

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

II.5 Guidelines on Annual Statements of Approved Pooled Investment Funds

INTRODUCTION

Section 6 of Schedule 1 to the Mandatory Provident Fund Schemes (General) Regulation (“the Regulation”) provides that the funds of a constituent fund of a registered scheme may invest in an approved pooled investment fund (“APIF”).

2. Section 6(1) of the Regulation provides that an investment fund is an APIF for the purposes of the Regulation if it is an insurance policy, authorized unit trust or authorized mutual fund¹ that

- (a) complies with the requirements set out in section 17(2) of Schedule 1 to the Regulation; and
- (b) is approved by the Mandatory Provident Fund Schemes Authority (“the Authority”).

3. Section 17(2)(h) of Schedule 1 to the Regulation stipulates that the financial statements, investment reports and auditor’s reports of an APIF must be lodged with the Authority and additional information relating to those statements and reports must be provided to the Authority whenever the Authority requests.

¹ The existing law does not permit the incorporation of mutual fund corporations in Hong Kong. The Guidelines issued therefore refer only to insurance policies and authorized unit trusts.

4. C2.2 and D2.2 of the Code on MPF Investment Funds provides that the reporting requirements specified in sections 81, 87, 102 and 110 of the Regulation are relevant to an APIF. Those sections specify the requirements on financial statement, investment report, auditor's report and other information to be included in the annual statements of a registered scheme.

5. Section 6H(1) of the Mandatory Provident Fund Schemes Ordinance ("the Ordinance") provides that the Authority may issue guidelines for the guidance of approved trustees, service providers and other persons concerned with the Ordinance.

6. Section 6H(3) of the Ordinance provides that a guideline may require persons (including persons belonging to a class) specified in the guideline to give to the Authority information or documents of a kind specified in the guideline. The guideline may only specify information or documents of a kind that the Authority reasonably requires for the exercise or performance of its functions.

7. The Authority hereby issues guidelines to specify the information to be submitted in respect of the annual statements of APIFs. These guidelines also specify the means by which the annual statements should be submitted to the Authority.

ANNUAL STATEMENTS

Contents of Annual Statements

8. The contents of the annual statements of APIFs are set out in:
- (a) Annex A (Form APIF-AS/UT) in respect of authorized unit trusts;
- and

(b) Annex B (Form APIF-AS/IP) in respect of insurance policies.

9. The information to be provided should be in respect of the end of each financial year of the APIF.

Definitions of Terms

10. Except where otherwise specified in the forms in the Annexes, the terms common to the forms, the Ordinance and the subsidiary legislation of the Ordinance carry the same meanings as defined in the Ordinance and the subsidiary legislation. References should be made to the Ordinance and the subsidiary legislation, where necessary.

Signing Requirements

11. The annual statements must be signed by at least 2 directors of:
- (a) the approved trustee of an authorized unit trust; or
 - (b) the insurer of an insurance policy.

Submission of Annual Statement

12. The annual statements must be submitted in hard copies to:

Mandatory Provident Fund Schemes Authority
21st and 22nd floors
One International Finance Centre
1 Harbour View Street
Hong Kong.

13. The annual statements must be submitted within 6 months of each financial year end of the APIF.

Warning

14. It is an offence under section 43E of the Ordinance if a person, in any document given to the Authority, makes a statement that he knows to be false or misleading in a material respect, or recklessly makes a statement which is false or misleading in a material respect.

FORM APIF-AS/UT

MANDATORY PROVIDENT FUND SCHEMES ORDINANCE (CAP. 485)
(“the Ordinance”)

ANNUAL STATEMENTS OF APPROVED POOLED INVESTMENT FUND,
BEING AN AUTHORIZED UNIT TRUST

NOTES :

- (1) The annual statements should be prepared by the approved trustee (“the Trustee”) of the approved pooled investment fund (“APIF”).*
 - (2) The Trustee should refer to the “Guidelines on Annual Statements of Approved Pooled Investment Funds” for the purpose of submitting the annual statements of the APIF.*
 - (3) The Trustee is not required to adopt the format as specified in this form and to disclose the items in the same order.*
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I Financial Statements

The financial statements of the APIF should include the items stipulated below:

(A) Statement of Assets and Liabilities

The following must be separately disclosed:

1. Total value of investments
2. Bank balances
3. Dividends and other receivables
4. Amounts receivable on subscription
5. Bank loans and overdrafts or other forms of borrowings
6. Amounts payable on redemption
7. Distributions payable
8. Total value of all assets
9. Total value of all liabilities
10. Net asset value
11. Number of units in issue
12. Net asset value per unit

(B) Revenue Statement

1. Total investment income net of withholding tax, broken down by category
2. Total other income, broken down by category including security lending
3. Equalization on issue and cancellation of units

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4. An itemized list of various costs which have been debited from the fund including:
 - (a) fees paid to the investment manager
 - (b) remuneration of the trustee/custodian
 - (c) other amounts paid to any associates of the trustee, custodian, or investment manager
 - (d) safe custody and bank charges
 - (e) auditors' remuneration
 - (f) interest on borrowings
 - (g) legal and other professional fees
 - (h) any other expenses borne by the fund
 5. Taxes
 6. Amounts transferred to and from the capital account
 7. Net income to be carried forward for distribution

(C) Distribution Statement

1. Amount brought forward at the beginning of the year
2. Net income for the year
3. Interim distribution per unit and date of distribution
4. Final distribution per unit and date of distribution
5. Undistributed income carried forward

(D) Statement of Movement in Capital Account

1. Value of the fund as at the beginning of the year
2. Number of units issued and the amounts received upon such issuance (after equalization if applicable)
3. Number of units redeemed and the amount paid on redemption (after equalization if applicable)
4. Any items resulting in an increase / decrease in value of the fund including:
 - (a) surplus / loss on sale of investments
 - (b) exchange gain / loss
 - (c) unrealized appreciation / diminution in value of investments
 - (d) net income for the year less distribution
5. Amounts transferred to and from the revenue account
6. Value of the fund as at the end of the year

(E) Notes to the Accounts

The following matters should be set out in the notes to the accounts:

1. Principal accounting policies
 - (a) the basis of valuation of the assets of the fund
 - (b) the revenue recognition policy regarding dividend income and other income
 - (c) foreign currency translation
 - (d) the basis of valuation of financial futures and option contracts as well as currency forward contracts
 - (e) taxation

- (f) any other accounting policy adopted to deal with items which are judged material or critical in determining the transactions and in stating the disposition of the fund

Any changes to the above accounting policies and their financial effects upon the accounts should also be disclosed.

2. Transactions with Associates

The following should be disclosed:

- (a) a description of the nature of any transactions entered into, during the financial year, between the fund and the investment manager (including any of its delegates) or any entity in which those parties or their associates have a material interest, together with a statement confirming that these transactions have been entered into in the ordinary course of business and on normal commercial terms;
- (b) (i) the total aggregate value of the transactions of the fund effected through brokers who are associates of the trustee or investment manager of the fund or of the investment manager's delegates;
- (ii) the percentage of such transactions in value to the total transactions in value of the fund during the year;
- (iii) the total brokerage commission paid to such brokers in relation to transactions effected through them;
- (iv) the total brokerage commission paid in respect of the fund; and
- (v) the average rate of commission effected through such broker;
- (c) details of all transactions which are outside the ordinary course of business or not on normal commercial terms entered into, during the year, between the fund and the investment manager (including any of its delegates) or any entity in which these parties or their associates have a material interest;
- (d) name of the investment manager (including any of its delegates), or any associates of such company if any of them becomes entitled to profits from transactions in units or from management of the fund and the amount of profits to which each of them becomes entitled;

- (e) where the fund does not have any transactions with associates of the investment manager or of its delegates during the year, a nil statement to that effect; and
- (f) the basis of the fee charged for the management of the fund and the name of the investment manager (including any of its delegates). In addition, where a performance fee is charged to the fund, the basis of calculation and amount of performance fee charged should be separately disclosed.
3. Details of any soft commission arrangements relating to dealings in the property of the fund or a nil statement if no such arrangements exist during the year.
4. Borrowings
- State whether the borrowings entered into are secured or unsecured and the duration of the borrowings.
5. Contingent liabilities and commitments
- Details of any contingent liabilities and commitments of the fund.
6. If the free negotiability of any asset is restricted by statutory or contractual requirements, this must be stated.

II Auditor's Report

The report of the Auditor should state:

1. Whether in the auditor's opinion, the financial statements prepared for that year have been properly prepared in accordance with the relevant provisions of the constitutive documents of the fund, the Ordinance, the Mandatory Provident Fund Schemes (General) Regulation ("the Regulation"), the Code on MPF Investment Funds and other relevant guidelines issued by the Mandatory Provident Fund Schemes Authority ("the Authority").
2. Without prejudice to the foregoing, whether in the auditor's opinion, a true and fair view is given of the disposition of the fund at the end of the year and of the transactions of the fund for the year then ended.
3. Whether or not the assets of the fund were at the end of that year encumbered by

any encumbrance, otherwise than as permitted by section 65 of the Regulation, and, if they were, give particulars of the encumbrance.

4. Whether or not, in the auditor's opinion, the requirements specified in section 28 of the Ordinance with respect to forbidden investment practices and the requirements of sections 37(2), 51 and 52, and Schedule 1 to, the Regulation and the relevant guidelines issued in respect of those sections have been complied with in all material respects as at

- (a) the end of that year; and
- (b) 2 other dates in that year nominated by the auditor,

and, if not, specify to what extent those requirements have, in the auditor's opinion, not been complied with. The intervening period between the 2 dates referred to in (b) must be not less than 3 months or, if the Authority has in a particular case allowed a shorter period, not less than that period.

5. If the auditor is of the opinion that proper books and records have not been kept by the fund and / or the statements prepared are not in agreement with the fund's books and records, that fact.
6. If the auditor has failed to obtain all the information and explanations which, to the best of his knowledge and belief, are necessary for the purposes of the audit, that fact.
7. The auditor may include in the auditor's report such explanations and qualifications as the auditor thinks relevant.

III Investment Report

The investment report of the APIF should include the items stipulated below:

(A) Investment Portfolio

1. Number or quantity of each holding together with the description;
2. The market value of each holding:
 - (a) in the case of equities and warrants, categorize by country; and

- (b) in the case of debt securities and convertible debt securities, categorize by currency denomination;
3. The value of each holding as a percentage of the total net asset value (please specify whether trade day or settlement day basis is adopted);
4. The total investment stated at cost;
5. Statement of movements in portfolio holdings since the end of the preceding financial year.

Note : For (5), the Trustee is expected to choose the most appropriate illustration of portfolio holdings taking into account the objective and nature of the fund. Any one of the following methods may be considered acceptable to the Authority:

- (a) detailed holdings in individual securities;
- (b) holdings in different sectors of a particular market;
- (c) holdings in different countries (in the case of, for example, a global equity fund); or
- (d) holdings in various kinds of securities such as equities, bonds, warrants and options etc., (in the case of a diversified fund).

Except for (a) above, movements in portfolio holdings can be expressed in percentages.

(B) Performance Table

1. A comprehensive table covering the last 3 financial years and including, for each financial year, at the end of the financial year:
 - (a) the total net asset value; and
 - (b) the net asset value per unit.

2. A performance record over the last 10 financial years, or if the fund has not been in existence during the whole of that period, over the whole period in which it has been in existence, showing
 - (a) the highest issue price and the lowest redemption price of the units during each of those years;
 - (b) the net annualized investment return (percentage change in unit price) during each of those years, except that for the first year, the actual net investment return for the relevant period should be shown without annualization but with the relevant period disclosed; and
 - (c) the basis of calculation of the net investment return should be disclosed in a footnote.

IV Other Relevant Information

The following information must be included in the annual statement of the APIF:

1. A statement as to whether or not the Trustee has, during the relevant financial year, become aware of any failures by custodian, investment manager, and their delegates to comply with the obligations imposed on them, if so, give particulars of those failures and any rectification of those failures.
2. A statement as to whether or not the Trustee is aware of any events of a significant nature relating to the fund that occurred during the relevant financial year which have not been reported to the Authority, if so, give details of those events.
3. A statement as to whether or not the provisions of the constitutive documents, the Ordinance, the Regulation, the Code on MPF Investment Funds and other relevant guidelines issued by the Authority have been complied with in all material respects during the relevant financial year and, if those provisions have not been so complied with, a statement giving particulars of the failures to comply with those provisions.
4. Any material changes (including changes of custodians, investment managers and delegates of investment managers) which have not been reported to the Authority during the year.

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5. A declaration that the Trustee has, during the relevant financial year, supervised, and exercised proper control over, all persons appointed or engaged for the purposes of the fund.

FORM APIF-AS/IP

**MANDATORY PROVIDENT FUND SCHEMES ORDINANCE (CAP. 485)
("the Ordinance")**

**ANNUAL STATEMENTS OF APPROVED POOLED INVESTMENT FUND
BEING AN INSURANCE POLICY**

NOTES :

- (1) The annual statements should be prepared by the insurer of the APIF.*
 - (2) The insurer should refer to the "Guidelines on Annual Statements of Approved Pooled Investment Funds" for the purpose of submitting the annual statements of APIF.*
 - (3) The insurer is not required to adopt the format as specified in this form and to disclose the items in the same order.*
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I Financial Statements

The financial statements of the APIF should include the items stipulated below:

(A) Statement of Assets and Liabilities

The following must be separately disclosed:

1. Total value of investments
2. Bank balances
3. Dividends and other receivables
4. Amounts receivable on subscription
5. Bank loans and overdrafts or other forms of borrowings
6. Amounts payable on redemption
7. Distributions payable
8. Total value of all assets
9. Total value of all liabilities
10. Net asset value
11. Number of units in issue for unitized fund
12. Net asset value per unit for unitized fund
13. Value of Investment Fluctuation / Guarantee Reserve Fund for class G insurance policy

(B) Revenue Statement

1. Total investment income net of withholding tax, broken down by category
2. Total other income, broken down by category including security lending
3. Equalization on issue and cancellation of units for unitized fund

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4. An itemized list of various costs which have been debited from the fund including:
 - (a) fees paid to the authorized insurer
 - (b) remuneration of the custodian
 - (c) fees paid to investment manager
 - (d) other amounts paid to any associates of the authorized insurer, custodian, or investment manager
 - (e) safe custody and bank charges
 - (f) auditors' remuneration
 - (g) interest on borrowings
 - (h) legal and other professional fees
 - (i) any other expenses borne by the fund
 5. Taxes
 6. Amounts transferred to and from the fundholders' account
 7. Net income to be carried forward for distribution

(C) Distribution Statement

1. Amount brought forward at the beginning of the year
 2. Net income for the year
 3. Interim distribution per unit for unitized fund or amount of interim distribution for non-unitized fund and date of distribution
 4. Final distribution per unit for unitized fund or amount of interim distribution for non-unitized fund and date of distribution
 5. Undistributed income carried forward
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(D) Statement of Movement in Fundholders' Account

1. Value of the fund as at the beginning of the year
2. Number of units issued and the amounts received upon such issuance (after equalization if applicable) for unitized fund or amounts (gross and net) of subscription for non-unitized fund
3. Number of units redeemed and the amount paid on redemption (after equalization if applicable) for unitized fund or amounts of redemption for non-unitized fund
4. Any items resulting in an increase / decrease in value of the fund including:
 - (a) surplus / loss on sale of investments
 - (b) exchange gain / loss
 - (c) unrealized appreciation / diminution in value of investments
 - (d) net income for the year less distribution
5. Amounts transferred to and from the revenue account
6. Value of the fund as at the end of the year
7. Amounts transferred to and from Investment Fluctuation / Guarantee Reserve Fund for class G insurance policy
8. Amounts transferred to and from Profit and Loss account of the authorized insurer for class G insurance policy

(E) Notes to the Accounts

The following matters should be set out in the notes to the accounts:

1. Principal accounting policies
 - (a) the basis of valuation of the assets of the fund
 - (b) the revenue recognition policy regarding dividend income and other income

- (c) foreign currency translation
- (d) the basis of valuation of financial futures and option contracts as well as currency forward contracts
- (e) taxation
- (f) any other accounting policy adopted to deal with items which are judged material or critical in determining the transactions and in stating the disposition of the fund

Any changes to the above accounting policies and their financial effects upon the accounts should also be disclosed.

2. Transactions with Associates

The following should be disclosed:

- (a) a description of the nature of any transactions entered into, during the financial year, between the fund and the investment manager (including any of its delegates) or any entity in which those parties or their associates have a material interest, together with a statement confirming that these transactions have been entered into in the ordinary course of business and on normal commercial terms;
- (b)
 - (i) the total aggregate value of the transactions of the fund effected through brokers who are associates of the insurer or investment manager of the fund or of the investment manager's delegates;
 - (ii) the percentage of such transactions in value to the total transactions in value of the fund during the year;
 - (iii) the total brokerage commission paid to such broker in relation to transactions effected through it;
 - (iv) the total brokerage commission paid in respect of the fund; and
 - (v) the average rate of commission effected through such broker;
- (c) details of all transactions which are outside the ordinary course of business or not on normal commercial terms entered into, during the year, between the fund and the investment manager (including any of its delegates) or any

- entity in which these parties or their associates have a material interest;
- (d) name of the investment manager (including any of its delegates), or any associates of such company if any of them becomes entitled to profits from investing in the fund or from management of the fund and the amount of profits to which each of them becomes entitled;
 - (e) where the fund does not have any transactions with associates of the investment manager or of its delegates during the year, a nil statement to that effect; and
 - (f) the basis of the fee charged for the investment management of the fund and the name of the investment manager (including any of its delegates). In addition, where a performance fee is charged to the fund, the basis of calculation and amount of performance fee charged should be separately disclosed.
3. Details of any soft commission arrangements relating to dealings in the property of the fund or a nil statement if no such arrangements exist during the year.
 4. Borrowings
State whether the borrowings entered into are secured or unsecured and the duration of the borrowings.
 5. Contingent liabilities and commitments
Details of any contingent liabilities and commitments of the fund.
 6. If the free negotiability of any asset is restricted by statutory or contractual requirements, this must be stated.
 7. Valuation basis for class G insurance policy

II Auditor's Report

The report of the Auditor should state:

1. Whether in the auditor's opinion, the financial statements prepared for that year have been properly prepared in accordance with the relevant provisions of the constitutive documents of the fund, the Ordinance, the Mandatory Provident Fund Schemes (General) Regulation ("the Regulation"), the Code on MPF Investment

Funds and other relevant guidelines issued by the Mandatory Provident Fund Schemes Authority (“the Authority”);

2. Without prejudice to the foregoing, whether in the auditor’s opinion, a true and fair view is given of the disposition of the fund at the end of the year and of the transactions of the fund for the year then ended;
3. Whether or not the assets of the fund were at the end of that year encumbered by any encumbrance, otherwise than as permitted by section 65 of the Regulation, and, if they were, give particulars of the encumbrance;
4. Whether or not, in the auditor’s opinion, the requirements specified in section 28 of the Ordinance with respect to forbidden investment practices and the requirements of sections 37(2), 51 and 52, and Schedule 1 to, the Regulation and the relevant guidelines issued in respect of those sections have been complied with in all material respects as at

(a) the end of that year; and

(b) 2 other dates in that year nominated by the auditor,

and, if not, specify to what extent those requirements have, in the auditor’s opinion, not been complied with. The intervening period between the 2 dates referred to in (b) must be not less than 3 months or, if the Authority has in a particular case allowed a shorter period, not less than that period.

5. If the auditor is of the opinion that proper books and records have not been kept by the fund and / or the statements prepared are not in agreement with the fund’s books and records, that fact.
6. If the auditor has failed to obtain all the information and explanations which, to the best of his knowledge and belief, are necessary for the purposes of the audit, that fact.
7. The auditor may include in the auditor’s report such explanations and qualifications as the auditor thinks relevant.

III Investment Portfolio

The investment report of the APIF should include the items stipulated below:

(A) Investment Portfolio

1. Number or quantity of each holding together with the description;
2. The market value of each holding:
 - (a) in the case of equities and warrants, categorize by country; and
 - (b) in the case of debt securities and convertible debt securities, categorize by currency denomination;
3. The value of each holding as a percentage of the total net asset value (please specify whether trade day or settlement day basis is adopted);
4. The total investment stated at cost; and
5. Statement of movements in portfolio holdings since the end of the preceding financial year.

Note : For (5), the insurer is expected to choose the most appropriate illustration of portfolio holdings taking into account the objective and nature of the fund. Any one of the following methods may be considered acceptable to the Authority:

- (a) detailed holdings in individual securities;
- (b) holdings in different sectors of a particular market;
- (c) holdings in different countries (in the case of, for example, a global equity fund); or
- (d) holdings in various kinds of securities such as equities, bonds, warrants and options etc, (in the case of a diversified fund).

Except for (a) above, movements in portfolio holdings can be expressed in percentages.

(B) Performance Table

1. A comprehensive table covering the last 3 financial years and including, for each financial year, at the end of the financial year:

- (a) the total net asset value; and
 - (b) the net asset value per unit for unitized fund.
2. A performance record over the last 10 financial years, or if the fund has not been in existence during the whole of that period, over the whole period in which it has been in existence, showing
- (a) the highest issue price and the lowest redemption price of the units during each of those years for unitized fund;
 - (b) the net annualized investment return (percentage change in unit price for unitized fund and the declared investment return for non-unitized fund) during each of those years, except that for the first year, the actual net investment return for the relevant period should be shown without annualization but with the relevant period disclosed; and
 - (c) the basis of calculation of the net investment return should be disclosed in a footnote.

IV Other Relevant Information

The following information must be included in the annual statement of the APIF:

1. A statement as to whether or not the insurer/custodian has, during the relevant financial year, become aware of any failures by the insurer, the custodian, the investment manager, and their delegates to comply with the obligations imposed on them, if so, give particulars of those failures and any rectification of those failures.
2. A statement as to whether or not the insurer/custodian is aware of any events of a significant nature relating to the fund that occurred during the relevant financial year which have not been reported to the Authority, if so, give details of those events.
3. A statement as to whether or not the provisions of the constitutive documents, the Ordinance, the Regulation, the Code on MPF Investment Funds and other relevant guidelines issued by the Authority have been complied with in all material respects during the relevant financial year and, if those provisions have not been so complied with, a statement giving particulars of the failures to comply with those provisions.

4. Any material changes (including changes of custodians, investment managers and delegates of investment managers) which have not been reported to the Authority during the year.
5. A declaration that the insurer/custodian has, during the relevant financial year, supervised, and exercised proper control over, all persons appointed or engaged for the purposes of the fund.

V Appointed actuary's certificate for class G insurance policies

In respect of each series of insurance policies, a certificate by the appointed actuary of the authorized insurer providing the following:

1. stating whether in his opinion, proper records have been kept by the insurer adequate for the purpose of the valuation of the liabilities of the series of insurance policies;
2. stating whether he is satisfied that, as at the date to which the valuation relates, the value of the assets identified as representing the fund maintained by the authorized insurer in accordance with section 19(4) of Schedule 1 to the Mandatory Provident Fund Schemes (General) Regulation in respect of a series of insurance policies was not less than the aggregate of the amount of the liabilities attributable to that series of insurance policies and such amount as may be required to be held in the fund in accordance with regulations made under section 59(1)(a) and (ab) of the Insurance Companies Ordinance;
3. stating whether in his opinion there is a prudent and satisfactory relationship between the nature and term of the assets and the nature and term of the liabilities;
4. confirming that he has complied with the standards, if any, prescribed under "Guidelines on Reserving Standards for Investment Guarantees" (Guidelines III.9), which are applicable to him; and
5. specifying such of those standards applicable to him with which he has complied.

If he considers it necessary, the appointed actuary shall add to the certificate such qualification, amplification or explanation as is appropriate.