



強制性公積金計劃管理局
MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

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By Email

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Circular Letter: SU/CTR/2018/002

To: All Approved Trustees

Dear Sir /Madam,

Special Voluntary Contributions (SVC) Arrangements

The primary objective of the Mandatory Provident Fund (MPF) System is to provide a basic level of retirement protection to the Hong Kong working population. The Authority has always been encouraging workers to save more for retirement. It is considered that MPF voluntary contributions would assist in achieving the said objective. At the same time, the Authority is also mindful of the risks that may be posed by the operations of those SVC¹ accounts which involve frequent in-and-out transactions and market timing trading that may lead to potential dilution effect on the concerned MPF funds hence adversely affecting the interests of other MPF scheme members. This circular aims to provide guidance to approved trustees for strengthening their surveillance and risk management framework when offering and operating SVC arrangements.

General Policy

In general, the provisions of making voluntary contributions and the requirements with respect to voluntary contributions are set out in the MPF legislation, and these provisions have to be complied with in any SVC arrangements. Operation

¹ Under SVC arrangements, SVC members would generally make voluntary contributions directly to the trustees without going through their employers.

of SVC arrangements are also subject to the governing rules of the relevant schemes. In administering SVC, it is the responsibilities of approved trustees to ensure that the terms and conditions as well as the risk management framework are robust and able to detect issues promptly to prevent abusive usage of SVC arrangements. This circular sets out some general guidance which is not meant to be exhaustive. Approved trustees should adopt appropriate measures having regard to their SVC activities and dynamics.

Guidance on Operating SVC Arrangements

The Authority considers that each approved trustee should have their own risk management framework and control mechanisms in place for SVC arrangements, taking into account the different risks they will face based on their own client profiles. It is expected that the risk management framework and control mechanisms would cover the following:

- (a) The management of approved trustees should assume full responsibility for monitoring and ensuring on-going effectiveness of the risk management measures;
- (b) There should be regular monitoring as well as management reporting over SVCs including statistics and other relevant information to ensure that the management of approved trustees is fully and timely informed of key management information of the SVC operations;
- (c) With regard to enrolment, approved trustees should conduct, among others, KYC procedures including due diligence on client profile and source of funds to verify that the intended scheme participants would be able to meet the eligibility requirements;
- (d) When receiving SVC, approved trustees should establish an SVC threshold, exceeding which the SVC would be subject to enhanced scrutiny, e.g. to obtain management approval, to verify the source of funds by seeking proof from the scheme member or to make additional enquiries with the scheme member. Approved trustees should ensure that their SVC arrangements would comply with, among others, the relevant requirements under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance and other relevant legislation;

- (e) With regard to fund switching, approved trustees should have effective control measures/mechanisms, such as monitoring and analysis of members' investment trading pattern, to identify members with frequent in-and-out transactions and take pre-emptive actions to ensure that MPF funds are not used for speculation or short term trading purpose. Approved trustees should deliberate and document properly what constitutes frequent in-and-out transactions in their own situation and dynamics of SVC activities. If an approved trustee identifies irregularity of any member's investment trading pattern which may affect the fund performance and interests of other scheme members, the approved trustee should take appropriate actions to deter such activities; and
- (f) With regard to withdrawal, approved trustees should consider implementing appropriate measures that best suit their situations, such as limiting SVC withdrawal frequency to prevent frequent withdrawals from SVC accounts. The Authority understands from some trustees that on average SVC members do not generally withdraw more than 4 times a year. Approved trustees may take it as a reference in formulating measures on SVC withdrawal frequency.

Taking the above into consideration, approved trustees should review and enhance their existing risk management framework and control measures where appropriate as soon as possible. Approved trustees are reminded to examine the governing rules of their schemes to ascertain whether they are empowered to impose such measures. In the event that a change of governing rules is involved, approved trustees have to submit their applications to the Authority for approval. If you have any questions, please do not hesitate to contact your supervisory manager in the Authority.

Yours faithfully,



Ginni Wong
Head (Supervision)
Supervision Division