

**FORM APIF-AS/IP**

**MANDATORY PROVIDENT FUND SCHEMES ORDINANCE (CAP 485)**

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

*Section 17(2)(h) of Schedule 1 to the Mandatory Provident Fund Schemes (General) Regulation (Cap 485A)*

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**NOTES:**

- (1) *The annual statement of an approved pooled investment fund (APIF) 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 statement of the 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 following items:

### (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; and
13. Value of Investment Fluctuation/Guarantee Reserve Fund for Class G insurance policy.

### (B) Revenue Statement

The following must be separately disclosed:

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;
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; and
  - (i) any other expenses borne by the fund;

5. Taxes;
6. Amounts transferred to and from the fundholders' account; and
7. Net income to be carried forward for distribution.

(C) Distribution Statement

The following must be separately disclosed:

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; and
5. Undistributed income carried forward.

(D) Statement of Movement in Fundholders' Account

The following must be separately disclosed:

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; and
  - (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; and
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; and
- (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 these 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 the 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 Mandatory Provident Fund Schemes Ordinance (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 of, 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) two 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 two dates referred to in (b) must be not less than three 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/her knowledge and belief, are necessary for the purposes of the audit, that fact; and
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 following items:

#### (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/region; 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 III(A)5 above, 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/regions (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 (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 three 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 Information on Costs and Expenses**

The annual statement of the APIF should include the following information:

##### (A) Transaction Costs

1. The dollar cost incurred in performing any investment transactions for the APIF, or if relevant, each class of units of the APIF (including brokerage, commissions and taxes) should be disclosed.

##### (B) Fund Expense Ratio

1. The fund expense ratio of the APIF, or if relevant, each class of units of the APIF, for that financial period, as calculated in accordance with Part E of the Code on Disclosure for MPF Investment Funds, should be disclosed.

#### **V Other Relevant Information**

The annual statement of the APIF must include the following information:

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.

## VI Appointed Actuary's Report

A full report for Class G insurance policies should be produced to document the methodology and assumptions upon which provisions are calculated and demonstrate that the requirements of the Guideline on the Reserve Provision for Class G of Long Term Business (GL7) have been met.

An executive summary should be provided that highlights the key results and findings of the company's investigation.

At a minimum, the main body of the report should provide the following information:

1. Date of the report.
2. Purpose of the report.
3. Person producing the report.
4. Person accepting responsibility for the report and the underlying results.
5. The capacity and qualifications of the person accepting responsibility for the completion of the report and compliance with GL7.
6. A description of the guarantee features of the APIF.
7. Aggregate account balances and notional/guaranteed account balances of the APIF (if applicable), or if relevant, of each class of units of the APIF. The net asset value of the APIF should also be provided if different from the account balances.
8. A movement report (reconciliation of beginning and end of period account balances, both actual and notional) showing new contributions, gross investment returns, administrative expenses (with breakdown by types, e.g. custody fees, investment management fees, guarantee fees and reserving charge), withdrawals, interest credited and other adjustments for the APIF, or if relevant, for each class of units of the APIF.
9. A description of and comments on data used for determining reserve provisions, including sources, sufficiency and validation.
10. A description of the methodologies used for: (a) developing and parameterizing the economic scenario model(s), (b) establishing smoothing and any other provisions if applicable, (c) establishing provisions for the investment guarantee, and (d) conducting the cash flow projections.
11. A description and justification of any factor-based or deterministic methods (if applicable), including the results of adequacy testing using stochastic methods.
12. A list of all assumptions and relevant risks (including management action, insurer's contractual obligations, the reasonable expectations of policy holders, policy issuers, employers and scheme members, the economic conditions that might unfold in the future, characteristics of the membership demographics, scheme sponsor behaviour and scheme member behaviour), identifying the key assumptions that have the most material impact on the reserve provisions. Justify the assumptions and comments on any sensitivity tests that the company believes are appropriate to understanding the risks.
13. The reserve valuation results for the APIF (with breakdown by provision for account balance, provision for investment guarantee, provision for smoothing of investment returns and other provisions if applicable), or if relevant, for each class of units of the APIF. Also, indicate where the relevant provisions are accounted for in financial statements.



14. The amount of surplus/deficit arising from the difference between the projected guaranteed liability and the value of fund assets, by year of retirement.
15. A description of any limitations which should be noted either in the data, methodologies or assumptions.
16. Reliance on the results or opinions of others, either internal or external to the company. The reliance statement should note the information being provided and include an opinion on the accuracy, completeness and reasonableness of it.
17. The management oversight and controls that govern the workflow for the reserving process.
18. A description of the scenario testing done on a monthly basis if there are significant fluctuations in the underlying factors that have been modelled by the stochastic analysis during the reporting year.
19. An explanation of any material changes since the previous report clearly identifying and quantifying (where applicable) the material changes. The actuary need not separately quantify every change, but should highlight the relative impact or significance of each revision or modification, including that of:
  - (a) fund features;
  - (b) data;
  - (c) models, methods or software;
  - (d) assumptions;
  - (e) reliance on other parties; and
  - (f) management policy, oversight or controls.

20. An actuarial certificate for the APIF

A certificate by the appointed actuary of the authorized insurer:

- (a) stating whether in his/her 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;
- (b) stating whether he/she 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 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 regulation made under section 59(1)(a) of the Insurance Ordinance (Cap 41);
- (c) stating whether in his/her opinion there is a prudent and satisfactory relationship between the nature and term of the assets and the nature and term of the liabilities;
- (d) confirming that he/she has complied with GL7 and standards which are applicable to him/her, including, but not limited to, Guidelines on Reserving Standards for Investment Guarantees (Guidelines III.9);
- (e) specifying such of those standards applicable to him/her with which he has complied; and
- (f) stating any additional qualification, amplification or explanation where necessary and appropriate.