



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

電話號碼 Tel No : 2292 1565
傳真號碼 Fax No :
電郵地址 Email :
本局檔號 Our Ref : MPFA/S/TR/91/6 (C)
來函檔號 Your Ref :

By Email

8 February 2024

Circular Letter: SU/CTC/2024/001

To: All MPF Approved Trustees and Principal Intermediaries (PIs)

Dear Sir/Madam,

Guidance on Offering Robo-Advisor Service

In order to enhance MPF services provided by MPF approved trustees, they may partner with PI(s) to offer their scheme members digital investment advisory programs that utilize artificial intelligence to give regulated advice¹ through online environment and/or mobile applications, hereinafter referred to as “Robo-Advisor”.

When offering Robo-Advisor service, MPF approved trustees and PIs should take note that a person who engages in conducting sales and marketing activities, including giving regulated advice, has to be registered with the MPFA as an MPF intermediary before the person can engage in such activities. In general, Robo-Advisor service is considered a way of giving regulated advice. The MPF legislation and Guidelines on Conduct Requirements for Registered Intermediaries (Conduct

¹ Pursuant to section 34F of the Mandatory Provident Fund Schemes Ordinance (MPFSO), regulated advice includes giving an opinion in relation to, among others, advice that involves the choice of a particular constituent fund of a registered scheme.

Guidelines²) ensure the same requirements apply to regulated activities conducted by registered intermediaries³, regardless of whether the regulated activities are conducted in person or through other means e.g. online and/or in the digital environment. Apart from the MPF legislation and Conduct Guidelines, registered intermediaries who are regulated by other financial regulators should also comply with the relevant laws and requirements of the financial regulators concerned. This circular aims to provide guidance for MPF approved trustees and PIs regarding the offering of Robo-Advisor service.

Set out below are six key guiding principles for MPF approved trustees and PIs to observe. The MPF approved trustees should play an overall oversight role to oversee the PI(s) when such new initiatives are developed for use by scheme members of their MPF scheme(s) as well as after the launch. Please note that the below-mentioned guidance is not meant to be exhaustive.

(I) Governance and Oversight of Algorithms⁴

Given the high reliance on algorithms in the use of Robo-Advisor to provide investment recommendations to MPF scheme members for managing their MPF investment portfolios, it is vital that these algorithms are relevant and robust. A PI which offers Robo-Advisor service should have procedures in place to ensure proper oversight of the development of the algorithms and thorough testing for resilience.

Clear and proper processes and procedures should be in place to regularly refine and update logic and assumptions used in these algorithms in order to make sure that the models can adapt to changing financial environments and the underlying model continues to be relevant.

The above responsibility is not reduced if the PI uses a third party service provider to help with the system development and on-going operations. The responsibility still rests with the PI offering the Robo-Advisor service. As such, the

² Conduct Guidelines (Version 2 – October 2023).

³ Registered intermediaries include both PIs and subsidiary intermediaries.

⁴ An algorithm is a set of rules designed to solve a specific problem or perform a specific task, it is a logical approach used in computer to solve problems. They are used in a wide range of applications, from sorting and searching data to analyzing and processing complex data sets.

PI who outsources this service to a third party service provider(s) should conduct proper due diligence to ensure robustness and relevance of the algorithms.

(II) Transparency and Disclosures of Necessary Information

It is important for scheme members to understand the business model and related risks of the use of Robo-Advisor. PIs must provide full and fair disclosure of all material facts concerning the advisory services provided to scheme members so that scheme members can make informed decisions about whether to use Robo-Advisor. Explanations on Robo-Advisor must include but not limited to i) how the algorithms work; ii) what the assumptions and limitations are; and iii) the risks inherent in using algorithms. The disclosures should be presented in a simple and comprehensible manner so that scheme members are provided with information which enables them to assess whether to use the Robo-Advisor service.

In addition, prominent disclosure is necessary to alert scheme members that i) the recommended portfolio is for reference only; ii) investment involves risks and past performance is not indicative of future performance; and iii) investment decision should not be solely based on fund performance. The PIs offering Robo-Advisor service should also comply with the Code of Disclosure for MPF Investment Funds issued by the MPFA (Latest Version: December 2022) when assisting scheme members to select constituent funds within a scheme.

(III) Provision of Suitable Advice

When carrying on a regulated activity, a PI must, among others, act in the best interests of scheme members. In giving regulated advice that involves the choice of a particular constituent fund to a specific scheme member, a registered intermediary should have regard to the scheme member's particular circumstances by conducting "suitability assessment" as set out in III.28 of the Conduct Guidelines. Whilst it may be appropriate to make reference to general market outlook, PIs or Robo-Advisor should avoid predicting, projecting or forecasting a constituent fund's future or likely performance.

In contrast to traditional advisory relationships where subsidiary intermediaries typically interact with scheme members in person to provide regulated advice, Robo-Advisor gathers scheme members' information (e.g. risk tolerance level,

investment objectives, investment knowledge and financial circumstances) through online questionnaires to make suitability assessment for scheme members. As there is no human interaction involved in the Robo-Advisor's platform, the Robo-Advisor may not be able to explain the context of the questionnaires, to ask follow-up or clarifying questions about a scheme member's responses, to provide assistance to the scheme member in completing the questionnaire nor to address inconsistencies in the scheme member's responses.

Given this limited interaction, clear questionnaires should be designed to elicit sufficient information to support the suitability assessment, and if necessary, tool-tips or pop-up box or the like can be used to provide additional clarification or examples. Furthermore, the use of appropriate pop-up messages or other interactive features are suggested to alert scheme members when responses appear to be inconsistent.

(IV) Risk Matching

Attention is drawn to section III.30 of the Conduct Guidelines about risk matching. In particular, there should be a mechanism in place to explain and bring to the scheme member's attention why the Robo-Advisor considers a particular constituent fund or an investment portfolio may not be suitable for the scheme member based on the suitability assessment result (risk mismatch). Despite the suitability assessment result, the scheme member may insist on choosing to invest in a constituent fund for which the risk level is higher than the member's risk profile as assessed by the Robo-Advisor. The Robo-Advisor should have an interactive tool or a function to alert the scheme member, ask the scheme member to acknowledge the risk mismatch and confirm that the constituent fund choice is the scheme member's own decision. Such information should be recorded and kept by the PI for a minimum period of seven years.

(V) Confidentiality of Scheme Member Information

A PI and/or Robo-Advisor should treat all information supplied by a scheme member as confidential, must not disclose or use such information except as permitted by law, and avoid any misuse of the personal information obtained in the course of its regulated activities. Special attention should be paid to section 41 of the Mandatory Provident Fund Schemes Ordinance and the Personal Data (Privacy) Ordinance (Cap. 486) in handling client information.

(VI) Complaint Handling

PIs offering Robo-Advisor service are required to establish adequate complaint handling controls and procedures to resolve disputes that may arise from the use of Robo-Advisor service by scheme members. This is to ensure that any issues or concerns raised by the scheme members are addressed in a fair and timely manner. In addition, this may also increase scheme members' confidence in the new technology initiatives. PIs should observe requirements regarding complaint handling as specified in the relevant sections of the Conduct Guidelines.

The MPFA encourages the MPF industry players to deploy Fintech solution in providing MPF services for scheme members to manage their MPF accounts conveniently and efficiently. The above key guiding principles are minimum standards which MPF approved trustees and PIs should adopt when offering Robo-Advisor service.

Should you have any questions, please contact your supervisory manager in the Authority.

Yours faithfully,



Ginni Wong
Director (Supervision)
Supervision Division

- c.c. Ms Candy Tam, Senior Manager, Banking Conduct Department, Hong Kong Monetary Authority
Ms Emma Tong, Associate Director, Licensing, Intermediaries, Securities and Futures Commission
Ms Shirley To, Senior Manager, Market Conduct Division, Insurance Authority