

## **MANDATORY PROVIDENT FUND SCHEMES AUTHORITY**

### **III.1 Guidelines on Debt Securities**

#### **INTRODUCTION**

Section 7(2) 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 be invested in, inter alia,

- (a) a debt security issued by an exempt authority; or
- (b) a debt security in respect of which the repayment of the principal and the payment of interest is unconditionally guaranteed by an exempt authority; or
- (c) a debt security that satisfies a minimum credit rating set by the Mandatory Provident Fund Schemes Authority (“the Authority”), based on the credit rating of the security as determined by a credit rating agency approved by the Authority for the purposes of the Schedule.

2. Section 7(1)(d) of Schedule 1 to the Regulation defines “exempt authority” as, inter alia, a government, the central or reserve bank of a country or territory, or a multilateral international agency all with the highest possible credit rating determined by a credit rating agency approved by the Authority.

3. Section 7(3) of Schedule 1 to the Regulation provides that the general restrictions on spread of investments under section 2 of the Schedule do not apply to debt securities of a kind referred to in section 7(2)(a) or (b) of the Schedule (i.e. debt securities issued or guaranteed by exempt authorities). The funds of a constituent fund investing in such debt securities are subject to the following provisions instead:

- (a) not more than 30 per cent of the funds of a constituent fund may be invested in debt securities of the same issue; and
- (b) all of the funds of a constituent fund may be invested in debt securities of the same issuer so long as they comprise at least 6 different issues.

4. Section 37(2) of the Regulation provides that a capital preservation fund may be invested in, inter alia, debt securities with a remaining maturity period of 1 year or less and that satisfy the minimum short term credit rating set by the Authority, based on the credit rating of the securities as determined by an approved credit rating agency.

5. Section 2 of the Regulation defines approved credit rating agency as a credit rating agency approved by the Authority for the purposes of the Regulation.

6. Section 6H 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.

7. The Authority hereby issues guidelines to specify:
- (a) the multilateral international agencies;
  - (b) the approved credit rating agencies and minimum credit ratings requirements with respect to debt securities; and
  - (c) what constitutes “same issue” in respect of debt securities issued or guaranteed by an exempt authority.

### **MULTILATERAL INTERNATIONAL AGENCIES**

8. The following is a list of multilateral international agencies specified for the purpose of section 7(1) of Schedule 1 to the Regulation:
- (a) The African Development Bank;
  - (b) The Asian Development Bank;
  - (c) The European Investment Bank;
  - (d) The Inter-American Development Bank;
  - (e) The International Bank for Reconstruction and Development (commonly known as the World Bank);
  - (f) The International Finance Corporation (an affiliate of the World Bank);
  - (g) The European Bank for Reconstruction and Development;
  - (h) Caribbean Development Bank;
  - (i) Council of Europe Development Bank;
  - (j) European Atomic Energy Community;

- (k) European Central Bank;
- (l) European Coal & Steel Community;
- (m) European Community;
- (n) European Company for the Financing of Railroad Rolling Stock (EUROFIMA); and
- (o) Nordic Investment Bank.

9. The organizations listed in paragraph 8 will remain as multilateral international agencies for the purpose of section 7(1) of Schedule 1 to the Regulation for so long as they maintain the credit rating required therein.

## **CREDIT RATINGS**

### **Debt Securities**

10. The following is the minimum credit rating of debt securities as determined by the approved credit rating agencies for the purposes of section 7(2)(c) of Schedule 1 to the Regulation:

	<b><u>Minimum Credit Ratings</u></b>	
<b><u>Approved Credit Rating Agency</u></b>	<b><u>Long-term Debt</u></b> <b>(one year or over)</b>	<b><u>Short-term Debt</u></b> <b>(less than one year)</b>
Fitch	BBB	F2
Rating & Investment Information, Inc.	A-	a-1
Moody's Investors Service, Inc.	Baa2	Prime-2
Standard & Poor's Corporation	BBB	A-2

## Debt Securities for Capital Preservation Fund

11. The following is the minimum credit rating of debt securities, qualified for investment by capital preservation fund, as determined by the approved credit rating agencies for the purpose of section 37(2) of the Regulation:

<u>Approved Credit Rating Agency</u>	<u>Long-term Debt</u> (one year or over)	<u>Short-term Debt</u> (less than one year)
Fitch	A	F1
Rating & Investment Information, Inc.	AA-	a-1+
Moody's Investors Service, Inc.	A2	Prime-1
Standard & Poor's Corporation	A	A-1

## Debt Securities Issued or Guaranteed by an Exempt Authority – Same Issue

12. For the purpose of section 7(3) of Schedule 1 to the Regulation, debt securities referred to in section 7(2)(a) or (b) of the Schedule will be regarded as being of a different issue if, even though they are issued by the same issuer, they are issued on different terms whether as to repayment dates, interest rates, the identity of the guarantor, or otherwise.

## **DEFINITIONS OF TERMS**

13. Except where otherwise specified in the Guidelines, the terms common to 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.