

APPENDIX 3

PROPOSALS TO AMEND SCHEDULE 1 TO THE MANDATORY PROVIDENT FUND SCHEMES (GENERAL) REGULATION

- (A) Enhance protection of scheme members' interests and improve operation of the MPF Schemes (General) Regulation
 - (i) In relation to the restriction that no constituent fund can invest more than 10% of its total funds in securities and other permissible investments issued by any one person ("the 10% spread limit"), specify that an investment having value linked to an entity other than the issuer need to be aggregated with investments in that entity as well in calculating the 10% spread limit
 - (ii) Specify that deposits are excluded from the 10% spread limit
 - (iii) Amend the definition of "deposit" to the effect that only "pure deposits" are permissible, so as to exclude any deposits with embedded derivative instruments
 - (iv) Stipulate that constituent funds may make deposits with or acquire currency forward contracts from non-Hong Kong branches of foreign incorporated authorized financial institutions but only where those institutions meet the credit rating requirements set by the MPFA
 - (v) Specify that the underlying security of a stock futures contract must be a permissible investment itself
 - (vi) Clarify that a constituent fund is not allowed to acquire partly-paid up shares and shares of collective investment schemes listed on non-approved stock exchanges
- (B) Enhance flexibility of, and remove undue restrictions on, MPF investments
 - (i) Empower the MPFA to assess and prescribe certain securities listed on approved stock exchanges as permissible investments
 - (ii) Remove obstacles to the acquisition of securities that are to be listed, and clarify that a constituent fund may acquire specified kinds of securities that are to be listed on approved exchanges, through subscription or any other method
 - (iii) In relation to the restriction that no constituent fund can invest in more than 10% of permissible investments of a class issued by any one person, limit the application of the restriction to shares of a particular class and total amount of debt securities only
 - (iv) Allow the acquisition of currency forward contracts and certificates of deposit from eligible overseas banks
 - (v) Allow the MPFA to grant approval for a constituent fund with total market value under HK\$8 million to deposit more than 25% of its funds with a group of associated authorized financial institutions or eligible overseas banks