

Workshop on Governance of Mandatory Provident Fund (MPF) Trustees

17 October 2017

Key Messages

Opening Address

“MPF trustees assume a fundamental role in protecting members’ interests and delivering value for money outcomes for them. MPF trustees, though not public trustees, are indisputably “trustees of the public”.”

Dr David Wong

Chairman of the Mandatory Provident Fund Schemes Authority (MPFA)

“Since MPF is a compulsory system, trustees have a special duty to protect members’ interests and play a key part in maintaining members’ trust in the integrity of MPF System.”

The Honourable Bernard Chan

Convenor of the Executive Council of the Hong Kong Special Administrative Region

Session 1: International trends on governance and its importance to MPF trustees

“Among the 3 “Rs” (Risk Capture, Resolution and Risk Culture) reform initiatives, risk culture/risk governance has the most profound and long-term effect on the way financial institutions operate.”

Mr Arthur Yuen

Deputy Chief Executive

Hong Kong Monetary Authority (HKMA)

“The objective of pension supervisors should be protecting members’ interests by promoting good governance of pension funds. It is the role and mission of the MPFA to ensure a high standard of governance amongst trustees for delivering better value for money to members.”

Ms Alice Law

Chief Operating Officer and Executive Director

MPFA

Session 2 (Panel discussion): Measures for augmenting the accountability of the board of directors and senior management in financial services sectors

The MPF System operates under a highly regulated framework. Regulatory oversight on trustees and their service providers is conducted by the MPFA together with other financial regulators. MPF service providers such as custodians, asset managers and guarantors are respectively regulated by the HKMA, Securities and Futures Commission (SFC) and Insurance Authority (IA). The four regulators have been joining hands and working closely together in the past 17 years to ensure that the MPF System instils public confidence.

MPF Regime There are different levels of duties within the MPF structure, but the ultimate responsibility rests with trustee. Despite delegation, if a service provider fails to perform, the trustee is accountable towards MPF members. If good governance and culture exist throughout the command chain of trustees and service providers, this may alleviate the need for prescriptive regulation. Good governance would lower the cost of regulation.

SFC Regime The objectives of the Manager-In-Charge (MIC) regime are to promote awareness of the regulatory obligations and potential liabilities of senior management of licensed corporations, articulate who are members of senior management, outline who should seek approval as responsible officers and highlight the importance of the roles and responsibilities of the board, which include documenting the appointment of the MICs.

IA Regime The IA has imposed stringent requirements on the board members and senior management. The number of independent non-executive directors (INEDs) has increased from one-fifth to one-third. To minimize and mitigate the influence of the executive management, ensure objectivity in decision making and avoid undue concentration of power, the Chairman should be an INED and cannot be the chief executive officer.

Session 3 (Panel discussion): Identifying key elements in enhancing risk management and effectiveness of internal control in the MPF context

Strategic risk management and risk governance are directors' responsibilities. Risk management responsibilities cannot be delegated and the "buck" stops at the board of directors. Service provider oversight is a core element of strategic risk management. Directors should see to it that the risk management framework is effective and make sure that service providers adopt a robust risk governance framework. Adopting a risk culture is not the question of "Can we do this?" but "Should we do this?". As trustees, they should not just ask the question as to whether "Is it legal?" but more thoughts should be given to "Is it the right thing to do for the members?".

Session 4 (Panel discussion): MPF trustee as a fiduciary and sharing of experience in effective communication with executive team from a non-executive director exercising independent oversight of a company

MPF trustees are fiduciaries. The public expects them to look after members' interests. Potential conflicts of interest are bound to arise in day-to-day operation at board level or some other levels, including "duties to shareholders vs duties to clients or scheme members", "duties to different clients", "duties to clients vs duties to regulators", and "duties to group service providers vs duties to clients".

INEDs have multiple roles. They are not only in charge of oversight of the board but also partners of the board to ensure delivery of successful and superior performance. INEDs are appraisers and risk managers who appraise trustee's performance and manage risks. Their role is to protect members' interests and not to approve everything submitted by executive team. INEDs should keep a skeptical mind set and challenge

business proposals where appropriate.

Session 5: Current issues related to governance: cybersecurity; and data privacy

“Cybersecurity must be dealt with at the top management level because it could have disastrous results to the top management of the companies.”

Mr Howard Lee
Senior Executive Director
HKMA

“Data privacy protection is a matter for the board, a director’s responsibility.”

Mr Stephen Wong
Privacy Commissioner for Personal Data

Closing Remarks

“Good governance means the boards should always put members’ interests first when making decisions for their schemes. Trustees should work together with the MPFA to achieve the objectives of providing products and services that represent good value for money with low fees and high performance, so that the MPFA’s vision “to build a retirement savings system that is valued by Hong Kong people” could be realized.”

Mrs Diana Chan
Managing Director
MPFA