

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

III.2 Guidelines on Other Securities

INTRODUCTION

Section 8(2) of Schedule 1 to the Mandatory Provident Fund Schemes (General) Regulation (“the Regulation”) provides that not more than 10% of the funds of a constituent fund may be invested in other securities as specified under paragraphs (a) to (c) of that subsection.

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

3. The Authority hereby issues guidelines to clarify the limit of investment in those other securities and to specify the categories of such other securities.

LIMIT OF INVESTMENT IN OTHER SECURITIES

4. Investment in other securities as specified in section 8(2)(a) to (c) of Schedule 1 to the Regulation should in aggregate not exceed 10% of the funds of a constituent fund.

CATEGORIES OF OTHER SECURITIES

Shares listed on a stock exchange that is not a recognized stock exchange

5. The guidelines on recognized exchanges specify a list of recognized stock exchanges. References should be made to those guidelines for the purposes of section 8(2)(a) of Schedule 1 to the Regulation.

Securities approved by the Authority other than shares listed on a recognized stock exchange

6. For the purposes of section 8(2)(b) of Schedule 1 to the Regulation, the securities refer to American Depository Receipts and Global Depository Receipts which are listed on recognized stock exchanges and their underlying securities are also listed on recognized stock exchanges.

Other authorized unit trusts and authorized mutual funds

7. For the purposes of section 8(2)(c) of Schedule 1 to the Regulation, the authorized unit trusts and authorized mutual funds refer to unit trusts and mutual funds that are not approved pooled investment funds but are authorized by the Securities and Futures Commission (“the SFC”) and meeting the investment requirements of:

- (a) Chapter 7 of the SFC’s Code on Unit Trusts and Mutual Funds (“the Code”); or
- (b) Unit Portfolio Management Funds (Chapter 8.1 of the Code); or
- (c) Money Market / Cash Management Funds (Chapter 8.2 of the Code); or

- (d) Guaranteed Funds (Chapter 8.5 of the Code) with the underlying investments meeting the core investment requirements of Chapter 7 of the Code.

8. Notwithstanding paragraph 7, an authorized unit trust or authorized mutual fund that is an index fund is also qualified for the purposes of section 8(2)(c) of Schedule 1 to the Regulation if:

- (a) the investment objective of which is to track a stock market index with constituent stocks exceeding 10%; and
- (b) the index fund is subject to the requirements under Chapter 7 of the Code except that a waiver from compliance with Chapter 7.1 (which stipulates that the value of a fund's holding of securities issued by any single issuer may not exceed 10% of its total net asset value) has been granted to it pursuant to Note (2) to Chapter 7.1.

DEFINITIONS OF TERMS

9. 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.