

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

III.1 Guidelines on Debt Securities

INTRODUCTION

Paragraph (d) of the definition of “exempt authority” in section 7(1) of Schedule 1 to the Mandatory Provident Fund Schemes (General) Regulation (the Regulation) defines “exempt authority” as 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 Mandatory Provident Fund Schemes Authority (the Authority).

2. Section 7(2) of Schedule 1 to 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 Authority, based on the credit rating of the security as determined by a credit rating agency approved by the Authority for the purposes of Schedule 1.

3. Section 7(3) of Schedule 1 to the Regulation provides that the general restrictions on spread of investments under section 2 of Schedule 1 do not apply to debt securities of a kind referred to in section 7(2)(a) or (b) of Schedule 1 (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 9(1)(b) of Schedule 1 to the Regulation provides that the funds of a constituent fund may be invested in a convertible debt security that satisfies the minimum credit rating requirements for a debt security.

5. Section 37(2)(a)(iii) of the Regulation provides that a capital preservation fund (also known as “MPF Conservative Fund”) may be invested in debt securities with a remaining maturity period of one year or less and that satisfy the minimum credit rating set by the Authority, based on the credit rating of the securities as determined by an approved credit rating agency.

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, participating employers and their employees, self-employed persons, regulated persons and other persons concerned with the Ordinance.

7. The Authority hereby issues guidelines to:

- (a) provide guidance in relation to multilateral international agencies;
- (b) specify the credit rating agencies approved by the Authority and minimum credit rating requirements with respect to debt securities;
- (c) provide guidance on the interpretation of the credit rating requirements; and

- (d) provide guidance on what constitutes “same issue” in respect of debt securities issued or guaranteed by an exempt authority.

8. Guidelines I.9 on Approved Credit Rating Agencies set out the names of approved credit rating agencies for the purposes of the Regulation.

EFFECTIVE DATE

9. These revised Guidelines (Version 13 – March 2025) shall become effective on 17 March 2025. The previous version of these Guidelines (Version 12 – October 2024) shall be superseded on that day.

MULTILATERAL INTERNATIONAL AGENCIES

10. Multilateral international agencies would meet the requirements of paragraph (d) of the definition of “exempt authority” in section 7(1) of Schedule 1 to the Regulation if they have the highest possible credit rating determined by a credit rating agency approved by the Authority as set out in paragraph 11.

CREDIT RATING AGENCIES APPROVED BY THE AUTHORITY

11. The following is the list of credit rating agencies approved by the Authority for the purposes of paragraph (d) of the definition of “exempt authority” in section 7(1) and section 7(2)(c) of Schedule 1 to the Regulation:

- (a) China Chengxin (Asia Pacific) Credit Ratings Company Limited;
- (b) CSPI Credit Ratings Company Limited;
- (c) Fitch Ratings;
- (d) Lianhe Ratings Global Limited;
- (e) Moody’s Investors Service, Inc.;
- (f) Rating & Investment Information, Inc.; and
- (g) Standard & Poor’s Corporation.

MINIMUM CREDIT RATING REQUIREMENTS

Debt Securities for Constituent Funds other than Capital Preservation Fund

12. The following is the minimum credit rating set by the Authority for the purposes of section 7(2)(c) of Schedule 1 to the Regulation:

Approved Credit Rating Agency	Minimum Credit Rating	
	Long-term Debt	Short-term Debt
China Chengxin (Asia Pacific) Credit Ratings Company Limited	BBBg-	Ag-3
CSPI Credit Ratings Company Limited	BBB-	A-3
Fitch Ratings	BBB-	F3
Lianhe Ratings Global Limited	BBB-	A-3
Moody's Investors Service, Inc.	Baa3	Prime-3
Rating & Investment Information, Inc.	BBB-	a-2
Standard & Poor's Corporation	BBB-	A-2

13. An interim rating of a debt security, assigned by a credit rating agency approved by the Authority, that satisfies the minimum credit rating set out in paragraph 12, is also the minimum credit rating set by the Authority for the purposes of section 7(2)(c) of Schedule 1 to the Regulation. For the purposes of this paragraph and paragraph 15, the term "interim rating" means (a) an "expected rating" assigned by China Chengxin (Asia Pacific) Credit Ratings Company Limited, Fitch Ratings or Lianhe Ratings Global Limited; (b) a "provisional rating" assigned by CSPI Credit Ratings Company Limited or Moody's Investors Service, Inc.; or (c) a "preliminary rating" assigned by Rating & Investment Information, Inc. or Standard & Poor's Corporation.

Debt Securities for Capital Preservation Fund

14. The following is the minimum credit rating set by the Authority for the purposes of section 37(2)(a)(iii) of the Regulation:

Approved Credit Rating Agency	Minimum Credit Rating	
	Long-term Debt	Short-term Debt
China Chengxin (Asia Pacific) Credit Ratings Company Limited	Ag-	Ag-1
CSPI Credit Ratings Company Limited	A-	A-1
Fitch Ratings	A-	F1
Lianhe Ratings Global Limited	A-	A-1
Moody’s Investors Service, Inc.	A3	Prime-1
Rating & Investment Information, Inc.	A-	a-1
Standard & Poor’s Corporation	A-	A-1

15. An interim rating of a debt security, assigned by an approved credit rating agency, that satisfies the minimum credit rating set out in paragraph 14, is also a minimum credit rating set by the Authority for the purposes of section 37(2)(a)(iii) of the Regulation.

CREDIT RATINGS OF DEBT SECURITIES

16. The following paragraphs provide guidance on the interpretation of “credit rating of the securities” as it applies to section 37(2)(a)(iii) of the Regulation, “credit rating of the security” as it applies to section 7(2)(c) of Schedule 1 to the Regulation and “minimum credit rating requirements for a debt security” as it applies to section 9(1)(b) of Schedule 1 to the Regulation.

17. The minimum credit rating specified in paragraphs 12 and 14 above is only one of the criteria to be considered by approved trustees and their delegates

in determining whether a particular debt security is an appropriate investment for a fund. Approved trustees and their delegates are also subject to duties to act with skill, diligence and prudence and in accordance with the investment policies and objectives of the funds concerned.

Issuer Ratings

18. Credit ratings are assigned on specific financial obligation (issue credit rating) and on the obligor level (issuer credit rating). An “issue credit rating” is a current opinion of the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program. An “issuer credit rating” is a current opinion of an obligor’s overall financial capacity (its creditworthiness) to pay its financial obligations, focusing on the obligor’s capacity and willingness to meet its financial commitments as they come due.

19. An issuer may in the general course, issue debt securities having a higher or lower credit rating than that of the issuer by means of securing assets or revenue flows or subordination. As a result, the creditworthiness of these securities may differ from the issuer’s own financial capacity.

20. It is therefore inappropriate to equate the credit rating of the relevant issuer with the credit rating of the security and, as such, issuer credit ratings cannot be used for the purposes of section 37(2)(a)(iii) of the Regulation and sections 7(2)(c) and 9(1)(b) of Schedule 1 to the Regulation.

MTN Program Ratings

21. Securities issued under a medium-term note (MTN) program may have a final credit rating different from that of the overall program, due primarily to the specific features of a particular issue. Accordingly, program ratings cannot

be considered as the “credit rating of the security”.

Debt Class Ratings

22. In addition to providing credit ratings for individual debt issues, the rating agencies also assign debt class ratings for specific classes of debt (for instance, senior unsecured debt). The debt class ratings are said to apply, in general, to all debt securities under the relevant class issued with standard terms, essentially reflecting the cross default clauses which are incorporated in substantially all debt documentation.

23. For the purposes of section 37(2)(a)(iii) of the Regulation and sections 7(2)(c) and 9(1)(b) of Schedule 1 to the Regulation, debt class ratings may be used as the “credit rating of the security” for individual debt issues within a class provided that the approved trustee ensures, to the extent reasonably practicable, that:

- (a) the security concerned is appropriately classified by class;
- (b) the security is issued under standard terms and conditions applicable to that particular class; and
- (c) no issue specific rating has been assigned in relation to the security.

Short-term Credit Ratings

24. Some of the approved credit rating agencies may issue short-term credit ratings that apply both to the issuer and the short-term obligations of the issuer. As such, these short-term credit ratings apply to an individual issuer’s capacity to repay all short-term obligations rather than to specific short-term borrowing programs. These short-term credit ratings can therefore be used as the “credit rating of the security” in relation to all of the issuer’s short-term senior unsecured obligations, regardless of the currency or market in which the obligations are issued.

Rating Differences

25. The credit ratings given by the various credit rating agencies, though generally consistent, are not always the same. If the issue has more than one applicable credit rating, it is considered that the credit rating requirement has been met if at least one of the ratings meets the minimum credit rating requirement as set out in these Guidelines.

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

26. For the purposes of section 7(3) of Schedule 1 to the Regulation, debt securities referred to in section 7(2)(a) or (b) of the Schedule are 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.

DEFINITION OF TERMS

27. Where a term used in the Guidelines is defined in the Ordinance or the subsidiary legislation then, except where specified in the Guidelines, that term carries the meaning as defined in the Ordinance or the subsidiary legislation.