2011. To assist AIs in this process, there is annexed to this letter a combined list of the disclosure required under CG-5 and the Basel Committee's paper (the items underlined indicate an area where the Basel Committee's paper goes beyond CG-5).

To increase transparency and promote market discipline, AIs are also strongly encouraged to articulate, as far as possible, how the disclosed qualitative factors complement and support their overall risk management framework.

¹ Please refer to <http://www.bis.org/publ/bcbs197.pdf>.

² Please refer to paragraph 94 of Enhancements to Basel II framework released by the Basel Committee in July 2009: <http://www.bis.org/publ/bcbs157.pdf>.

In line with the general principles on disclosure set out in CG-5, overseas-incorporated AIs are not expected to make separate disclosures in respect of their local operations, provided that the required information already forms part of the disclosures made by the institutions' head offices.

The Monetary Authority will be taking the necessary steps to amend CG-5 to bring it into line with the Basel Committee's remuneration disclosure standard, in a manner considered suitable for the local banking sector, and we will provide a revised draft of CG-5 to the industry associations in the near future.

In due course, we propose to take stock of the disclosure practices regarding remuneration in Hong Kong for the purpose of considering whether there is a case for incorporating remuneration disclosure requirements within the Banking (Disclosure) Rules in the light of their inter-relationship with risk management generally.

Should you have any questions relating to this letter, please feel free to contact Mr Keith Ho on 2878-1909.

Yours faithfully,

Karen Kemp
Executive Director (Banking Policy)

Encl.

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