

Chinese business & finance

China tells banks to limit executive pay under 'common prosperity' drive

Guidelines issued as Xi Jinping is expected to secure a third term in power later this year



President Xi Jinping has targeted China's financial sector as part of a campaign to reduce chronic wealth imbalances in the country
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Tom Mitchell in Singapore, **Cheng Leng** in Hong Kong and **Sun Yu** in Beijing 5 HOURS
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Chinese securities regulators and industry associations have instructed local and foreign banks to rein in executive pay levels, in the latest sign that President Xi Jinping's drive to promote "common prosperity" is gathering pace ahead of a crucial Communist party congress this year.

On Friday, the Asset Management Association of China instructed fund houses to "enhance [their] social responsibility and capability to serve the economy and the country's strategies".

According to the AMAC's new rules, at least 40 per cent of bonus payments to senior staff should be deferred for three or more years.

The association also decreed that senior staff should invest at least 20 per cent of their bonuses in financial products issued by their own companies. It added that the guidelines were intended to corral "risk-taking behaviour and potential risks" stemming from executives' pursuit of short-term bonus payouts.

The Securities Association of China issued similar guidelines last month.

The new guidelines were finalised months after the Beijing office of [China's](#) securities regulator convened a meeting in January about pay restraint with financial

institutions including CICC, Citic, Credit Suisse, Goldman Sachs and UBS, according to people briefed on the matter. Domestic and foreign banks were also briefed more recently on the new pay rules issued by the AMAC and the SAC.

Citic, CICC and UBS did not respond immediately to requests for comment. Credit Suisse and Goldman Sachs declined to comment.

The regulators' instructions to financial industry representatives, which were first reported by Bloomberg, marked the latest efforts by Xi's administration [to constrain the sector](#).

A senior investment banker based in Shanghai who asked not to be identified said that pay, bonuses and other incentives should be regarded as financial institutions' "internal affairs".

"There's no need for regulatory authorities to control [them]," the banker said, adding that "the only thing the authorities need to do is impose penalties for wrongdoing".

The guidelines issued by the AMAC and SAC also called for banks to reclaim pay and bonuses from any employees found guilty of misconduct.

Michael Pettis, a finance professor at Peking University, said the rules were a "good idea" given that "performance-related bonuses can trigger behaviour that exacerbates volatility, especially among traders and investors".

But he added that it posed a headache for global financial institutions. "The problem is that it is very hard for banks and investment funds that operate internationally to transform pay in China if pay isn't transformed the same way everywhere," Pettis said. "If Beijing is serious about doing this, it will only increase the split between Chinese and global financial systems."

Liu He, China's financial tsar and a longtime Xi confidante, has [waged a years-long battle](#) to reduce financial sector risk. Anti-corruption investigators also launched a periodic sweep of the industry last year, shortly after Xi declared that he intended to address chronic wealth imbalances in China.

China's president is expected to secure an unprecedented [third five-year term](#) as head of the party and military this year. He will be up for reappointment as head of state at next year's annual session of China's parliament.

"Xi is very unhappy with the financial sector," said one Chinese government policy adviser who asked not to be identified. "It's a very tough time for the industry."

A senior executive at CICC, who asked not to be named because of the sensitivity of the subject, said that some staff in Beijing had complained that their pay packages were typically much smaller than those of their colleagues in Hong Kong.

Such complaints, he added, were rebuffed with pointed reminders that CICC employees in the capital were paid “far above average” salaries compared with most Beijing residents.

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