

# Look after your MPF investment



*add value  
to your future*

# Regulation and Policy

## Overview

### Our role

- Review existing regulatory arrangements and take improvement measures
- Review administrative and operational aspects of legislative provisions and propose amendments where necessary

### In 2005-06, we

- Implemented the requirements of the Disclosure Code as scheduled
- Reviewed and recognized performance presentation standards prepared by the industry to enhance consistency in reporting fund performance and risks
- Agreed on procedures for the audit checking of fund expense ratio calculations with the Hong Kong Institute of Certified Public Accountants
- Developed proposals for improvements to member benefit statements for public consultation
- Reviewed and conducted first round formal consultation on the reserving requirements for guaranteed funds
- Assisted the Government in preparing the MPF Schemes (General) (Amendment) Regulation 2006
- Developed two further proposals to amend the MPF legislation in relation to housing allowance and the default contribution recovery mechanism
- Issued one new set of MPF Guidelines, amended 10 existing Guidelines and one Code



### DISCLOSURE OF MPF FUND PERFORMANCE, FEES AND CHARGES

The MPFA issued the Code on Disclosure for MPF Investment Funds (the Disclosure Code) in June 2004 for implementation in phases. The Disclosure Code aims to improve the disclosure of information to enable MPF scheme members to make more informed and effective MPF investment decisions.

Implementation of the Disclosure Code has been on schedule. From March 2005 onwards, fee tables in a standardized format have been provided to prospective employers and scheme members together with the offering documents. Fund fact sheets containing the required minimum contents have been provided to scheme members with annual benefit statements issued after 28 February 2005. To enhance consistency in reporting fund performance and risks, industry associations prepared a set of performance presentation standards in conjunction with the MPFA to specify the methods that approved MPF trustees should use in preparing, calculating and presenting the information required as minimum content in a fund fact sheet. The standards were reviewed and recognized by the MPFA and became effective on 1 July 2005.

The Disclosure Code also requires that fund fact sheets provided to scheme members should include the fund expense ratio for each class of units of each constituent fund. The fund expense ratio should be first calculated for any financial period that commences after 31 December 2004. To facilitate checking of the fund expense ratio by the auditor of the financial statements of the relevant scheme or approved pooled investment fund (APIF), the MPFA has reviewed and agreed to the proposed audit checking procedures prepared by the Hong Kong Institute of Certified Public Accountants. The procedures were issued in March 2006.

As a new stage of the project to improve the disclosure of information to scheme members, the MPFA has advanced its work in developing proposals for improvements to member benefit statements. Working group meetings were held to collect the views of stakeholders, including consumer groups, industry bodies, academics and unions. After formulating the broad directions, the proposed changes to the minimum content of the member benefit statement were then consumer tested. In the light of the findings of the survey, the MPFA further refined the proposals for later public consultation.



In tandem with the implementation of various disclosure initiatives, the MPFA has started evaluating the possibility of developing a comparative platform that will allow MPF scheme members to compare the fees and charges and other information of MPF funds. Preparatory work that has commenced includes examining the legal issues regarding the restrictions on the MPFA in obtaining and publishing relevant information, research on the types of platforms that are provided overseas, and getting a better understanding of what information is already provided locally.

### REVIEWS OF REGULATORY ISSUES

In 2004-05, the MPFA started reviewing the reserving requirements for guaranteed funds with the help of an external consultant. The plan was to provide further guidance to ensure compliance with the existing requirements, to narrow the range of acceptable practices and to improve the quality and consistency of disclosure. After refining the proposals on the basis of the results of an informal consultation completed in 2005, we started the first round of formal consultation in early 2006.

During the year, the MPFA completed a review of the risks of existing MPF investment funds. Different risks in different types of MPF investment funds were identified and evaluated. The review confirmed the importance of education in helping scheme members appreciate the different risks involved in different types of MPF fund and make investment choices that suit their individual circumstances.

Under section 10A of the Mandatory Provident Fund Schemes Ordinance (MPFSO), the minimum and maximum levels of relevant income for MPF contribution purpose are subject to review at least once in every period of four years. The minimum level of relevant income was last raised in February 2003. In preparation for the next review, the MPFA completed an analysis and submitted the preliminary results for consideration by the Government.

The year also saw the commencement of a review of the reserve level and levy rate of the Compensation Fund. The Compensation Fund is set up under the MPFSO to compensate MPF scheme members or other persons who have beneficial interests in MPF schemes for any loss in MPF accrued benefits caused by misfeasance or illegal conduct committed by MPF trustees or any other person engaged in the administration of the MPF scheme. Assets of the Fund include the \$600 million seed money injected by the Government and levies which are imposed at an annual rate of 0.03% of the net asset value of an MPF scheme. When the Fund was set up in 1998, the Government indicated that the collection of levies and the reserve level would be reviewed when the Fund reached \$900 million. As the Compensation Fund had grown to \$845 million as at the end of 2004, the MPFA commenced the review in early 2005. As at the end of the financial year, proposals were being developed in consultation with the Government.



## REVIEW OF LEGISLATION

### MPF Legislation

Subsequent to its enactment in 1995, the MPFSO was amended in 1998, 2000 and 2002 and supplemented by several regulations and rules made in 1998, 1999 and 2000 respectively. A list of the MPF legislation and legislative amendments made in respect of the MPFSO and its subsidiary legislation since its enactment is at Appendix 2.

In order to further enhance the effectiveness and efficiency of the MPF System, the MPFA continuously reviews the MPF legislation in the light of operational experience. Proposals impacting on scheme operations were developed in conjunction with the MPF Schemes Operation Review Committee (SORC)<sup>1</sup>. Since 2002-03, about 40 proposals to amend the MPF legislation developed had been agreed by the SORC and endorsed by the Management Board. Among these proposals, around a dozen were related to amendments to the investment rules in Schedule 1 to the MPF Schemes (General) Regulation. Eleven of these investment-related proposals were prepared to be submitted to the Legislative Council within the 2005-06 legislative session. A summary of the proposals is at Appendix 3. The MPFA has also been assisting the Government in reviewing the working drafts of another amendment bill covering the remaining proposals. Due to the unavailability of a legislative time slot, this other amendment bill is yet to be introduced into the Legislative Council.

During the year, the SORC agreed on two further proposed amendments to the legislation. These were the proposals to improve the default contribution recovery mechanism and to deal with issues arising from the exclusion of housing allowance and other housing benefit from the definition of relevant income.

### ORSO Legislation

Enacted in 1992 and brought into operation in 1993, the Occupational Retirement Schemes Ordinance (ORSO) regulates all voluntarily established occupational retirement schemes (ORSO schemes) operating in or from Hong Kong. It is supported by subsidiary legislation in the form of rules made by the Registrar of Occupational Retirement Schemes. A list of the ORSO legislation and legislative amendments made in respect of the ORSO since its enactment is at Appendix 4.

<sup>1</sup> The SORC was set up in August 2001 to comprehensively review the MPF legislation in relation to the administrative and operational aspects of MPF schemes to enhance the effectiveness and efficiency of the MPF System. The SORC comprises representatives of employer and employee bodies, MPF service providers, professional organizations, the HKSAR Government and the MPFA.





In 2001-02, the MPFA developed a number of proposals to amend the ORSO legislation for the purposes of facilitating the administration of ORSO schemes and improving the overall effectiveness of ORSO schemes regulation. During the year, the MPFA further consulted various parties, including corporate administrators, employer and employee bodies and professional organizations, on the proposed amendments. Also, we worked closely with the Government on a draft amendment bill on the proposed amendments, with a view to introducing it into the Legislative Council as soon as a legislative time slot is available.

### GUIDELINES AND CODES

The MPFA issues MPF Guidelines and Codes to elaborate on and support the legislative requirements, and to facilitate compliance with the MPF and ORSO legislation. As at 31 March 2006, 59 sets of Guidelines and three sets of Codes were in force. Among these, one set of Guidelines setting out a complete list of approved credit rating agencies was issued and 10 existing Guidelines were revised in the reporting year. The revisions included making cross reference to the new Guidelines on approved credit rating agencies and specifying the new information required to be included in annual returns to reflect the requirements of the Disclosure Code. They also included making changes to the forms and documents to be submitted to the trustees for processing claims of payment of MPF accrued benefits or minimum MPF benefits to facilitate withdrawal on grounds of total incapacity and permanent departure from Hong Kong. The Code of Conduct for MPF Intermediaries was revised mainly to reflect changes in the registration policies of MPF intermediaries as described in the chapter "Supervision of the Industry" in this report. A complete list of all the Guidelines and Codes issued by the MPFA is set out in Appendix 5. These Guidelines and Codes are available at the MPFA's website.

