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Supervision of the Industry

Overview

Our role

- Supervise approved MPF trustees
- Register and approve MPF schemes and funds
- Register and supervise MPF intermediaries
- Oversee the effective operation of occupational retirement schemes

In 2005-06, we

- Issued the Compliance Standards for the guidance of approved MPF trustees
- Approved the fee tables and reviewed the fund fact sheets of MPF schemes required to be provided to scheme members under the Code on Disclosure for MPF Investment Funds
- Introduced changes to the registration policies of MPF intermediaries to streamline the registration and renewal processes and tighten compliance with Continuing Professional Development requirements
- Stepped up publicity to remind employers and employees of their respective statutory obligations and rights regarding offer of option to choose between an MPF exempted ORSO scheme and an MPF scheme

As at 31 March 2006:

- There were 19 approved MPF trustees, 46 registered schemes, 334 approved constituent funds, 280 approved pooled investment funds
- Aggregate net asset value of all MPF schemes was \$164.61 billion



SUPERVISION OF APPROVED MPF TRUSTEES

During 2005-06, the number of approved MPF trustees remained unchanged at 19. A list of the trustees and their background as at 31 March 2006 is at Appendix 7.

The Compliance Standards

To enhance the effective operation of the MPF System, the MPFA promotes a positive compliance culture, good corporate governance and proper risk management among the approved MPF trustees. With the help of international consultants, we developed a set of Compliance Standards for the guidance of the trustees in establishing a structured framework for monitoring their compliance with statutory duties and responsibilities. The Compliance Standards reflect internationally recognized compliance methodology. The fundamentals of the methodology are:

- ownership of compliance at the highest levels within an organization;
- strengthening of compliance culture throughout the trustee's organization;
- the existence of documented policies and procedures to facilitate the fulfilling of the trustees' statutory obligations;
- the implementation of monitoring and supervision measures to assess compliance; and
- the presence of review and reporting mechanisms.

The Compliance Standards were released on 28 July 2005, after conducting training to introduce the Standards to the senior management of the approved MPF trustees, and incorporating comments from industry associations and the trustees.

As required by the MPFA, all the trustees submitted analyses of the gap between their existing compliance framework and the requirements of the Compliance Standards, as well as implementation plans to bridge the gaps, by early November 2005. The MPFA held a sharing session with the trustees in January 2006 to discuss key issues in relation to the gap analyses and implementation plans submitted, and to share views on the way forward.



Ongoing Monitoring

By reviewing regular returns and following up on significant events reported by approved MPF trustees pursuant to section 62 of the Mandatory Provident Fund Schemes (General) Regulation, the MPFA monitors the trustees' compliance with the statutory requirements and relevant governing rules. The MPFA also conducts on-site visits of the trustees to assess compliance with regulatory requirements. During the two visits conducted in the 2005-06 financial year, the financial management and operations of guaranteed funds were examined. Guaranteed fund features described in the offering documents of the respective MPF schemes were reviewed in light of actual operations to ensure consistency.

During the year, the MPFA issued 36 reminder/warning letters to the trustees involved in breaches. These breaches were identified by the MPFA through on-going monitoring, enquiries and complaints received, or reported by the trustees themselves. In addition, a financial penalty notice was issued to a trustee in relation to one breach. Details of the financial penalty notice are set out under item 9 in Part E of the Statistics section.

During the year, a total of 184 complaints (compared with 222 in the previous financial year) were lodged with the MPFA against the trustees, most of which were related to scheme administration.

The Trustees Operations Liaison Group, set up in 2004 to improve the effectiveness and efficiency of the administration of MPF schemes and comprising representatives from all approved trustees and the MPFA, met quarterly during the year. Members discussed operational issues of MPF schemes which are of interest across the industry. The MPFA's Managing Director also had meetings with the chief executive officers of the trustees to give updates on the MPFA's priorities and initiatives over the next few years, including developments relating to regulation, supervision, enforcement and MPF investment education.

Approved MPF trustees have been offering special voluntary contribution arrangements under which employee scheme members could make voluntary MPF contributions directly to the trustees without channeling through their employers. From September 2005 onwards, the trustees are required to submit statistics on special voluntary contributions to facilitate the monitoring of market development in this respect.



REGISTRATION AND APPROVAL OF MPF SCHEMES AND FUNDS

Table 1 sets out the statistics on registration and approval of MPF schemes and funds during the year, and Table 2 shows an analysis of the structure of approved pooled investment funds.

As at the end of March 2006, there were 46 registered MPF schemes, 334 approved constituent funds and 280 approved pooled investment funds. A full list of the registered schemes and their respective underlying constituent funds is available at Appendix 8. As at 31 March 2006, the aggregate net asset value of all MPF schemes was \$164.61 billion.

Table 1. Processing statistics on registration and approval of MPF schemes and funds

	Number as at 31 March 2005	Terminated/ Withdrawn during the year	Registration/ Approval during the year	Number as at 31 March 2006
Registered Schemes	47	1	0	46
Master Trust Schemes	43	1	0	42
Industry Schemes	2	0	0	2
Employer Sponsored Schemes	2	0	0	2
Approved Constituent Funds	324	11	21	334
Approved Pooled Investment Funds	274	9	15	280
Approved Index-Tracking Collective Investment Schemes	83	1	7	89

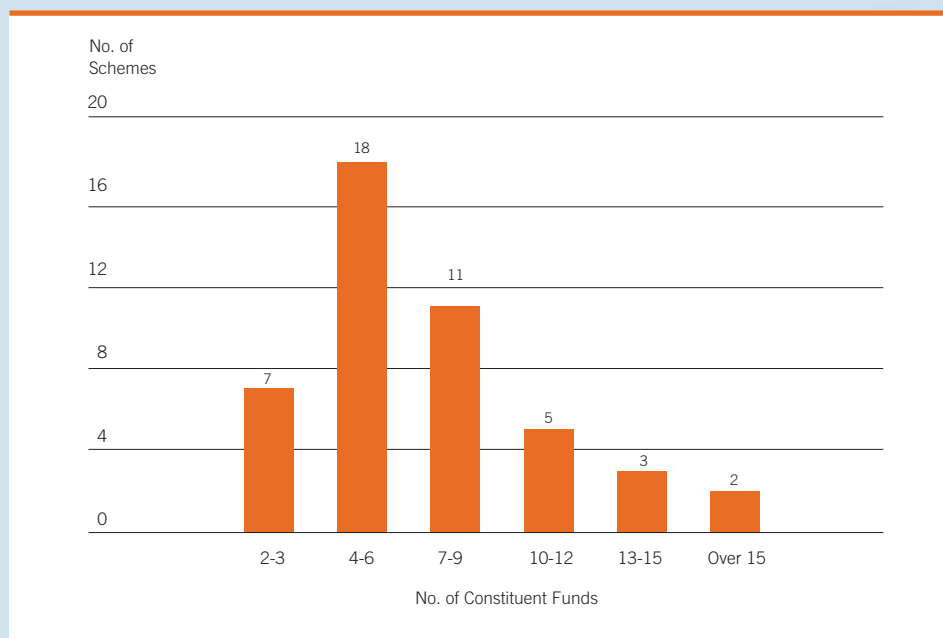
Table 2. Analysis of approved pooled investment funds (By fund structures)

	Unit Trust		Insurance Policy		Total	
	as at 31 March 2005	as at 31 March 2006	as at 31 March 2005	as at 31 March 2006	as at 31 March 2005	as at 31 March 2006
Umbrella funds	23	23	4	4	27	27
Internal portfolios	150	149	29	29	179	178
Feeder funds	6	6	22	23	28	29
Portfolio management funds	25	31	15	15	40	46
Total	204	209	70	71	274	280



As at 31 March 2006, the number of constituent funds available under each registered scheme ranged from 2 to 29 (see Figure 1).

Figure 1. Number of constituent funds per MPF scheme as at 31 March 2006



Following the publication of the Code on Disclosure for MPF Investment Funds in June 2004, the MPFA approved the new fee tables and reviewed fund fact sheets of all registered MPF schemes during the year.

Statistics on MPF schemes and funds are included in Part B of the Statistics section.

SUPERVISION OF MPF INTERMEDIARIES

MPF intermediaries play an important role within the MPF System through serving MPF scheme members and providing advice on scheme and fund selection. The MPFA is responsible for registering and supervising MPF intermediaries. It also coordinates the efforts of other regulators, i.e. the Securities and Futures Commission (SFC), the Insurance Authority (IA) and the Hong Kong Monetary Authority (HKMA), in supervising MPF intermediaries with a view to ensuring regulatory consistency and minimizing regulatory overlap. Whilst the MPFA is mainly responsible for daily monitoring and handling of complaints against MPF intermediaries, the HKMA, the IA and the SFC are responsible for supervising those MPF intermediaries falling under their regulatory regimes.

The work in respect of supervision of intermediaries in 2005-06 was mainly on renewal of registration of MPF intermediaries, monitoring their compliance with the Code of Conduct for MPF Intermediaries and improving their professional standard through the Continuing Professional Development (CPD) requirement.

Registration of MPF Intermediaries

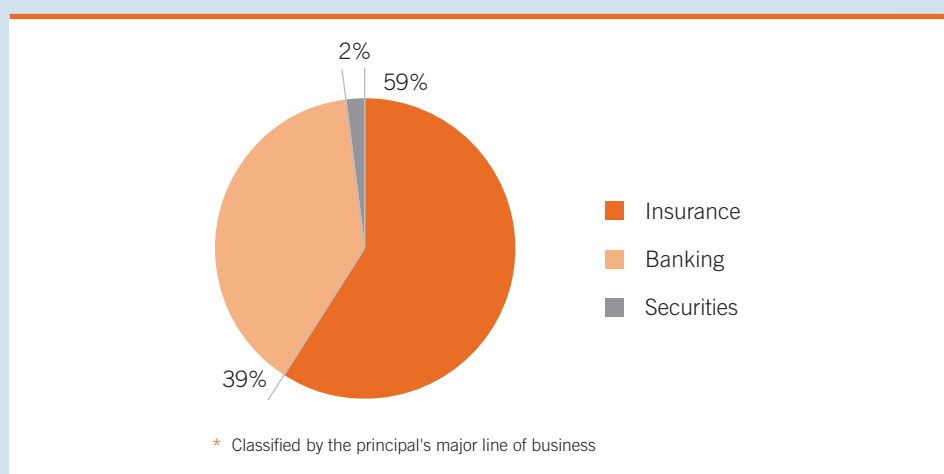
During the year, the MPFA processed around 4 400 applications for registration as MPF intermediaries. The number of MPF intermediaries has remained about the same for three years at around 25 000. As at 31 March 2006, there were a total of 24 704 registered MPF intermediaries, comprising 422 corporations and 24 282 individuals (see Table 3).

Table 3. Number of Registered MPF Intermediaries (as at 31 March 2006)

Total number of registered MPF intermediaries	24 704
Corporate intermediaries	422
Individual intermediaries	24 282
Permitted to advise on insurance policies	12 704
Permitted to advise on securities	5 713
Permitted to advise on both securities and insurance policies	4 555
Permitted to sell MPF schemes without rendering specific investment advice	1 310

Figure 2 shows the distribution of individual intermediaries among three industries (banking, insurance and securities), classified by the major line of business of the intermediary's primary sponsoring corporation. The distribution of MPF intermediaries among the three industries has been quite stable for a number of years.

Figure 2. MPF Intermediaries by Industry* (as at 31 March 2006)



The MPFA reviewed the registration of MPF intermediaries with a view to streamlining the registration and renewal processes and tightening CPD compliance. During the process, the industry and other regulators were consulted. A number of changes to the registration policies of MPF intermediaries were introduced, including:

- replacing MPF intermediaries cards with MPF intermediaries certificates;
- requiring individual intermediaries to identify themselves with business cards bearing their MPF registration numbers upon initial contact with clients;
- waiving the requirement for MPF intermediaries to return expired or invalid registration identification documents to the MPFA;
- aligning the expiry dates of individual intermediaries with those of their sponsoring corporate intermediaries; and
- stipulating compliance with CPD requirement as one of the criteria in assessing the fitness and properness of applicants (applying for re-registration) and registrants.

The changes came into effect on 1 October 2005.

The registration of an MPF intermediary is valid for a period of three years. MPF intermediaries wishing to remain registered must apply to the MPFA for renewal prior to their expiry dates. During the year ended 31 March 2006, the MPFA processed over 13 500 renewals.

Continuing Professional Development

The objectives of the CPD requirement for MPF intermediaries are to enhance the technical knowledge and professional expertise of individual intermediaries and to provide reasonable assurance to MPF scheme participants and the public at large that individual intermediaries remain fit and proper to be registered. MPF intermediaries are required to undertake a minimum of 10 hours of CPD activities in each calendar year, with at least 20% of the minimum CPD hour requirement devoted to core subject areas such as MPF or related legislation, relevant codes and guidelines, and up-to-date developments of the MPF System.

With effect from 1 October 2005, the MPFA stipulated the CPD compliance as a prerequisite for re-registration and renewal of registration. If an intermediary failed to comply with the CPD requirement during his period of registration and subsequently failed to rectify the CPD non-compliance, it is unlikely that the MPFA would approve his application for re-registration or renewal.



As at 31 March 2006, seven institutions/professional bodies have been recognized by the MPFA for the provision of training activities for CPD subjects. They are Caritas Adult & Higher Education Service, Hong Kong Securities Institute, Management and Executive Development Centre of The Hong Kong Polytechnic University, The Hong Kong Retirement Schemes Association, School of Professional and Continuing Education of The University of Hong Kong, Institute of Professional Education and Knowledge of Vocational Training Council, and LexisNexis. In 2005-06, after MPFA's assessment, a total of 13 programmes/courses were recognized as core CPD courses.

REGULATION OF OCCUPATIONAL RETIREMENT SCHEMES

As at 31 March 2006, there were a total of 7 717 ORSO schemes, with a total asset size of \$196.97 billion.

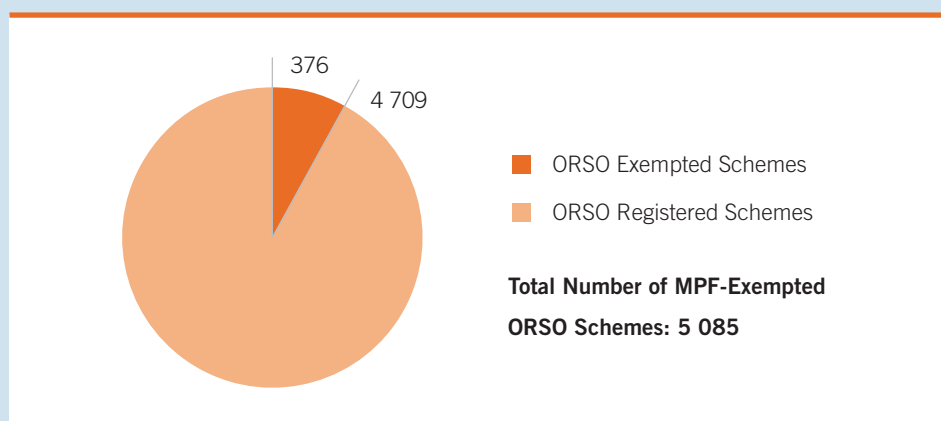
MPF-exempted ORSO Schemes

Prior to the launch of the MPF System, the employers operating existing ORSO schemes might choose to apply for exemption from MPF requirements. Members of MPF-exempted ORSO schemes had a one-off option to choose between the existing scheme and an MPF scheme. In view of complaints received during the year that employees were not given sufficient information to make the choice, the MPFA stepped up publicity to urge employers to better communicate with their employees when offering an option to them to choose between an MPF-exempted ORSO scheme and an MPF scheme. Employees are also reminded of their rights and what to take note when they are offered the option. Furthermore, a circular letter was sent to the employers and trustees of MPF-exempted ORSO schemes to remind them to comply with the statutory requirements in offering the option to employees and to ensure proper communication with the employees.

During the year, 184 MPF-exempted ORSO schemes, covering about 1 000 members, had relinquished their exemption status. The number of remaining MPF-exempted ORSO schemes as at 31 March 2006 was 5 085, covering about 7 000 employers and 470 000 scheme members. A breakdown of the number of MPF-exempted ORSO schemes is shown in Figure 3.



Figure 3. Number of MPF-Exempted ORSO Schemes (as at 31 March 2006)



Winding Up of ORSO Schemes

For those ORSO schemes which have not obtained MPF exemption status, the relevant employers may choose to retain them as top-up schemes, freeze the schemes or terminate the schemes. During the year, 248 ORSO schemes (comprising 171 MPF-exempted schemes and 77 non MPF-exempted schemes) had been wound up. As at 31 March 2006, 142 ORSO schemes were in the process of being terminated, pending the transfer of scheme assets and/or provision of the necessary information to the MPFA. After the termination of these schemes, the number of remaining ORSO schemes would be 7 575, including 5 017 MPF-exempted schemes (covering about 470 000 scheme members) and 2 558 non MPF-exempted schemes (covering about 55 000 employees). The number of termination notices received by the MPFA has shown a decreasing trend for a number of years.

Based on the information obtained from termination notices submitted and the latest annual returns of ORSO registered schemes, the asset arrangements of the terminated ORSO registered schemes (including those schemes undergoing termination processes) are set out in Table 4.

Table 4. Asset arrangements for terminated ORSO registered schemes for the period from 1 April 2005 to 31 March 2006

Asset Arrangement	Number of Schemes	%	Asset Size (HK\$ Million)	%
Transferred to MPF Scheme	63	28	299	27
Transferred to another ORSO Scheme	17	8	381	35
Paid out to scheme members	141	64	423	38
Total	221	100	1 103	100

Funding of ORSO Schemes

The MPFA monitors the funding situation of ORSO schemes by examining the annual returns and audited financial statements in respect of the schemes. In the case of defined benefit schemes, actuarial certificates have to be supplied to the MPFA at least every three years. The certificate may be a full certificate certifying that the scheme's assets are sufficient to meet the scheme's aggregate vested liabilities, or a qualified certificate showing that the scheme assets are not sufficient to meet the vested liabilities. Where a qualified certificate is supplied, the actuary will make recommendations as to the amount of contributions to be made by the employer in order to make up the shortfall within three years. During the year, a circular letter was sent to the employers and trustees of defined benefit schemes to remind them of the statutory requirement to undertake periodic actuarial review to ascertain the solvency position of the schemes.

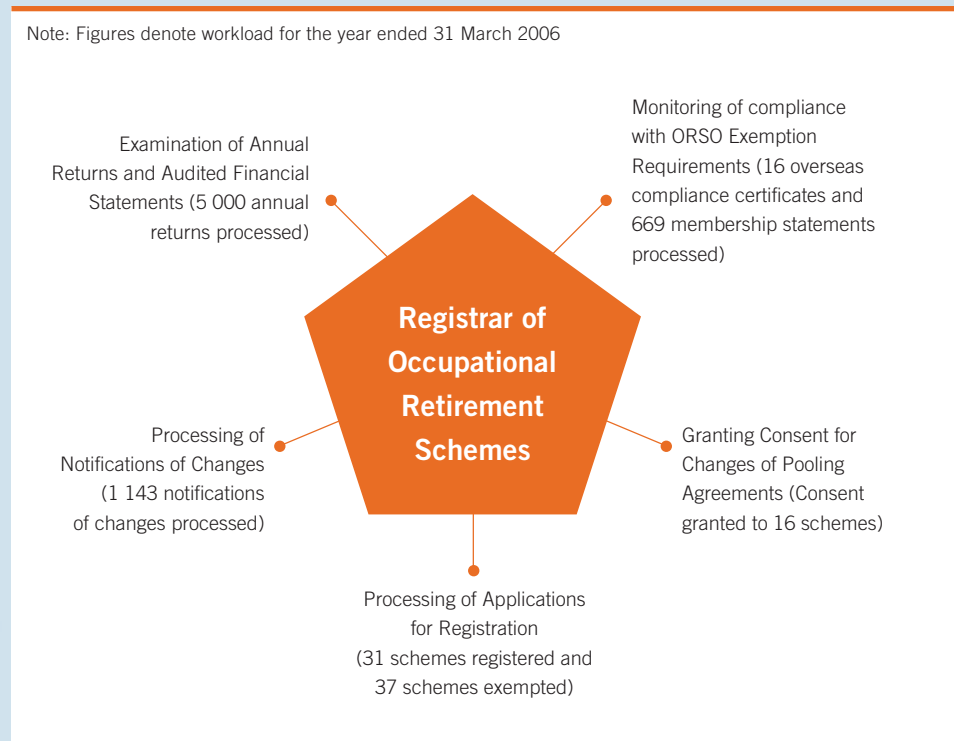
As indicated in the actuarial certificates received as at 31 March 2006, seven ORSO schemes (2.3% of the total of 300 defined benefit schemes) were insolvent. The total asset size of these schemes was \$4,745 million and the total shortfall was \$40 million. The amount of shortfall involved represented about 0.8% of the aggregate assets of the seven under-funded schemes. This is a marked improvement over the situation a year ago, when the number of insolvent defined benefit schemes was 23, with a total shortfall of \$277 million (4.6% of the aggregate assets of the under-funded schemes). The MPFA has been monitoring the situation closely by seeing to it that contributions are made according to scheme terms and rules, and in accordance with the actuarial recommendations.



Other Work of the Registrar of Occupational Retirement Schemes (RORS)

Statistics on some major areas of the RORS' work are summarized in Figure 4.

Figure 4. Work of Registrar of Occupational Retirement Schemes



A list of the corporate administrators who administer pooling agreements for ORSO schemes is in Appendix 9.

Statistics

Statistics on ORSO schemes are set out in Part C of the Statistics section.

