



Mandatory Provident Fund  
Schemes Authority



2013-14 Annual Report  
Design Theme  
On Track for a Bright Future

The Mandatory Provident Fund Schemes Authority ("MPFA") is a statutory body established in September 1998 to regulate and supervise Mandatory Provident Fund ("MPF") schemes<sup>1</sup> and retirement schemes registered under the Occupational Retirement Schemes Ordinance ("ORSO")<sup>2</sup>.

### MISSION

To ensure the provision of retirement protection for Hong Kong's workforce through an effective and efficient system of regulation and supervision of privately managed provident fund schemes.

### VISION

MPF – A Way of Life

### CORE VALUES

Commitment

Quality

Teamwork

Community Perspective

<sup>1</sup> MPF schemes are mandatory and privately managed contribution schemes.

<sup>2</sup> ORSO schemes are retirement schemes set up voluntarily by employers to provide retirement benefits for their employees. Before the launch of the MPF System in December 2000, employers operating ORSO schemes had the option to apply for exemption from MPF requirements.

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# Statistical Highlights

	As at 31 March 2014	As at 31 March 2013
<b>MPF schemes</b>		
Enrolment rates (with number of participating members in brackets)*		
Employers	<b>99% (266 300)</b>	100% (259 100)
Employees	<b>100% (2 493 900)</b>	98% (2 376 400)
Self-employed persons	<b>61% (211 700)</b>	65% (219 000)
Number of approved trustees	<b>19</b>	19
Number of registered schemes	<b>41</b>	41
Number of approved constituent funds	<b>477</b>	469
Number of approved pooled investment funds	<b>301</b>	297
Number of approved index-tracking collective investment schemes	<b>126</b>	120
Aggregate net asset value of all schemes	<b>\$516.19 billion</b>	\$455.33 billion
Annual contribution amount	<b>\$54.78 billion</b>	\$49.59 billion
Annualized rate of return for the MPF System since 1 December 2000	<b>4%</b>	4%
Total value of the Compensation Fund	<b>\$1.82 billion</b>	\$1.79 billion
<b>ORSO schemes</b>		
Total number of schemes	<b>5 042</b>	5 206
Exempted schemes:		
Number of schemes	<b>845</b>	878
Registered schemes:		
Number of schemes	<b>4 197</b>	4 328
Number of employees covered	<b>395 000</b>	405 000
Aggregate net asset value of all schemes	<b>\$286.12 billion</b>	\$261.55 billion
Annual contribution amount	<b>\$18.6 billion</b>	\$17.98 billion

\* Estimated figures

Detailed statistics are included in the Statistics section.



# Major Results and Future Initiatives

## Objective:

To refine, simplify and vigilantly regulate and supervise the MPF System to maximize its value to scheme members

Major results in 2013-14	More information on other pages	Initiatives in 2014-15 and beyond
<b>On reviewing the regulatory framework and refining the MPF System</b>		
<ul style="list-style-type: none"> <li>Continued to study options in which employees can be given more control over their MPF accounts</li> </ul>	28	<ul style="list-style-type: none"> <li>Work out a proposal for submission to the Government by the end of 2015</li> </ul>
<ul style="list-style-type: none"> <li>Assisted the Government in preparing legislative proposals to increase the flexibility of withdrawal of MPF accrued benefits and make other miscellaneous and technical amendments, including amendments to streamline MPF scheme administration processes and enable more effective enforcement action against trustees</li> </ul>	28 and 36	<ul style="list-style-type: none"> <li>Assist the Government in introducing the proposals into the Legislative Council and work with stakeholders to ensure early implementation of the legislative proposals upon their enactment</li> </ul>
<ul style="list-style-type: none"> <li>Completed the legislative amendments to (i) introduce a simplified contribution calculation method and a unified contribution scale for casual employees in Industry Schemes<sup>1</sup>; and (ii) adjust the minimum and maximum relevant income levels for MPF contribution purposes<sup>2</sup></li> </ul>	29	<ul style="list-style-type: none"> <li>Keep in view the need for further adjustments in light of the development of the adjustment mechanism for the minimum and maximum relevant income levels</li> </ul>
<ul style="list-style-type: none"> <li>Developed a proposal for an improved mechanism for adjusting the minimum and maximum relevant income levels for MPF contribution purposes</li> </ul>	28	<ul style="list-style-type: none"> <li>Consult the public on the proposal and assist the Government in preparing relevant legislative proposals</li> </ul>
<ul style="list-style-type: none"> <li>Developed a proposal to enhance the regulation of default funds<sup>3</sup> in MPF schemes with a view to providing a simple and low-fee MPF investment choice to scheme members who do not or do not want to make investment choices and any other scheme members who are agreeable to the investment strategy of this choice</li> </ul>	29	<ul style="list-style-type: none"> <li>Consult the public on the proposal and assist the Government in preparing relevant legislative proposals</li> </ul>
<b>On protecting the interests of scheme members</b>		
<ul style="list-style-type: none"> <li>Recovered \$146.3 million in default contributions on behalf of employees</li> </ul>	33	<ul style="list-style-type: none"> <li>Continue to deter non-compliance of employers, self-employed persons and scheme members</li> </ul>
<ul style="list-style-type: none"> <li>Applied for summonses against 95 scheme members who made false statements to withdraw accrued benefits on grounds of permanent departure from Hong Kong; and 10 summonses in respect of failure of employers to pay any sum payable under tribunal or court awards</li> </ul>	33 and 34	

<sup>1</sup> Changes took effect on 1 November 2013.

<sup>2</sup> The minimum relevant income level was raised from \$6,500 to \$7,100 with effect from 1 November 2013 and the maximum relevant income level will be increased from \$25,000 to \$30,000 with effect from 1 June 2014.

<sup>3</sup> MPF funds in MPF schemes designated for investing MPF contributions of scheme members who do not make investment choices.

## Major Results and Future Initiatives (cont'd)

Major results in 2013-14	More information on other pages	Initiatives in 2014-15 and beyond
<b>On supervising the industry</b>		
<ul style="list-style-type: none"> <li>■ Monitored the operation of the Employee Choice Arrangement<sup>4</sup> ("ECA") and identified areas for improvement</li> </ul>	36	<ul style="list-style-type: none"> <li>■ Follow up on areas for improvement and explore ways to further shorten the processing time of transfers under ECA</li> </ul>
<ul style="list-style-type: none"> <li>■ Facilitated standardization, streamlining and automation of administration of MPF schemes with relevant legislative proposals formulated</li> </ul>	36	<ul style="list-style-type: none"> <li>■ Launch a system for processing payments to facilitate efficient processing of transfers of MPF accrued benefits and explore ways to further automate, streamline and standardize administration of MPF schemes</li> </ul>
<ul style="list-style-type: none"> <li>■ Urged trustees to offer in each scheme at least one low-fee fund<sup>5</sup> investing in equities and/or bonds. As at 31 March 2014,                             <ul style="list-style-type: none"> <li>• all 37 active schemes have offered or are ready to offer at least one low-fee fund investing in equities and/or bonds;</li> <li>• there were altogether 155 low-fee funds in the MPF market; and</li> <li>• the average Fund Expense Ratio<sup>6</sup> of MPF funds fell by 20% to 1.69% from 2.10% in 2007</li> </ul> </li> </ul>	36 and 40	<ul style="list-style-type: none"> <li>■ Work on the core fund proposal with a view to offering a simple, low-fee MPF investment option to all scheme members and implement various measures to help contribute towards overall efficiency in the MPF System to create more room for fee reduction</li> </ul>
<ul style="list-style-type: none"> <li>■ Urged trustees to consolidate smaller scale or less efficient MPF schemes and funds. In 2013-14,                             <ul style="list-style-type: none"> <li>• four small-size funds had been terminated; and</li> <li>• two trustees had merged in total four schemes into two</li> </ul> </li> </ul>	36	<ul style="list-style-type: none"> <li>■ Continue to monitor the market trend to facilitate reduction in the overall operating cost of the MPF System in the long run</li> </ul>
<ul style="list-style-type: none"> <li>■ Made efforts to decelerate the creation of new personal accounts and launched a campaign to encourage consolidation of personal accounts. From 16 September 2013 to 31 March 2014, MPF trustees had received around 37 700 applications for consolidation of personal accounts</li> </ul>	37	<ul style="list-style-type: none"> <li>■ Continue to roll out publicity and education programmes to encourage scheme members to consolidate multiple personal accounts into one for easy management. Measures to further decelerate the creation of new personal accounts will also be devised</li> </ul>
<ul style="list-style-type: none"> <li>■ Centralized all enforcement functions under a dedicated team to enhance our enforcement actions, in particular against non-compliance of the MPF industry</li> </ul>	37	<ul style="list-style-type: none"> <li>■ Implement new or refined supervision and enforcement strategies in respect of trustees, with emphasis on addressing key operational risks in connection with MPF scheme administration, and enhancing trustees' governance arrangements in relation to fulfillment of their fiduciary duties</li> </ul>

<sup>4</sup> An arrangement that allows employees to elect to transfer the MPF accrued benefits derived from employees' mandatory contributions made during current employment and held in a contribution account under an MPF scheme to an MPF scheme of their own choice on a lump sum basis once every calendar year.

<sup>5</sup> MPF funds with fee of 1% or below or Fund Expense Ratio of 1.3% or below.

<sup>6</sup> A ratio that measures the expenses of an MPF fund as a percentage of fund size based on data from the most recently ended financial period. The higher the ratio, the higher the percentage of operating expenses to fund size.

## Objective:

To strengthen public support and promote understanding of the MPF System, MPF investment, and the work of MPFA

Major results in 2013-14	More information on other pages	Initiatives in 2014-15 and beyond
<ul style="list-style-type: none"> <li>■ Rolled out publicity and education programmes with specific themes relating to knowledge of managing MPF investment and accounts</li> </ul>	43	<ul style="list-style-type: none"> <li>■ Continue to organize education programmes to help the general public and different target groups better understand the MPF System and make informed MPF investment decisions</li> </ul>
<ul style="list-style-type: none"> <li>■ Launched thematic campaigns for self-employed persons, members of Industry Schemes and ethnic minorities</li> </ul>	45	
<ul style="list-style-type: none"> <li>■ Through school activities, parenting programmes and online publicity, educated the younger generation and their parents on MPF and the importance of saving for the future</li> </ul>	46 to 48	<ul style="list-style-type: none"> <li>■ Organize a new round of programmes to educate young working adults and students on the merits of the MPF System and the importance of early financial planning for retirement</li> </ul>
<ul style="list-style-type: none"> <li>■ Consulted major stakeholders on new developments of the MPF System and organized with them programmes and briefings to broaden and consolidate support for the MPF System</li> </ul>	44	<ul style="list-style-type: none"> <li>■ Proactively network and communicate with different sectors of the community and provide outreach services for scheme members</li> </ul>
<ul style="list-style-type: none"> <li>■ Publicized new initiatives and changes in the MPF System</li> </ul>	49 to 51	<ul style="list-style-type: none"> <li>■ Organize communication, publicity and education programmes to enhance understanding of new developments of the MPF System</li> </ul>

## Objective:

To build a strong team and effective systems to deliver the planned programmes and achieve MPFA's mission

Major results in 2013-14	More information on other pages	Initiatives in 2014-15 and beyond
<ul style="list-style-type: none"> <li>■ Reviewed the organization structure of core operations and established a new Enforcement Division</li> </ul>	66	<ul style="list-style-type: none"> <li>■ Review the organization structure and processes of various divisions / departments, rationalize manpower and talents needs to enhance operational effectiveness</li> </ul>
<ul style="list-style-type: none"> <li>■ Organized training and development activities to gear up staff for their current and prospective roles</li> </ul>	67	<ul style="list-style-type: none"> <li>■ Work out a senior executive development programme and implement a reciprocal secondment programme with counterpart regulators</li> </ul>
<ul style="list-style-type: none"> <li>■ Strived for excellence in fulfilling our corporate social responsibility through our commitment to the well-being of employees, sustainability of the environment and services to the community; and received awards in recognition of our efforts</li> </ul>	64 to 69	<ul style="list-style-type: none"> <li>■ Enhance corporate-wide awareness of our corporate social responsibility and roll out related activities through a well co-ordinated approach</li> </ul>

# Chairman's Statement



**Ms Anna Wu**  
Chairman

## Where We Are

Set up as the second pillar of old age protection according to World Bank's multi-pillar approach, the MPF System provides a framework for Hong Kong's workforce to save for their retirement. While a portion of the population is protected by other retirement schemes, the MPF System now covers almost every employee that it was intended to cover. Before it was launched in December 2000, only around 30% of the working population had formal retirement protection. With the System in place, 85% of employed persons have some form of retirement benefits, whether in the form of MPF schemes, occupational retirement schemes or other retirement protection schemes. This rate is amongst the highest in the world.

The MPF System did not come easy. It was the result of decades of debate and hard work and has weathered the Asian Financial Crisis, the SARS epidemic and the Global Financial Crisis. Whilst only in its early teens, it has accumulated a total net asset of \$516.19 billion (as at 31 March 2014), which is made up of \$399.95 billion of contributions and \$116.24 billion investment returns. The annualized rate of return since the System's inception, after fees and charges, was 4%, exceeding the average annual inflation rate of 1.6% and the average one-month Hong Kong Dollar deposit rate of 0.8% per year over the same period. The latest available average Fund Expense Ratio of MPF funds is 1.69%, representing a drop of 20% from the ratio of 2.10% in 2007.

Since its early years, MPFA has devoted much effort to refining the administrative and operational aspects of the MPF System. As we progress, more reviews on broader structural issues and long-term reforms are on the drawing board. I am pleased to see that our fundamental reforms have gathered momentum and are taking shape.



## Recent Trends

With the MPF System in operation for over a decade, some trends have become increasingly evident. First, the amount of voluntary contributions into the MPF System continues to grow, from below 10% in the third quarter of 2004 to around 20% of total contributions in the first quarter of 2014. An increasing part of these voluntary contributions are not related to employment, so called “special voluntary contributions” (around one-third of all voluntary contributions in the financial year 2013-14). This is a sign that more and more scheme members are recognizing the benefits of MPF schemes. We gather that MPF may be attractive to some scheme members given that returns are, on the whole, similar to retail funds, but fees of MPF funds are lower than some retail funds. There are generally no sales or commission charges payable by the investing member. This development illustrates a growing confidence in the MPF System.

Second, there is a trend of increasing equity exposure of MPF assets, from 47% in the first quarter of 2001 to 65% in the first quarter of 2014. This level of equity content is very high by global standards, considering that the average equity exposure for private pensions in Organisation for Economic Co-operation and Development member states is only 40%. While this is largely a result of scheme members’ decisions, we are concerned that some members may not fully understand the choices they are making and the potential consequences.

Third, the number of funds is increasing. There were 477 constituent funds under 41 registered MPF schemes as at 31 March 2014 (averaging 12 constituent funds per scheme), compared with 299 constituent funds under 51 schemes as at 31 March 2001 (averaging 6 constituent funds per scheme). This does not only make decision-making difficult for some scheme members, but also limits the scale efficiencies that can be gained by each fund, making it harder for fees to come down and scheme administration less efficient.

## Latest Developments

In view of these trends, measures have been taken and studies conducted to develop solutions to address major issues of concern, focusing on the interests of scheme members. Inputs are sought from stakeholders in the process. Efforts are geared towards making it easy for scheme members to manage their MPF accounts and investments, and making MPF scheme administration simple and easy.

## Core Fund

To facilitate employee choice, achieve greater efficiency and reduce volatility of investment outcomes for members, the Government and MPFA are considering a new arrangement under which all MPF schemes will offer a standardized, low-fee investment fund that is designed in a manner consistent with the overall objective of retirement savings. Scheme members who do not, or do not want to, make a fund choice will have their MPF assets invested in this core fund. The core fund will also be available for selection by other scheme members. The low fees charged would allow a bigger amount to be saved for retirement, and the approach to investment seeks to minimize the scope for extremely negative outcomes as members approach retirement age. If the core fund can achieve economies of scale in a relatively short period of time, the overall cost-effectiveness of the entire MPF System can be enhanced as a result.

# Chairman's Statement (cont'd)

## Greater Member Autonomy

The Employee Choice Arrangement<sup>1</sup> or “semi-portability”, which came into effect in November 2012, gave employees a right to transfer the accumulated MPF benefits attributed to their own mandatory contributions to a trustee and scheme of their own choice. This first stage of reform will be extended to empower scheme members to have even greater autonomy over their MPF choice. MPFA is studying different options, and assessing their implications, of how to move towards the goal of “full portability”.

## Cost-efficient Operation and Improved Scheme Administration

From a shorter-term perspective, measures have been taken to improve various aspects of the MPF System to achieve cost savings, thus increasing the scope for fee reduction. MPFA has encouraged scheme members to consolidate multiple personal accounts through a special campaign, worked with trustees to eliminate less efficient schemes and funds, and ensured the availability of low-cost funds investing in equities or bonds under each MPF scheme. We have identified the possibility of simplifying certain statutory procedures and requirements which MPF trustees have to comply with and are taking forward some of the required legislative amendments to effect the changes. An MPF payment settlement system (E-Payment for MPF Transfer System) has been developed and will be officially launched in June 2014, enabling MPF trustees to transfer scheme members' accrued benefits between each other electronically to reduce the time required for transfer of accrued benefits. MPFA will continue to work with the industry on standardizing and streamlining processes and making wider use of automation and common electronic platforms in the operation of the MPF System.

To further facilitate the working of market forces, MPFA has enhanced and standardized disclosure. Various tools have been introduced and made easily accessible, like the enhanced Fee Comparative Platform with five-year and ten-year annualized rates of return of MPF funds displayed alongside fee information, a Low Fee Fund List, and a Trustee Service Comparative Platform, to help members make informed MPF decisions.

## More Challenges Ahead

A retirement protection system generally takes some 40 years to mature. The past 13 years is just the first phase of development of the MPF System. Needs and circumstances have changed since the establishment of the System. Meanwhile, the population is ageing rapidly. To further strengthen the second pillar of old age protection and better protect members' interests, we are facing more challenges ahead. Issues like the withdrawal phase are becoming more imminent as the System matures and more workers approach retirement age. Electronic infrastructure is one way to enhance the efficiency of the System for the future. The core fund proposal addresses the need to help members with investment choice as well as how to achieve economies of scale in MPF funds.


MPF is a mandatory system designed for the retirement protection of Hong Kong's workforce. We would like to maximize the benefits of the System for scheme members. As an advocate for members' interests, MPFA will remain attentive to members' needs and take heed of their views when formulating reform proposals.

<sup>1</sup> An arrangement that allows employees to elect to transfer the MPF accrued benefits derived from employees' mandatory contributions made during current employment and held in a contribution account under an MPF scheme to an MPF scheme of their own choice on a lump sum basis once every calendar year.

## Vote of Thanks

The results of this year's work would not have been achieved without the support of my fellow Management Board Members and various supporting committees and working groups. I must thank them for their wise counsel and tremendous efforts in mapping out the various reform measures. I also appreciate very much the support of the MPF Schemes Advisory Committee and the Industry Schemes Committee, particularly their chairmen, Hon Wong Ting-kwong and Ms Li Fung-ying, in giving us valuable and insightful advice.

I am grateful to MPFA's dedicated colleagues who, under the capable leadership of Mrs Diana Chan, the Managing Director, have rendered another year's hard work and excellent professional service. Last but not least, I wish to express my appreciation for the initiatives taken by the industry in complementing MPFA's effort to refine the MPF System. We will continue to count on their support to work for the retirement protection of our workforce.



**Anna Wu Hung-yuk**  
*Chairman*

# Managing Director's Report



**Mrs Diana Chan**  
*Managing Director*

Scheme members have a vital stake in the MPF System. The total net asset value of their MPF accounts surpassed the \$500 billion mark in October 2013. As an advocate of the MPF System and protector of scheme members' interests, we at MPFA see it as our mission to continually improve the System and maximize scheme members' benefits in the light of the evolving needs of society. Some of the initiatives in this regard were completed in the year and others were well on track.

## The Year in Review

I would like to highlight major results of the year.

### Legislative Programmes

We are glad that two legislative exercises arising from reviews conducted earlier were concluded. With the legislation passed, a simplified contribution calculation method and a unified contribution scale for casual employees in Industry Schemes were introduced; and the minimum and maximum relevant income ("RI") levels for MPF contribution purposes were adjusted upwards from \$6,500 to \$7,100 and from \$25,000 to \$30,000 respectively.

Legislative amendments to effect proposed changes in the light of other reviews and studies were in the pipeline. We were assisting the Government in preparing the Mandatory Provident Fund Schemes (Amendment) Bill 2014 (the "Bill") for introduction into the Legislative Council by July 2014. The major proposal of the Bill will increase flexibility of withdrawing MPF accrued benefits by allowing withdrawal by instalments upon retirement and early retirement and allowing scheme members to withdraw MPF accrued benefits if they suffer a terminal illness. The Bill also includes other amendments to streamline MPF scheme administration processes and enable more effective enforcement actions to protect scheme members' interests.

## Reviews and Studies

More proposals seeking to improve the MPF System are being considered. High on our agenda is a plan to enhance the regulation of default fund arrangements in MPF schemes and how an enhanced default arrangement can be used as the core fund in the System. Currently, a wide range of funds are being used as default funds in MPF schemes for investing MPF contributions of scheme members who do not make investment decisions. We found that the type of default funds varies across schemes and the risks and investment returns differ significantly. We also noted that some scheme members do not make investment decisions as they find it difficult to choose funds that suit their needs among the myriad of funds on offer. As explained by Chairman in her statement, we proposed that each MPF scheme has to make available a core fund charging low fees and with an investment approach that balances long-term risks and returns in a manner appropriate for retirement savings. We expect the fund to be a low-fee solution for scheme members who do not make investment decisions for whatever reasons and for those who look for a low-fee investment option. It would also act as a benchmark to put pressure on trustees for more reduction in MPF fees. The Government and MPFA have planned to launch a joint public consultation on the proposal in mid-2014.

Separately, we completed a comprehensive review of the statutory mechanism for adjusting the minimum and maximum RI levels. The introduction of the Statutory Minimum Wage ("SMW") on 1 May 2011 gave rise to the consideration of whether the mechanism should be updated. We began the review after the effect of SMW on employees' income distribution had become more apparent, and worked out and examined the possible options for an improved mechanism. Taking into account different views of key stakeholders, we formulated a proposed mechanism and put it forward to the Government in early 2014 for consideration.

Another major goal we set, also mentioned by Chairman in her statement, was to expand "semi-portability" (i.e. the Employee Choice Arrangement launched in 2012) to "full portability". We continued with the relevant studies started in previous years to explore different options to further increase scheme members' autonomy in choosing MPF schemes and funds and planned the infrastructural support required. We are working towards the goal of submitting a proposal to the Government by the end of 2015.

## Supervising the Industry

We announced last year a series of short-term measures for enhancing the efficiency of the MPF System to achieve additional cost savings. With trustees positively responding to our calls, we made good progress in the year. First, we pursued various ways to streamline and standardize administration of MPF schemes and worked out legislative proposals to streamline certain processes. Second, a number of smaller or less efficient schemes and funds were consolidated or terminated with a view to achieving greater synergy and cost reduction in the MPF System. Third, all schemes but one had made available at least one low-fee fund<sup>1</sup> investing in equities and/or bonds for scheme members to choose, and the remaining one is preparing to launch this kind of fund later in 2014. Separately, we launched a large-scale exercise to call on scheme members to consolidate their personal accounts. Many scheme members took actions based on our advice. This is encouraging, as consolidation of accounts will facilitate better account management and contribute towards overall cost efficiency in the MPF System.

<sup>1</sup> A fund with fee of 1% or below or Fund Expense Ratio of 1.3% or below.



## Managing Director's Report (cont'd)

While working on the above short-term measures, we also looked into ways to enhance the effectiveness of our efforts to supervise MPF trustees and our enforcement actions against breaches of MPF requirements. For better work efficiency and effectiveness, we re-organized our work and centralized all our enforcement functions in a dedicated team under a new Enforcement Division. The team handles all trustee-related complaints and investigates suspected breaches by trustees and service providers, and also handles prosecution and disciplinary action cases involving non-compliant trustees, intermediaries, employers and scheme members.

### Member Protection

MPFA's primary mission is to protect scheme members' rights and interests. In the year, we continued proactive inspections at employment establishments to check compliance with MPF requirements, recovered on behalf of employees \$146.3 million in default MPF contributions, and enhanced self-employed persons' compliance. Meanwhile, enforcement action continued to be taken against scheme members who made false declarations in order to withdraw their MPF accrued benefits on grounds of permanent departure from Hong Kong.

### Public Education and Publicity

Sustaining the momentum of the education and publicity efforts over the years, we carried out renewed programmes to raise public awareness of the MPF System and enhance their knowledge about MPF investment and account management. Furthermore, we launched widespread publicity on new initiatives and developments of the MPF System in the year and continued to disseminate various educational messages to the community. To complement the personal account consolidation exercise, we also carried out mass publicity to reiterate the merits of account consolidation, educate scheme members on how to consolidate their accounts, and encourage more scheme members to take actions where appropriate.

### Corporate Social Responsibility

MPFA is dedicated and committed to its corporate social responsibility. We integrate environmentally friendly measures in our daily operations and promote the well-being of our staff and the community. In recognition of our endeavours in this regard, MPFA was awarded the Caring Organization logo for the ninth consecutive year and received numerous other awards, including the Class of Excellence Wastewi\$e Label for our efforts in reducing and avoiding waste, and a FutureGov Award of the Asia-Pacific region for developing an electronic system to facilitate efficient, accurate and paperless processing of transfers of MPF accrued benefits.

We vigilantly attend to the needs of the community and are dedicated to the delivery of quality results and the highest level of professionalism in customer service. Internally, staff members who exemplify our core values of Commitment, Teamwork, Quality and Community Perspective were recognized through our on-going corporate staff recognition programme. Externally, two staff members won the Ombudsman's Awards 2013 for Officers of Public Organizations for their excellent service to the public. This is the eleventh consecutive year that the awards have been conferred on our staff members.

## Looking Forward

Having undergone several difficult periods in the past 13 years of operation, the MPF System has proven itself to be fundamentally sound and solid. But there are more challenges ahead. Hong Kong is entering into a phase of accelerated ageing population. We will continue to strive for a sustainable future through our commitment to strengthening the second pillar of retirement protection for Hong Kong's workforce. We will work towards the vision that scheme members will find it easy to manage MPF in accumulating funds for retirement, and the MPF System will be simple to administer and provide good value for money.

Building on the work that has started, we will continue to pursue long-term reform initiatives based on the Government's policy directions given in the Policy Address in 2013 and 2014 to bring about substantial developments in the MPF System. As mentioned above, we will consult the public on proposals regarding the introduction of a core fund and draw up implementation plans by the end of 2015 for proposals to increase scheme members' control in managing their MPF accounts. In the process, we will always be mindful of the need for consensus in introducing any changes.

We will actively pursue the standardization, streamlining and automation of MPF administration processes, continue to review and improve the disclosure and information presentation of schemes and funds, and follow through the related legislative exercise that has commenced. In supervising the industry, we will address key operational risks in scheme administration and enhance trustees' governance arrangements. We will continue to enforce the law against non-compliance, and educate the public on the MPF System and MPF investment. Within the organization, we will maintain our focus on training and upgrading the skills and expertise of our staff, and enhance staff's awareness of our corporate social responsibility and roll out related activities.

## Vote of Thanks

The results that we achieved in the year did not come easy. I must express my deep indebtedness to the Chairman, members of the Management Board, chairmen and members of committees and working groups, and chairmen and members of the MPF Schemes Advisory Committee and Industry Schemes Committee for their inspiring and valuable advice on the direction and development of the MPF System and unwavering support of our work throughout the year. My heartfelt thanks also go to my team of enthusiastic staff at MPFA for their dedication and relentless efforts.



**Diana Chan Tong Chee-ching**  
*Managing Director*

# The Management Board

The Mandatory Provident Fund Schemes Ordinance ("MPFSO") requires that the Management Board consist of not fewer than 10 directors appointed by the Chief Executive of Hong Kong Special Administrative Region ("HKSAR"). More information on the Management Board and its supporting committees is in the chapter "Corporate Governance".

## Members

(as at 31 March 2014)

### Chairman

### Non-executive Directors



**Hon Anna Wu Hung-yuk, GBS, JP**

*(Since 17 March 2009; current term will expire on 16 March 2015)*

*Solicitor, Hong Kong; Non-official Member, Executive Council; Chair, Competition Commission; Member, International Advisory Board, Hong Kong International Arbitration Centre; Chair, Academic Board for Postgraduate Certificate in Laws (PCLL) of the University of Hong Kong; Non-executive Director, MPFA (1998-2005); held a number of public offices in the past, including Member, Legislative Council; Chair, Equal Opportunities Commission; Chair, Consumer Council; Chair, Operations Review Committee of the Independent Commission Against Corruption; and Non-executive Director, Securities and Futures Commission.*



**Hon Andrew Leung Kwan-yuen, GBS, JP**

*(Since 17 March 2009; current term will expire on 16 March 2015)*

*Member, Legislative Council; Honorary President, Federation of Hong Kong Industries; Honorary Chairman, Textile Council of Hong Kong; Council Member, Hong Kong Trade Development Council; Deputy Chairman, Business Facilitation Advisory Committee; Member, Economic Development Commission; Member, Independent Commission Against Corruption Advisory Committee on Corruption; Director, The Hong Kong Mortgage Corporation Limited; Chairman, Sun Hing Knitting Factory Limited.*



**Hon Wong Kwok-kin, BBS**

*(Since 17 March 2009; current term will expire on 16 March 2015)*

*Member, Legislative Council; Vice President, Hong Kong Federation of Trade Unions; Non-executive Director, Urban Renewal Authority; Member, Hong Kong Housing Authority; Member, Subsidised Housing Committee, Hong Kong Housing Authority; Member, Security and Guarding Services Industry Authority.*



**Hon Ip Kwok-him, GBS, JP**

*(Since 17 March 2011; current term will expire on 16 March 2015)*

*Deputy to the National People's Congress of the People's Republic of China; Member, Legislative Council; Member, Central and Western District Council (Kwun Lung); Chairman of Panel on Security, Legislative Council; Chairman of Committee on Members' Interests, Legislative Council; Member, Hong Kong Housing Authority.*



**Ms Paddy Lui Wai-yu, BBS, JP**

*(Since 17 March 2011; current term will expire on 16 March 2015)*

*Executive Director, K Wah International Holdings Limited; Executive Director, Galaxy Entertainment Group Limited; Member, Election Committee of the Hong Kong Special Administrative Region; Member, General Committee of The Chamber of Hong Kong Listed Companies; Founding Member, Board of Opera Hong Kong Limited; Member, Shanghai Committee of the Chinese People's Political Consultative Conference.*



**Mr John Poon Cho-ming, JP**

*(Since 17 March 2011; current term will expire on 16 March 2015)*

*Solicitor, Hong Kong; Chairman, Financial Reporting Council; Council Member, Hong Kong Institute of Certified Public Accountants (2005-11); Member, Board of Review (Inland Revenue Ordinance) (2004-10); Member, Standing Committee on Company Law Reform (2003-09).*

## The Management Board (cont'd)



**Mr Philip Tsai Wing-chung, JP**

*(Since 17 March 2011; current term will expire on 16 March 2015)*

*Audit Partner, Deloitte Touche Tohmatsu; Past President, Hong Kong Institute of Certified Public Accountants; Member, Exchange Fund Advisory Committee; Director, West Kowloon Cultural District Authority; Panel Member, Securities and Futures Appeals Tribunal; Member, Vetting Committee of the Professional Services Development Assistance Scheme; Member, Nomination Committee of the Chinese Gold and Silver Exchange.*



**Mr Horace Wong Yuk-lun, SC**

*(Since 1 October 2012; current term will expire on 30 September 2014)*

*Senior Counsel, Hong Kong; Chairman, Administrative Appeals Board; Member, Disciplinary Chair Committee, Securities and Futures Commission; Member, Appeal Board Panel (Human Organ Transplant Ordinance).*



**Hon Poon Siu-ping, BBS, MH**

*(Since 17 March 2013; current term will expire on 16 March 2015)*

*Member, Legislative Council; Vice Chairman, The Federation of Hong Kong and Kowloon Labour Unions; Executive Committee Member, Hong Kong Storehouses, Transportation and Logistics Staff Association; Member, Occupational Safety and Health Council; Member, Protection of Wages on Insolvency Fund Board.*





**Secretary for Financial Services  
and the Treasury**

**Prof Hon K C Chan, GBS, JP**

*(Since 1 July 2007; current term will  
expire on 16 March 2015)*

*Dean of Business and Management,  
the Hong Kong University of Science  
and Technology (2002-07); Faculty  
Member, the Hong Kong University of  
Science and Technology (1993-2007)  
and Ohio State University, United  
States (1984-93).*

*Alternate: Permanent Secretary for  
Financial Services and the Treasury  
(Financial Services)*



**Secretary for Labour and Welfare**

**Hon Matthew Cheung Kin-chung,  
GBS, JP**

*(Since 1 July 2007; current term will  
expire on 16 March 2015)*

*Previously Permanent Secretary for  
Economic Development and Labour  
(Labour) and Commissioner for  
Labour.*

*Alternate: Permanent Secretary for  
Labour and Welfare*

## The Management Board (cont'd)

### Executive Directors



**Mrs Diana Chan Tong Chee-ching, JP**

*Deputy Chairman and  
Managing Director*

*(Since 1 July 2004; current term will  
expire on 30 June 2016)*

*Chief Operating Officer (Corporate Affairs), MPFA (2001-04); Executive Director (Corporate Services), MPFA (2000-01); commissioned the Wong Chuk Hang Hospital and appointed as its first Hospital Chief Executive (1995-2000); Deputy Director (Administration), Hospital Authority (1991-95); Administrative Officer to Principal Assistant Secretary in the Administrative Officer Grade, Hong Kong Government (1980-91).*



**Mr Cheng Yan-chee**

*Chief Corporate Affairs Officer and  
Executive Director*

*(Since 3 April 2013; current term will  
expire on 2 April 2016)*

*A member of the Administrative Officer Grade of the Hong Kong Civil Service from Administrative Officer to Deputy Secretary (1986-2013), serving in various government bureaux and departments on different areas including home affairs, financial services, trade and industry, education, IT services, housing and welfare.*



**Ms Alice Law Shing-mui**

*Chief Operating Officer and  
Executive Director*

*(Since 16 July 2012; current term will  
expire on 15 July 2015)*

*Solicitor, Hong Kong; Member, Advisory Committee on Bachelor of Business Administration Programme in Insurance, Financial and Actuarial Analysis, The Chinese University of Hong Kong; Senior Director (Policy, China & Investment Products), Securities and Futures Commission ("SFC") (2008-12); Director (Intermediaries & Investment Products), SFC (2004-06, 2007-08); Director of Licensing, SFC (2006-07); Non-executive Director, the Hong Kong Securities Institute (2004-08); Government appointed adjudicator of the Registration of Persons Tribunal (2007-11); a partner specializing in corporate and commercial practice in a Hong Kong law firm before joining the public sector in 1998.*



**Mr Darren Mark McShane**

*Chief Regulation & Policy Officer and  
Executive Director*

*(Since 25 March 2014; current term  
will expire on 24 March 2017)*

*Barrister-at-law, Australia; Vice  
Chairman, Technical Committee,  
International Organisation of  
Pension Supervisors; Member,  
Products Advisory Committee,  
Securities and Futures Commission;  
Member, Examination Board,  
Institute of Financial Planners of  
Hong Kong; Executive Director  
(Regulation & Policy), MPFA (2002-  
14); Director, Financial Services  
Regulation, Australian Securities and  
Investments Commission (1998-2002);  
Enforcement & Policy Consultant,  
Investment Management Regulatory  
Organisation Limited, United  
Kingdom (1996-97).*

**Ms Cynthia Hui Wai-yee**

*Executive Director (Supervision)*

*(Since 1 February 2008; current term  
will expire on 31 January 2017)*

*Qualified actuary; Fellow of the  
Institute of Actuaries of Australia; Chief  
Supervision Manager, MPFA (2006-  
08); Advisor (Insurance Affairs), MPFA  
(2005-06); held actuarial positions  
in major insurance companies in  
Australia for over 15 years before  
joining MPFA.*

# MPF Schemes Advisory Committee

The MPF Schemes Advisory Committee ("MPFSAC") is established under MPFSO to advise MPFA on the operation of MPFSO and the effectiveness and efficiency of MPFA. MPFSAC comprises an executive director designated by MPFA and at least nine (but no more than 11) other members appointed by the Chief Executive of HKSAR.

## Members

(as at 31 March 2014)

### Chairman



**Hon Wong Ting-kwong, SBS, JP**  
(Since 1 November 2012; current term  
will expire on 31 October 2014)  
Member, Legislative Council

### Deputy Chairman



**Mrs Diana Chan Tong Chee-ching, JP**  
(Since 1 July 2003; current term will  
expire on 29 March 2015)  
Managing Director, MPFA

### Other Members

(current term will expire on 29 March 2015)



**Ms Ng Wai-ye, MH**  
(Since 30 March 2009)  
Chairman, Federation of Hong Kong  
and Kowloon Labour Unions



**Mr William Chan Che-kwong**  
(Since 30 March 2011)  
Director, Broadway Photo Supply  
Limited



**Mr Ip Wai-ming, MH**  
(Since 30 March 2011)  
Member, Legislative Council (2008-12)



**Mrs Agnes Koon Woo Kam-oi**  
(Since 30 March 2011)  
Chief Executive, KSY Speciality  
Limited



**Mr Larry Kwok Lam-kwong, BBS, JP**  
(Since 30 March 2011)  
Managing Partner (China),  
Mallesons Stephen Jaques



**Mr Fred Li Wah-ming, SBS, JP**  
(Since 30 March 2011)  
Member, Legislative Council  
(1998-2012)



**Mr Paul Pong Po-lam**  
(Since 30 March 2011)  
Managing Director, Pegasus Fund  
Managers Limited



**Mrs Bethy Tam Ho Kum-man**  
(Since 30 March 2011)  
Head of Governance & Strategic  
Initiatives, Hong Kong, Standard  
Chartered Bank (Hong Kong) Limited



**Dr Roy Chung Chi-ping, BBS, JP**  
(Since 30 March 2013)  
Co-founder and Non-Executive Director,  
Techtronic Industries Company Limited

During the year, MPFSAC held three meetings (average attendance rate: 97%), at which members gave advice on proposals relating to amendments of the MPF legislation, the adjustment mechanism for the minimum and maximum relevant income levels for MPF contribution purposes, and MPF default/core fund. The Committee was briefed on MPFA's proposed corporate plan for 2014-15 and received reports on various aspects of MPFA's work.



# MPF Industry Schemes Committee

The MPF Industry Schemes Committee ("ISC") is established under MPFSO to monitor the effectiveness of Industry Schemes<sup>1</sup> and advise on ways to improve their administration and operation. ISC comprises a chairman, at least one (but no more than two) representative(s) of the trustee of each Industry Scheme, and no fewer than six other persons, appointed by the Financial Secretary of HKSAR. An executive director is designated by MPFA to sit on ISC.

## Members

(as at 31 March 2014)

### Chairman



**Ms Li Fung-ying, SBS, JP**

*(Since 25 August 2012; current term will expire on 24 August 2014)*  
Member, Legislative Council (2000-12)

### Other Members

*(current term will expire on 24 August 2014)*



**Mr Ng Kwok-kwan**

*(Since 25 August 2008)*  
Vice Chairman, Hong Kong Construction Industry Employees General Union



**Mr Conrad Wong Tin-cheung, BBS, JP**

*(Since 25 August 2008)*  
Vice Chairman,  
Yau Lee Holdings Limited



**Mr Chan Sam-choi**

*(Since 25 August 2010)*  
Executive, Construction Site Workers General Union



**Mr Chan Wing-on**

*(Since 25 August 2010)*  
President, Hong Kong Federation of Restaurants & Related Trades



**Mr Koon Ting-shan**

*(Since 25 August 2012)*  
Secretary, Eating Establishment Employees General Union and the Hong Kong Professional Chefs General Union

<sup>1</sup> Industry Schemes are MPF schemes set up for employers and employees of the catering and construction industries, which are of high labour mobility.



**Mr Lawrence Ng San-wa**  
*(Since 25 August 2012)*  
*President, Hong Kong Construction*  
*Sub-Contractors Association*



**Mr Tang Ka-hin**  
*(Since 25 August 2012)*  
*Chairman, Chinese and Western Food*  
*Workers Union*



**Mr Simon Wong Kit-lung**  
*(Since 25 August 2012)*  
*Chairman, Institution of Dining Art*



**Mr Adrian Li Man-kiu, JP**  
*(Since 25 August 2006)*  
*Director, Bank of East Asia (Trustees)*  
*Limited*



**Mr Ivan Liu Sin-keung**  
*(Since 25 August 2008)*  
*Associate Director, Pension Services,*  
*Bank Consortium Trust Company Limited*



**Mr Cheng Yan-chee**  
*(Since 3 April 2013)*  
*Chief Corporate Affairs Officer and*  
*Executive Director, MPFA*

During the year, ISC held four meetings (average attendance rate: 81%), at which members advised on the operational aspects of the construction and catering industries with a view to fostering support to and enhancing compliance with the MPF System. They also discussed various improvement proposals, including abolishing or combining certain required documents to streamline MPF administration processes, standards for phased withdrawal of MPF accrued benefits, MPF default/core fund, as well as the adjustment mechanism for minimum and maximum relevant income levels for MPF contribution purposes. ISC also received reports on enrolment, administration, enforcement and publicity matters related to Industry Schemes.

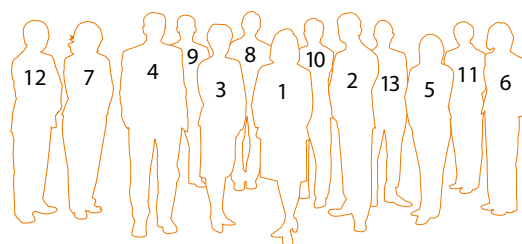
# The Management Team

(as at 31 March 2014)



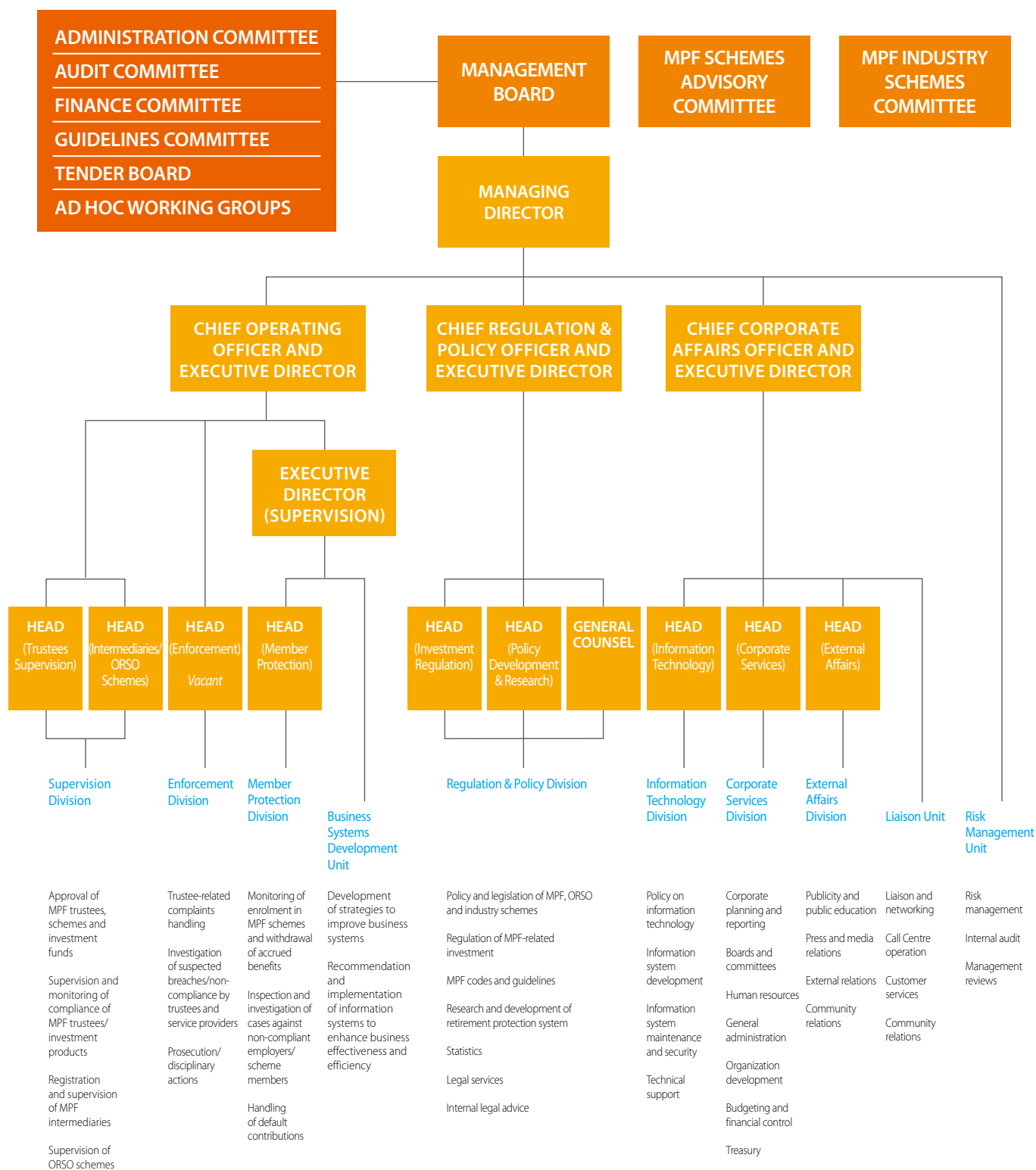
As at 31 March 2014, the senior management of MPFA comprised:

- |  |   |   |
|--|---|---|
| 1 Mrs Diana Chan,<br>Managing Director   | 5 Ms Cynthia Hui,<br>Executive Director (Supervision) | 10 Mr Joseph Lee,<br>Head (Trustees Supervision)                |
| 2 Mr Cheng Yan-chee,<br>Chief Corporate Affairs Officer and<br>Executive Director              | 6 Ms Ingrid Lai,<br>General Counsel                   | 11 Ms Gabriella Yee,<br>Head (Policy Development &<br>Research) |
| 3 Ms Alice Law,<br>Chief Operating Officer and<br>Executive Director                           | 7 Mrs Betty Chan,<br>Head (External Affairs)          | 12 Ms Stella Yiu,<br>Head (Investment Regulation)               |
| 4 Mr Darren Mark McShane,<br>Chief Regulation & Policy Officer<br>and Executive Director       | 8 Mr Andy Tong,<br>Head (Information Technology)      | 13 Mr Eric K Lee,<br>Head (Corporate Services)                  |
| 14 Mr Robin Gill,<br>Head (Intermediaries/<br>ORSO Schemes)<br><i>(not in the group photo)</i> | 9 Mr Ronnie Lai,<br>Head (Member Protection)          |   |

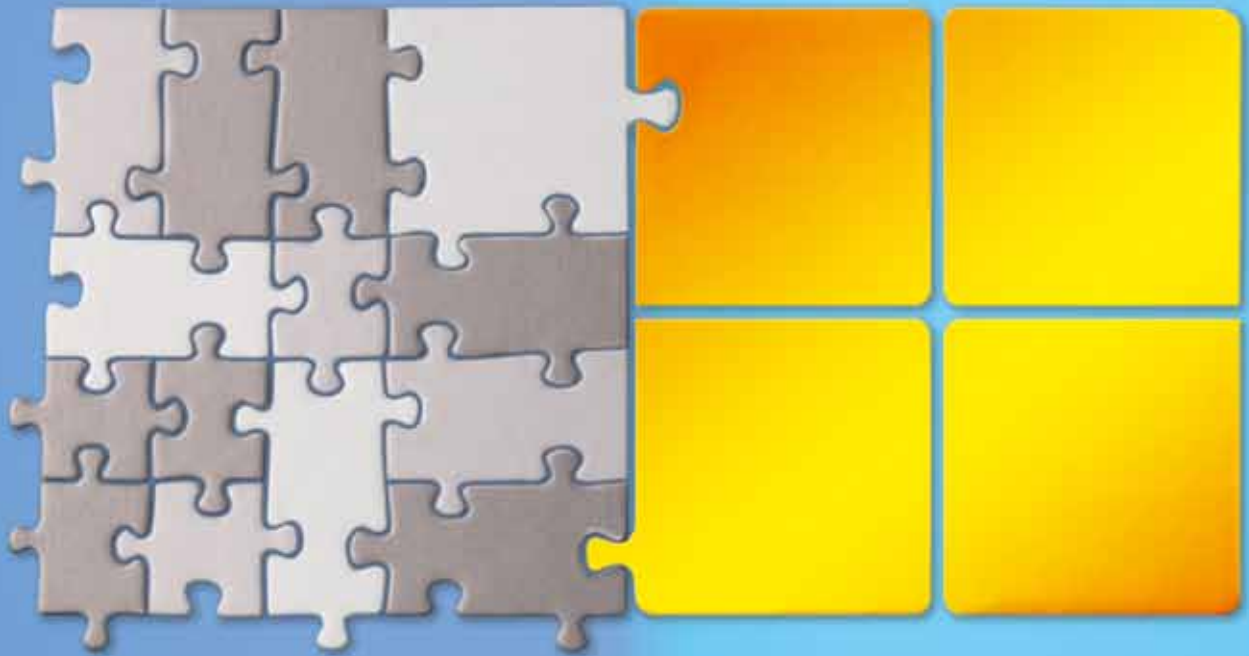


# The Organization Structure

(as at 31 March 2014)



# Standardized & Simple





# Refining the Regulatory Framework

## Overview

### Our role

- To review regulatory issues and operational policies of the MPF System
- To consider the need for amendments or reforms to legislation and make proposals to the Government where appropriate
- To review and amend MPF Guidelines and Codes and prepare new ones as appropriate
- To conduct research in support of MPFA's role as regulator of the MPF System

### In 2013-14, we

- continued to study options that would give scheme members more control over their MPF accounts with the aim of submitting an implementation plan to the Government by the end of 2015
- worked with the Government and the industry to draw up legislative proposals arising from the review of the regulation of withdrawal of MPF accrued benefits and assisted the Government in preparing the Mandatory Provident Fund Schemes (Amendment) Bill 2014
- completed the amendments to the subsidiary legislation to simplify the contribution calculation methods for casual employees in Industry Schemes
- reviewed the minimum and maximum levels of relevant income ("RI") in the light of the increase of the Statutory Minimum Wage ("SMW") rate and assisted the Government in introducing into the Legislative Council amendments to the subsidiary legislation to effect the adjustments of the RI levels
- completed a comprehensive review of the statutory adjustment mechanism for the minimum and maximum RI levels for MPF contribution purposes and a consultation with key stakeholders, and put forward to the Government a proposed mechanism
- reviewed the arrangements in MPF schemes for investing contributions of scheme members who do not make investment choices and, based on the review outcomes, developed a proposal for enhanced regulation of default funds
- continued to improve disclosure of information about MPF schemes
- amended 20 sets of MPF Guidelines

# Refining the Regulatory Framework (cont'd)

## Reforming the MPF System



"To better protect members' interests, we are moving from refining operational matters to broader policy proposals, and we will be assuming an increasingly more proactive advocacy role to tackle the greater structural issues."

– Hon Anna Wu, MPFA Chairman and Chairman of the Working Group on MPF Reform Issues

## Employees' Control over MPF Accounts

The Employee Choice Arrangement ("ECA")<sup>1</sup> has been operating smoothly since its launch in November 2012. By end of March 2014, trustees received around 125 800 ECA transfer requests. Some employees ask for more control over their MPF accounts than that provided by ECA. There are various ways in which employees can be given more control over their MPF accounts. We are studying various options and the implications and challenges having regard to employees' aspirations and the need to minimize complexity and cost impacts. We aim to submit an implementation plan to the Government by the end of 2015.

## Withdrawal of MPF Accrued Benefits

Our earlier consultation suggested broad support for providing an option to withdraw MPF accrued benefits in phases upon scheme members attaining age 65 or satisfying the criteria for early retirement, and to allow early withdrawal by scheme members having been certified as suffering from a terminal illness<sup>2</sup>. Accordingly, we submitted to the Government legislative proposals to effect the proposed changes and are assisting the Government in preparing the Mandatory Provident Fund Schemes (Amendment) Bill 2014. The Government plans to introduce the Bill into the Legislative Council within the 2013-14 legislative session.

## Statutory Adjustment Mechanism for Minimum and Maximum RI Levels

The MPF legislation sets out a mechanism for reviewing and adjusting the minimum and maximum RI levels<sup>3</sup>. There were calls for reviewing the mechanism in the light of the introduction of SMW on 1 May 2011. After a comprehensive review, we worked out and examined various options for an improved mechanism. A consultation with key stakeholders (including labour unions, employer associations, chambers of commerce, industry bodies and ISC) was conducted from September 2013 to January 2014. Taking into account different views, we have proposed a new mechanism which is considered to be able to balance different interests. We submitted the proposal to the Government for consideration in April 2014.

<sup>1</sup> An arrangement that allows employees to elect to transfer the MPF accrued benefits derived from employees' mandatory contributions made during current employment and held in a contribution account under an MPF scheme to an MPF scheme of their own choice on a lump sum basis once every calendar year.

<sup>2</sup> Terminal illness refers to an illness that is life endangering, such that the remaining life expectancy of the individual is reduced to 12 months or less.

<sup>3</sup> The MPF legislation provides that MPFA must, not less than once every four years, conduct a review of the minimum and maximum RI levels to ascertain whether or not there are grounds to amend the levels. In conducting the review, MPFA must take into account the adjustment factors set out in the legislation.

## Core Fund

We reviewed the existing arrangements in MPF schemes for investing MPF contributions of scheme members who do not make investment choices, making reference to international research and approaches to default investment for defined contribution pension plans<sup>4</sup>. Currently, a wide range of funds, with differing risk and return profiles, are being used as the default investment fund in MPF schemes, giving rise to differing investment retirement outcomes for scheme members who do not make an investment choice. Based on the review outcomes, we consider that there is scope for introducing better investment solutions through offering a standardized, low-fee investment fund (core fund) for scheme members who do not, or do not want to, make an investment choice. The core fund will also be available as a choice to scheme members who are agreeable to its investment strategy and lower fees. After a process of internal deliberation and gathering views from key stakeholders, MPFA and the Government plan to launch a joint public consultation in mid-2014 to further develop the reform proposal regarding the core fund.

## Information Presentation in Offering Documents for MPF Schemes

Improving the presentation and disclosure of MPF information has been an important ongoing project of MPFA. During the year, we reviewed the information presentation in the offering documents for all MPF schemes and conducted a survey on scheme members to better understand their preferences and opinions on the information presented in existing offering documents. The review and survey will help us identify ways to improve the readability and usefulness of these documents from readers' and scheme members' perspective. Areas for further improvement relating to simplification, standardization and comparison will be considered for implementation.

## Legislative Amendments

### Minimum and Maximum RI Levels

After the announcement of a new SMW rate, we reviewed the minimum and maximum RI levels in early 2013 and proposed adjustments pending the formulation of a new adjustment mechanism. On 17 July 2013, the Government moved motions at the Legislative Council seeking approval of the proposed amendments to the subsidiary legislation<sup>5</sup> to adjust the two levels. The Council approved the amendments. The monthly minimum RI level was increased from \$6,500 to \$7,100<sup>6</sup> (effective 1 November 2013) and the monthly maximum RI level was increased from \$25,000 to \$30,000<sup>7</sup> (effective 1 June 2014).

### Simplification of the Contribution Calculation Methods for Casual Employees in Industry Schemes

In the light of operational experience and concerns of relevant stakeholders, we formulated amendments to the MPF Schemes (Contributions for Casual Employees) Order to simplify the contribution calculation methods for employers to calculate the mandatory contributions payable for and in respect of their casual employees who are members of Industry Schemes by introducing a new calculation method and a unified contribution scale<sup>8</sup>. The Legislative Council completed the vetting of the amendments in October 2013. The new contribution calculation method and the unified contribution scale took effect on 1 November 2013.

<sup>4</sup> Retirement plans in which employers, employees or both make contributions on a regular basis. Individual accounts are set up for participants and benefits are based on the amounts credited to these accounts (through employer and employee contributions) plus any investment earnings on the money in the accounts.

<sup>5</sup> Details of the proposed amendments are set out in the Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 2) Notice 2013 and Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 3) Notice 2013.

<sup>6</sup> The daily and yearly minimum RI levels were raised from \$250 and \$78,000 to \$280 and \$85,200 respectively.

<sup>7</sup> The daily and yearly maximum RI levels were raised from \$830 and \$300,000 to \$1,000 and \$360,000 respectively.

<sup>8</sup> Details of the proposed amendments are set out in the Mandatory Provident Fund Schemes (Contributions for Casual Employees) (Amendment) Order 2013 and Mandatory Provident Fund Schemes (Contributions for Casual Employees) (Amendment) (No.2) Order 2013.

## Refining the Regulatory Framework (cont'd)

### Guidelines and Codes

We issue MPF Guidelines and Codes to elaborate on and support the legislative requirements, hence facilitating compliance with the MPF legislation. During the year, we revised 20 sets of MPF Guidelines, mainly to:

- reflect the MPF legislative amendments in relation to the adjustments of the minimum and maximum RI levels and the consequential changes in the MPF context in the light of the commencement of the new Companies Ordinance;
- provide guidance on various streamlining initiatives including the facilitation of consolidation of personal accounts, rationalization of the procedures for claiming MPF accrued benefits and submission of specified electronic forms for delivery of annual returns by MPF intermediaries; and
- set out the additional information required to be submitted by trustees in respect of the arrangement of using MPF accrued benefits to make severance payments and long service payments.

As at 31 March 2014, 72 sets of Guidelines and two Codes were in force.

# Protecting the Interests of Scheme Members

## Overview

### Our role

- To monitor enrolment in MPF schemes and withdrawal of MPF accrued benefits
- To conduct inspection and investigate cases of non-compliant employers and scheme members
- To take enforcement actions against non-compliance
- To recover default MPF contributions on behalf of scheme members
- To enhance the image of MPFA as a law enforcer and promote the understanding of MPF legislation

### In 2013-14, we

- conducted 2 002 proactive inspections at employment establishments to check on compliance with MPF requirements
- recovered on behalf of employees \$146.3 million in default MPF contributions
- implemented measures to enhance the compliance of self-employed persons ("SEPs") and took enforcement actions against non-compliant SEPs
- applied for summonses against 95 scheme members who made false statements to withdraw their MPF accrued benefits on grounds of permanent departure from Hong Kong and 10 summonses in respect of cases where the employers failed to pay any sum payable under tribunal or court awards

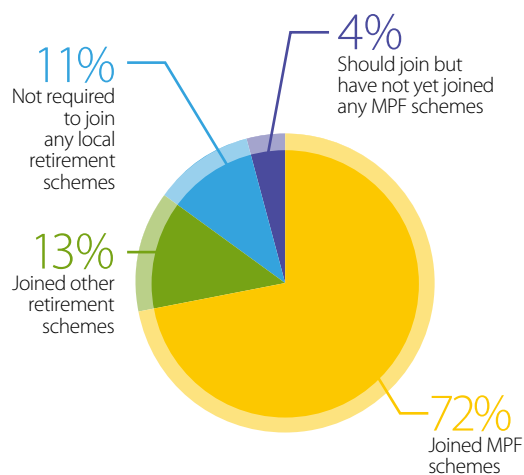
## Protecting the Interests of Scheme Members (cont'd)

### Enrolment

(as at 31 March 2014)

At present, 85% of the working population in Hong Kong are under some form of retirement protection.

#### Employed Population by Type of Retirement Schemes



Participation rates in the MPF System remained high throughout 2013-14. As at 31 March 2014, the estimated enrolment rates and estimated numbers of participating members are as follows:

	Number *	Enrolment Rate ^
Employer	266 300	99%
Relevant Employee	2 493 900	100%
SEP	211 700	61%

\* rounded to the nearest 100

^ rounded to the nearest integer

Detailed statistics on enrolment are in Part A of the Statistics section.

### Enquiries and Complaints

In 2013-14, we received:

111 098 Enquiries	Majority were about transfer or withdrawal of benefits, contribution arrangement and enrolment arrangement.
4 588 Complaints	Majority were about default contribution and non-enrolment.

Detailed statistics on enquiries and complaints are in Part D of the Statistics section.

### Enforcement Actions

#### Non-Compliant Employers

Most employers are law-abiding. Unfortunately, there are still some who seek to evade their MPF obligations by not enrolling their employees in any MPF schemes or not making mandatory contributions for them. We continued to take enforcement actions against non-compliant employers in the year:



## Proactive Inspection

Conducted 2 002 proactive inspections at employment establishments to check employers' compliance with MPF requirements (mainly enrolment and making contributions). Major targets included catering establishments, retail outlets and construction sites.

## Debt Recovery Actions

Recovered on behalf of employees \$146.3 million in default MPF contributions through the courts, or by persuasion and counselling of the employers concerned:

- Issued 302 400 notices to employers who defaulted MPF contributions as reported by trustees to impose on them a surcharge calculated at 5% of the amount of MPF contributions in arrears<sup>1</sup>; and investigated into 28 242 employers regarding contributions and surcharges in arrears;
- In respect of substantiated non-compliance cases, filed 1 claim with the High Court, 42 claims with the District Court and 332 claims with the Small Claims Tribunal on behalf of 102, 1 303 and 1 181 employees respectively, and made 196 applications for 2 554 employees to liquidators;
- With sufficient evidence, pursued criminal prosecution by applying to the Police for 477 and 62 summonses in respect of default contribution and non-enrolment cases respectively. As at 31 March 2014:
  - 78 employers (involving 425 summonses) pleaded guilty or had been convicted after trial. The total amount of fines imposed was \$1,483,100;
  - 7 directors/managers of limited companies (involving 37 summonses) had been convicted and fined between \$4,500 and \$49,000 each;
  - 15 court orders were applied to compel convicted employers to rectify their non-compliance with contribution requirements;
- Applied for 10 summonses (involving 8 employers and 1 director of limited companies) in respect of cases where the employers failed to pay any sum payable under tribunal or court awards. As at 31 March 2014, 5 employers and 1 director of a limited company (involving 6 summonses) pleaded guilty or had been convicted and fined between \$3,000 and \$6,000 each; and
- Imposed 35 financial penalties on 32 repeat defaulters.

<sup>1</sup> Surcharges received are credited into the MPF accounts of the employees concerned.

# Protecting the Interests of Scheme Members (cont'd)

## Non-Compliant SEPs

We continued to implement measures to enhance the compliance of SEPs. We tackled SEP default contribution cases reported by trustees and followed up on any non-compliant instances identified. Letters and leaflets on MPF rights and obligations were sent to SEPs upon their first joining an MPF scheme.

## Non-Compliant Scheme Members

Summonses were served on 95 scheme members for making false statements in order to withdraw MPF accrued benefits on grounds of permanent departure from Hong Kong<sup>2</sup>. As at 31 March 2014, 65 of them pleaded guilty and the average fine imposed was about \$4,800. On 24 April 2014, one of them was sentenced to imprisonment for 21 days upon conviction. This landmark case delivered a strong message that such MPF non-compliance is a serious offence. For the other cases, we are awaiting the court's judgments.

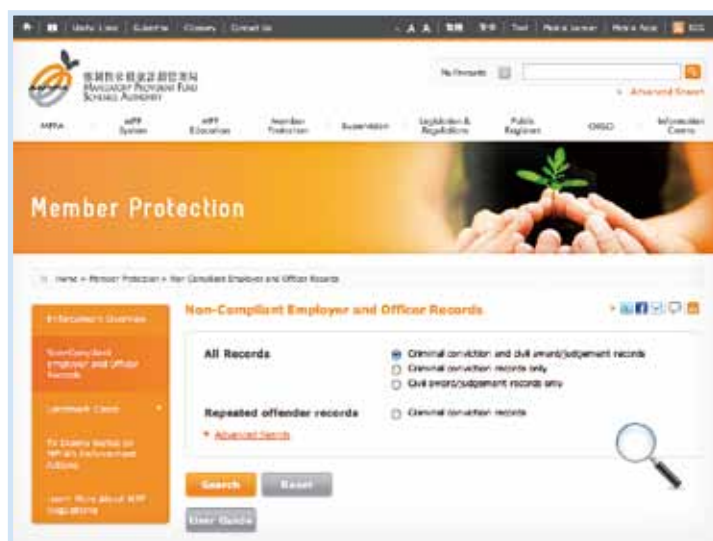
Detailed statistics on enforcement actions taken relating to employers and target groups are in Part E of the Statistics section.

## Deterrent to Non-Compliance

### Non-Compliant Employer and Officer Records

We maintained a Non-Compliant Employer and Officer Records section in the "Member Protection" section on MPFA's website to increase the transparency of MPFA's enforcement actions against non-compliant employers. From the database, members of the public can view and search for information on employers and officers with MPF non-compliance records, including criminal convictions and civil awards or judgments.

As at 31 March 2014, the database contained 3 267 non-compliance records (comprising 754 criminal conviction records and 2 513 civil awards or judgments).



Non-Compliant Employer and Officer Records section in the "Member Protection" section on MPFA's website

## Intelligence Exchange with Stakeholders

To enhance the efficiency of our enforcement efforts, we maintained close communication and exchanged intelligence with stakeholders to enhance the deterrent effect against non-compliance. We also maintained close contact with labour unions to monitor and keep abreast of the situations of specific industries, especially those which tended to have more non-compliant cases, including the catering, retail, cleaning, security and construction industries.

<sup>2</sup> Under the current MPF legislation, the benefits accrued in a member's account in an MPF scheme are to be preserved until retirement. Permanent departure from Hong Kong is one of the circumstances under which a scheme member may apply for early withdrawal of MPF accrued benefits.

# Supervising the Industry

## Overview

### Our role

- To approve and supervise MPF trustees
- To register and approve MPF schemes and funds
- To register and supervise MPF intermediaries
- To supervise the operation of ORSO schemes

### In 2013–14, we

- developed measures with the industry to improve the MPF System
- conducted thematic on-site inspections of trustees
- encouraged scheme members to consolidate their MPF personal accounts
- enhanced the Low Fee Fund List on MPFA's website to include interactive features and more information
- registered and supervised MPF intermediaries under the statutory regulatory regime

# Supervising the Industry (cont'd)

## Supervision of MPF Trustees

As at 31 March 2014, there were 19 MPF trustees. A list of the trustees is at Appendix 2.

### MPF Employee Choice Arrangement ("ECA")<sup>1</sup>

ECA has been in place since 1 November 2012. Around 125 800 ECA transfer requests were received by the trustees up to 31 March 2014. Meanwhile, trustees kept on enhancing products and services to better appeal to scheme members.

In the year, we conducted 15 thematic on-site inspections of trustees to assess their compliance and control in processing ECA transfer requests. We followed up with them on areas that need to be improved for enhanced efficiency as well as better control, risk management and customer services.

### Streamlining and Standardization of Scheme Administration

The MPF System involves scheme administration such as the processing of contributions, the reporting of default contributions, and the processing of fund transfer and withdrawal requests. With a view to reducing the costs of the MPF System, thus facilitating fee reduction of MPF schemes, we continued to pursue ways to streamline and standardize administration of MPF schemes. Legislative amendments have been proposed to abolish or combine certain required documents to streamline administration processes. We will continue to explore ways to further automate and streamline MPF scheme administration.

### Provision of Low-fee Funds

We have been urging the trustees to offer in each scheme at least one low-fee fund (with fee of 1% or below or Fund Expense Ratio<sup>2</sup> ("FER") of 1.3% or below) investing in equities and/or bonds. As at 31 March 2014, all schemes but one had offered such low-fee fund<sup>3</sup>, and there are altogether 155 low-fee funds of different types in the MPF market with 110 of them investing in equities and/or bonds. We have also enhanced the Low Fee Fund List on MPFA's website by including interactive features and providing more information to facilitate informed investment decisions.

### Consolidation of MPF Schemes and Funds

We have been encouraging trustees to review existing schemes and funds and consolidate those smaller in scale or less efficient with a view to achieving greater synergy and cost reduction in the MPF System. During the year, two trustees had merged in total four schemes (with total net asset value of around \$25 billion) into two; and three trustees had terminated in total four smaller-size funds (with net asset values ranging from \$1.45 million to \$29.49 million) within their MPF schemes.

<sup>1</sup> An arrangement that allows employees to elect to transfer the MPF accrued benefits derived from employees' mandatory contributions made during current employment and held in a contribution account under an MPF scheme to an MPF scheme of their own choice on a lump sum basis once every calendar year.

<sup>2</sup> A ratio that measures the expenses of an MPF fund as a percentage of fund size based on data from the most recently ended financial period. It does not reflect any increase or decrease in fees, charges or expenses in the current financial period. The higher the ratio, the higher the percentage of operating expenses to fund size.

<sup>3</sup> The remaining one scheme is preparing to launch this kind of low-fee fund later in 2014.

## Consolidation of Personal Accounts

We encouraged consolidation of MPF personal accounts with a view to facilitating better account management and helping contribute towards overall cost efficiency in the MPF System. Initiatives included mailing of personalized letters from September to December 2013 to about 180 000 scheme members holding four or more personal accounts, and launching of related publicity and education programmes. A simple application form and a handy guide helping scheme members understand the consolidation process and how to fill in the form were introduced to make it convenient to consolidate multiple personal accounts. From 16 September 2013 to 31 March 2014, trustees had received around 37 700 applications for consolidation of personal accounts. Details of the related publicity and education programmes are set out in the chapter “Educating the Public and Reaching out to the Community”.

As at 31 March 2014, there were around 4 700 000 personal accounts. We made efforts to decelerate the creation of new personal accounts. We requested trustees to include a note and a flyer produced by MPFA in letters sent to employees leaving their current employment, reminding them to manage their MPF accrued benefits and inviting them to consolidate their personal accounts.

## Ongoing Monitoring

We continued to adopt a proactive and risk-based supervisory approach, and take regard of the risk profile of each trustee as a basis for monitoring and supervising trustees via on-site visits, thematic reviews of specific areas of operation and off-site monitoring. Our off-site monitoring effort encompasses investigation of complaints and breaches, review of regular returns, audited financial statements and reports in respect of trustees and the schemes under their trusteeship. We also continued to review fund governance and investment compliance issues relating to MPF funds.

In 2013-14, we received 382 complaints against trustees, most of which were related to contribution processing, calculation and payment of benefits and unsatisfactory customer services. Actions were taken to resolve these issues with the trustees concerned.

We maintained a regular dialogue with trustees on MPF-related issues and worked closely with them to pursue initiatives to enhance the MPF System. The Trustees Operations Liaison Group, comprising representatives from trustees and MPFA, met twice during the year to discuss the development of information systems, MPF scheme operation issues, and developments in the MPF System. We also had regular meetings with individual trustees to discuss governance, compliance, operational and trustee-specific issues.

## Enforcement Actions

In 2013-14, 49 suspected scheme administration breaches and 17 suspected investment breaches were identified through MPFA's ongoing monitoring, enquiries or complaints received, or trustees' self-reporting. With investigation concluded for some of the cases, 9 financial penalty notices and 13 reminder letters were issued to the trustees concerned in relation to the scheme administration breaches, and 14 reminder letters were issued in relation to the investment breaches.

## New Enforcement Division

In January 2014, we set up a new Enforcement Division to centralize all enforcement functions. The Enforcement Division handles trustee-related complaints and investigates suspected breaches/non-compliance by trustees and their service providers, and handles prosecution or where applicable disciplinary action cases involving non-compliant trustees, employers, scheme members and MPF intermediaries.

## Supervising the Industry (cont'd)

### Supervision of Intermediaries

MPF intermediaries are required to register with MPFA before they can carry out sales and marketing activities or give advice in relation to MPF schemes, and are supervised by the regulator of their respective trade (i.e. Monetary Authority, Insurance Authority or Securities and Futures Commission) ("frontline regulators"). MPF intermediaries with valid registration immediately before the commencement of the statutory regulatory regime on 1 November 2012 must apply for registration under the new regime by 31 October 2014, the end of the transitional period. Notwithstanding the transitional arrangement, these intermediaries are subject to the conduct requirements and sanctions in the same way as any other newly registered MPF intermediaries under the new regime.

**Table 1. Number of Registered MPF Intermediaries** (as at 31 March 2014)

	Principal Intermediary	Subsidiary Intermediary	Total
<b>Registered MPF Intermediaries</b>	<b>381</b>	<b>31 992</b>	<b>32 373</b>
<b>By Frontline Regulator</b>	<b>381</b>	<b>30 840</b>	<b>31 221</b>
Insurance Authority	327	24 177	24 504
Monetary Authority	18	5 477	5 495
Securities and Futures Commission	36	1 186	1 222

Notes:

- \* A principal intermediary is a business entity registered by MPFA as an intermediary for selling, marketing or giving advice on MPF schemes.
- \* A subsidiary intermediary is a person registered by MPFA as an intermediary for selling, marketing or giving advice on MPF schemes on behalf of the principal intermediary to which the person is attached.
- \* A subsidiary intermediary may be attached to more than one principal intermediary or none (normally, for a period not exceeding 90 days). All subsidiary intermediaries are assigned to their principal intermediary's frontline regulator. Therefore, depending on the specific circumstances, a subsidiary intermediary may be assigned to more than one frontline regulator or may not have any frontline regulator.

Members of the public can check MPF intermediaries' registration through a public register on MPFA's website or by calling MPFA's hotline (2918 0102).

MPF intermediaries are required to submit annual returns to MPFA within one month after the end of a calendar year. MPFA has developed "the eService", a platform for them to submit the returns electronically on MPFA's website:



In May 2013, MPFA signed with the frontline regulators a Memorandum of Understanding concerning the Regulation of Regulated Persons with Respect to Registered Schemes under the Mandatory Provident Fund Schemes Ordinance ("MoU"), which lays down the broad framework of the interaction and cooperation among MPFA and the frontline regulators. Pursuant to the MoU, MPFA hosted two meetings of the MPF Intermediaries Regulation Committee with the frontline regulators for the exchange of views on supervisory and enforcement issues relating to MPF intermediaries. Operationally, we also maintain a close dialogue with the frontline regulators through regular liaison meetings. A total of six such liaison



meetings have been held in 2013-14 for mutual progress updates in relation to complaints handled by MPFA, investigation referred by MPFA to the relevant frontline regulator and supervisory work conducted by the relevant frontline regulator.

In 2013-14, we received a total of 37 cases (including complaint and referral cases) in relation to MPF intermediaries. Most of the complaints concerned failures to comply with the conduct requirements of the MPFSO. A total of 17 cases have been referred to the relevant frontline regulator for investigation. During the same period, investigation of 15 cases had been completed and they were returned to MPFA for consideration of appropriate actions. Statistics on complaints relating to intermediaries received in 2013-14 are in Parts D and E of the Statistics section.

The Government has set up an independent, non-statutory Process Review Panel in relation to the Regulation of MPF Intermediaries. Specifically, the Panel will examine the adequacy and consistency of MPFA's internal procedures and operational guidelines governing decisions taken in a number of areas including registration, disciplinary action and the handling of complaints. The first meeting of the Panel was held in January 2014.

## Training of MPF Intermediaries

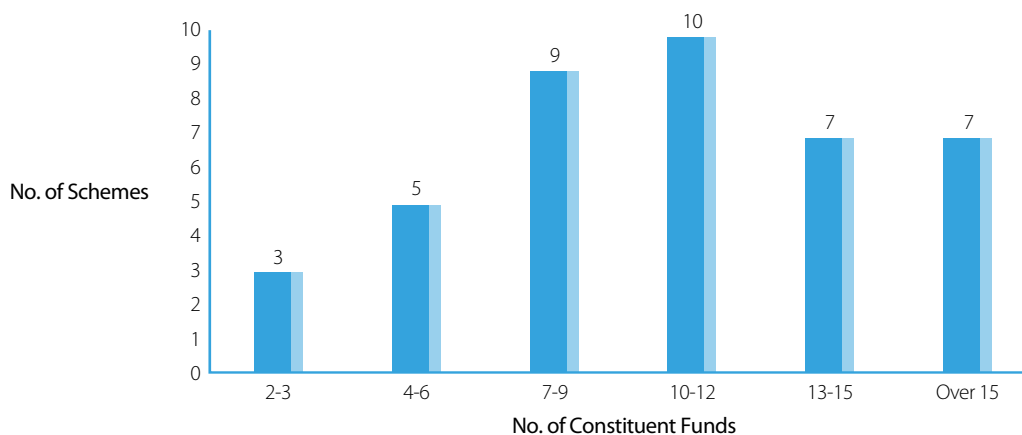
To maintain their professional competencies in MPF business, all subsidiary intermediaries must comply with the Continuing Professional Development ("CPD") requirement by undertaking a minimum of 10 hours of CPD activities in each calendar year, with at least two hours devoted to core subject areas. Non-compliance may result in suspension or revocation of registration. As at 31 March 2014, there were 42 activities, in the form of courses, seminars, lectures or conferences, recognized as MPF core CPD activities. We carried out quality assurance checks on these activities, which included vetting the materials used, visiting classes and reviewing participants' evaluation.

On MPF-specific issues, we conducted two seminars on consolidation of personal accounts and four briefing sessions on annual returns submission and the eService in September and December 2013 respectively for principal intermediaries.

## Registration and Approval of MPF Schemes and Funds

As at 31 March 2014, there were 41 MPF schemes, 477 approved constituent funds and 301 approved pooled investment funds ("APIFs")<sup>4</sup>. The number of constituent funds available under each scheme ranged from 3 to 27 (see Figure 1) and the aggregate net asset value of schemes was \$516.19 billion.

**Figure 1. Number of Constituent Funds per MPF Scheme** (as at 31 March 2014)



<sup>4</sup> An approved pooled investment fund is a type of investment fund that a constituent fund invests into. It can be in the form of an insurance policy or a unit trust.

## Supervising the Industry (cont'd)

Table 2. Registration and Approval of MPF Schemes and Funds

	Number of MPF Schemes and Funds			
	as at 31 March 2013	terminated/ withdrawn during 2013-14	registered/ approved during 2013-14	as at 31 March 2014
<b>Registered Schemes</b>	41	0	0	<b>41</b>
Master Trust Schemes	38	0	0	38
Industry Schemes	2	0	0	2
Employer Sponsored Scheme	1	0	0	1
<b>Approved Constituent Funds</b>	469	4	12	<b>477</b>
<b>APIFs</b>	297	5	9	<b>301</b>
<b>Approved Index-Tracking Collective Investment Schemes<sup>5</sup></b>	120	1	7	<b>126</b>

Table 3. Number of APIFs by Fund Structure

	Unit Trust		Insurance Policy*		Total	
	as at 31 March 2013	as at 31 March 2014	as at 31 March 2013	as at 31 March 2014	as at 31 March 2013	as at 31 March 2014
<b>Umbrella Funds<sup>6</sup></b>	25	26	1	1	26	<b>27</b>
<b>Internal Portfolios<sup>7</sup></b>	178	180	1	1	179	<b>181</b>
<b>Feeder Funds<sup>8</sup></b>	23	22	8	8	31	<b>30</b>
<b>Portfolio Management Funds<sup>9</sup></b>	58	60	3	3	61	<b>63</b>
<b>Total</b>	284	<b>288</b>	13	<b>13</b>	297	<b>301</b>

\* These refer to Class G insurance policy APIFs<sup>10</sup>.

A list of MPF schemes and constituent funds is at Appendix 3. Detailed statistics on MPF schemes and funds are in Part B of the Statistics section.

## Fees and Charges of MPF Funds

Over the years, we noted a steady reduction in the average FER. The average FER of funds as at 31 March 2014 was 1.69%, representing a drop of 20% from the ratio of 2.10% in 2007.

<sup>5</sup> An index-tracking collective investment scheme is a collective investment scheme which has the sole investment objective of tracking a particular market index.

<sup>6</sup> An umbrella fund is a collective investment scheme or mutual fund which primarily invests in other funds.

<sup>7</sup> A fund maintains an internal portfolio by investing in permissible investments in accordance with sections 2 to 5 and 7 to 16 of Schedule 1 to the Mandatory Provident Fund Schemes (General) Regulation.

<sup>8</sup> A feeder fund is a fund which invests its assets in a single APIF.

<sup>9</sup> A portfolio management fund is a fund which invests its assets in more than one APIF.

<sup>10</sup> A class G insurance policy APIF is an APIF in a form of an insurance policy with capital or return guarantees.

## Regulation of ORSO Schemes

MPFA is the Registrar of Occupational Retirement Schemes. As at 31 March 2014, there were 5 042 ORSO schemes (comprising 4 197 ORSO registered schemes and 845 ORSO exempted schemes). Among them, 3 836 were MPF exempted ORSO schemes<sup>11</sup>, covering about 5 600 employers and 350 000 scheme members. A list of the corporate administrators who administer pooling agreements for ORSO schemes is at Appendix 4. Detailed statistics on ORSO schemes are in Part C of the Statistics section. Information on other operations of MPFA as the Registrar of Occupational Retirement Schemes is in Appendix 5.

## Termination or Relinquishing of MPF Exemption Status of ORSO Schemes

During the year, 143 ORSO registered schemes and 57 ORSO exempted schemes were terminated. 61 ORSO registered schemes and 12 ORSO exempted schemes were in the process of termination as at 31 March 2014, pending the transfer of scheme assets and/or provision of the necessary information to MPFA. Based on the information obtained from the termination notices and the latest annual returns of ORSO registered schemes, the asset arrangements on the termination of these ORSO registered schemes are set out in Table 4.

**Table 4. Asset Arrangements on Termination of the ORSO Registered Schemes Effected in the Period from 1 April 2013 to 31 March 2014**

ORSO Asset Arrangements	Number of Schemes*	%	Asset Size (HK\$ million) <sup>^</sup>	%
Transferred to MPF scheme	36	25	274	28
Transferred to another ORSO scheme	9	6	316	32
Paid out to scheme members	101	69	389	40
<b>Total</b>	<b>146</b>	<b>100</b>	<b>980</b>	<b>100</b>

\* There are two terminated schemes with more than one asset arrangement.

<sup>^</sup> Figures may not sum up to the total due to rounding.

115 MPF exempted ORSO schemes (covering about 600 scheme members) had relinquished their exemption status during the year. The employers concerned had subsequently submitted notices of termination of these schemes to MPFA<sup>12</sup> and had to enrol their employees in MPF schemes.

## Funding of ORSO Schemes

MPFA monitors the funding status of ORSO schemes by examining their annual returns and audited financial statements. In the case of defined benefit schemes, actuarial certificates must be supplied to MPFA at least once every three years. According to the reports received up to 31 March 2014, six out of 242 defined benefit schemes were under-funded, covering around 500 scheme members. The asset size of these schemes was \$700 million and the total shortfall was \$50 million, representing about 7% of the total assets of these under-funded schemes. Such shortfalls were caused by investment loss and/or salary increase higher than the assumption used by actuaries. The relevant employers were required to make up the shortfall in funding by making a lump sum contribution or regular monthly contributions within three years and to submit actuarial certificates annually until the schemes were fully funded. We continue to monitor the situation closely to ensure that contributions are made in accordance with the terms and rules of the schemes and, if applicable, the actuarial recommendations.

11 Before the launch of the MPF System in December 2000, the employers operating these ORSO schemes had applied for and were granted exemption from MPF requirements. The then members of these schemes could choose to remain in the ORSO scheme or join an MPF scheme.

12 For ORSO schemes which no longer have MPF exemption status, the employers concerned may choose to freeze or terminate the schemes, or to retain them as top-up schemes to provide benefits supplementary to those provided under an MPF scheme.

# Educating the Public and Reaching out to the Community

## Overview

### Our role

- To educate the public on the MPF System and MPF investment
- To foster continuous community support for the MPF System

### In 2013–14, we

- rolled out new MPF investment education programmes to enhance the public's knowledge of MPF investment
- organized outreach programmes and talks to deliver information on the MPF System to different target groups and the community at large
- publicized changes in the MPF System and MPFA's new initiatives, such as the adjustment to the minimum level of RI for MPF contribution purposes and the campaign to encourage the consolidation of personal accounts
- educated the younger generation and their parents on the merits of starting financial planning early through school and parenting activities as well as online publicity

## MPF Investment Education

Several publicity campaigns with specific themes relating to MPF investment were rolled out during the year.

- Thematic Campaign on Fund Transfers – To complement the exercise to encourage consolidation of MPF personal accounts, the campaign highlighted some key points that scheme members should be aware of when transferring their MPF funds. It featured a seven-episode newspaper advertorial series and a six-segment radio drama.
- Thematic Campaign on Fundamentals of MPF Investment – The campaign, presented as the launch of “MPFA TV”, was rolled out to educate scheme members on key fundamental MPF investment concepts. A series of six videos was produced in the form of TV programmes hosted by two well-known artistes who disseminated the messages in an entertaining manner, and telecast on various popular websites and out-of-home platforms.



Launch of “MPFA TV” on a social media platform with a new series of videos to disseminate MPF investment education messages in an entertaining manner



The series of videos on “MPFA TV” was telecast on outdoor TV walls in high traffic districts



An outreach event with participation of celebrities and an online game to promote the launch of “MPFA TV”



A photo hunt online game featuring the comic character “Maggiology” was launched to disseminate MPF investment messages in an interactive manner

- Thematic Campaign on MPF Account Review – The campaign was launched to encourage scheme members to review their MPF accounts and investments regularly. A five-episode light-hearted drama was telecast on popular local TV channels.

Earlier, MPFA had developed three series of comic strips featuring a popular local comic character “Maggiology” to disseminate MPF investment education messages in an easy-to-understand manner. In the year, further use of the comic character was made to complement two of the thematic campaigns.





## Educating the Public and Reaching out to the Community (cont'd)

To reach out to the community, roving exhibitions with MPF personal account checking service and MPF consultation service provided by Certified Financial Planners were held in three high-patronage shopping malls. A public seminar on MPF investment was co-organized with a local university.

*MPF investment education roving exhibitions at high-patronage shopping malls, offering MPF personal account checking service and MPF consultation service*



*Experts were invited to share tips on MPF investment in a seminar jointly organized with a university*

The details of major activities under the MPF investment education programmes are set out in Appendix 6 (a).

## Outreach Programmes

We continued to engage our stakeholders, including employer associations, labour unions, community organizations, professional bodies, political parties and District Councils. We consulted them on the future development of the MPF System and organized joint programmes with them. 229 programmes and briefings were arranged during the year. At the community level, we co-organized MPF district carnivals and tea gatherings with political parties and joined hands with District Council members to conduct talks and set up one-on-one enquiry counters. Also, for the first time, we brought our service of checking personal account information to the streets by setting up outreach service counters across the territory in collaboration with our stakeholders.



*Carnivals and tea gatherings were organized jointly with political parties to promote the MPF System*



*Counters were set up in various districts to provide on-site services for members of the public to check the whereabouts of their personal accounts*



With the implementation of a new contribution calculation method for the Industry Schemes, 36 talks were conducted for employers and casual employees of the catering and construction industries to explain the new method. As a new initiative, we collaborated with labour unions to conduct talks at the workplace, including construction sites and restaurants to disseminate messages to the workers. Outreach activities targeting SEPs including mini-bus and taxi drivers were also organized to remind them of their MPF obligations.



*Talks were conducted at construction sites during lunch time to bring messages on the Industry Schemes to construction workers*



*Outreach events were organized to spread MPF messages to workers in the catering and construction industries, as well as mini-bus and taxi drivers*

We continued to provide MPF information to ethnic minorities during the year. An MPF information counter was set up at the Construction Industry Recruitment Day organized by the Hong Kong Construction Industry Council. Seminars were organized for ethnic minorities as well as for staff of social service organizations serving these ethnic groups.

# Educating the Public and Reaching out to the Community (cont'd)

## Educating the Young

We continued to organize a variety of programmes for different groups ranging from kindergarten kids to tertiary students as well as young working adults to educate the youngsters and their families on the importance of saving for the future and to disseminate MPF messages. Where possible, MPF investment education messages were incorporated into these programmes to enhance the overall impact of our education efforts. The programmes for the different groups are:

- For kindergarten children, storybooks and a series of programmes, including school-based activities, parenting workshops and seminars, to reach out to the kids, their parents and teachers;



*A series of parenting programmes, including school-based activities, parenting workshops and seminars, were organized to pass on money management and MPF messages to kids and their parents*

- For primary school students, a recognition programme with task books and animations, 30 school-based money management workshops and seminars for parents;



*Primary school students could learn money management concepts from task books and at workshops. Seminars were organized to educate parents on family budgeting and MPF investments*

- For secondary school students, an online learning platform which tied in with the “Other Learning Experience” in the Senior Secondary Curriculum, 106 skit performances and 31 sessions of an Other Learning Experience Programme for junior secondary and senior secondary students respectively, a booklet for all secondary school leavers, and a training workshop and revamped teaching kit for Liberal Studies teachers; and



Secondary school students learnt about MPF and the importance of retirement planning by attending skit performances and workshops under the Other Learning Experience Programme, and through a newly-launched online learning platform





## Educating the Public and Reaching out to the Community (cont'd)

- For students of tertiary institutions, a 3D Animation Training Programme with on-campus promotion counters set up at tertiary institutions to publicize the programme, and promotion of the winning animations via a variety of channels.



*Students of tertiary institutions joined the 3D Animation Training Programme to learn how to spread MPF messages through their 3D productions. On-campus promotion counters were set up to publicize the programme and the MPF System*

In the year, a total of 25 MPF talks were held in tertiary institutions and youth centres. We also staged exhibition booths and conducted seminars at different education and job fairs to deliver MPF messages to the visitors.

Riding on the growing popularity of the digital media, we disseminated MPF messages to young people through a variety of online promotional channels, including MPFA's fan page on an online social media platform and the smartphone application MVP (Most Valuable Player) @ Workplace.

The details of major youth education programmes are set out in Appendix 6 (b).

## Other Education and Publicity Activities

A major publicity and education campaign was rolled out to encourage scheme members to consolidate multiple personal accounts into one for easy management. In this campaign, various initiatives were launched and new publications on managing personal accounts were produced. In addition, a focus group study and a telephone survey were conducted to better understand scheme members' views and behaviour in the handling of personal accounts.



New publications were produced and widely distributed to scheme members to encourage them to consolidate their personal accounts and to hold only one for easy management of their MPF investment



Advertisements to highlight the benefits of consolidating personal accounts and the steps involved

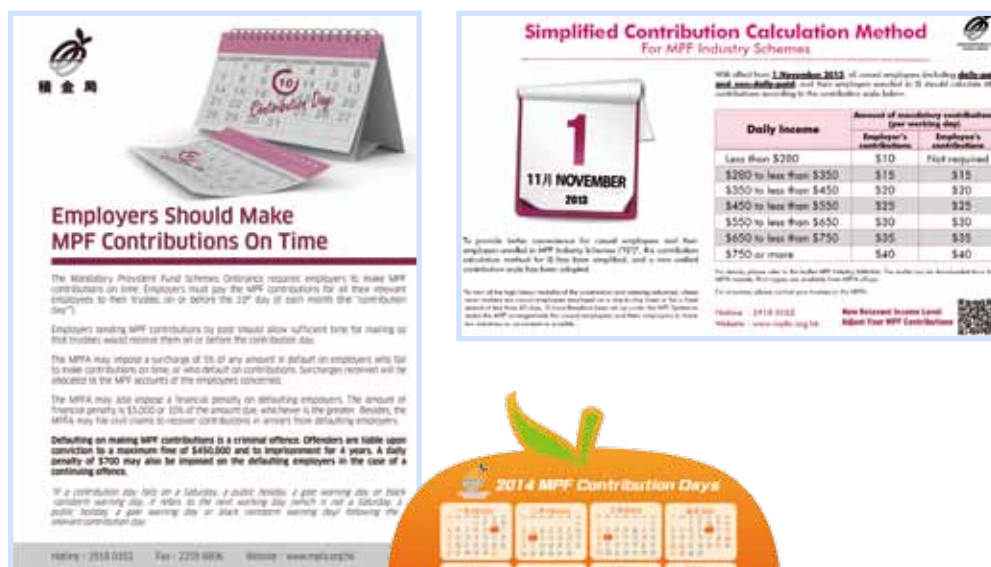


## Educating the Public and Reaching out to the Community (cont'd)

Publicity was also given to changes in the MPF System which included the adjustment to the minimum level of RI for MPF contribution purposes and the implementation of a new calculation method for Industry Scheme members and their employers. In the year, we continued to remind employers of their MPF obligations, especially on making contributions on time, through print advertisements and a 2014 MPF Contribution Days calendar on MPFA's website. A new flyer detailing employers' MPF obligations and penalties for offences was also produced and distributed to employers.



Publications and advertisements were produced to increase public awareness of the amendment of the minimum level of relevant income



Print advertisement on the simplified contribution calculation method for Industry Scheme members and their employers

A print advertisement and a 2014 MPF Contribution Days calendar were produced to remind employers to make contributions on time





To publicize our enforcement and publicity initiatives, press briefings were held and over 100 press releases issued. A similar number of articles were contributed to various newspapers, magazines and publications to introduce various aspects of the MPF System and MPF investment.

For members of the public who have become “Friends of MPF”, we sent them MPF information from time to time. As a new initiative, we organized a three-lecture course on MPF investment and retirement planning specially for them in March 2014.



*A short course on MPF investment and retirement planning was organized for Friends of MPF. The lectures were given by financial experts, with demonstrations on the use of online tools on MPFA's website*

In the year, four issues of the *MPFA Newsletter* were produced and distributed to our stakeholders to keep them abreast of the latest developments of the MPF System and MPFA's work, and to enhance their knowledge of MPF investment.



*Four issues of the MPFA Newsletter were published in the year*

Details of other major education and publicity activities to disseminate MPF information to the public are set out in Appendix 6 (c).

# International Exchanges

Chief Regulation & Policy Officer, Mr Darren Mark McShane, as the Vice Chairman of the Technical Committee of the International Organisation of Pension Supervisors ("IOPS")<sup>1</sup> attended the Committee's three meetings in 2013-14 in France, Republic of Korea and Iceland. In addition to exchanging regulatory, supervisory and enforcement experience with other IOPS members at these meetings, MPFA contributed to the development and drafting of a number of good practices and working papers relating to pension regulation and supervision for IOPS.

During the year, MPFA representatives participated in and spoke at various international conferences and meetings, including:

2013	
<b>22-23 May</b>	8 <sup>th</sup> Annual Asian Investment Summit organized by AsianInvestor in Hong Kong
<b>27-29 May</b>	7 <sup>th</sup> Asian Insurance CFO Summit organized by Asia Insurance Review in Hong Kong; Executive Director (Regulation & Policy) gave a keynote address on "The Evolving MPF System in Hong Kong and its Relevance to Insurers"
<b>3-4 June</b>	Working Party on Private Pensions Meeting of Organisation for Economic Co-operation and Development ("OECD") in Paris, France
<b>25 June</b>	Private Retirement Scheme Conference 2013 hosted by Securities Commission Malaysia in Kuala Lumpur, Malaysia; Executive Director (Regulation & Policy) was a speaker
<b>26-27 June</b>	Inaugural Global Retirement Savings Conference organized by Investment Company Institute Global in Hong Kong; Chairman addressed the participants on "Reforming the MPF System"; Executive Director (Regulation & Policy) gave a presentation on "Governance of Retirement Systems and Investment Fund Regulatory Oversight"
<b>12-14 August</b>	Meetings with Australian Prudential Regulation Authority, Association of Superannuation Funds of Australia ("ASFA"), Financial Services Council and other financial bodies in Sydney, Australia
<b>22-25 October</b>	FutureGov Summit 2013 in Phuket, Thailand
<b>5-6 November</b>	Global Forum on Private Pensions organized by OECD, IOPS, Financial Services Commission of Korea and Financial Supervisory Service of Korea in Seoul, Korea
<b>7-8 November</b>	International Asset Owners Summit organized by World Pensions Council in Hong Kong
<b>11 December</b>	Roundtable Discussion on Preparing for Prosperous Longevity in Asia hosted by World Economic Forum in Hong Kong; Chief Operating Officer attended and gave opening remarks at the Forum
2014	
<b>13-14 January</b>	Asian Financial Forum 2014 organized by the Government and Hong Kong Trade Development Council in Hong Kong
<b>24 January</b>	Regulatory Forum 2014 organized by Securities and Futures Commission in Hong Kong
<b>24-27 February</b>	Meetings with Investment Company Institute, National Association of Pension Funds, J.P.Morgan, Department for Work and Pensions, National Employment Savings Trust Corporation, The Pensions Regulator and CGI of UK in London, UK
<b>26-27 February</b>	High-level Global Symposium on Financial Education: Promoting Long-term Savings and Investments organized by OECD in Seoul, Korea
<b>28 February</b>	Seminar on Regulatory and Supervisory Challenges for the Icelandic Pension Industry hosted by IOPS in Reykjavik, Iceland
<b>13 March</b>	3 <sup>rd</sup> Asia-Pacific Pensions Forum organized by ASFA in Beijing, China; Executive Director (Regulation & Policy) gave a presentation on "Pension Fund Supervision"

<sup>1</sup> IOPS is an independent international body set up in July 2004 representing those involved in the supervision of pension funds.

We received visitors from overseas and the Mainland and briefed them on the key features and latest developments of the MPF System as well as the role and functions of MPFA. We also exchanged views and shared regulatory experience with them, thereby promoting the understanding and image of the MPF System and MPFA internationally.



*A delegation from Employees Provident Fund, Malaysia*



*A delegation from China Insurance Regulatory Commission*



*A delegation from Swedish Pensions Agency*

The visitors included:

2013	
<b>16 April</b>	A delegation of senior civil servants from China, led by Director of Disciplinary Inspection Committee of the Xinjiang Production and Construction Corps, Ms Pei Xiaojing
<b>22 May</b>	A delegation from Human Resources and Social Security Administration of Shenzhen Municipality, led by Deputy Director General, Mr Lu Tao
<b>28 May</b>	Dato' Steve Ong, Chief Executive Officer of Private Pension Administrator, Malaysia
<b>6 June</b>	Mr Mohamed Hussain Maniku, Chief Executive Officer of Maldives Pension Administration Office
<b>14 June</b>	A delegation from China Insurance Regulatory Commission, led by Director General of Development and Reform Department, Mr Liang Tao
<b>19 June</b>	Mr Martin Tolar, Managing Director of Australasian Compliance Institute, Australia
<b>25 June</b>	A delegation from Employees Provident Fund, Malaysia
<b>28 June</b>	A delegation from Swedish Pensions Agency, led by its Chairman, Mr Bo Könberg
<b>19 November</b>	Mr Aisake Taito, General Manager & Chief Executive Officer of Fiji National Provident Fund
<b>25 November</b>	A delegation from Hubei Provincial People's Government, led by Director of Training and Supervision Department under Civil Servant Bureau, Ms Li Jianjun
<b>11 December</b>	A delegation from Central Provident Fund Board, Singapore
2014	
<b>20 March</b>	A delegation from Human Resources and Social Security Administration of Foshan Municipal Government

# Streamlined & Accessible



# Corporate Governance

MPFA is committed to upholding fairness, accountability and transparency in fulfilling its regulatory role under the Mandatory Provident Fund Schemes Ordinance (“MPFSO”) for the best interests of its stakeholders. We have put in place a corporate governance framework in line with the requirements of MPFSO and the recommended governance principles and best practices for public bodies. The key elements of this framework are explained below.

## Governing Structure



## The Management Board

MPFSO requires that the MPFA Management Board consist of not fewer than 10 directors appointed by the Chief Executive of HKSAR. As at 31 March 2014, there were 11 non-executive directors and five executive directors. Non-executive directors, making up the majority of the board, contribute to an independent and objective decision-making process. With a balance of expertise, experience and background, directors exercise a reasonable degree of care and diligence to oversee MPFA's performance of its functions. Newly appointed directors are given briefings and information packages to familiarize them with the MPF System and the work of MPFA. Additional information and briefings are provided when necessary to facilitate informed decisions. The positions of Chairman and Managing Director are held by different persons and their roles are segregated. The Chairman is a non-executive director providing the Management Board and MPFA with the necessary leadership and strategic direction, while the Managing Director is an executive director and the administrative head responsible for administering the affairs of MPFA subject to the direction of the Management Board. Directors' biographies as at 31 March 2014 are set out on pages 14 to 19 of this report and any changes during the year were promptly published on MPFA's website.

## Corporate Governance (cont'd)

The MPF legislation provides that the terms and conditions of office of MPFA's directors are determined by the Chief Executive of HKSAR. Except for the Managing Director, the authority to determine the terms and conditions of office of executive directors has been delegated to the Financial Secretary.

Non-executive directors are not employees of MPFA and are not paid for their service. The remunerations of individual directors of MPFA are disclosed in the notes to the Financial Statements on page 89.

The Management Board performs the functions set out in section 6E of MPFSO. It is responsible for determining key corporate strategies and policies, overseeing the delivery of planned results, endorsing the corporate plan and budget of MPFA, and ensuring that MPFA's operations are conducted prudently and within the framework of applicable laws, regulations and policies. It gives directions to the executives of MPFA for the administration of MPFA's affairs and delegates the management of day-to-day operations to the executives.

The Management Board held six meetings during the year. The average attendance rate of members was 84%.

### Supporting Committees

A number of standing committees and ad hoc working groups on specific projects have been set up to assist the Management Board. The composition and terms of reference of the supporting committees are set out in Appendix 1.

#### Standing Committees

##### The Audit Committee



"Internal audit exercises were conducted during the year according to a five-year internal audit programme endorsed in 2012. The results of these audits show that control measures in respect of the areas studied are generally adequate and relevant procedures are complied with. Further enhancement opportunities were identified during the exercises."

– Ms Paddy Lui, Chairman of MPFA Audit Committee

During the year, the Audit Committee met twice, and considered three papers and received four reports by circulation. The Committee's work included the following:

- reviewed the financial statements of MPFA and the MPF Schemes Compensation Fund for the financial year 2012-13;
- received the half-yearly financial reports for 2013-14;
- considered internal audit reports on the controls and procedures relating to payment to third parties, investment recording and reporting, records of default contribution recovered, outstanding or written-off, procurement and inventory management activities and receipt process on Compensation Fund levy; and
- received reports on process control audits of implementation of records retention and disposal policies and procedures, staff recruitment processes and handling of small claim cases.

The attendance rate of members was 100%.



## The Administration Committee



"We have reviewed the manpower requirements of MPFA to ensure adequacy and appropriateness of the manpower resources to perform its functions. In making our recommendations, we have taken into account MPFA's evolving business priorities, staff mix, control on headcount/staff cost, etc."

– *Hon Ip Kwok-him, Chairman of MPFA Administration Committee*

The Administration Committee held three meetings and considered four papers by circulation. The matters considered included the post-employment "sanitization" requirement for several senior staff members, the proposal for re-organizing various divisions/departments, appointment/re-appointment of executive directors, the manpower plan and proposed budget for 2014-15, and remuneration matters. The attendance rate of members was 100%.

## The Finance Committee

"In 2013, amidst the volatile investment market and lack of a stable source of fee income, MPFA has been very prudent and exercising caution in managing and controlling its finances."

– *Mr Philip Tsai, Chairman of MPFA Finance Committee*



The Finance Committee met three times and considered 11 papers by circulation. It considered various finance-related matters such as the review of investment guidelines and strategy for the Capital Grant and the Compensation Fund, the revised budget for 2013-14, the proposed budget for 2014-15 and the long-term financial sustainability of MPFA. The attendance rate of members was 100%.

## The Guidelines Committee



"A number of Guidelines have been revised this year in light of legislative amendments such as the adjustments to the minimum and maximum levels of relevant income and various streamlining initiatives such as the facilitation of consolidation of personal accounts and rationalization of the procedures for claiming accrued benefits. In the course of scrutinizing the revised Guidelines, we are mindful of every aspect and detail to ensure provision of clear and proper guidance."

– *Hon Anna Wu, MPFA Chairman and Chairman of MPFA Guidelines Committee*

The Guidelines Committee scrutinized revised MPF Guidelines through circulation of papers. No meeting was held. In 2013-14, MPFA issued 20 sets of revised MPF Guidelines.

## Corporate Governance (cont'd)

### The Tender Board

"We are pleased to note that for each tender exercise, MPFA had followed the procurement procedures with due diligence and formed an assessment panel to scrutinize and assess the tender submissions in detail for Tender Board's consideration."

– *Hon Andrew Leung, Chairman of MPFA Tender Board*



The Tender Board had, by circulation of papers, assessed submissions and awarded service contracts for office assistant services and office renovation works in two tender exercises. No meeting was held.

### Ad hoc Working Groups

#### The Working Group on MPF Reform Issues



"The MPF System covers the working population of Hong Kong and a significant proportion of scheme members may need help with choosing investment funds for their retirement savings. To best protect the interests of members who do not, or do not want to, make investment decisions, we are developing proposals to introduce a standardized, low fee core fund for all schemes."

– *Hon Anna Wu, MPFA Chairman and Chairman of Working Group on MPF Reform Issues*

The Working Group held four meetings to consider proposals that might reduce fees/costs and choice complexity. The average attendance rate of members was 81%.

#### The Working Group on Review of Adjustment Mechanism for Minimum and Maximum Levels of Relevant Income

"In developing a proposal on an improved adjustment mechanism, we take into account different interests and views of stakeholders. We aim at devising an adjustment mechanism which effectively helps the workforce accumulate more retirement benefits and is simple for stakeholders to administer."

– *Mr Philip Tsai, Chairman of Working Group on Review of Adjustment Mechanism for Minimum and Maximum Levels of Relevant Income*



The Working Group held three meetings during the year to scrutinize the possible options for an improved adjustment mechanism, consider the outcome of a consultation with key stakeholders, and develop a proposal on a recommended adjustment mechanism. The average attendance rate of members was 92%.

The table below sets out the attendance of individual directors at Management Board, Committee and Working Group meetings in 2013-14.

	Management Board	Audit Committee	Administration Committee	Finance Committee	Working Group on MPF Reform Issues	Working Group on Review of Adjustment Mechanism for Minimum and Maximum Levels of Relevant Income <sup>1</sup>
<b>Number of meetings held during the year</b>	6	2	3	3	4	3
<b>Attendance of directors</b>						
Hon Anna Wu Hung-yuk	6/6		3/3	3/3	4/4	
Hon Andrew Leung Kwan-yuen	5/6					2/3
Hon Wong Kwok-kin	3/6	2/2				
Hon Ip Kwok-him	4/6	2/2	3/3		1/4	
Ms Paddy Lui Wai-yu	6/6	2/2				
Mr John Poon Cho-ming	6/6			3/3	4/4	
Mr Philip Tsai Wing-chung	4/6	2/2		3/3	4/4	3/3
Mr Horace Wong Yuk-lun	1/6					
Hon Poon Siu-ping	6/6		3/3			
Secretary for Financial Services and the Treasury <sup>2</sup>	5/6					
Secretary for Labour and Welfare <sup>3</sup>	5/6					
Mrs Diana Chan Tong Chee-ching	6/6		3/3	3/3		
Mr Cheng Yan-chee	6/6		3/3	3/3		
Ms Alice Law Shing-mui	6/6					
Mr Darren Mark McShane	6/6					
Ms Cynthia Hui Wai-yee	6/6					

(The Guidelines Committee and Tender Board did not hold any meeting in 2013-14)

Notes:

1 Co-opted members are not included in this table

2 Four meetings attended by alternate director

3 Five meetings attended by alternate director

# Corporate Governance (cont'd)

## Accountability and Transparency

### Management of Conflicts of Interest

Directors are required to make a general disclosure of their interests, such as remunerated directorship and employment, on appointment to the Management Board, review the disclosed information on an annual basis, and notify the Secretary to the Board promptly of any changes in such information. Directors are also required by legislation to report the nature of a pecuniary interest in a matter placed before the Management Board if the interest appears to raise a conflict with the proper performance of the director's duties in relation to the consideration of the matter. Particulars of the disclosure made at Management Board meetings are recorded in a register available for public inspection.

### Corporate Planning

Section 6J of MPFSO requires that before the end of each financial year, MPFA should submit a corporate plan and budget for the next year to the Financial Secretary of HKSAR. The corporate plan must specify the objectives for the year, the nature and scope of the planned activities and the estimated expenditure for achieving the objectives. The progress of implementation of the corporate plan is monitored and reviewed regularly. A review of the budget is carried out in parallel with a mid-year review of the corporate plan, with any proposed adjustments submitted to the Financial Secretary for approval. A full year review of the corporate plan is conducted with the results submitted to the Financial Secretary in the context of the next proposed corporate plan. The achievement of the initiatives and goals set out in the corporate plan are reported in this annual report.

### Financial Resources

The operations of MPFA are financed by the investment returns generated from a one-off Capital Grant of \$5 billion from the HKSAR Government in 1998 and by fees and charges collected. The annual registration fee provided under MPFSO payable by MPF trustees in respect of MPF schemes is intended to be a major source of recurrent income for MPFA, but its collection has been held in abeyance since inception of the MPF System. As at 31 March 2014, the balance of the Capital Grant was \$4.62 billion. We continued to exercise stringent control over our spending and prudence in preparing the annual budget. For details of the financial position of MPFA, please refer to the financial statements on pages 71 to 93.

### Reporting and Communication

In accordance with section 6I of MPFSO, we deliver an annual report, together with audited financial statements and auditor's report, to the Financial Secretary of HKSAR. The financial statements comply with the accounting standards, reporting standards and interpretations promulgated by the Hong Kong Institute of Certified Public Accountants ("HKICPA") or the accounting and reporting standards, if any, notified in writing by the Financial Secretary under section 6N(3) of MPFSO.

For eight years in a row, our annual report has won Best Annual Reports Awards of the Hong Kong Management Association. The report for 2012-13 won a Silver Award under the non-profit making and charitable organizations category.

The news and development of the MPF System and MPFA are communicated to the public through MPFA's website and various channels including press releases, the quarterly *Statistical Digest* and *MPFA Newsletter*, pamphlets and other publications to facilitate understanding of the MPF System. The chapter on Educating the Public and Reaching out to the Community on pages 42 to 51 has the details on communication with the public during the year.

In 2013-14, MPFA received two requests under MPFA's Code on Access to Information and followed the required procedures set out in the Code in processing the requests.

## Performance Pledges

A system is in place to monitor the achievement of our pledges to the public. The achievement of performance standards in the 2013-14 financial year is set out in the table below.

Service	Service Standard	Performance Achieved
<b>Call Centre Service (Hotline 2918 0102)</b>		
(1) Answering hotline enquiries and messages	A. Answer hotline enquiries within 3 minutes under normal circumstances (i.e. not more than 600 incoming calls a day)	99.44%
	B. Reply hotline voice mail messages within the next working day	100%
(2) Answering written enquiries	A. Acknowledge receipt within 3 working days	100%
	B. Answer general enquiries within 10 working days	100%
	C. Provide an interim reply within 10 working days for enquiries requiring more processing time	100%
(3) Complaint acknowledgement	Acknowledge receipt within 3 working days	100%
<b>Complaints Investigation (Complaints relating to employers' non-compliance)</b>		
(1) Initial contact with complainant for investigation by Case Officer	Contact complainant for investigation within 7 working days from the date of receiving a case	99.94%
(2) Responding to enquiries by complainant/complaine on investigation progress	Inform complainant/complaine of investigation progress within 3 working days	100%
(3) Informing complainants of enforcement actions • Cases involving prosecution	A. Inform complainant of the plea date in writing within 7 working days upon receipt of Plea Date Notice	100%
	B. Notify complainant of prosecution results within 10 working days from the date of receiving court's decision	99.28%

# Corporate Governance (cont'd)

## Internal Controls

We have put in place an internal control system to provide assurance regarding the effectiveness and efficiency of operations, reliability of internal and external reporting, and compliance with applicable laws, regulations and internal policies.

## Internal Audit and Management Review

The MPFA's internal audit function is performed by the Risk Management Unit which has unrestricted access to operational information for discharging its duty. It reviews the adequacy of and compliance with operational policies, procedures and controls and identifies areas for improvement. Reporting to the Managing Director, the Unit provides an independent assessment of internal controls in line with the guidelines and standards on internal audit promulgated by HKICPA. Findings are reviewed by the executive management and reported to and considered by the Audit Committee, which reports to the Management Board directly to ensure objectivity and independence. The work of the Audit Committee during the year is reported on page 56.

## Risk Management

We have a risk assessment and management programme to identify, assess and manage risks in a timely and systematic manner. A corporate level risk register and a departmental risk register for each department are maintained to keep track of treatments of identified risks, and are reviewed and updated annually during the corporate planning process.

We have also put in place a set of policies and procedures to maintain continuity of our critical business functions in the event of a crisis or disaster. In September 2013, a staff communication drill was conducted to test the effectiveness of and to familiarize colleagues with the relevant communication channels and the communication flow in case of emergency or crisis. In January 2014, a disaster recovery drill was conducted in respect of our information technology system to familiarize staff with the recovery procedures for continuing the operation of critical systems in the event of a disaster. In March 2014, a rehearsal was conducted to test the information flow within the organization and the equipment to be set up at alternate sites under a physical disaster situation which would impact on the accessibility of our office premises as well as the operation of the financial market. We gained valuable experience from the exercise for refining our contingency plan for handling similar crisis situations.

## Personal Data Privacy

As a regulator and an employer, MPFA collects, holds, processes and uses personal data in handling complaints, carrying out inspections and investigations, processing applications, and handling employment-related issues. We attach great importance to safeguarding personal data privacy and observing the requirements of the Personal Data (Privacy) Ordinance. From time to time, we sent our staff to attend seminars and/or training courses organized by the Office of the Privacy Commissioner for Personal Data to keep abreast of latest developments in personal data privacy protection in Hong Kong. We also updated our internal guidelines and procedural manuals on the subject for reference by staff. A set of new provisions on protecting personal data during the offering or advertising of the availability of facilities or services to specific persons by name took effect on 1 April 2013. We reviewed our practice in sending information or publications to our stakeholders and took necessary actions to ensure compliance with the relevant provisions. During the year, we further strengthened the security of our IT infrastructure and application systems based on the recommendations arising from a security risk assessment conducted with the help of an external consultant in the previous year.



## Code of Conduct

To promote high ethical standards and fair dealings in the conduct of its business, MPFA has adopted a Code of Conduct that must be observed by all of its staff. The Code sets out the expected standards of behaviour, reminds staff of their legal and contractual obligations to MPFA, and provides guidelines on various issues, such as confidentiality of information, offer and acceptance of advantages, avoidance of conflicts of interest and declaration of financial and other interests. Procedures are also in place to facilitate the reporting and handling of suspected improprieties.

## Independent Checks and Balances

### Reviews

To ensure adequate control measures and fairness in operational procedures and to identify areas for improvement, we invite external firms to conduct reviews of our operations from time to time. During the year, an external consultant was engaged to advise on the revision of MPFA's procurement policies and procedures. A set of new procurement policies and procedures was implemented with effect from January 2014.

The financial statements of MPFA are subject to audit by an external auditor. PricewaterhouseCoopers continued to be MPFA's external auditor in the financial year 2013-14.

### Appeal Boards

The MPF Schemes Appeal Board established pursuant to section 35 of MPFSO hears appeals against any decision of MPFA specified in Schedule 6 of MPFSO. The Occupational Retirement Schemes Appeal Board established pursuant to section 61 of the Occupational Retirement Schemes Ordinance hears appeals against the ORSO Registrar's decisions as specified in the Ordinance. No appeal was lodged with either appeal board in 2013-14.

# Corporate Social Responsibility

With “Community Perspective” as one of its core values, MPFA is committed to integrating corporate social responsibility (“CSR”) principles into its daily operations and contributing to the sustainable development of the community. A CSR Committee, chaired by Chief Corporate Affairs Officer with representatives of different divisions/departments as members, was set up in 2013 to steer the direction of MPFA’s CSR developments. To re-affirm our commitment to CSR, we adopted the following CSR policy statement:

***“We strive for a sustainable future through our commitment to the retirement protection of Hong Kong’s workforce, and in the process through making responsible and caring efforts towards our staff, the environment and the community.”***

## The Environment

We adopt environmentally friendly practices in our operations. With the automation of processes, we have not only enhanced operational efficiency but also reduced paper usage:

- The electronic Portability Automation Services System (“ePASS”) has been implemented to standardize and automate the transfer process of accrued benefits by transmitting data on scheme members’ transfer requests electronically among MPF trustees, saving more than a million pieces of paper per year. This system won the 2013 FutureGov Award of the Asia-Pacific region in the Government Cloud category;
- An e-Service platform was launched in December 2013 for MPF intermediaries to file annual returns to MPFA by electronic means;
- A system is in development for release in mid-2014 to facilitate electronic payment and settlement among MPF trustees. It will help further shorten the scheme transfer processing time and reduce manual work and paper consumption in the MPF industry; and
- Many of our internal administrative procedures have been automated including reservation of meeting rooms, application for leave and reimbursement of travelling expenses, etc.



MPFA was granted a FutureGov Award for developing ePASS to facilitate efficient, accurate and paperless processing of transfers of MPF benefits

We further reduce paper consumption by promoting the use of double-sided printing, producing staff publications *Corporate Bulletin* and *The Orchard* in electronic version only, reducing the number of printed copies of MPFA’s *Annual Report* and providing an animated e-card for staff members to send season’s greetings to business partners. In addition, MPFA was awarded in 2013-14 the Class of Excellence Wastewi\$e Label under the Hong Kong Awards for Environmental Excellence for the fourth consecutive year in recognition of its continuous efforts in reducing and avoiding waste.

As regards energy conservation, we reduce energy consumption by using energy-efficient computer equipment, consolidating computer servers and reducing the number of servers using virtualization technology. Office lighting and office equipment such as copiers, shredders, printers and water dispensers are installed with timers to disconnect the power supply automatically after office hours. We further increased the frequency of Green Days, on which lighting for

the general office areas is switched off for fixed duration, to twice a week, and extended the duration of the light-off period. Our new office at 5/F Nexxus Building has been awarded a Certificate of Registration under The Hong Kong Energy Efficiency Registration Scheme for Buildings which certifies that our lighting installations have met the standards and requirements of the Building Energy Codes for achieving energy efficiency and reduction of electricity consumption.

To encourage reuse and recycling of resources, we collect used printer cartridges for recycling and donate old computer equipment to charitable organizations. Clearly labelled recycle bins are placed in our offices to collect waste paper, plastics, aluminium cans and glass bottles for recycling. Recycled paper is used for producing certain office stationery, such as letterheads and name cards. We also join the food waste recycling program organized by the building management of our head office to collect recyclable food wastes for decomposition and transformation into fertilizer.

## The Community

With the persistent support from the MPFA Volunteer Team ("VT"), staff members and their families and friends clocked up more than 1 700 hours of volunteer service during the year. These include a variety of charitable activities and community services set out below:

- The elderly – MPFA VT joined the programmes of local social service groups to visit the elderly, distribute festive food to them and clean the homes of those who live alone. They also participated in a longer-term programme, regularly paying visits and making calls to elderly residents in the Wong Tai Sin district;



*VT members delivered festive food and 'lucky bags' with warm blessings to the elderly*



- Students with special needs – an outing was arranged for students of the Hong Kong Red Cross Princess Alexandra School. Summer internship placements were offered to two students from the school in 2013;
- Needy families – support was given to the Operation Morning Sun Programme run by the Hong Kong Society of Medical Professionals through participation in their activities, including paying visits to grassroots families and elderly people; and
- Fund-raising events – MPFA participated in the Green Day and Dress Casual Day organized by the Community Chest and was presented with the Corporate and Employee Contribution Programme Bronze Award in recognition of our donations made in 2012-13. For the tenth consecutive year, Hiking Club members participated in the Sowers Action Challenging

## Corporate Social Responsibility (cont'd)

12 Hours Charity Marathon to raise education funds for students in remote poor areas on the Mainland. In the same event, MPFA VT members provided support at the finishing point. To raise funds for the Agency for Volunteer Service ("AVS"), our volunteers participated in the AVS Walk & Run for Volunteering 2014 and a flag-selling activity.



MPFA received a certificate from the Community Chest in recognition of its enthusiastic response to fund-raising campaigns, and a prize for winning the Dress Casual Day 2013 photo competition

Hiking Club members challenged their physical fitness in a charity marathon while VT members assisted in the same event to raise funds for students on the Mainland



Staff members and their families participated in the fund-raising activities organized by AVS

Outside Hong Kong, MPFA staff participated in a programme organized by the China Care Fund and provided financial support to a high school student in Qinghai Province for three consecutive years in support of his high school studies. Individual staff members also joined the programme to contribute personally to funding the education of high school students in Guangdong, Guangxi, Qinghai and Gansu Provinces.

## Our Staff

At MPFA, we treasure our staff as our most valuable asset. We accord great importance to maintaining the competitiveness of our remuneration packages, providing sufficient training and career development opportunities to our staff, maintaining a congenial working environment and nurturing a culture of sharing and communication, with a view to fostering an engaged workforce.

## Staffing

The approved headcount as at the end of the previous financial year 2012-13 was 691. During 2013-14, we embarked on an exercise to review the organization structure of various divisions/departments to cater for new business priorities and for achieving better synergy, efficiency and effectiveness. A new Enforcement Division was established to enhance our enforcement actions, in particular against non-compliance of the MPF industry. In this context, deployment of staffing resources was closely monitored and redeployment was arranged, where possible. The approved headcount as at 31 March 2014 remained unchanged at 691, but some reduction was planned from 2014-15. The staff cost to total expenditure ratio for the year was 65.25%, and the staff turnover rate was 9.76%.



## Remuneration, Benefits and Staff Development

The remuneration package of MPFA comprises a fixed basic salary and a discretionary variable pay. Benefits include annual leave, medical and dental benefits, insurance coverage and MPF. With the Management Board's approval, a variable pay for 2013-14 and an adjustment in fixed pay with effect from 1 April 2014 were granted to eligible staff, having regard to their individual performance.

Based on our Training and Development Framework, we offered programmes to enhance the people management skills, personal effectiveness, interpersonal skills and organizational knowledge of staff across MPFA, including creative thinking, problem solving, performance management and business writing workshops. Individual staff members were sponsored to attend or speak at conferences and seminars, local or overseas, to meet the specific needs of their roles, strengthen international exchange and widen their exposure. Topics covered include those relating to legal updates, accounting, human resources, pension funds and project management. In 2013-14, we also started a reciprocal secondment programme with the Hong Kong Monetary Authority to foster cross-fertilization of experience and to deepen communication between the two organizations.

In 2013-14, there were 2 508 instances of staff attending in-house and external training programmes. On top of that, career development opportunities were offered to 21 staff members who were either promoted to higher positions or transferred laterally to develop their capabilities and enrich their organization and job knowledge.

## Culture Building

With an aim to recognize contributions from our staff and foster a stronger recognition culture, we introduced an Employee Recognition Framework in 2013-14 and presented awards to 184 staff members who have demonstrated MPFA's core values, namely, Commitment, Quality, Teamwork and Community Perspective, and attained outstanding performance in different work areas. Externally, two staff members won the Ombudsman's Awards for Officers of Public Organizations. This is the eleventh consecutive year that our staff members have won the award in recognition of their service excellence to the public.



*We are proud of two colleagues who won the Ombudsman's Awards for their excellent services*



Recognizing that people managers are key to driving a recognition culture throughout the organization, we organized a sharing session on the importance of building a recognition culture for senior management, and issued *A Manager's Guide to Informal Recognition* to share useful tips in giving recognition. An e-Thank You Card was also launched to encourage a culture of appreciation among staff members.

MPFA also sees the importance of communication between management and staff members. In addition to formal announcements and staff bulletin / newsletters published regularly (i.e. *Corporate Bulletin* and *The Orchard*), our top management regularly reaches out to staff through structured communication sessions to share such key topics as corporate plan, changes to the organization, etc and to hear the views of staff directly. Communication sessions are also held to inform staff members of specific developments within MPFA and to provide them with opportunities to share their views.

# Corporate Social Responsibility (cont'd)

## Employee Wellness

MPFA continues to take measures to promote the physical, mental and social well-being of our staff. In 2013-14, we conducted 130 assessments in accordance with the occupational safety and health legislation to assess and re-assess the risks of workstations to the safety and health of staff members and provided them with suitable accessories such as keyboard drawers, document holders, footrests, etc. We have also made available a video produced by the Occupational Safety and Health Council to be run on staff members' computers at specified intervals reminding them to do stretching exercises to relieve the physical stress caused by prolonged use of computer equipment. During a visit to our office in the year, the Occupational Safety Officers of the Labour Department appreciated our occupational safety and health measures and arrangements.

MPFA was awarded Excellent Class certificates under the Indoor Air Quality ("IAQ") Certification Scheme by the Government's IAQ Information Centre for the third consecutive year in recognition of the good IAQ management of our offices. To further improve our work environment, we have strengthened the role of Premises Management Committees in the year to collect comments and recommendations from staff not only on office premises management issues but also on areas related to IT provision and facilities.

As a caring employer, MPFA is keen to put in place initiatives that contribute to promoting the well-being of our staff. Some of these are highlighted below –

- Counselling services are provided under the Employee Assistance Programme to staff members who wish, on a voluntary and confidential basis, to talk to external qualified professionals when they encounter work, family or personal problems;
- An Employee Wellness Day was organized in December 2013 comprising an on-site health screening session, a lunch-time seminar as well as a break for body stretching to promote a healthy lifestyle;
- A series of lunch-time seminars was introduced to promote employee wellness and enhance personal effectiveness;
- Basic health check equipment and health care information are available at Health Check Corners in each of MPFA's offices for staff members to monitor their health situation;
- Sports activities and competitions, such as badminton competition and bowling night, were organized to promote staff relations and work-life balance. Our sports teams also participated in inter-regulator basketball and table tennis competitions to enhance our team spirit and networking with other financial regulators;



*Sports activities were arranged to promote work-life balance and harmony among staff members*



*MPFA sports teams competed in the Supervisory Cup table tennis and basketball competitions to enhance our relationship with other financial regulators*





- Social activities were organized through the Staff Welfare Committee ("SWC"), including interest classes on arts and crafts and bakery, outings and an annual dinner; and



*Staff members participating in an interest class organized by SWC*



*Staff members and their families and friends visited a remote village in Sha Tau Kok, an organic farm and watched fireflies in a one-day ecological tour*



*The Chairman and other Management Board members toasting at the Annual Dinner*

- A number of interest clubs formed under SWC, namely Badminton Club, Basketball Club, Hiking Club, Photo Club and Soccer Club, continued to organize activities and sharing sessions for the enjoyment and relaxation of staff members.

## MPFA – A Caring Organization



*Head (Corporate Services) and three Caring Ambassadors of MPFA attended the Caring Company Partnership Expo 2014 cum Recognition Ceremony to receive the Caring Company Scheme Certificate*

MPFA has been awarded the Caring Organization logo for nine consecutive years under the Caring Company Scheme of the Hong Kong Council of Social Service in recognition of our ongoing commitment to caring for our staff, the environment and the community. We are also delighted that three MPFA VT members were selected as MPFA's Caring Ambassadors under the Caring Company Scheme to recognize their strong support for our community programmes.

# Automated & Easy



# Independent Auditor's Report

## To The Mandatory Provident Fund Schemes Authority (The "MPFA")

*(Established in Hong Kong under the Mandatory Provident Fund Schemes Ordinance)*

We have audited the financial statements of the MPFA set out on pages 72 to 93, which comprise the statement of financial position as at 31 March 2014, the income and expenditure account, the statement of comprehensive income, the statement of changes in capital and reserve and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### The MPFA's Responsibility for the Financial Statements

The MPFA is responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and for such internal control as the MPFA determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 6P of the Mandatory Provident Fund Schemes Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the MPFA, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the state of the MPFA's affairs as at 31 March 2014, and of its deficit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 9 July 2014

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

# Income and Expenditure Account

for the year ended 31 March 2014

	NOTES	2014 HK\$	2013 HK\$
<b>Income</b>			
Fee income		<b>8,863,172</b>	17,770,950
Interest income on bank deposits		<b>3,432,049</b>	4,534,220
Net investment income	7	<b>114,390,332</b>	260,780,071
		<b>126,685,553</b>	283,085,241
Other income		<b>15,070</b>	8,038
		<b>126,700,623</b>	283,093,279
<b>Expenditure</b>			
Staff costs	9	<b>315,075,752</b>	294,933,940
Depreciation and amortisation	12, 13	<b>12,304,878</b>	12,091,008
Premises expenses		<b>78,861,213</b>	65,346,054
Public education and publicity expenses		<b>32,804,284</b>	61,636,930
Investment expenses		<b>13,428,573</b>	14,521,460
Other operating expenses		<b>30,434,886</b>	31,208,281
		<b>482,909,586</b>	479,737,673
<b>Deficit for the Year</b>		<b>(356,208,963)</b>	(196,644,394)

*The accompanying notes form an integral part of these financial statements.*

# Statement of Comprehensive Income

for the year ended 31 March 2014

The MPFA had no components of comprehensive income other than “deficit for the year” in either of the years presented. Accordingly, no separate statement of comprehensive income is presented as the MPFA’s “total comprehensive loss” was the same as the “deficit for the year” in both years.

*The accompanying notes form an integral part of these financial statements.*

**MANDATORY PROVIDENT FUND SCHEMES AUTHORITY**

# Statement of Financial Position

at 31 March 2014

	NOTES	2014 HK\$	2013 HK\$
<b>Non-Current Assets</b>			
Property and equipment	12	12,969,259	10,745,721
Intangible assets	13	16,440,787	7,979,732
Projects in progress	14	4,418,874	10,108,121
Other non-current deposits		20,850,805	12,932,834
		<b>54,679,725</b>	41,766,408
<b>Current Assets</b>			
Investments designated at fair value	15	4,055,557,959	4,472,192,292
Interest receivable on investments designated at fair value		20,070,166	22,997,123
Derivative financial instruments	16	2,645,620	5,957,366
Unsettled investments receivable		61,763,914	25,815,453
Debtors, deposits and prepayments		7,930,980	13,057,391
Bank deposits		208,269,035	212,083,245
Cash and cash equivalents		605,067,863	899,314,599
		<b>4,961,305,537</b>	5,651,417,469
<b>Current Liabilities</b>			
Derivative financial instruments	16	2,077,205	806,270
Unsettled investments payable		360,265,935	676,356,702
Creditors and accrued charges		28,167,024	34,383,594
Fees received in advance		3,825,900	3,779,150
		<b>394,336,064</b>	715,325,716
<b>Net Assets</b>		<b>4,621,649,198</b>	4,977,858,161
<b>Capital and Reserve</b>			
Capital grant	17	5,000,000,000	5,000,000,000
Income and expenditure account		(378,350,802)	(22,141,839)
		<b>4,621,649,198</b>	4,977,858,161

The financial statements on pages 72 to 93 were approved and authorised for issue by the Mandatory Provident Fund Schemes Authority on 9 July 2014 and are signed on its behalf by:

**Diana Chan**

*Managing Director*

*The accompanying notes form an integral part of these financial statements.*



# Statement of Changes in Capital and Reserve

for the year ended 31 March 2014

	Capital Grant HK\$	Income and Expenditure Account HK\$	Total HK\$
At 1 April 2012	5,000,000,000	174,502,555	5,174,502,555
Deficit for the year	—	(196,644,394)	(196,644,394)
At 31 March 2013	5,000,000,000	(22,141,839)	4,977,858,161
Deficit for the year	—	(356,208,963)	(356,208,963)
At 31 March 2014	<b>5,000,000,000</b>	<b>(378,350,802)</b>	<b>4,621,649,198</b>

*The accompanying notes form an integral part of these financial statements.*

**MANDATORY PROVIDENT FUND SCHEMES AUTHORITY**

# Statement of Cash Flows

for the year ended 31 March 2014

	2014 HK\$	2013 HK\$
<b>Operating Activities</b>		
Deficit for the year	(356,208,963)	(196,644,394)
Adjustments for:		
Depreciation and amortisation	12,304,878	12,091,008
Gains on disposals of property and equipment and intangible assets	(5,520)	(87,102)
Interest income on bank deposits	(3,432,049)	(4,534,220)
Interest income on investments designated at fair value	(64,091,544)	(91,123,794)
Dividends from investments designated at fair value	(26,132,227)	(28,238,183)
Net gains on investments designated at fair value	(28,844,899)	(114,169,051)
Net losses / (gains) on derivative financial instruments	5,333,108	(27,249,043)
	(461,077,216)	(449,954,779)
Increase in non-current deposits	(7,917,971)	(1,628,171)
Decrease in debtors, deposits and prepayments	5,042,145	3,020,139
Decrease in creditors and accrued charges	(5,824,360)	(8,664,334)
Increase / (decrease) in fees received in advance	46,750	(81,200)
<b>Net Cash used in Operating Activities</b>	<b>(469,730,652)</b>	<b>(457,308,345)</b>
<b>Investing Activities</b>		
Dividends received from investments designated at fair value	26,471,340	28,163,193
Interest received on bank deposits	3,516,316	4,933,907
Interest received from investments designated at fair value	67,018,501	92,572,973
Proceeds on disposals of property and equipment and intangible assets	5,550	88,950
Proceeds on disposals of investments designated at fair value	12,148,612,783	14,852,594,330
Purchase of property and equipment, intangible assets and projects in progress	(17,692,464)	(9,662,208)
Purchase of investments designated at fair value	(12,055,511,893)	(14,558,336,744)
Net settlement of derivative financial instruments	(750,427)	18,033,234
Decrease in bank deposits	3,814,210	18,472,355
<b>Net Cash from Investing Activities</b>	<b>175,483,916</b>	<b>446,859,990</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(294,246,736)</b>	<b>(10,448,355)</b>
<b>Cash and Cash Equivalents at Beginning of the Year</b>	<b>899,314,599</b>	<b>909,762,954</b>
<b>Cash and Cash Equivalents at End of the Year</b>	<b>605,067,863</b>	<b>899,314,599</b>
<b>Analysis of Cash and Cash Equivalents</b>		
Bank balances held for investment purposes	213,623,786	199,489,506
Short term debt securities	384,764,667	693,994,034
Other bank balances and cash	6,679,410	5,831,059
	<b>605,067,863</b>	<b>899,314,599</b>

*The accompanying notes form an integral part of these financial statements.*

# Notes to the Financial Statements

for the year ended 31 March 2014

## 1. Background and Functions of the Mandatory Provident Fund Schemes Authority ("The MPFA")

The MPFA was established in Hong Kong under section 6 of the Mandatory Provident Fund Schemes Ordinance ("the Ordinance") which came into effect on 24 July 1998. The functions of the MPFA are stated in section 6E of the Ordinance. Its office address is Level 16, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the MPFA.

## 2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

HKFRS 13, 'Fair value measurement' ("HKFRS 13"), improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRS. If an asset or a liability measured at fair value has a bid price and an ask price, the standard requires valuation to be based on a price within the bid-ask spread that is most representative of fair value and allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurement within a bid-ask spread. On adoption of the standard, the MPFA continued to utilise bid and ask prices for its listed financial assets and liabilities. The new standard did not have any impact on the financial statements of the MPFA.

Amendments to HKFRS 7, 'Disclosures – Offsetting financial assets and financial liabilities', require additional disclosures to enable users of financial statements to evaluate the effect or the potential effects of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendments did not have any impact on the MPFA's financial position or performance.

There are no other standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 April 2013 that would be expected to have a material impact on the MPFA.

Amendments to Hong Kong Accounting Standard ("HKAS") 32, 'Offsetting financial assets and financial liabilities', is effective for annual periods beginning on or after 1 January 2014, and have not been adopted earlier by the MPFA. These amendments clarify the offsetting criteria in HKAS 32 and address inconsistencies in their application. These include clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The amendments are not expected to have any significant impact on the MPFA's financial position or performance.

HKFRS 9, 'Financial instruments' ("HKFRS 9"), addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and amended in October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The new standard is not yet mandatory and is not expected to have a significant impact on the financial statements of the MPFA.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the MPFA.

## 3. Significant Accounting Policies

The principal accounting policies adopted are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### Basis of preparation

The financial statements have been prepared under the historical cost basis, except for certain financial instruments, which are measured at fair values, and in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

## Notes to the Financial Statements (cont'd)

### 3. Significant Accounting Policies (cont'd)

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

#### 3.1 Revenue recognition

Fee income consists of application fees, annual fees and financial penalties arising from the occupational retirement schemes and mandatory provident fund schemes. Application fees and annual fees are accounted for on an accrual basis whereas financial penalties are recognised as and when determined and imposed.

Interest income from a financial asset is accrued on a time proportionate basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

#### 3.2 Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the MPFA becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value are recognised immediately in the income and expenditure account.

#### 3.3 Financial assets

The MPFA's financial assets include financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade-date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method is used to calculate the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest is recognised on an effective interest basis.

##### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss have two subcategories, financial assets held for trading and those designated at fair value through profit or loss on initial recognition.

A financial asset other than a financial asset held for trading may be designated at fair value upon initial recognition if:

- (a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- (b) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the MPFA's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- (c) it forms part of the contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated at fair value.

Investments designated at fair value recognised in the statement of financial position are categorised as financial assets designated at fair value through profit or loss. Subsequent to initial recognition, financial assets at fair value are measured at fair value, with changes in fair value arising from remeasurement recognised directly in the income and expenditure account in the period in which they arise. The net investment income/loss recognised in the income and expenditure account includes any dividend or interest earned on the financial assets.

### 3. Significant Accounting Policies (cont'd)

#### 3.3 Financial assets (cont'd)

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables mainly consist of debtors, deposits, unsettled investments receivable (including dividends receivable and amounts due from brokers), bank deposits and cash and cash equivalents, are carried at amortised cost using the effective interest method, less any identified impairment losses.

#### 3.4 Impairment of financial assets

Financial assets, other than those at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- (a) significant financial difficulty of the issuer or counterparty;
- (b) a breach of contract, such as default or delinquency in interest or principal payments;
- (c) it becoming probable that the borrower will enter bankruptcy or financial re-organisation;
- (d) the disappearance of an active market for that financial asset because of financial difficulties; or
- (e) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio.

For financial assets carried at amortised cost, an impairment loss is recognised in the income and expenditure account when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly. Subsequent recoveries of amounts previously written off are credited to the income and expenditure account.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurred after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### 3.5 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definition of a financial liability. The MPFA's financial liabilities are generally classified as other financial liabilities.

Other financial liabilities, including creditors and unsettled investments payable, are subsequently measured at amortised cost, using the effective interest method.

Effective interest method is used to calculate the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

#### 3.6 Derivative financial instruments

Derivative financial instruments (primarily foreign exchange contracts) are used in hedging currency exposure in the investments designated at fair value. Such derivatives are measured at fair value regardless of whether they are designated as effective hedging instruments.

## Notes to the Financial Statements (cont'd)

## 3. Significant Accounting Policies (cont'd)

**3.6 Derivative financial instruments (cont'd)**

For derivative financial instruments that do not qualify for hedge accounting, they are deemed financial assets or liabilities held for trading. They are initially designated at fair value through profit or loss. Changes in fair values of such derivatives are recognised directly in the income and expenditure account.

**3.7 Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, when the financial assets are transferred and the MPFA has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the income and expenditure account.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the income and expenditure account.

**3.8 Property and equipment**

Property and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the MPFA and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income and expenditure account during the financial period in which they are incurred.

Depreciation is provided to write-off the cost of items of property and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Property and equipment are depreciated on a straight-line basis as follows:

Leasehold improvements	Over the remaining terms of the leases or 4 years, whichever is shorter
Computer equipment	3 - 4 years
Office equipment and furniture	4 years
Motor vehicle	4 years

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income and expenditure account in the year in which the item is derecognised.

**3.9 Intangible Assets*****Computer software licenses***

Acquired computer software licenses are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives, which do not exceed 4 years.

***Software development costs***

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the MPFA are recognised as intangible assets when the following criteria are met:

- (a) it is technically feasible to complete the software product so that it will be available for use;
- (b) the management intends to complete the software product and use or sell it;
- (c) there is an ability to use or sell the software product;



### 3. Significant Accounting Policies (cont'd)

#### 3.9 Intangible Assets (cont'd)

- (d) it can be demonstrated how the software product will generate probable future economic benefits;
- (e) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- (f) the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed 4 years.

#### 3.10 Projects in progress

Projects in progress consist of expenditure of capital projects not yet completed and are not subject to depreciation or amortisation. The resultant asset will be capitalised as property and equipment or intangible assets upon completion. Any internally-generated intangible asset of projects in progress arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will produce future economic benefits.

#### 3.11 Impairment of non-financial assets

At the end of the reporting period, the MPFA reviews the carrying amounts of its non-financial assets (i.e. non-current assets) to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years. A reversal of an impairment loss is recognised as income immediately.

#### 3.12 Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents include cash in hand, cash in transit, cash at banks and other short-term highly liquid investments with original maturities of three months or less.

#### 3.13 Creditors and accrued charges

Creditors and accrued charges are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities. Creditors and accrued charges are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### 3.14 Foreign currencies

In preparing the financial statements of the MPFA, transactions in currencies other than the functional currency of the MPFA are recorded in its functional currency (that is the currency of the primary economic environment in which the MPFA operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

## Notes to the Financial Statements (cont'd)

### 3. Significant Accounting Policies (cont'd)

#### 3.14 Foreign currencies (cont'd)

Exchange differences arising from the settlement of monetary items, and on the retranslation of monetary items, are recognised in the income and expenditure account in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income and expenditure account for the period.

#### 3.15 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating lease.

Rentals payable under operating leases are charged to the income and expenditure account on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

#### 3.16 Retirement benefit costs

Contributions paid or payable to Mandatory Provident Fund schemes are charged as expenses when employees have rendered services entitling them to the benefits.

### 4. Critical Accounting Estimates

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The MPFA makes estimates and assumptions concerning the future. The resulting accounting estimates may not equal the related actual results. The key estimates and assumptions that may cause a material impact to the carrying amounts of assets and liabilities are addressed below.

#### *Fair value of derivatives and other financial instruments*

The valuation of all the MPFA's financial instruments, including over-the-counter debt securities and derivatives, are measured at fair value and the quotations are provided by a reputable independent custodian bank. At 31 March 2014, the fair value of financial instruments held by the MPFA excluding those fair values obtained using quoted prices in active market are based on the market quotations from external sources. These market quotations may be indicative and not executable or legally binding. As such, these market quotations do not necessarily indicate the price at which the security could actually be traded as at 31 March 2014. Actual transacted prices may differ from the quotes provided by these external sources. The MPFA considers that in the absence of any other reliable market sources, the quotes available from these sources reflect the best estimate of fair value.

#### *Default contribution claims receivable and payable*

As at the reporting date, the default contribution claims receivable amounting to HK\$2,911,270 (2013: HK\$4,220,030), included in the debtors, deposits and prepayments, represents the mandatory contributions that are not paid within the period prescribed by the regulations. Such mandatory contributions become due to the MPFA on the expiry of that period. As at the reporting date, the default contribution claims payable amounting to HK\$2,911,270 (2013: HK\$4,220,030), included in the creditors and accrued charges, represents the mandatory contributions which will be received by the MPFA as mentioned above and in turn, payable to the approved trustees for allocation to scheme members' MPF accounts in accordance with the Ordinance. The amount of these default contribution claims receivable and payable is best estimated by the MPFA as at the reporting date with the use of certain assumptions.

### 5. Capital Management

The MPFA's objectives when managing capital are:

- (a) to safeguard the MPFA's ability to continue as a going concern, so that it continues to regulate and supervise mandatory provident fund schemes and occupational retirement schemes; and
- (b) to support the MPFA's stability and growth to provide benefits for stakeholders.

## 5. Capital Management (cont'd)

The MPFA actively and regularly reviews and manages its capital and reserve to ensure optimal returns, taking into consideration the future resources requirements of the MPFA and projected capital expenditures. As in previous years, the MPFA manages its capital and reserve through resources planning measures and regular reviews of the investment strategy.

## 6. Financial Instruments

### 6.1 Categories of financial instruments

	2014 HK\$	2013 HK\$
<b>Financial assets</b>		
At fair value	<b>4,058,203,579</b>	4,478,149,658
Loans and receivables (including bank deposits, cash and cash equivalents and receivables )	<b>917,825,594</b>	1,179,922,734
<b>Financial liabilities</b>		
At fair value	<b>2,077,205</b>	806,270
Other financial liabilities	<b>383,107,413</b>	703,797,128

### 6.2 Financial risk management objectives and policies

The MPFA's major financial instruments include bank deposits, cash and cash equivalents, unsettled investments receivable and payable, interest receivable on investments designated at fair value, debtors and deposits, creditors, derivative financial instruments, debt and equity investments.

The MPFA adopts a statistical approach for strategic asset allocation of its investments. The strategic asset allocation is set within a specific risk tolerance level and after consideration of the risk-return trade-off. The MPFA's investment portfolio includes cash, debt and equity securities with a target weighting for each asset class. Investment Guidelines approved by the Management Board set out limits and restrictions on credit risk, interest rate risk, price risk, currency risk, liquidity risk, hedging and other activities. These Guidelines are reviewed from time to time. The Finance Committee, one of the standing committees of the MPFA, is responsible for overseeing the investment of all MPFA's funds.

Apart from bank deposits that are managed internally, the MPFA contracts out the management of debt and equity securities to external fund managers who make investments in accordance with the global balanced mandates. The fund managers are mandated to invest prudently to achieve principal protection and above-benchmark return.

Permissible investments should satisfy requirements in credit rating, concentration limits, listing, minimum market capitalisation and marketability as detailed in the Investment Guidelines. Apart from proactive contributions to stock selection, interest rate and currency risk management, each external fund manager is expected to allocate assets between broad asset classes based on fundamentals and judgment of relative values. The deviation margins, measured against the target weighting, are permitted for each asset class. The deviation margins have been set using a risk budgeting approach and are based on the correlation of asset returns between asset classes, and the volatility and expected tracking error of each asset class.

The MPFA keeps monitoring its investments with due care and would promptly impose contingent measures relating to the investment exposures in light of financial market conditions. The MPFA has also conducted regular due diligence exercises on the external fund managers' compliance and risk management process. In addition, with the efficient management reporting process, the management and the Finance Committee are kept abreast of the investment portfolios' status as well as the general financial market conditions.

### 6.3 Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the MPFA.

The investment portfolios can only invest in debt securities that have a minimum credit rating of A- by Standard & Poor's Ratings Services ("S&P") and A3 by Moody's Investors Service, Inc ("Moody's"). In the event of a split credit rating for a debt securities issue, the Investment Guidelines require that the lower credit rating will apply. The Investment Guidelines require the weighted average credit rating of the total debt securities portfolio to be at or above A+/A1.

## Notes to the Financial Statements (cont'd)

## 6. Financial Instruments (cont'd)

## 6.3 Credit risk (cont'd)

As at the reporting date, the credit risk profile as weighted by market value (including accrued interest) was:

Credit rating	2014 HK\$	% of net assets	2013 HK\$	% of net assets
AAA <sup>1</sup>	133,463,163	3	106,178,544	2
AA <sup>2</sup>	2,094,929,773	45	2,373,343,710	48
A <sup>3</sup>	774,557,453	17	958,234,474	19
	3,002,950,389	65	3,437,756,728	69

<sup>1</sup> AAA means AAA by S&P and Aaa by Moody's

<sup>2</sup> AA means between AA- and AA+ by S&P and Aa3 and Aa1 by Moody's

<sup>3</sup> A means between A- and A+ by S&P and A3 and A1 by Moody's

The weighted average credit rating of the total debt securities portfolio is AA-/Aa3 (2013: AA-/Aa3).

The MPFA does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The MPFA's credit risk exposure to bank deposits, cash and cash equivalents and derivative financial instruments is limited because the counterparties are banks and other financial institutions with high credit ratings (investment grade or above) assigned by international credit rating agencies and are approved by the Finance Committee from time to time. In addition, the credit exposures are guarded by the Investment Guidelines which set out limits and restrictions on the total exposure to a single bank or an issuer of debt securities in order to mitigate concentration risk to a single counterparty. The maximum exposure to credit risk at year end is the carrying amount of the financial assets as shown on the statement of financial position. As at 31 March 2014 and 2013, none of the assets is impaired nor past due but not impaired.

## 6.4 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of a financial asset will fluctuate due to changes in interest rates.

The exposure to interest rate risk on bank deposits and cash and cash equivalents carrying interest are limited to the impact of the interest rate fluctuations on the interest income. The MPFA adopts a sensitivity test of 10 basis points (2013: 10 basis points) movement to measure such impact. If the interest rates on the bank deposits and cash and cash equivalents had moved up or down by 10 basis points (2013: 10 basis points) on average throughout the year, with all other variables being held constant, income for the year would have increased or decreased by HK\$0.8 million (2013: HK\$1.1 million).

The investment portfolios are exposed to the interest rate risk in relation to holdings in debt securities. The fund managers may mitigate such risk by reducing the weighting of debt securities in the portfolios and holding either more cash or equities within the permitted deviation margins from the target weighting. The fund managers may further reduce duration risk, i.e. price sensitivity to changes in interest rate, by reducing the debt securities portfolio duration by up to three years below the benchmark duration. The benchmark duration is a composite of durations of chosen bond indices. On the other hand, the fund managers may also increase duration risk by up to two years above the benchmark duration.

As at the reporting date, the average debt securities portfolio duration versus that of the benchmark is set out below:

	2014 Years	2013 Years
Benchmark duration	5.22	4.96
Portfolio duration	4.97	4.72

The MPFA measures the interest rate risks through Price Value of Basis Point ("PVB"). PVB is a sensitivity test to measure the fluctuation of potential gain or loss on interest rate positions upon a basis point movement.

## 6. Financial Instruments (cont'd)

### 6.4 Interest rate risk (cont'd)

The MPFA adopts a sensitivity test of 10 basis points (2013: 10 basis points) movements. As at the reporting date, if interest rate had fluctuated by 10 basis points (2013: 10 basis points) and all other variables were held constant, the impact on the MPFA's income would have been as follows.

	Increase/(decrease) in the MPFA's income	
	2014 HK\$	2013 HK\$
If interest rate were 10 basis points lower	14,920,304	16,235,521
If interest rate were 10 basis points higher	(14,920,304)	(16,235,521)

### 6.5 Price risk

Price risk is the risk that the price of a security or a portfolio of securities will fluctuate due to market changes. Price risk consists of both systematic risk, which is also known as market return risk, and non-systematic risk, which can be largely eliminated by diversification in accordance with the Investment Guidelines.

The investment portfolios are investments designated at fair value and are measured at fair value as at each reporting date. The MPFA manages this price risk exposure by maintaining a portfolio of investments with different risk profiles. There is a portfolio diversification benefit by virtue of different degrees of lesser than perfect correlation between different invested asset classes. Control on the concentration of investments has been set out in the Investment Guidelines in order to ensure that the investment portfolios are well diversified. The inclusion of cash in the benchmark portfolio further helps control price risk. The investment performance is reported to the Finance Committee and the Management Board on a regular basis.

As at 31 March 2014, if the Equity Market<sup>Note</sup> had increased or decreased by 10%, with all other variables being held constant and all the equity instruments moved according to the historical relationship with the Equity Market, income for the year would have increased or decreased by HK\$127.8 million (2013: HK\$116.9 million).

*Note: Equity Market consists of markets in which the MPFA is authorised to invest in accordance with the Investment Guidelines.*

### 6.6 Currency risk

Currency risk is the risk of loss on an asset or liability denominated in foreign currency due to changes in the foreign exchange rates. Apart from investment portfolios, most of the MPFA's assets and liabilities are in HK dollar or US dollar and minimal currency risk is expected due to the linked exchange rate system in Hong Kong.

The MPFA's Investment Guidelines for the investment portfolios only allow investments in assets denominated in freely convertible currencies. The investment portfolios must maintain a currency exposure of over 85% in HK dollar and US dollar with the remaining in foreign currency securities but not through currency trading. To meet this requirement, fund managers are permitted to hedge related currency risks by acquiring forward currency contracts. However, the over-hedging position for each foreign currency must not exceed 10% of the value of the investments denominated in the same currency and the total over-hedging position must not exceed 1% of the investment portfolio. The unhedged currency positions of the investment portfolio are measured and reported to the management and the Finance Committee on a regular basis.

Owing to the linked exchange rate system in Hong Kong, MPFA's currency risk primarily stems from the exposure to foreign currencies other than the US dollar. Other currencies shown in the tables below include Euro, pound sterling, Australian dollar, Japanese yen, Singapore dollar etc. The net financial assets of each type of foreign currencies in terms of HK dollar equivalent is not material. Also, as most of the foreign exchange exposures are well hedged by acquiring forward currency contracts, the exposure is considered not significant and sensitivity analysis is hence not provided.

## Notes to the Financial Statements (cont'd)

## 6. Financial Instruments (cont'd)

## 6.6 Currency risk (cont'd)

As at the reporting date, the currency exposure of the MPFA is given below:

2014							
	HK dollar HK\$ equivalent	%	US dollar HK\$ equivalent	%	Others HK\$ equivalent	%	Total HK\$ equivalent
<b>Financial assets</b>							
Investments designated at fair value	1,166,210,719	29%	2,539,231,766	63%	350,115,474	8%	4,055,557,959
Derivative financial instruments	26,614,561	8%	273,227,723	87%	14,674,125	5%	314,516,409
Interest receivable on investments designated at fair value	6,816,788	34%	13,253,378	66%	—	0%	20,070,166
Unsettled investments receivable	21,961,532	36%	38,537,190	62%	1,265,192	2%	61,763,914
Debtors and deposits	22,637,339	100%	—	0%	17,278	0%	22,654,617
Bank deposits	197,746,745	95%	—	0%	10,522,290	5%	208,269,035
Cash and cash equivalents	101,737,875	17%	501,714,754	83%	1,615,234	0%	605,067,863
	1,543,725,559	29%	3,365,964,811	64%	378,209,593	7%	5,287,899,963
<b>Financial liabilities</b>							
Derivative financial instruments	—	0%	41,130,647	13%	272,817,347	87%	313,947,994
Unsettled investments payable	577,256	0%	355,936,805	99%	3,751,874	1%	360,265,935
Creditors and accrued charges	21,393,451	94%	28,704	0%	1,419,323	6%	22,841,478
	21,970,707	3%	397,096,156	57%	277,988,544	40%	697,055,407
	1,521,754,852	33%	2,968,868,655	65%	100,221,049	2%	4,590,844,556

2013							
	HK dollar HK\$ equivalent	%	US dollar HK\$ equivalent	%	Others HK\$ equivalent	%	Total HK\$ equivalent
<b>Financial assets</b>							
Investments designated at fair value	1,591,264,736	36%	2,382,816,993	53%	498,110,563	11%	4,472,192,292
Derivative financial instruments	25,076,466	6%	403,039,092	88%	26,666,148	6%	454,781,706
Interest receivable on investments designated at fair value	10,924,870	48%	12,072,253	52%	—	0%	22,997,123
Unsettled investments receivable	8,960,589	35%	13,895,863	54%	2,959,001	11%	25,815,453
Debtors and deposits	19,597,708	99%	—	0%	114,606	1%	19,712,314
Bank deposits	180,343,692	85%	—	0%	31,739,553	15%	212,083,245
Cash and cash equivalents	157,315,425	17%	740,215,134	83%	1,784,040	0%	899,314,599
	1,993,483,486	33%	3,552,039,335	58%	561,373,911	9%	6,106,896,732
<b>Financial liabilities</b>							
Derivative financial instruments	—	0%	51,780,342	12%	397,850,268	88%	449,630,610
Unsettled investments payable	11,201,363	2%	665,155,339	98%	—	0%	676,356,702
Creditors and accrued charges	27,336,364	100%	104,061	0%	—	0%	27,440,425
	38,537,727	3%	717,039,742	63%	397,850,268	34%	1,153,427,737
	1,954,945,759	39%	2,834,999,593	58%	163,523,643	3%	4,953,468,995

## 6.7 Liquidity risk

Liquidity risk is the potential that the MPFA will encounter difficulty in raising funds to meet its cash commitments. Liquidity risk may result from the need to sell financial assets quickly at their fair values; counterparties' failure to settle a contractual obligation; or inability to generate cash flows as anticipated.



## 6. Financial Instruments (cont'd)

### 6.7 Liquidity risk (cont'd)

The MPFA does not have any borrowing and therefore has no repayment liability owing to debt. The MPFA maintains sufficient short-term liquidity to fund its operations and runs a bank deposit portfolio to achieve reasonable return on cash. Monthly cash flow forecast is performed to estimate the cash required for operations, including payment for goods/services, office accommodation expenses and payroll.

As at the reporting date, the MPFA held cash and cash equivalents and deposits including interest receivable of HK\$813,336,898 (2013: HK\$1,111,397,844) that are of short maturity and will be due orderly. Therefore, liquidity risk is considered to be minimal.

The following table summarises the contractual maturity in relation to non-derivative financial liabilities and derivative instruments. For non-derivative financial liabilities, the figures are undiscounted cash flows of financial liabilities based on the earliest date on which the MPFA is required to pay. The cash flows include both principal and interest. For derivative instruments requiring gross settlement, the figures represent undiscounted gross inflows or outflows on these derivatives.

	2014			2013		
	≤1 month HK\$	1-3 months HK\$	>3 months HK\$	≤1 month HK\$	1-3 months HK\$	>3 months HK\$
<b>Non-derivative financial liabilities</b>						
Unsettled investments payable <sup>1</sup>	360,265,935	—	—	676,356,702	—	—
Creditors and accrued charges	14,198,296	6,407,452	2,235,730	21,542,845	2,707,074	3,190,506
Total	374,464,231	6,407,452	2,235,730	697,899,547	2,707,074	3,190,506
<b>Derivative financial liabilities</b>						
Foreign currency forward contracts						
— Inflows	152,978,628	161,537,781	—	325,983,431	128,798,275	—
— Outflows	(153,028,612)	(160,919,382)	—	(321,006,696)	(128,623,914)	—
Total	(49,984)	618,399	—	4,976,735	174,361	—

<sup>1</sup> The fund managers are not allowed to borrow money for the managed portfolios or hold a negative cash position on a trade date basis.

### 6.8 Fair values

The fair values of financial assets and financial liabilities are determined as follows:

The fair values of listed investments and unlisted investments with standard terms and conditions are determined by reference to bid prices quoted in active markets and over-the-counter market quotations respectively.

The fair values of derivative financial instruments are determined based on the quoted market prices for equivalent instruments as at the reporting date.

The fair values of other financial assets and financial liabilities stated at amortised costs approximate the corresponding carrying amounts.

### 6.9 Fair value measurements recognised in the statement of financial position

The fair value measurements of financial assets and liabilities are categorised using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- (a) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

## Notes to the Financial Statements (cont'd)

## 6. Financial Instruments (cont'd)

## 6.9 Fair value measurements recognised in the statement of financial position (cont'd)

- (b) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- (c) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at the reporting date, the fair values of the financial assets and liabilities are set out below:

2014				
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
<b>Financial assets</b>				
Equity securities	1,072,677,736	—	—	1,072,677,736
Debt securities	2,403,092,414	579,787,809	—	2,982,880,223
Derivative financial instruments	2,645,620	—	—	2,645,620
	3,478,415,770	579,787,809	—	4,058,203,579
<b>Financial liabilities</b>				
Derivative financial instruments	2,077,205	—	—	2,077,205

2013				
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
<b>Financial assets</b>				
Equity securities	1,057,432,687	—	—	1,057,432,687
Debt securities	2,422,601,379	992,158,226	—	3,414,759,605
Derivative financial instruments	5,957,366	—	—	5,957,366
	3,485,991,432	992,158,226	—	4,478,149,658
<b>Financial liabilities</b>				
Derivative financial instruments	806,270	—	—	806,270

"Loans and receivables" and "Other financial liabilities" as disclosed in Note 6.1 are carried at amortised cost, their carrying values are a reasonable approximation of fair value.

During the years ended 31 March 2014 and 2013, no financial assets or financial liabilities were classified under Level 3. During the year ended 31 March 2013, there was one transfer of debt securities from Level 2 to Level 1 amounting to HK\$3,679,127 as these debt securities exhibited more trading activities on 31 March 2013 but they were thinly traded on 31 March 2012. During the year ended 31 March 2014, there was no transfer among levels.

## 7. Net Investment Income

	2014 HK\$	2013 HK\$
Interest income on investments designated at fair value	64,091,544	91,123,794
Dividends from investments designated at fair value	26,132,227	28,238,183
Net realised gain on investments designated at fair value <sup>1</sup>	105,533,161	90,383,946
Net change in unrealised (loss) / gain on investments designated at fair value <sup>2</sup>	(76,033,492)	23,785,105
Net realised (loss) / gain on derivative financial instruments	(750,427)	18,033,234
Net change in unrealised (loss) / gain on derivative financial instruments	(4,582,681)	9,215,809
	114,390,332	260,780,071

<sup>1</sup> The amount included net realised foreign exchange loss of HK\$5,434,480 (2013: HK\$9,456,115) from foreign currency securities.

<sup>2</sup> The amount included net change in unrealised foreign exchange gain of HK\$8,227,922 (2013: net change in unrealised foreign exchange loss of HK\$15,842,496) from foreign currency securities.

## 8. Taxation

No provision for Hong Kong Profits Tax has been made in the financial statements as the MPFA is exempt from Hong Kong Profits Tax under section 88 of the Inland Revenue Ordinance.

## 9. Staff Costs

	2014 HK\$	2013 HK\$
Salary and performance related remuneration	287,181,020	269,101,758
Contributions to MPF Schemes	21,331,653	19,785,097
Staff benefits	6,563,079	6,047,085
	<b>315,075,752</b>	<b>294,933,940</b>

The MPFA operates three Mandatory Provident Fund Schemes ("the Schemes") for all qualified employees. The assets of the Schemes are held separately from those of the MPFA and are under the control of trustees.

The total expenses recognised in the income and expenditure account represent contributions paid or payable to the Schemes at rates specified in the participation rules. As at 31 March 2014, contributions of HK\$377,816 were due but not yet paid over to the Schemes (2013: HK\$337,941).

## 10. Directors' Emoluments

The emoluments of all directors for the years ended 31 March 2014 and 2013 are set out below:

2014					
	Fees HK\$	Salaries and other benefits HK\$	Contributions to MPF schemes HK\$	Variable pay HK\$	Total emoluments HK\$
<b>Executive Directors</b>					
Diana Chan Tong Chee-ching	—	4,295,085	501,475	752,110	5,548,670
Cheng Yan-chee <sup>1</sup>	—	3,301,598	355,290	520,354	4,177,242
Alice Law Shing-mui	—	3,345,170	384,649	527,185	4,257,004
Darren Mark McShane	—	3,936,531	457,915	686,773	5,081,219
Cynthia Hui Wai-yee	—	2,597,652	296,674	393,539	3,287,865
<b>Non-Executive Directors</b>					
Anna Wu Hung-yuk	—	—	—	—	—
Au King-chi <sup>2</sup>	—	—	—	—	—
K C Chan	—	—	—	—	—
Matthew Cheung Kin-chung	—	—	—	—	—
Ip Kwok-him	—	—	—	—	—
Andrew Leung Kwan-yuen	—	—	—	—	—
Paddy Lui Wai-yu	—	—	—	—	—
John Poon Cho-ming	—	—	—	—	—
Poon Siu-ping	—	—	—	—	—
Annie Tam Kam-lan <sup>3</sup>	—	—	—	—	—
Philip Tsai Wing-chung	—	—	—	—	—
Wong Kwok-kin	—	—	—	—	—
Horace Wong Yuk-lun	—	—	—	—	—
	—	<b>17,476,036</b>	<b>1,996,003</b>	<b>2,879,961</b>	<b>22,352,000</b>

<sup>1</sup> Appointment effective from 3 April 2013.

<sup>2</sup> Alternate to K C Chan.

<sup>3</sup> Alternate to Matthew Cheung Kin-chung.

## Notes to the Financial Statements (cont'd)

## 10. Directors' Emoluments (cont'd)

2013					
	Fees HK\$	Salaries and other benefits HK\$	Contributions to MPF schemes HK\$	Variable pay HK\$	Total emoluments HK\$
<b>Executive Directors</b>					
Diana Chan Tong Chee-ching	—	4,298,853	501,475	752,110	5,552,438
Alice Law Shing-mui <sup>1</sup>	—	2,356,613	266,290	454,000	3,076,903
Hendena Yu <sup>2</sup>	—	848,202	83,245	—	931,447
Cynthia Hui Wai-yee	—	2,536,848	289,793	384,409	3,211,050
Darren Mark McShane	—	3,838,456	446,634	669,895	4,954,985
Thomas Yiu Kei-chung	—	2,659,098	310,938	466,380	3,436,416
<b>Non-Executive Directors</b>					
Anna Wu Hung-yuk	—	—	—	—	—
Au King-chi <sup>3</sup>	—	—	—	—	—
K C Chan	—	—	—	—	—
Matthew Cheung Kin-chung	—	—	—	—	—
Ip Kwok-him	—	—	—	—	—
Andrew Leung Kwan-yuen	—	—	—	—	—
Li Fung-ying <sup>4</sup>	—	—	—	—	—
Paddy Lui Wai-yu	—	—	—	—	—
John Poon Cho-ming	—	—	—	—	—
Poon Siu-ping <sup>5</sup>	—	—	—	—	—
Annie Tam Kam-lan <sup>6</sup>	—	—	—	—	—
Paul Tang Kwok-wai <sup>7</sup>	—	—	—	—	—
Philip Tsai Wing-chung	—	—	—	—	—
Wong Kwok-kin	—	—	—	—	—
Horace Wong Yuk-lun <sup>8</sup>	—	—	—	—	—
Rimsky Yuen Kwok-keung <sup>9</sup>	—	—	—	—	—
	—	16,538,070	1,898,375	2,726,794	21,163,239

<sup>1</sup> Appointment effective from 16 July 2012.

<sup>2</sup> Retired as from 3 July 2012.

<sup>3</sup> Alternate to K C Chan.

<sup>4</sup> Retired as from 17 March 2013.

<sup>5</sup> Appointment effective from 17 March 2013.

<sup>6</sup> Alternate to Matthew Cheung Kin-chung from 1 July 2012.

<sup>7</sup> Alternate to Matthew Cheung Kin-chung until 30 June 2012.

<sup>8</sup> Appointment effective from 1 October 2012.

<sup>9</sup> Retired as from 1 July 2012.

## 11. Employees' Emoluments

Of the five individuals with the highest emoluments at the MPFA, all were Executive Directors, whose emoluments are included in note 10 above. The emoluments of the five highest paid individuals were within the following bands:

	2014 No. of employees	2013 No. of employees
HK\$3,000,001 to HK\$3,500,000	1	3
HK\$3,500,001 to HK\$4,000,000	—	—
HK\$4,000,001 to HK\$4,500,000	2	—
HK\$4,500,001 to HK\$5,000,000	—	1
HK\$5,000,001 to HK\$5,500,000	1	—
HK\$5,500,001 to HK\$6,000,000	1	1
	5	5

## 12. Property and Equipment

	Leasehold improvements HK\$	Computer equipment HK\$	Office equipment and furniture HK\$	Motor vehicle HK\$	Total HK\$
<b>Cost</b>					
At 1 April 2012	30,804,282	31,354,362	21,165,965	824,456	84,149,065
Additions	287,534	3,043,168	445,213	529,900	4,305,815
Disposals	(468,342)	(3,135,203)	(187,641)	(824,456)	(4,615,642)
At 31 March 2013	30,623,474	31,262,327	21,423,537	529,900	83,839,238
Additions	4,101,676	2,920,810	1,986,384	—	9,008,870
Disposals	(781,108)	(1,716,920)	(284,150)	—	(2,782,178)
At 31 March 2014	33,944,042	32,466,217	23,125,771	529,900	90,065,930
<b>Depreciation</b>					
At 1 April 2012	26,806,346	25,158,544	16,399,512	807,280	69,171,682
Charge for the year	2,889,556	2,998,940	2,530,601	116,532	8,535,629
Eliminated on disposals	(468,342)	(3,135,203)	(185,793)	(824,456)	(4,613,794)
At 31 March 2013	29,227,560	25,022,281	18,744,320	99,356	73,093,517
Charge for the year	1,897,649	3,032,413	1,722,764	132,475	6,785,301
Eliminated on disposals	(781,108)	(1,716,889)	(284,150)	—	(2,782,147)
At 31 March 2014	30,344,101	26,337,805	20,182,934	231,831	77,096,671
<b>Carrying Amount</b>					
At 31 March 2014	<b>3,599,941</b>	<b>6,128,412</b>	<b>2,942,837</b>	<b>298,069</b>	<b>12,969,259</b>
At 31 March 2013	1,395,914	6,240,046	2,679,217	430,544	10,745,721

## 13. Intangible Assets

	Computer software licenses HK\$	Software development costs HK\$	Total HK\$
<b>Cost</b>			
At 1 April 2012	19,470,182	50,235,473	69,705,655
Additions	1,508,552	239,000	1,747,552
Disposals	(1,809,372)	—	(1,809,372)
At 31 March 2013	19,169,362	50,474,473	69,643,835
Additions	981,214	12,999,418	13,980,632
Disposals	—	—	—
At 31 March 2014	20,150,576	63,473,891	83,624,467
<b>Amortisation</b>			
At 1 April 2012	15,035,947	44,882,149	59,918,096
Charge for the year	1,828,288	1,727,091	3,555,379
Eliminated on disposals	(1,809,372)	—	(1,809,372)
At 31 March 2013	15,054,863	46,609,240	61,664,103
Charge for the year	1,782,398	3,737,179	5,519,577
Eliminated on disposals	—	—	—
At 31 March 2014	16,837,261	50,346,419	67,183,680
<b>Carrying Amount</b>			
At 31 March 2014	<b>3,313,315</b>	<b>13,127,472</b>	<b>16,440,787</b>
At 31 March 2013	4,114,499	3,865,233	7,979,732

## Notes to the Financial Statements (continued)

## 14. Projects in Progress

Projects in progress consisted of expenditure of capital projects not yet completed at 31 March 2014 amounting to HK\$4,418,874 (2013: HK\$10,108,121).

## 15. Investments Designated at Fair Value

	2014 HK\$	2013 HK\$
<b>Equity securities</b>		
Listed	1,072,677,736	1,057,432,687
<b>Debt securities</b>		
Listed	1,769,316,984	1,390,308,068
Unlisted	1,213,563,239	2,024,451,537
	2,982,880,223	3,414,759,605
<b>Total</b>		
Listed	2,841,994,720	2,447,740,755
Unlisted	1,213,563,239	2,024,451,537
	4,055,557,959	4,472,192,292

## 16. Derivative Financial Instruments

	2014		2013	
	Assets HK\$	Liabilities HK\$	Assets HK\$	Liabilities HK\$
Foreign currency forward contracts	2,645,620	2,077,205	5,957,366	806,270

The above derivatives are not under hedge accounting and are measured at fair value at each reporting date.

The notional principal amount of the outstanding foreign currency forward contracts as at 31 March 2014 was HK\$313,947,994 (2013: HK\$449,630,610). The contractual maturity of these foreign exchange forward contracts was within 12 months.

## 17. Capital Grant

On 3 April 1998, the Finance Committee of the Legislative Council of the Hong Kong Special Administrative Region approved a capital grant of HK\$5 billion as initial funding to cover the establishment and operating costs of the MPFA.

## 18. Loans to Directors and Executives

There were no loans to directors or executives during the years ended 31 March 2014 and 2013 and no loans were outstanding at 31 March 2014 and 2013.



## 19. Capital Commitments

At the reporting date, the MPFA had commitments for capital expenditure in respect of the acquisition of property and equipment and intangible assets as follows:

	2014 HK\$	2013 HK\$
Contracted but not provided for	<b>5,162,351</b>	3,035,316
Authorised but not contracted for	<b>317,253</b>	3,092,994
	<b>5,479,604</b>	6,128,310

## 20. Operating Lease Commitments

Operating lease payments represent rental payable by the MPFA for its office premises and storage space.

At the reporting date, the MPFA had commitments for future minimum lease payments under non-cancellable operating leases as follows:

	2014 HK\$	2013 HK\$
Within one year	<b>72,431,612</b>	53,620,866
In the second to fifth year inclusive	<b>83,143,868</b>	94,856,547
	<b>155,575,480</b>	148,477,413

## 21. Mandatory Provident Fund Schemes Compensation Fund

Section 17 of the Ordinance requires the MPFA to establish a compensation fund and the MPFA may appoint an administrator for the compensation fund or where there is no such administrator, the MPFA must administer the compensation fund. The MPFA was appointed as the administrator of the compensation fund until 31 March 2016. The Mandatory Provident Fund Schemes (General) Regulation requires the compensation fund to be maintained in separate bank accounts and separate financial statements are to be prepared in respect of the fund. The MPFA has not charged any administration fee to this compensation fund during the years ended 31 March 2014 and 2013.

# Independent Auditor's Report

## **To The Administrator of The Mandatory Provident Fund Schemes Compensation Fund ("The Fund")**

*(Established in Hong Kong under the Mandatory Provident Fund Schemes Ordinance)*

We have audited the financial statements of the Fund set out on pages 95 to 107, which comprise the statement of financial position as at 31 March 2014, the income and expenditure account, the statement of comprehensive income, the statement of changes in capital and reserve and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **The Administrator's Responsibility for the Financial Statements**

The Administrator is responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and for such internal control as the Administrator determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 184 of the Mandatory Provident Fund Schemes (General) Regulation and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Administrator, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 31 March 2014, and of its surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 9 July 2014

# Income and Expenditure Account

for the year ended 31 March 2014

	NOTES	2014 HK\$	2013 HK\$
<b>Income</b>			
Levy fee	9	<b>10,920,603</b>	122,791,662
Interest income on bank deposits		<b>15,689,704</b>	18,812,244
Net investment income	6	<b>1,927,832</b>	7,159,476
		<b>28,538,139</b>	148,763,382
<b>Expenditure</b>			
Auditor's remuneration		<b>82,000</b>	79,000
Investment expenses		<b>75,925</b>	72,860
Other operating expenses		<b>1,727</b>	4,257
		<b>159,652</b>	156,117
<b>Surplus for the Year</b>		<b>28,378,487</b>	148,607,265

*The accompanying notes form an integral part of these financial statements.*

## MANDATORY PROVIDENT FUND SCHEMES COMPENSATION FUND

# Statement of Comprehensive Income

for the year ended 31 March 2014

The Fund had no components of comprehensive income other than “surplus for the year” in either of the years presented. Accordingly, no separate statement of comprehensive income is presented as the Fund’s “total comprehensive income” was the same as the “surplus for the year” in both years.

*The accompanying notes form an integral part of these financial statements.*

# Statement of Financial Position

at 31 March 2014

	NOTES	2014 HK\$	2013 HK\$
<b>Current Assets</b>			
Investments designated at fair value	8	<b>425,259,339</b>	395,904,246
Levy fee receivable	9	—	122,958,562
Interest receivable on bank deposits		<b>5,049,968</b>	6,880,364
Bank deposits		<b>1,388,108,568</b>	1,263,975,494
Cash and cash equivalents		<b>100,656</b>	410,726
		<b>1,818,518,531</b>	1,790,129,392
<b>Current Liabilities</b>			
Creditors and accrued charges		<b>103,835</b>	93,183
<b>Net Assets</b>		<b>1,818,414,696</b>	1,790,036,209
<b>Capital and Reserve</b>			
Seed money	10	<b>600,000,000</b>	600,000,000
Income and expenditure account		<b>1,218,414,696</b>	1,190,036,209
		<b>1,818,414,696</b>	1,790,036,209

The financial statements on pages 95 to 107 were approved and authorised for issue by the Mandatory Provident Fund Schemes Authority on 9 July 2014 and signed on its behalf by:

**Diana Chan**

*Managing Director*

*The accompanying notes form an integral part of these financial statements.*

**MANDATORY PROVIDENT FUND SCHEMES COMPENSATION FUND**

# Statement of Changes in Capital and Reserve

for the year ended 31 March 2014

	Seed Money HK\$	Income and Expenditure Account HK\$	Total HK\$
At 1 April 2012	600,000,000	1,041,428,944	1,641,428,944
Surplus for the year	—	148,607,265	148,607,265
At 31 March 2013	600,000,000	1,190,036,209	1,790,036,209
Surplus for the year	—	28,378,487	28,378,487
At 31 March 2014	<b>600,000,000</b>	<b>1,218,414,696</b>	<b>1,818,414,696</b>

*The accompanying notes form an integral part of these financial statements.*



# Statement of Cash Flows

for the year ended 31 March 2014

	2014 HK\$	2013 HK\$
<b>Operating Activities</b>		
Surplus for the year	28,378,487	148,607,265
Adjustments for :		
Interest income on bank deposits	(15,689,704)	(18,812,244)
Interest income on investments designated at fair value	—	(836,228)
Dividends from investments designated at fair value	(2,003,120)	(1,811,040)
Net loss / (gain) on investments designated at fair value	75,288	(4,512,208)
Operating cash flows before movements in working capital	10,760,951	122,635,545
Decrease / (increase) in levy fee receivable	122,958,562	(9,044,634)
Increase in creditors and accrued charges	10,652	34,509
<b>Net Cash from Operating Activities</b>	<b>133,730,165</b>	<b>113,625,420</b>
<b>Investing Activities</b>		
Dividends received from investments designated at fair value	2,003,120	1,811,040
Interest received on bank deposits	17,520,100	18,698,750
Interest received from investments designated at fair value	—	1,462,044
Proceeds on disposals of investments designated at fair value	587,000,000	462,000,000
Purchase of investments designated at fair value	(616,430,381)	(490,655,968)
Increase in bank deposits	(124,133,074)	(106,881,567)
<b>Net Cash used in Investing Activities</b>	<b>(134,040,235)</b>	<b>(113,565,701)</b>
<b>Net (Decrease) / Increase in Cash and Cash Equivalents</b>	<b>(310,070)</b>	<b>59,719</b>
<b>Cash and Cash Equivalents at Beginning of the Year</b>	<b>410,726</b>	<b>351,007</b>
<b>Cash and Cash Equivalents at End of the Year</b>	<b>100,656</b>	<b>410,726</b>
<b>Analysis of Cash and Cash Equivalents</b>		
Bank balances	50,656	355,823
Bank balances held for investment purposes	50,000	54,903
	<b>100,656</b>	<b>410,726</b>

The accompanying notes form an integral part of these financial statements.

# Notes to the Financial Statements

for the year ended 31 March 2014

## 1. Purpose and Claim for Payment

The Mandatory Provident Fund Schemes Compensation Fund ("the Fund") was established under section 17 of the Mandatory Provident Fund Schemes Ordinance ("the Ordinance") which came into effect on 12 March 1999 for the purpose of compensating members of registered Mandatory Provident Fund schemes and other persons who have beneficial interests in those schemes for losses of accrued benefits that are attributable to misfeasance or illegal conduct committed by the approved trustees of those schemes or by other persons concerned with the administration of those schemes.

The application for compensation from the Fund has to be made to a court of law in accordance with the Ordinance. The Administrator shall then make the compensation fund payment pursuant to the decisions of the court. During the year, the Mandatory Provident Fund Schemes Authority ("the MPFA") was the Administrator of the Fund. The MPFA has not charged any administration fee to the Fund during the years 2013 and 2014. The MPFA's office address is Level 16, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Fund.

## 2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

HKFRS 13, 'Fair value measurement' ("HKFRS 13"), improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRS. If an asset or a liability measured at fair value has a bid price and an ask price, the standard requires valuation to be based on a price within the bid-ask spread that is most representative of fair value and allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurement within a bid-ask spread. On adoption of the standard, the Fund continued to utilise bid and ask prices for its listed financial assets and liabilities. The new standard did not have any impact on the financial statements of the Fund.

Amendments to HKFRS 7, 'Disclosures – Offsetting financial assets and financial liabilities', require additional disclosures to enable users of financial statements to evaluate the effect or the potential effects of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendments did not have any impact on the Fund's financial position or performance.

There are no other standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 April 2013 that would be expected to have a material impact on the Fund.

Amendments to Hong Kong Accounting Standard ("HKAS") 32, 'Offsetting financial assets and financial liabilities', is effective for annual periods beginning on or after 1 January 2014, and have not been adopted earlier by the Fund. These amendments clarify the offsetting criteria in HKAS 32 and address inconsistencies in their application. These include clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The amendments are not expected to have any significant impact on the Fund's financial position or performance.

HKFRS 9, 'Financial instruments' ("HKFRS 9"), addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and amended in October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The new standard is not yet mandatory and is not expected to have a significant impact on the financial statements of the Fund.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the Fund.

### 3. Significant Accounting Policies

The principal accounting policies adopted are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### Basis of preparation

The financial statements have been prepared under the historical cost basis, except for certain financial instruments, which are measured at fair values, and in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

#### 3.1 Revenue recognition

Levy fee consists of fees charged to the approved trustees of registered Mandatory Provident Fund schemes and is accounted for on an accrual basis.

Interest income from a financial asset is accrued on a time proportionate basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

#### 3.2 Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Fund becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value are recognised immediately in the income and expenditure account.

#### 3.3 Financial assets

The Fund's financial assets include financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade-date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method is used to calculate the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest is recognised on an effective interest basis.

##### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss have two subcategories, financial assets held for trading and those designated at fair value through profit or loss on initial recognition.

A financial asset other than a financial asset held for trading may be designated at fair value upon initial recognition if:

- (a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- (b) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Fund's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- (c) it forms part of the contract containing one or more embedded derivatives and HKAS 39 permits the entire combined contract (asset or liability) to be designated at fair value.

## Notes to the Financial Statements (cont'd)

### 3. Significant Accounting Policies (cont'd)

#### 3.3 Financial assets (cont'd)

Investments designated at fair value recognised in the statement of financial position are categorised as financial assets designated at fair value through profit or loss. Subsequent to initial recognition, financial assets at fair value are measured at fair value, with changes in fair value arising from remeasurement recognised directly in the income and expenditure account in the period in which they arise. The net investment income/loss recognised in the income and expenditure account includes any dividend or interest earned on the financial assets.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables, including levy fee receivable, interest receivable on bank deposits, bank deposits and cash and cash equivalents, are carried at amortised cost using the effective interest method, less any identified impairment losses.

#### 3.4 Impairment of financial assets

Financial assets, other than those at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- (a) significant financial difficulty of the issuer or counterparty;
- (b) a breach of contract, such as default or delinquency in interest or principal payments;
- (c) it becoming probable that the borrower will enter bankruptcy or financial re-organisation;
- (d) the disappearance of an active market for that financial asset because of financial difficulties; or
- (e) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio.

For financial assets carried at amortised cost, an impairment loss is recognised in the income and expenditure account when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly. Subsequent recoveries of amounts previously written off are credited to the income and expenditure account.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurred after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### 3.5 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definition of a financial liability. The Fund's financial liabilities are generally classified as other financial liabilities, and are subsequently measured at amortised cost using the effective interest method.

Effective interest method is used to calculate the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

### 3. Significant Accounting Policies (cont'd)

#### 3.6 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire, or when the financial assets are transferred and the Fund has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the income and expenditure account.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the income and expenditure account.

#### 3.7 Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents include cash in hand, cash in transit, cash at banks, and other short-term highly liquid investments with original maturities of three months or less.

#### 3.8 Creditors and accrued charges

Creditors and accrued charges are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities. Creditors and accrued charges are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 4. Capital Management

The Fund's objectives when managing capital are:

- (a) to safeguard the Fund's ability to continue as a going concern, so that it continues to carry out its statutory functions; and
- (b) to support the Fund's stability and growth to provide benefits under its statutory function.

The Administrator of the Fund actively and regularly reviews and manages its capital and reserve to ensure optimal returns, taking into consideration the future resources requirements. As in previous years, the Administrator manages the Fund's capital and reserve through regular reviews of the levy fee level and investment strategy.

### 5. Financial Instruments

#### 5.1 Categories of financial instruments

	2014 HK\$	2013 HK\$
<b>Financial assets</b>		
At fair value	425,259,339	395,904,246
Loans and receivables (including bank deposits, cash and cash equivalents and receivables)	1,393,259,192	1,394,225,146
<b>Financial liabilities</b>		
Other financial liabilities	103,835	93,183

## MANDATORY PROVIDENT FUND SCHEMES COMPENSATION FUND

# Notes to the Financial Statements (cont'd)

## 5. Financial Instruments (cont'd)

### 5.2 Financial risk management objectives and policies

The Fund's major financial instruments include bank deposits, cash and cash equivalents, levy fee receivable, equity and debt securities investments. The strategic investment allocation was set using a statistical approach. A set of Investment Guidelines approved by the MPFA's Management Board is in place to lay down limits and restrictions on currency risk, interest rate risk, credit risk and general activities. Regular reviews on the Investment Guidelines will be conducted. The Finance Committee, one of the standing committees of the MPFA, is responsible for overseeing the investments of the Fund.

The Fund maintains a fairly high percentage of cash investment, i.e. HK dollar deposits. Debt securities investments are of short maturity and therefore are subject to relatively low price risk. The investment in equities accounted for less than 4% (2013: less than 5%) of the total investments (including bank deposits). Equity securities are managed with a passive investment style and their weightings are re-balanced to maintain the strategic asset allocation within the tolerance limit. The investment performance is reported to the Finance Committee and the Management Board on a regular basis.

### 5.3 Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Fund.

Permissible debt securities investments have to satisfy the requirements of the credit rating specified in the Investment Guidelines. The investment portfolio is managed in-house.

The portfolio must invest only in debt securities of investment grade. As at the reporting date, the credit risk profile as weighted by market value (including accrued interest) is set out below:

Credit rating	2014 HK\$	% of net assets	2013 HK\$	% of net assets
AA <sup>Note</sup>	363,793,739	20	333,889,846	19

*Note* AA means between AA- and AA+ by Standard & Poor's Ratings Services ("S&P") and Aa3 and Aa1 by Moody's Investors Services, Inc. ("Moody's")

The Fund does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Fund's credit risk exposure to bank deposits and cash and cash equivalents is limited because the counterparties are banks and other financial institutions with high credit ratings (investment grade or above) assigned by international credit rating agencies and are approved by the Finance Committee from time to time. In addition, the credit exposures are guarded by the Investment Guidelines which set out limits and restrictions on the total exposure to a single bank or an issuer of debt securities. The maximum exposure to credit risk at year end is the carrying amount of the financial assets as shown on the statement of financial position. As at 31 March 2014 and 2013, none of the assets is impaired nor past due but not impaired.

### 5.4 Interest rate risk

Interest rate risk is the risk that the fair value and/or future cash flow of a financial asset will fluctuate due to changes in interest rates.

The exposure to interest rate risk on bank deposits and cash and cash equivalents carrying interest are limited to the impact of the interest rate fluctuations on the interest income. The Fund adopts a sensitivity test of 10 basis points (2013: 10 basis points) movement to measure such impact. If the interest rates on the bank deposits and cash and cash equivalents had moved up or down by 10 basis points (2013: 10 basis points) on average throughout the year, with all other variables being held constant, income for the year would have increased or decreased by HK\$1.4 million (2013: HK\$1.3 million).

The investment portfolio is exposed to the interest rate risk in relation to holdings in debt securities. Such risks may be mitigated by reducing the asset weighting and portfolio duration of the debt securities portfolio. The Fund invests mainly in short-term HK dollar debt securities of up to two years' maturity.



## 5. Financial Instruments (cont'd)

### 5.4 Interest rate risk (cont'd)

As at the reporting date, the debt securities portfolio duration is set out below:

	2014 Years	2013 Years
Portfolio duration	0.29	0.29

The Fund measures the interest rate risks through Price Value of Basis Point ("PVBP"). PVBP is a sensitivity test to measure the fluctuation of potential gain or loss on interest rate positions upon a basis point movement.

The Fund adopts a sensitivity test of 10 basis points (2013: 10 basis points) movements. As at the reporting date, if interest rate had fluctuated by 10 basis points (2013: 10 basis points) and all other variables were held constant, the impact on the Fund's income would have been as follows.

	Increase / (decrease) in the Fund's income	
	2014 HK\$	2013 HK\$
If interest rate were 10 basis points lower	106,395	95,675
If interest rate were 10 basis points higher	(106,395)	(95,675)

### 5.5 Price risk

Price risk is the risk that the price of a security or a portfolio of securities will fluctuate due to market changes. Price risk consists of both systematic risk, which is also known as market return risk, and non-systematic risk, which can be largely eliminated by diversification in accordance with the Investment Guidelines.

As at 31 March 2014, if the Hong Kong stock market had increased or decreased by 10% with all other variables held constant and all the equity instruments moved according to the historical relationship with the Hong Kong stock market, income for the year would have increased or decreased by HK\$5.8 million (2013: HK\$6.1 million).

### 5.6 Currency risk

The Investment Guidelines permit only investments in HK dollars. There is therefore no currency risk taken by the Fund.

### 5.7 Liquidity risk

Liquidity risk is the potential that the Fund will encounter difficulty in raising funds to meet its cash commitments. Liquidity risk may result from the need to sell financial assets quickly at their fair values; counterparties' failure to settle a contractual obligation; or inability to generate cash flows as anticipated.

As at 31 March 2014, the Fund held cash and deposits including interest receivable of HK\$1,393,259,192 (2013: HK\$1,271,266,584) that were expected to orderly mature. In addition, the Fund held marketable securities of HK\$425,259,339 (2013: HK\$395,904,246), which could be readily realised to provide a further source of cash if the need arose. Therefore, liquidity risk is considered to be minimal.

As at 31 March 2014, the creditors and accrued charges of the Fund amounted to HK\$103,835 (2013: HK\$93,183) with the maturity of less than 3 months.

### 5.8 Fair values

The fair values of financial assets and financial liabilities are determined as follows:

The fair values of listed investments and unlisted investments with standard terms and conditions are determined by reference to bid prices quoted in active markets.

The fair values of other financial assets and financial liabilities stated at amortised costs approximate the corresponding carrying amounts.

## MANDATORY PROVIDENT FUND SCHEMES COMPENSATION FUND

# Notes to the Financial Statements (cont'd)

## 5. Financial Instruments (cont'd)

### 5.9 Fair value measurements recognised in the statement of financial position

The fair value measurements of financial assets and liabilities are categorised using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The following table provides an analysis of financial instruments including accrued interest that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- (a) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- (b) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- (c) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2014 HK\$	2013 HK\$
<b>Level 1</b>		
Financial assets measured at fair value:		
— Equity securities	61,465,600	62,014,400
— Debt securities	363,793,739	333,889,846
	<b>425,259,339</b>	395,904,246

“Loans and receivables” and “Other financial liabilities” as disclosed in Note 5.1 are carried at amortised cost, their carrying values are a reasonable approximation of fair value.

During the years ended 31 March 2014 and 2013, no financial assets were classified under Levels 2 and 3 and there was no transfer among levels.

## 6. Net Investment Income

	2014 HK\$	2013 HK\$
Interest income on investments designated at fair value	—	836,228
Dividends from investments designated at fair value	2,003,120	1,811,040
Net realised gain / (loss) on investments designated at fair value	458,208	(1,900,287)
Net change in unrealised (loss) / gain on investments designated at fair value	(533,496)	6,412,495
	<b>1,927,832</b>	7,159,476

## 7. Taxation

No provision for Hong Kong Profits Tax has been made in the financial statements as the Fund is exempt from Hong Kong Profits Tax under section 88 of the Inland Revenue Ordinance.

## 8. Investments Designated at Fair Value

	2014 HK\$	2013 HK\$
<b>Equity securities</b>		
Listed	61,465,600	62,014,400
<b>Debt securities</b>		
Unlisted	363,793,739	333,889,846
<b>Total</b>		
Listed	61,465,600	62,014,400
Unlisted	363,793,739	333,889,846
	425,259,339	395,904,246

## 9. Levy Suspension

Sections 191A & B of the Mandatory Provident Fund Schemes (General) Regulation (Chapter 485A), provide for the exemption and revocation of exemption of approved trustee from payment of compensation fund levy, which was enacted in July 2012. In short,

- (a) The levy of 0.03% of the net asset value ("NAV") of Mandatory Provident Fund schemes would be imposed if the NAV of the Fund has fallen below HK\$1 billion; and
- (b) The levy would be suspended if the NAV of the Fund has exceeded HK\$1.4 billion.

Given that the audited NAV of the Fund as at 31 March 2012 was HK\$1.64 billion, an exemption notice was gazetted on 27 July 2012 allowing the MPFA to suspend the levy in relation to the financial periods of Mandatory Provident Fund schemes commencing on or after 1 September 2012.

## 10. Seed Money

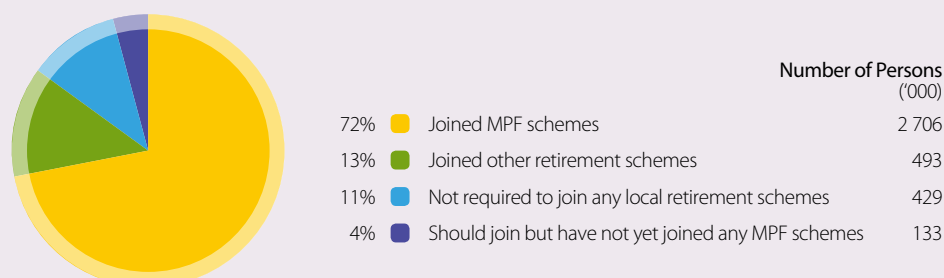
On 12 March 1999, an amount of HK\$600 million was injected by the Government of the Hong Kong Special Administrative Region as seed money of the Fund.

## STATISTICS

# Part A — MPF Scheme Members

## 1. Employed Population by Type of Retirement Schemes

(as at 31.3.2014)



## 2. The MPF Universe

(as at 31.3.2014)

### Employers under the MPF System

	(‘000)
Number of main businesses <sup>1</sup>	354
Add	
– Number of owners’ corporations with employee(s) that are not covered in the Central Register of Establishments (“CRE”) <sup>2</sup>	4
– Number of employers engaged in other industries that are not covered in the CRE	7
Less	
– Number of businesses with no employees <sup>3</sup>	95
<b>Number of Employers under the MPF System*</b>	<b>270</b>

\* Figures may not sum up to the total due to rounding.

The figures were estimated on the basis of:

- 1 Statistics obtained from the CRE and the Survey of Employment and Vacancies by the Census and Statistics Department.
- 2 Figures provided by the Land Registry.
- 3 Statistics obtained from the Survey of Employment and Vacancies by the Census and Statistics Department.

### Relevant Employees under the MPF System

Employees aged 18 to 64 are required to join an MPF scheme, with the exception of certain exempt persons. The table below shows the process of estimating the number of relevant employees under the MPF System:

	(‘000)
Total number of employees in Hong Kong (excluding those aged below 18 or above 65) <sup>1</sup>	3 336
Less	
– Number of civil servants who are covered by the Civil Service Pension System <sup>2</sup>	114
– Number of teachers who are covered by the Grant Schools or Subsidized Schools Provident Fund <sup>3</sup>	38
– Number of employees who choose to remain as members of MPF exempted ORSO registered schemes <sup>4</sup>	341
– Number of domestic employees <sup>1</sup>	303
– Number of expatriates who do not have the right of abode in Hong Kong and are covered by overseas retirement schemes or who work in Hong Kong for not more than 13 months <sup>5</sup>	28
– Number of employees who are employed for less than 60 days, excluding employees participating in construction and catering industries <sup>6</sup>	17
<b>Number of Relevant Employees under the MPF System*</b>	<b>2 494</b>

\* Figures may not sum up to the total due to rounding.

The figures were estimated on the basis of:

- 1 Statistics obtained from the General Household Survey by the Census and Statistics Department.
- 2 Figures published by the Civil Service Bureau.
- 3 Figures published by the Education Bureau.
- 4 Figures reported by employers of MPF exempted ORSO registered schemes.
- 5 Figures published by the Immigration Department.
- 6 Figures obtained from a special topic enquiry conducted via the General Household Survey in Q2 2009 by the Census and Statistics Department.

### Self-employed Persons (“SEPs”) under the MPF System

SEPs aged 18 to 64 are required to join an MPF scheme, with the exception of certain exempt persons. The table below shows the process of estimating the number of SEPs under the MPF System:

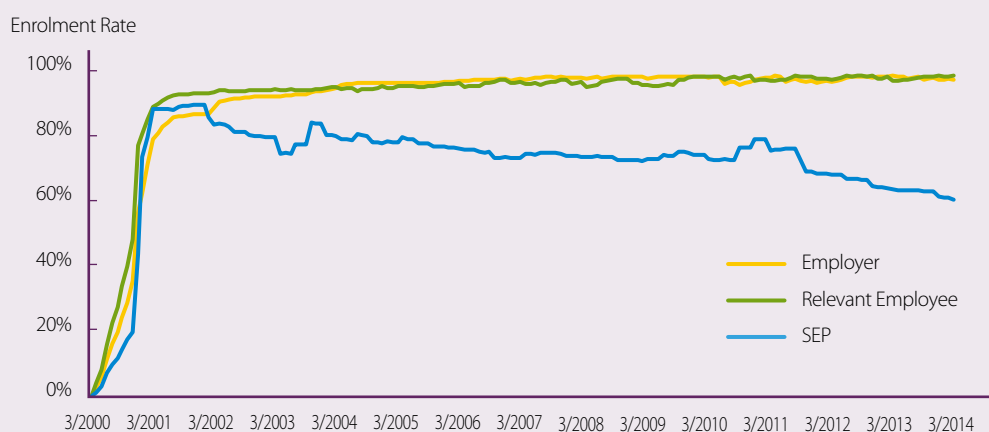
	('000)
Total number of SEPs in Hong Kong (excluding those aged below 18 or above 65) <sup>1</sup>	346
Less	
– Number of SEPs who are licensed hawkers <sup>2</sup> (excluding licensed hawkers aged below 18 or above 65)	2
<b>Number of SEPs under the MPF System*</b>	<b>344</b>

\* Figures may not sum up to the total due to rounding.

The figures were estimated on the basis of:

- 1 Statistics obtained from the General Household Survey by the Census and Statistics Department. SEPs under the MPF System include both “self-employed persons” and “employers” as defined in the Quarterly Report on General Household Survey.
- 2 Statistics obtained from the General Household Survey by the Census and Statistics Department.

### 3. Enrolment in MPF Schemes\*



\* Estimated figures

### 4. Number of Participating Members, Enrolment Rates and Number of Accounts\*

As at	Employer		Relevant Employee		SEP		Number of Contribution Accounts <sup>2</sup> ('000)	Number of Personal Accounts <sup>3</sup> ('000)
	Participating Employers <sup>1</sup> ('000)	Enrolment Rate (%)	Participating Members <sup>1</sup> ('000)	Enrolment Rate (%)	Participating Members <sup>1</sup> ('000)	Enrolment Rate (%)		
31.03.2013	259	100	2 376	98	219	65	3 502	4 380
30.06.2013	260	99	2 394	99	218	65	3 538	4 454
30.09.2013	263	99	2 440	100	217	64	3 571	4 551
31.12.2013	264	99	2 485	100	212	62	3 595	4 634
31.03.2014	266	99	2 494	100	212	61	3 601	4 700

\* Estimated figures

- 1 As the MPF System is an employment-based system, some employers and members may be participating in more than one scheme. Adjustments have been made for employers and members who are participating in more than one scheme in the same capacity.
- 2 A Contribution Account is primarily used to receive and hold mandatory contributions and voluntary contributions (if any) paid in respect of a scheme member's current employment or current self-employment for investment. The accumulated contributions together with the investment returns are called accrued benefits.
- 3 A Personal Account is primarily used to receive and hold accrued benefits in respect of a scheme member's former employment or former self-employment which are transferred from a Contribution Account, and also the part of accrued benefits derived from employee mandatory contributions during current employment which are transferred from a Contribution Account by an employee scheme member.

## STATISTICS

### Part A — MPF Scheme Members (cont'd)

#### 5A. Contributions Received and Benefits Paid – MPF Schemes

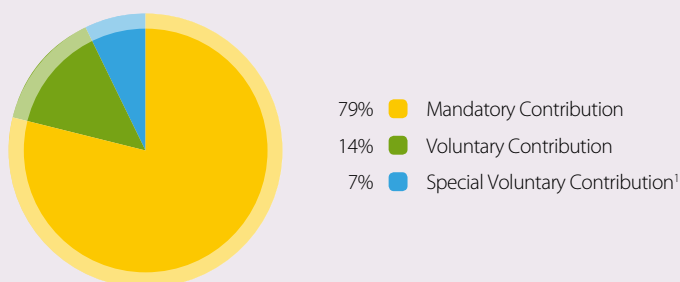
(1.4.2013 – 31.3.2014)

(HK\$ million)

Quarter	Contributions Received				Benefits Paid			
	Mandatory	Voluntary	Special Voluntary <sup>1</sup>	Total <sup>2</sup>	Mandatory	Voluntary	Special Voluntary <sup>1</sup>	Total <sup>2</sup>
Q2 2013	10,558	1,788	824	13,170	2,085	697	717	3,499
Q3 2013	10,680	1,816	855	13,351	2,152	869	767	3,788
Q4 2013	10,840	1,884	954	13,678	2,319	849	884	4,051
Q1 2014	11,544	1,981	1,058	14,583	2,322	906	966	4,194
<b>Total<sup>2</sup></b>	<b>43,622</b>	<b>7,469</b>	<b>3,691</b>	<b>54,782</b>	<b>8,877</b>	<b>3,320</b>	<b>3,334</b>	<b>15,532</b>

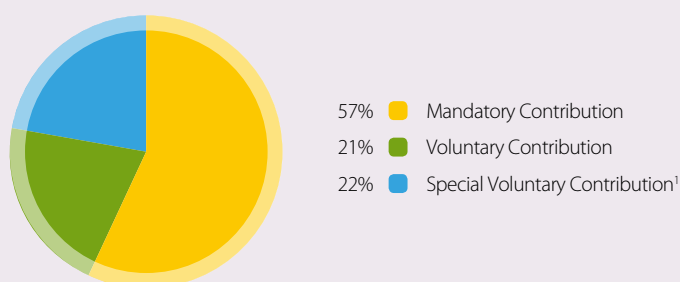
#### 5B. Percentage Share of Contributions Received by Contribution Type

(1.4.2013 – 31.3.2014)



#### 5C. Percentage Share of Benefits Paid by Contribution Type

(1.4.2013 – 31.3.2014)



<sup>1</sup> "Special Voluntary Contributions" refers to voluntary contributions paid directly by a relevant employee to the trustee. Unlike general voluntary contributions, these contributions are non-employment related, i.e. contributions do not go through the employer, and withdrawal of accrued benefits is neither tied to employment nor subject to preservation requirements.

<sup>2</sup> Figures may not sum up to the total due to rounding.



## STATISTICS

# Part B — MPF Products

### 1A. Net Asset Values of Approved Constituent Funds by Scheme Type

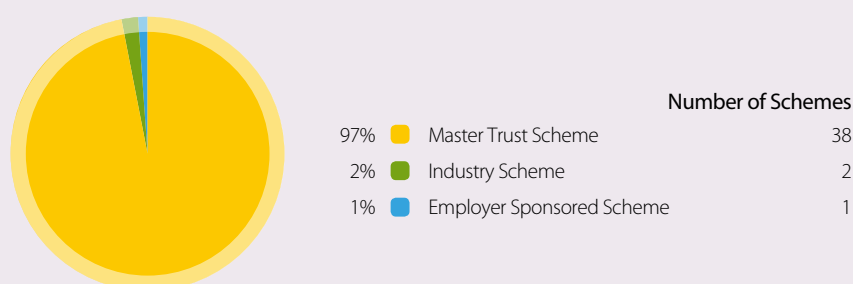
(HK\$ million)

As at	Type of MPF Schemes			
	Master Trust Scheme	Industry Scheme	Employer Sponsored Scheme	Total <sup>1</sup>
31.03.2013	443,222	8,754	3,355	455,331
30.06.2013	439,899	8,829	3,345	452,074
30.09.2013	475,191	9,379	3,553	488,123
31.12.2013	500,587	9,788	3,689	514,065
31.03.2014	502,523	9,952	3,717	516,192

<sup>1</sup> Figures may not sum up to the total due to rounding.

### 1B. Percentage Share of Aggregate Net Asset Values and Number of Schemes by Scheme Type

(as at 31.3.2014)



### 2A. Net Asset Values<sup>1</sup> of Approved Constituent Funds by Fund Type

(HK\$ million)

As at	Type of Approved Constituent Funds						Total <sup>3</sup>
	Mixed Assets Fund	Equity Fund	MPF Conservative Fund	Guaranteed Fund	Bond Fund	Money Market Fund and Others <sup>2</sup>	
31.03.2013	184,502	167,440	49,464	40,739	11,636	1,550	455,331
30.06.2013	183,057	165,510	49,618	40,718	11,526	1,644	452,074
30.09.2013	197,452	181,796	52,349	42,550	12,109	1,867	488,123
31.12.2013	208,193	194,958	53,033	43,462	12,403	2,015	514,065
31.03.2014	209,034	195,053	53,477	43,658	12,868	2,102	516,192

<sup>1</sup> The figures include assets transferred from ORSO schemes.

<sup>2</sup> Includes Money Market Funds that are not MPF Conservative Funds and Uncategorized Funds as per the Performance Presentation Standards for MPF Investment Funds.

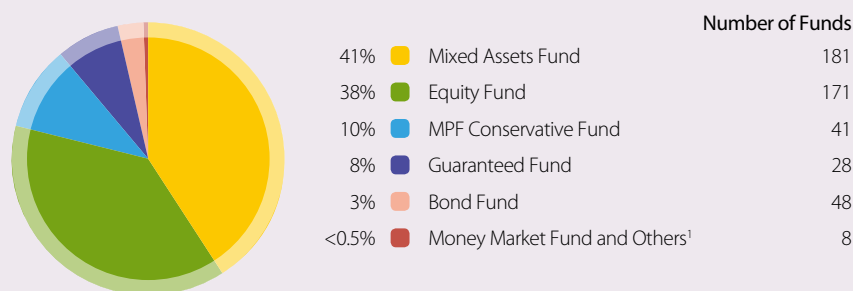
<sup>3</sup> Figures may not sum up to the total due to rounding.

## STATISTICS

### Part B — MPF Products (cont'd)

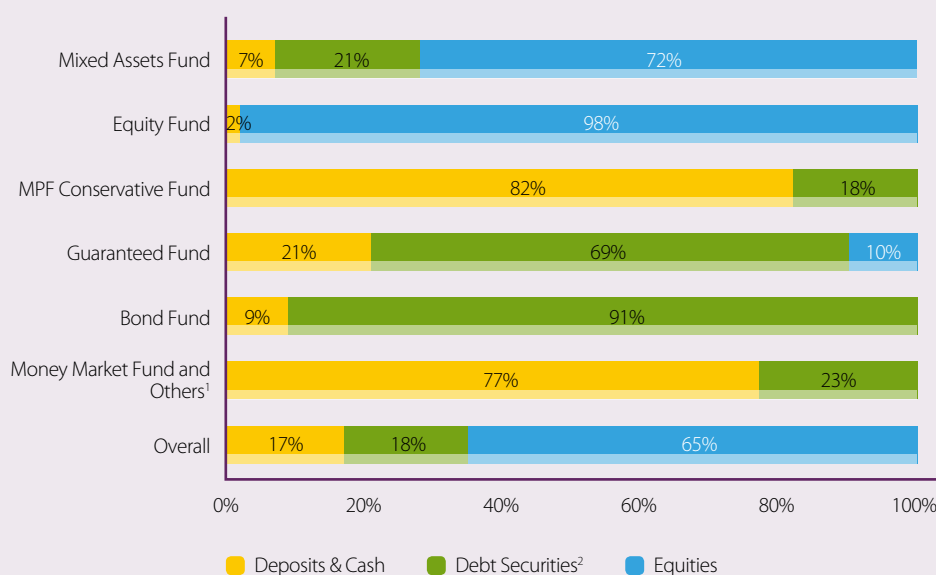
#### 2B. Percentage Share of Aggregate Net Asset Values and Number of Approved Constituent Funds by Fund Type

(as at 31.3.2014)



#### 3. Asset Allocation of Approved Constituent Funds by Fund Type and Asset Class

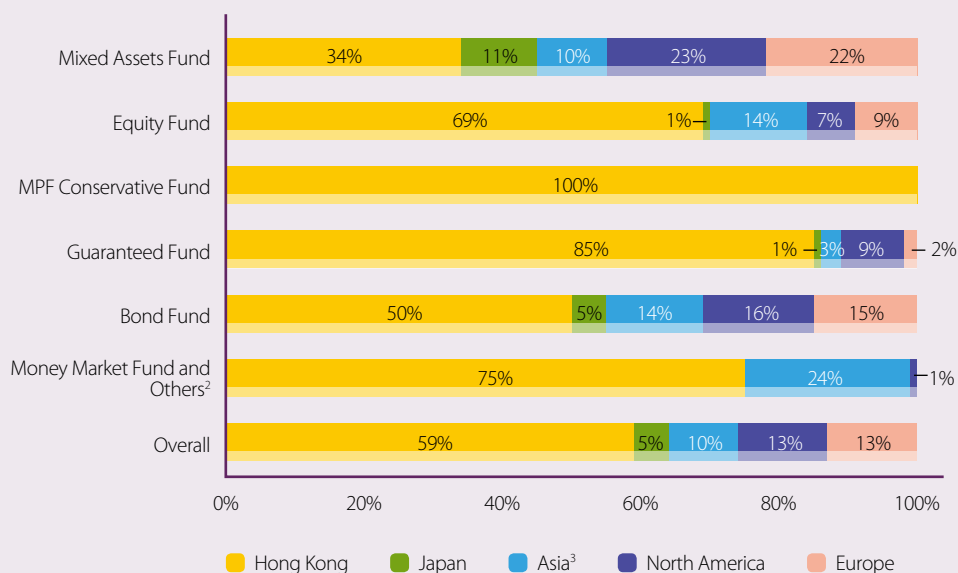
(as at 31.3.2014)



<sup>1</sup> Includes Money Market Funds that are not MPF Conservative Funds and Uncategorized Funds as per the Performance Presentation Standards for MPF Investment Funds.

<sup>2</sup> Includes convertible debt securities.

#### 4. Asset Allocation of Approved Constituent Funds by Fund Type and Geographical Region<sup>1</sup> (as at 31.3.2014)



<sup>1</sup> For deposits, cash and debt securities, "Geographical Region" reflects the currency of denomination of the respective accounts and debt securities. For equities, "Geographical Region" reflects the place of primary listing of the equities.

<sup>2</sup> Includes Money Market Funds that are not MPF Conservative Funds and Uncategorized Funds as per the Performance Presentation Standards for MPF Investment Funds.

<sup>3</sup> Excludes Japan and Hong Kong but includes Australia, New Zealand and India.

#### 5. Asset Allocation of Approved Constituent Funds by Geographical Region<sup>1</sup> and Asset Class (as at 31.3.2014)

	Deposits & Cash	Debt Securities <sup>2</sup>	Equities	Overall
Hong Kong	15%	9%	35%	59%
Japan	\$	1%	4%	5%
Asia <sup>3</sup>	1%	1%	8%	10%
North America	1%	4%	8%	13%
Europe	\$	3%	10%	13%
<b>Overall</b>	<b>17%</b>	<b>18%</b>	<b>65%</b>	<b>100%</b>

<sup>1</sup> For deposits, cash and debt securities, "Geographical Region" reflects the currency of denomination of the respective accounts and debt securities. For equities, "Geographical Region" reflects the place of primary listing of the equities.

<sup>2</sup> Includes convertible debt securities.

<sup>3</sup> Excludes Japan and Hong Kong but includes Australia, New Zealand and India.

\$ Less than 0.5%

## STATISTICS

### Part B — MPF Products (cont'd)

#### 6. Annualized Internal Rate of Return<sup>1</sup> of the MPF System by Period

(HK\$ million, unless otherwise specified)

Period	Net Asset Values		Total Net Contributions during the Period <sup>2</sup> (c)	Net Investment Return <sup>3</sup> during the Period (b) – (a) – (c)	Annualized Internal Rate of Return <sup>3</sup>
	Period-Beginning (a)	Period-End (b)			
1.12.2000 – 31.3.2002	-	42,125	43,878	- 1,753	-4.9%
1.4.2002 – 31.3.2003	42,125	59,305	23,016	- 5,837	-10.7%
1.4.2003 – 31.3.2004	59,305	97,041	22,133	15,604	22.0%
1.4.2004 – 31.3.2005	97,041	124,316	22,205	5,070	4.7%
1.4.2005 – 31.3.2006	124,316	164,613	23,435	16,862	12.3%
1.4.2006 – 31.3.2007	164,613	211,199	24,684	21,901	12.4%
1.4.2007 – 31.3.2008	211,199	248,247	26,844	10,205	4.5%
1.4.2008 – 31.3.2009	248,247	217,741	38,503 <sup>4</sup>	- 69,010	-25.9%
1.4.2009 – 31.3.2010	217,741	317,310	29,484 <sup>4</sup>	70,086	30.1%
1.4.2010 – 31.3.2011	317,310	378,280	31,864 <sup>4</sup>	29,106	8.7%
1.4.2011 – 31.3.2012	378,280	390,744	34,687	-22,224	-5.6%
1.4.2012 – 31.3.2013	390,744	455,331	38,321	26,267	6.4%
<b>1.4.2013 – 31.3.2014</b>	<b>455,331</b>	<b>516,192</b>	<b>40,898</b>	<b>19,963</b>	<b>4.2%</b>
<b>Since inception of the MPF System</b>					
<b>1.12.2000 – 31.3.2014</b>	<b>-</b>	<b>516,192</b>	<b>399,952<sup>4</sup></b>	<b>116,240</b>	<b>4.0%</b>

<sup>1</sup> The return of the MPF System was calculated by way of the internal rate of return ("IRR"), a method commonly known as dollar-weighted return. The IRR method, which takes into account the amount and timing of contributions into and benefits withdrawn from the MPF System, was used as it better reflects the features of cash inflow and outflow of the MPF System. The annualized IRR was calculated by raising the monthly IRR to the power of 12.

<sup>2</sup> "Total Net Contributions during the Period" refers to the net contribution inflow after deducting the amount of benefits paid during the period.

<sup>3</sup> Return figures are net of fees and charges. Figures may not sum up to the total due to rounding.

<sup>4</sup> Includes the Government's injection of special contributions into accounts of eligible scheme members.

#### 7. Annualized Return<sup>1</sup> of Approved Constituent Funds by Fund Type and Period

(as at 31.3.2014)

Type of Approved Constituent Funds	Past 1 year	Past 3 years	Past 5 years	Since 1.12.2000
Mixed Assets Fund	7.0%	2.9%	10.3%	4.4%
Equity Fund	4.0%	0.5%	12.6%	4.5%
MPF Conservative Fund	0.1%	0.1%	0.1%	0.9%
Guaranteed Fund	-0.2%	0.6%	1.9%	1.3%
Bond Fund	-0.8%	1.4%	3.1%	3.3%
Money Market Fund and Others <sup>2</sup>	0.0%	0.0%	0.0%	0.6%
<b>Change of the Consumer Price Index ("CPI") for the Same Periods</b>				
Annualized Composite CPI % Change <sup>3</sup>	3.9%	4.1%	3.8%	1.6%

<sup>1</sup> Return figures are net of fees and charges. Returns of different types of constituent funds were calculated by way of time-weighted method. This time-weighted method takes into account the unit price and asset size of each constituent fund at different points in time. Unlike the IRR method, it does not capture the impact of the contributions into and benefits withdrawn from the constituent funds. The annualized return was calculated by raising the monthly return to the power of 12.

<sup>2</sup> Includes Money Market Funds that are not MPF Conservative Funds and Uncategorized Funds as per the Performance Presentation Standards for MPF Investment Funds.

<sup>3</sup> Calculated on the basis of the 2009/10-based Composite CPI compiled by the Census and Statistics Department.

## 8. Average, Highest and Lowest Fund Expense Ratios ("FER") of all Constituent Funds<sup>1</sup>

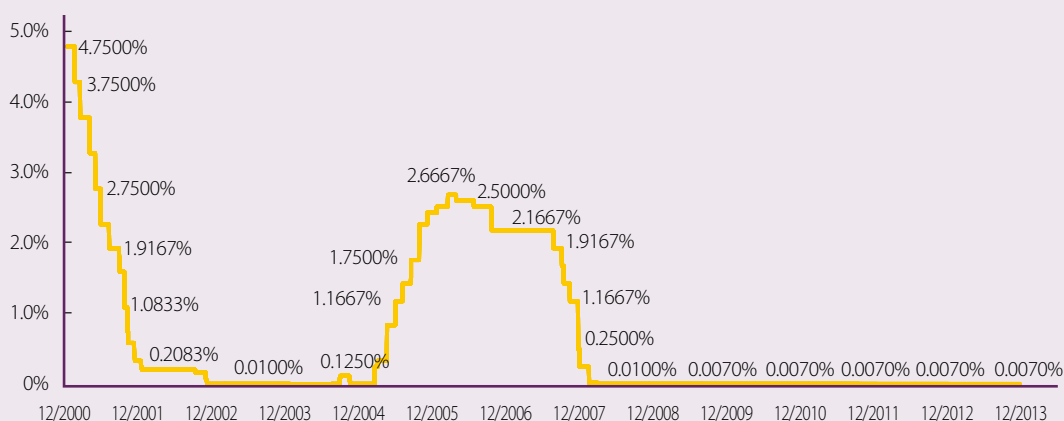
Fund Type	Number of Funds	Average FER	Highest FER	Lowest FER
Equity Fund	195	1.71%	2.74%	0.56%
Mixed Assets Fund	220	1.84%	2.67%	0.41%
Bond Fund	55	1.50%	2.45%	0.60%
Guaranteed Fund	32	2.18%	3.83%	1.33%
Money Market Fund – MPF Conservative Fund	47	0.71%	1.35%	0.23%
Money Market Fund – non MPF Conservative Fund	9	1.13%	1.13%	1.13%
Others	4	1.45%	1.46%	1.34%
<b>Overall</b>	<b>562<sup>2</sup></b>	<b>1.69%</b>	<b>3.83%</b>	<b>0.23%</b>

<sup>1</sup> The FER figures in the table are related to individual constituent funds of MPF registered schemes with financial year end dates falling within the period from 1 July 2012 to 30 June 2013.

<sup>2</sup> A constituent fund may comprise different fund classes. For the purpose of calculating the FER, each fund class of a constituent fund is in effect treated as a separate investment fund. As a result, the total number of funds shown here may be larger than the actual number of constituent funds.

## 9. Published Prescribed Savings Rates<sup>1</sup>

(1.12.2000 – 31.3.2014)



<sup>1</sup> The prescribed savings rates are prescribed by MPFA pursuant to section 37(8) of the Mandatory Provident Fund Schemes (General) Regulation for the operation of MPF Conservative Funds.

## STATISTICS

# Part C — ORSO Schemes

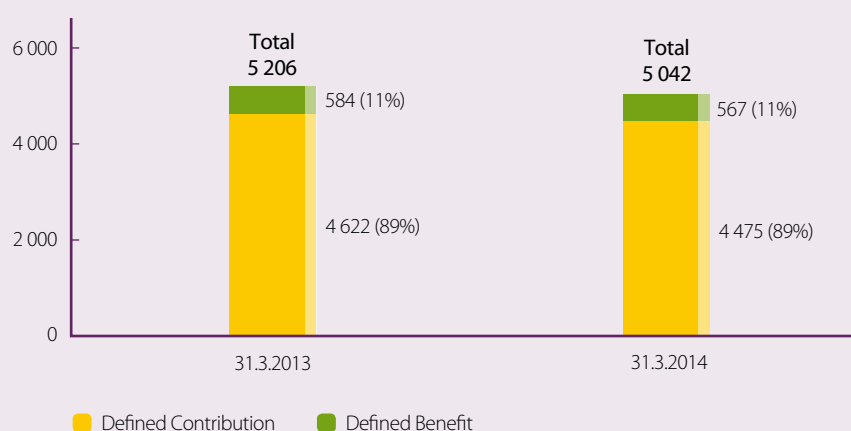
## 1. Number of ORSO Schemes by Benefit Type

(as at 31.3.2014)

Scheme Type	Benefit Type					
	Defined Contribution		Defined Benefit		Total	
	Number of Schemes	%	Number of Schemes	%	Number of Schemes	%
<b>Registered Scheme</b>						
– MPF exempted	3 354	75	218	39	3 572	71
– Non-MPF exempted	601	13	24	4	625	12
	3 955	88	242	43	4 197	83
<b>Exempted Scheme</b>						
– MPF exempted	149	4	115	20	264	5
– Non-MPF exempted	371	8	210	37	581	12
	520	12	325	57	845	17
<b>Total</b>	<b>4 475</b>	<b>100</b>	<b>567</b>	<b>100</b>	<b>5 042</b>	<b>100</b>

(two year comparison)

Number of Schemes



## 2. Number of MPF Exempted ORSO Schemes

(as at 31.3.2014)

	ORSO Registered Schemes	ORSO Exempted Schemes	Total
(a) Number of MPF Exempted ORSO Schemes approved as at 31 March 2013	3 678	270	3 948
(b) Number of new applications approved during the period from 1 April 2013 to 31 March 2014 <sup>1</sup>	3	0	3
(c) Number of withdrawals of MPF Exemption Certificates during the period from 1 April 2013 to 31 March 2014	109	6	115
<b>(d) Number of MPF Exempted ORSO Schemes as at 31 March 2014 [i.e. (d) = (a) + (b) – (c)]</b>	<b>3 572</b>	<b>264</b>	<b>3 836</b>

<sup>1</sup> This refers to the application for MPF exemption in respect of newly established ORSO registered schemes whereby all or a substantial portion of the members and assets of the schemes were transferred from one or more MPF exempted ORSO schemes as a result of scheme restructuring or bona fide business transactions.

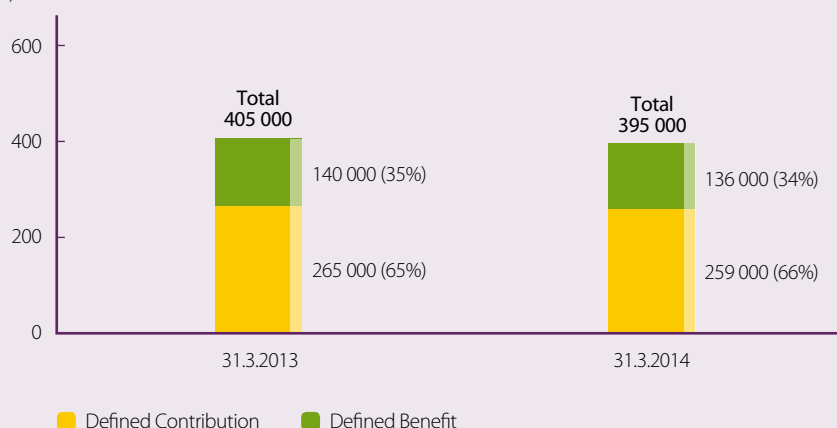
## 3. Number of Members Covered by ORSO Registered Schemes by Benefit Type

(as at 31.3.2014)

Scheme Type	Benefit Type					
	Defined Contribution		Defined Benefit		Total	
	Number of Members ('000)	%	Number of Members ('000)	%	Number of Members ('000)	%
MPF exempted	220	63	130	37	350	100
Non-MPF exempted	39	87	6	13	45	100
<b>Total</b>	<b>259</b>	<b>66</b>	<b>136</b>	<b>34</b>	<b>395</b>	<b>100</b>

(two year comparison)

Number of Members ('000)





## STATISTICS

### Part C — ORSO Schemes (cont'd)

#### 4. Annual Contribution Amount to ORSO Registered Schemes by Employers and Employees

(as at 31.3.2014)

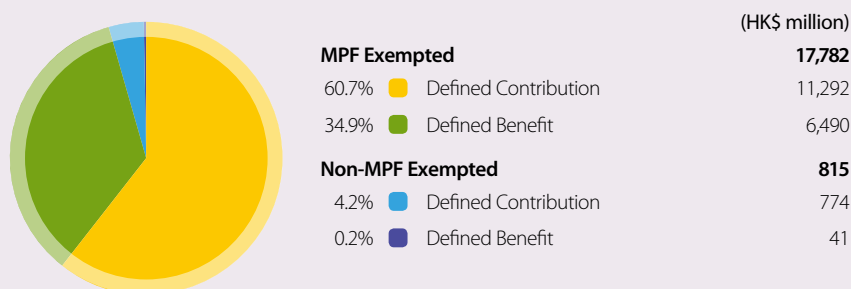
(HK\$ million, unless otherwise specified)

	MPF Exempted		Non-MPF Exempted		Total	
<b>Employer's Contributions</b>						
– Ordinary	13,556	76%	522	64%	14,078	76%
– Initial/Special	523	3%	85	10%	608	3%
	14,079	79%	607	74%	14,686	79%
<b>Employee's Contributions</b>	3,703	21%	208	26%	3,911	21%
<b>Total Contributions</b>	<b>17,782</b>	<b>100%</b>	<b>815</b>	<b>100%</b>	<b>18,597</b>	<b>100%</b>

Source: The latest annual returns in respect of 4 163 ORSO registered schemes.

#### 5. Annual Contribution Amount to ORSO Registered Schemes by Benefit Type

(as at 31.3.2014)

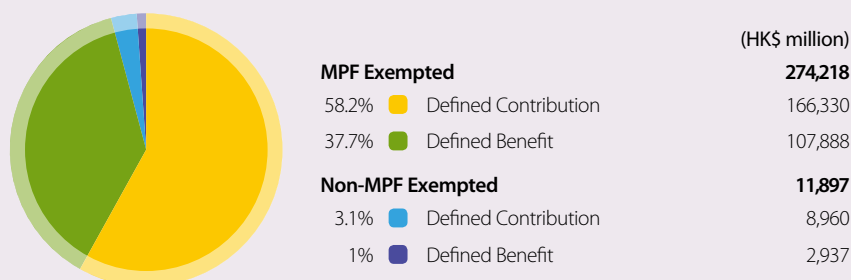


Contribution Amount: HK\$18,597 million

Source: The latest annual returns in respect of 4 163 ORSO registered schemes.

#### 6. Asset Size of ORSO Registered Schemes by Benefit Type

(as at 31.3.2014)



Asset Size: HK\$286,115 million

Source: The latest annual returns in respect of 4 163 ORSO registered schemes.

## STATISTICS

# Part D — Enquiries and Complaints

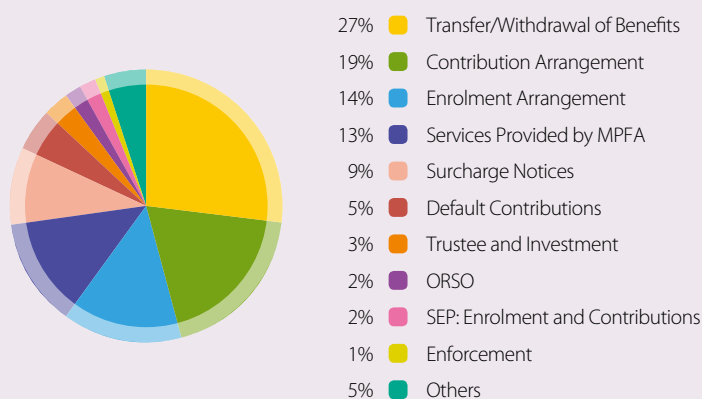
### 1. Enquiries Received<sup>1</sup> by Enquirer Type

(1.4.2013 – 31.3.2014)

Enquirer Type	Number of Enquiries	%
Employee	41 721	38
Employer	39 442	35
SEP	1 369	1
Service Provider	4 320	4
Others / Unknown	24 246	22
<b>Total</b>	<b>111 098</b>	<b>100</b>

### 2. Nature of Enquiries<sup>1</sup>

(1.4.2013 – 31.3.2014)



Total Number of Enquiry Nature: 154 389<sup>2</sup>

<sup>1</sup> Excludes enquiries about personal account information. For details of personal account enquiries, please refer to Item 3 – Personal Account Enquiries Received by Enquirer Type.

<sup>2</sup> Since an enquiry may cover more than one enquiry nature, the total number of enquiry nature may exceed the total number of enquiries.

### 3. Personal Account Enquiries Received by Enquirer Type

(1.4.2013 – 31.3.2014)

Enquirer Type	Number of Enquiries	%
Authorized Person of a Scheme Member	86 971	78
Scheme Member	24 655	22
Personal Representative of a Deceased Scheme Member	404	§
<b>Total</b>	<b>112 030</b>	<b>100</b>

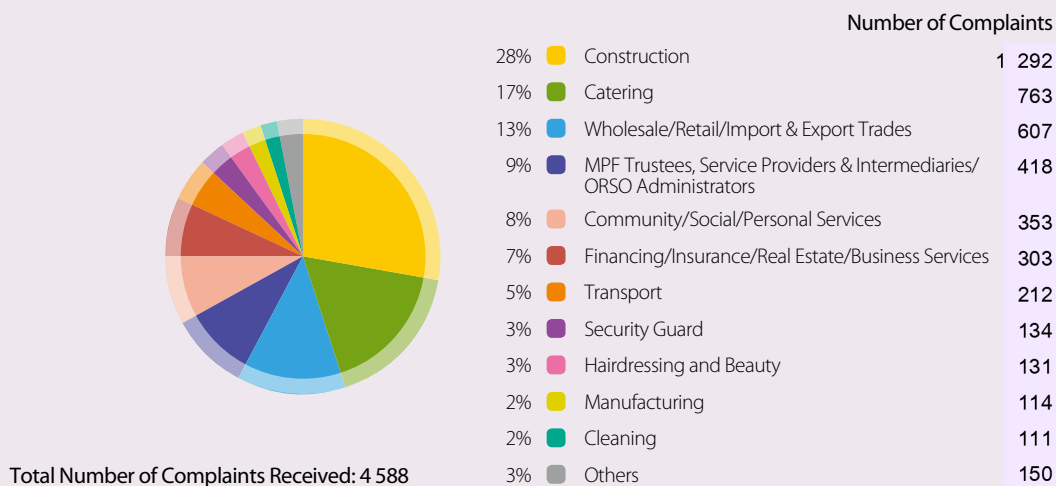
§ Less than 0.5%

## STATISTICS

### Part D — Enquiries and Complaints (cont'd)

#### 4. Complaints Received by Industry of Complainee

(1.4.2013 – 31.3.2014)



#### 5. Complaints Received by Complainee Type

(1.4.2013 – 31.3.2014)

Complainee	Number of Complaints
Employers (MPF and ORSO)	4 094
MPF Trustees and Service Providers	381
MPF Intermediaries	28
ORSO Administrators	9
Others	76
<b>Total Number of Complaints Received</b>	<b>4 588</b>

#### 6. Nature of Complaints

(1.4.2013 – 31.3.2014)

Type of Allegations	Number of Allegations
Employers (MPF and ORSO)	6 223
– Default Contribution	3 611
– Non-enrolment	1 591
– Others	1 021
MPF Trustees & Service Providers	494
– Scheme Administration	469
– Others	25
MPF Intermediaries	32
– Conduct Issues	26
– Unregistered Activities	3
– Other Criminal Offences	1
– Servicing & Others	2
ORSO Administrators	25
– Scheme Administration	20
– Others	5
Others	76
<b>Total Number of Allegations</b>	<b>6 850<sup>1</sup></b>

<sup>1</sup> Since a complaint may cover more than one allegation, the total number of allegations may exceed the total number of complaints.

## STATISTICS

# Part E — Enforcement

### Relating to Employers

#### 1. Number of Payment Notices Issued in Respect of Default Contribution

(1.4.2013 – 31.3.2014)

Month	Number of Payment Notices Issued
April 2013	22 400
May 2013	24 400
June 2013	18 800
July 2013	29 400
August 2013	26 700
September 2013	22 700
October 2013	24 400
November 2013	24 600
December 2013	24 200
January 2014	25 900
February 2014	26 800
March 2014	32 100
<b>Total</b>	<b>302 400</b>

#### 2. Number of Cases Investigated (Including Complaint Cases and Cases Reported by Trustees) by Type of Alleged Offences

(1.4.2013 – 31.3.2014)

Alleged Offences	Number
Default Contribution	45 993
Non-enrolment	1 591
Forced Change to SEP	50
Others <sup>1</sup>	909
<b>Total<sup>2</sup></b>	<b>46 480</b>

<sup>1</sup> Others include failure to notify trustees of termination of employment, evading MPF contributions by setting aside and labelling part of an employee's salary as housing allowance, failure to issue monthly pay record, etc.

<sup>2</sup> As one case may be related to several types of alleged offences, figures may not sum up to the total.

#### 3. Number of Summons Applications Referred to the Police by Nature of Offences Committed and Results

(1.4.2013 – 31.3.2014)

Nature of Offences	Prosecution Status as at 31.3.2014				Total Number of Summons Applied
	Guilty	Acquitted	Not yet available	Withdrawn <sup>1</sup>	
Contributions in Arrears	378	0	68	27	473
Non-enrolment of Employee	44	0	18	0	62
False Statement <sup>2</sup>	78	0	36	0	114
Failure to Comply with Court Order	6	0	3	1	10
<b>Total</b>	<b>506</b>	<b>0</b>	<b>125</b>	<b>28</b>	<b>659</b>

<sup>1</sup> Summons could not be effectively served by Police or Bailiff, as the defendants had moved away, closed, become untraceable, wound up or become bankrupt.

<sup>2</sup> Includes false statements made by scheme members to withdraw their accrued benefits on grounds of permanent departure from Hong Kong.

## STATISTICS

### Part E — Enforcement (cont'd)

#### 4. Number of Applications Lodged with Small Claims Tribunal, District Court, High Court, Bailiff and Liquidators

(1.4.2013 – 31.3.2014)

	Number of Applications	Related Number of Employees
Lodged with the Small Claims Tribunal	332	1 181
Lodged with the District Court	42	1 303
Lodged with the High Court	1	102
Lodged with Bailiff	138	757
Lodged with Liquidators	196	2 554

#### 5. Number of Garnishee Orders Applied

(1.4.2013 – 31.3.2014):

84

#### 6. Financial Penalty Notices Issued to Employers

(1.4.2013 – 31.3.2014)

Breach	Number of Financial Penalty Notices Issued	Amount of Financial Penalty
Breach of section 7A(8) of the Mandatory Provident Fund Schemes Ordinance (failure to pay MPF contributions in respect of an employee to the approved trustee within the prescribed period)	35	HK\$237,772

#### *Relating to MPF Intermediaries*

#### 7. Number of Cases (Including Complaint and Referral Cases) Handled by MPFA

(1.4.2013 – 31.3.2014):

37

#### 8. Number of Cases Passed to Frontline Regulators

(1.4.2013 – 31.3.2014):

17

#### 9. Number of Summons Applications Referred to the Police for Offence Committed

(1.4.2013 – 31.3.2014):

– False Statement

3

## APPENDIX 1

# Membership Lists of Committees and Appeal Boards

(as at 31 March 2014)

### Administration Committee

- Advises the Management Board on the development of human resources policies and procedures as well as policies relating to general administration.

#### Chairman

Hon Ip Kwok-him, GBS, JP

#### Members

Hon Anna Wu Hung-yuk, GBS, JP  
Hon Poon Siu-ping, BBS, MH  
Mrs Diana Chan Tong Chee-ching, JP  
Mr Cheng Yan-chee (*from 3 Apr 2013*)

### Finance Committee

- Advises the Management Board on the development of financial strategies and policies;
- Examines and reviews the annual budget of MPFA; and
- Oversees the financial position and investment of the funds of MPFA and the Compensation Fund.

#### Chairman

Mr Philip Tsai Wing-chung, JP

#### Members

Hon Anna Wu Hung-yuk, GBS, JP  
Mr John Poon Cho-ming, JP  
Mrs Diana Chan Tong Chee-ching, JP  
Mr Cheng Yan-chee (*from 3 Apr 2013*)

### Audit Committee

- Advises the Management Board on the appointment of external auditor;
- Oversees the implementation of the auditor's recommendations;
- Reviews annual financial statements before submission to the Management Board and, as and when necessary, initiates special financial audits;
- Reviews management's reports on internal control systems and internal audit programmes; and
- Considers major findings of internal investigations and management's responses.

#### Chairman

Ms Paddy Lui Wai-yu, BBS, JP

#### Members

Hon Wong Kwok-kin, BBS  
Hon Ip Kwok-him, GBS, JP  
Mr Philip Tsai Wing-chung, JP

### Tender Board

- Considers the assessment of tender submissions conducted by assessment panels comprising MPFA staff;
- Recommends the award of contract to a selected tender or the rejection of the tender submissions; and
- Reports to and advises the Managing Director or the Management Board on matters regarding tender submissions.

#### Chairman

Hon Andrew Leung Kwan-yuen, GBS, JP

#### Members

Mr John Poon Cho-ming, JP  
Mr Cheng Yan-chee (*from 3 Apr 2013*)  
One other executive director or divisional head of MPFA responsible for the subject under consideration

### Guidelines Committee

- Scrutinizes draft MPF Guidelines developed to give details on issues that are not spelt out in the MPF legislation for the guidance of MPF service providers; and
- Reviews and updates existing guidelines.

#### Chairman

Hon Anna Wu Hung-yuk, GBS, JP (*until 20 Mar 2014*)  
Mr Horace Wong Yuk-lun, SC (*from 21 Mar 2014*)

#### Members

Mr Horace Wong Yuk-lun, SC (*until 20 Mar 2014*)  
Hon Anna Wu Hung-yuk, GBS, JP (*from 21 Mar 2014*)  
Mr Darren Mark McShane  
Mr Alex Chu Wing-yiu (*until 14 Aug 2013*)  
Mr Michael Huddart (*from 15 Aug 2013*)  
Mr Lieven Debruyne (*until 17 Oct 2013*)  
Mrs Sally Wong Chi-ming (*from 18 Oct 2013*)  
Ms Cynthia Chung Wing-suet  
Mr Bonn Liu Yun-bonn  
Ms Lau Ka-shi  
Mr David Adams

### Working Group on Review of Withdrawal of MPF Benefits

- Considers the modes of payment of MPF benefits on retirement and the grounds for early withdrawal of MPF benefits.

#### Chairman

Hon Anna Wu Hung-yuk, GBS, JP

#### Member

Hon Wong Ting-kwong, BBS, JP

## APPENDIX 1

# Membership Lists of Committees and Appeal Boards (cont'd)

(as at 31 March 2014)

### Working Group on MPF Reform Issues

- Considers MPF reform issues focusing on
  - (a) evaluating and proposing measures to further reduce fees and charges of MPF schemes; and
  - (b) studying measures to increase choices of MPF schemes for employees.

#### Chairman

Hon Anna Wu Hung-yuk, GBS, JP

#### Members

Hon Ip Kwok-him, GBS, JP  
Mr John Poon Cho-ming, JP  
Mr Philip Tsai Wing-chung, JP

### Working Group on Review of Adjustment Mechanism for Minimum and Maximum Levels of Relevant Income

- Develops a recommended adjustment mechanism for minimum and maximum levels of relevant income.

#### Chairman

Mr Philip Tsai Wing-chung, JP

#### Members

Hon Andrew Leung Kwan-yuen, GBS, JP  
Hon Wong Ting-kwong, SBS, JP  
Ms Li Fung-ying, SBS, JP

### MPF Schemes Appeal Board

#### Chairman

Mr Michael Stuart-Moore, GBS

#### Deputy Chairman

Mr Paul Shieh Wing-tai, SC

#### Panel Members

Dr Stella Cho Lung Pui-lan  
Ms Giovanna Kwong Fung-ping  
Mr Kenny Chan Ngai-sang  
Ms Agnes Chan Sui-kuen  
Mr Alex Chu Wing-yiu  
Mr Ng Chau-pei  
Ms Ng Wai-yee, MH  
Mr Jeff Wong Kwan-kit  
Ms Benita Yu Ka-po (*until 24 Oct 2013*)  
Ms Lau Yuk-kuen (*from 25 Oct 2013*)  
Mr Gerry Ng Joo-yeow (*from 25 Oct 2013*)  
Mr Terry Pan San-kong (*from 25 Oct 2013*)

### Occupational Retirement Schemes Appeal Board

#### Chairman

Mr Paul Shieh Wing-tai, SC

#### Deputy Chairman

Ms Cynthia Chung Wing-suet

#### Panel Members

Dr Stella Cho Lung Pui-lan  
Ms Cecilia Lee Sau-wai  
Ms Ivy Cheung Wing-han  
Ms Giovanna Kwong Fung-ping  
Mr Raymond Wong Kwai-sang (*until 27 Feb 2014*)  
Ms Wendy Ng Wan-yee (*from 28 Feb 2014*)



## APPENDIX 2

# List of 19 MPF Trustees and their Background

(as at 31 March 2014)

**Ageas Trustees (HK) Limited** is a wholly-owned subsidiary of Ageas Asia Holdings Limited which, together with its other subsidiaries, is principally engaged in individual life insurance, group insurance and general insurance business.

**AIA Company (Trustee) Limited** is a member of AIA Group Limited (the "AIA Group"). Having operations in 17 markets in Asia Pacific, the AIA Group offers a range of products and services including life insurance, accident and health insurance and savings plans and provides employee benefits, credit life and pension services to corporate clients.

**AXA China Region Trustees Limited** is a member of the AXA Group. AXA has a history dating back to the early 19th century and commenced business in Hong Kong in 1986, offering a wide range of insurance, investment and retirement solutions.

**AXA Financial Services Trustees Limited** is a member of the AXA Group.

**Bank Consortium Trust Company Limited**, a member of the BCT group of companies, is a trust company set up in 1999 by a consortium of local financial institutions. BCT provides trustee, administration and/or custodian services to retirement plans and investment funds. The products under its trusteeship include an MPF master trust scheme, an industry scheme and a pooled ORSO plan sponsored by a member of the BCT group of companies. BCT also provides these services to MPF/ORSO schemes and international pension plans as well as global investment funds sponsored by third parties.

**Bank of Communications Trustee Limited** is a wholly-owned subsidiary of Bank of Communications Co., Ltd. providing MPF and ORSO administration, trustee, custodian and estate administration services and other financial services to meet the financial and retirement needs of its clients.

**Bank of East Asia (Trustees) Limited** is a wholly-owned subsidiary of The Bank of East Asia ("BEA"). BEA has long been known for the comprehensive range of banking, financial, and insurance products and services including MPF services, loans, trade finance, deposit-taking, currency savings, investment and wealth management services, private banking, broking services, insurance, etc.

**BOCI-Prudential Trustee Limited** is a joint-venture company founded between the subsidiaries of Bank of China Limited and Prudential plc. The business activities of Bank of China Limited are principally corporate, retail and investment banking, insurance and other financial services. Prudential plc provides a broad range of financial and insurance services as well as engages in fund management business.

**China Life Trustees Limited** is a subsidiary of China Life Insurance (Overseas) Company Limited which is a member of China Life Insurance (Group) Company. The business activities of China Life Insurance (Overseas) Company Limited covers three main categories, including life insurance, investment as well as provident fund service.

**Cititrust Limited** is a member of Citigroup Inc ("Citi"). Citi provides a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, transaction services, and wealth management, in more than 160 countries and jurisdictions.

**FWD Pension Trust Limited**, providing pension trust services to corporate and individual customers, is a member of Pacific Century Group which was established in 1993 and has interests in property, financial services and other investments in the Asia Pacific region.

**HSBC Institutional Trust Services (Asia) Limited** is a wholly owned subsidiary of the Hongkong and Shanghai Banking Corporation Limited, which is one of the commercial banks in Hong Kong. HSBC Institutional Trust Services (Asia) Limited is also a trustee or an administrator of ORSO schemes.

**HSBC Provident Fund Trustee (Hong Kong) Limited** is a wholly owned subsidiary of the Hongkong and Shanghai Banking Corporation Limited, which is one of the commercial banks in Hong Kong. HSBC Provident Fund Trustee (Hong Kong) Limited is also a trustee or an administrator of ORSO schemes.

## APPENDIX 2

# List of 19 MPF Trustees and their Background (cont'd)

(as at 31 March 2014)

**Manulife Provident Funds Trust Company Limited** is a member of the Manulife Financial group of companies, a Canada-based financial services group with principal operations in Asia, Canada and the United States providing a diverse range of financial protection and wealth management products and services.

**MassMutual Trustees Limited** is a member of the MassMutual Financial Group. The Group serves 13 million clients worldwide with a broad-based portfolio of financial products and services, including insurance, annuities, mutual funds, retirement planning products, asset management, trust services and other financial products and services. MassMutual Financial Group is a marketing designation for the Massachusetts Mutual Life Insurance Company and its affiliates.

**Principal Trust Company (Asia) Limited**, a member of the Principal Financial Group® based in the United States, provides one-stop shop services on retirement scheme management, including corporate trustee, fund and scheme administration services. In addition, the Company is engaged in the provision of unit trust administration and registration services to unit trust investors.

**RBC Investor Services Trust Hong Kong Limited** provides trustee, fund administration, pension administration, custody and transfer agency services. It is an indirect subsidiary of Royal Bank of Canada.

**Royal Bank of Canada Trust Company (Asia) Limited** is a wholly owned subsidiary of Royal Bank of Canada, a financial services organization providing personal and commercial banking, wealth management services, insurance, investor services and capital markets products and services on a global basis.

**Sun Life Trustee Company Limited** is a member of the Sun Life Financial group of companies, which is an international financial services organization providing a diverse range of pension, wealth accumulation and protection products to individuals and corporate customers worldwide.

## APPENDIX 3

# List of 41 MPF Schemes and 477 Constituent Funds

(as at 31 March 2014)

Name of Trustee	MPF Scheme	Underlying Constituent Funds
Ageas Trustees (HK) Limited	Ageas Master Trust MPF Scheme (This Scheme was merged into HSBC MPF – SuperTrust Plus with effect from 1 June 2010)	<ol style="list-style-type: none"> <li>1 Ageas Global Balanced Fund</li> <li>2 Ageas Hong Kong Fund</li> <li>3 Ageas MPF Conservative Fund</li> </ol>
AIA Company (Trustee) Limited	AIA MPF – Basic Value Choice	<ol style="list-style-type: none"> <li>1 American Fund</li> <li>2 Asian Bond Fund</li> <li>3 Asian Equity Fund</li> <li>4 Balanced Portfolio</li> <li>5 Capital Stable Portfolio</li> <li>6 Eurasia Fund</li> <li>7 European Equity Fund</li> <li>8 Fidelity Capital Stable Fund</li> <li>9 Fidelity Growth Fund</li> <li>10 Fidelity Stable Growth Fund</li> <li>11 Global Bond Fund</li> <li>12 Greater China Equity Fund</li> <li>13 Green Fund</li> <li>14 Growth Portfolio</li> <li>15 Guaranteed Portfolio</li> <li>16 Hong Kong and China Fund</li> <li>17 Hong Kong Equity Fund</li> <li>18 Japan Equity Fund</li> <li>19 Manager's Choice Fund</li> <li>20 MPF Conservative Fund</li> <li>21 North American Equity Fund</li> <li>22 RCM Capital Stable Fund</li> <li>23 RCM Growth Fund</li> <li>24 RCM Stable Growth Fund</li> <li>25 World Fund</li> </ol>
AIA Company (Trustee) Limited	AIA MPF – Prime Value Choice	<ol style="list-style-type: none"> <li>1 American Fund</li> <li>2 Asian Bond Fund</li> <li>3 Asian Equity Fund</li> <li>4 Balanced Portfolio</li> <li>5 Capital Stable Portfolio</li> <li>6 Eurasia Fund</li> <li>7 European Equity Fund</li> <li>8 Fidelity Capital Stable Fund</li> <li>9 Fidelity Growth Fund</li> <li>10 Fidelity Stable Growth Fund</li> <li>11 Global Bond Fund</li> <li>12 Greater China Equity Fund</li> <li>13 Green Fund</li> <li>14 Growth Portfolio</li> <li>15 Guaranteed Portfolio</li> <li>16 Hong Kong and China Fund</li> <li>17 Hong Kong Equity Fund</li> <li>18 Japan Equity Fund</li> <li>19 Manager's Choice Fund</li> <li>20 MPF Conservative Fund</li> <li>21 North American Equity Fund</li> <li>22 RCM Capital Stable Fund</li> <li>23 RCM Growth Fund</li> <li>24 RCM Stable Growth Fund</li> <li>25 World Fund</li> </ol>

## APPENDIX 3

# List of 41 MPF Schemes and 477 Constituent Funds (cont'd)

(as at 31 March 2014)

Name of Trustee	MPF Scheme	Underlying Constituent Funds
AIA Company (Trustee) Limited	AIA MPF – Simple Value Choice	<ol style="list-style-type: none"> <li>1 American Fund</li> <li>2 Asian Bond Fund</li> <li>3 Eurasia Fund</li> <li>4 Global Bond Fund</li> <li>5 Guaranteed Portfolio</li> <li>6 Hong Kong and China Fund</li> <li>7 MPF Conservative Fund</li> <li>8 World Fund</li> </ol>
AXA China Region Trustees Limited	AXA MPF – Simple Plan	<ol style="list-style-type: none"> <li>1 AXA – Fidelity Asia Pacific Equity Fund</li> <li>2 AXA – Fidelity Global Equity Fund</li> <li>3 AXA – RCM Hong Kong Fund</li> <li>4 AXA – Templeton Global Bond Fund</li> <li>5 AXA Balanced Fund</li> <li>6 AXA Growth Fund</li> <li>7 AXA MPF Conservative Fund</li> <li>8 AXA Stable Fund</li> </ol>
AXA China Region Trustees Limited	AXA MPF – Smart Plan	<ol style="list-style-type: none"> <li>1 AXA – Fidelity Asia Pacific Equity Fund</li> <li>2 AXA – Fidelity Global Equity Fund</li> <li>3 AXA – Hang Seng Index Tracking Fund</li> <li>4 AXA – JPMorgan Asian Bond Fund</li> <li>5 AXA – JPMorgan Greater China Equity Fund</li> <li>6 AXA – RCM Hong Kong Fund</li> <li>7 AXA – Templeton Global Bond Fund</li> <li>8 AXA Balanced Fund</li> <li>9 AXA Cash Fund</li> <li>10 AXA Growth Fund</li> <li>11 AXA Guaranteed Fund</li> <li>12 AXA MPF Conservative Fund</li> <li>13 AXA Stable Fund</li> </ol>
Bank Consortium Trust Company Limited	Allianz Global Investors MPF Plan	<ol style="list-style-type: none"> <li>1 Allianz Absolute Return Fund</li> <li>2 Allianz Asian Fund</li> <li>3 Allianz Balanced Fund</li> <li>4 Allianz Capital Stable Fund</li> <li>5 Allianz Greater China Fund</li> <li>6 Allianz Growth Fund</li> <li>7 Allianz Hong Kong Fund</li> <li>8 Allianz MPF Conservative Fund</li> <li>9 Allianz Oriental Pacific Fund</li> <li>10 Allianz RMB Money Market Fund</li> <li>11 Allianz Stable Growth Fund</li> </ol>
Bank Consortium Trust Company Limited	AMTD MPF Scheme	<ol style="list-style-type: none"> <li>1 AMTD Invesco Asia Fund</li> <li>2 AMTD Invesco Europe Fund</li> <li>3 AMTD Invesco Global Bond Fund</li> <li>4 AMTD Invesco Hong Kong and China Fund</li> <li>5 AMTD Invesco MPF Conservative Fund</li> <li>6 AMTD Invesco Target 2018 Retirement Fund</li> <li>7 AMTD Invesco Target 2028 Retirement Fund</li> <li>8 AMTD Invesco Target 2038 Retirement Fund</li> <li>9 AMTD Invesco Target 2048 Retirement Fund</li> <li>10 AMTD RCM Balanced Fund</li> <li>11 AMTD RCM Capital Stable Fund</li> <li>12 AMTD RCM Dynamic Allocation Fund</li> <li>13 AMTD RCM Growth Fund</li> <li>14 AMTD RCM Stable Growth Fund</li> </ol>

Name of Trustee	MPF Scheme	Underlying Constituent Funds
Bank Consortium Trust Company Limited	BCT (MPF) Industry Choice	1 BCT (Industry) Absolute Return Fund 2 BCT (Industry) Asian Equity Fund 3 BCT (Industry) E30 Mixed Asset Fund 4 BCT (Industry) E50 Mixed Asset Fund 5 BCT (Industry) E70 Mixed Asset Fund 6 BCT (Industry) Global Bond Fund 7 BCT (Industry) Global Equity Fund 8 BCT (Industry) Hong Kong Equity Fund 9 BCT (Industry) MPF Conservative Fund 10 BCT (Industry) RMB Bond Fund
Bank Consortium Trust Company Limited	BCT (MPF) Pro Choice	1 BCT (Pro) Absolute Return Fund 2 BCT (Pro) Asian Equity Fund 3 BCT (Pro) China and Hong Kong Equity Fund 4 BCT (Pro) E30 Mixed Asset Fund 5 BCT (Pro) E50 Mixed Asset Fund 6 BCT (Pro) E70 Mixed Asset Fund 7 BCT (Pro) E90 Mixed Asset Fund 8 BCT (Pro) European Equity Fund 9 BCT (Pro) Global Bond Fund 10 BCT (Pro) Global Equity Fund 11 BCT (Pro) Greater China Equity Fund 12 BCT (Pro) Hang Seng Index Tracking Fund 13 BCT (Pro) Hong Kong Dollar Bond Fund 14 BCT (Pro) Hong Kong Equity Fund 15 BCT (Pro) International Equity Fund 16 BCT (Pro) MPF Conservative Fund 17 BCT (Pro) RMB Bond Fund 18 BCT (Pro) SaveEasy 2020 Fund 19 BCT (Pro) SaveEasy 2025 Fund 20 BCT (Pro) SaveEasy 2030 Fund 21 BCT (Pro) SaveEasy 2035 Fund 22 BCT (Pro) SaveEasy 2040 Fund 23 BCT (Pro) World Equity Fund
Bank Consortium Trust Company Limited	Invesco Strategic MPF Scheme	1 Asian Equity Fund 2 Balanced Fund 3 Capital Stable Fund 4 Global Bond Fund 5 Growth Fund 6 Guaranteed Fund 7 Hong Kong and China Equity Fund 8 MPF Conservative Fund 9 RMB Bond Fund
Bank of Communications Trustee Limited	BCOM Joyful Retirement MPF Scheme	1 BCOM Asian Dynamic Equity (CF) Fund 2 BCOM Balanced (CF) Fund 3 BCOM China Dynamic Equity (CF) Fund 4 BCOM Dynamic Growth (CF) Fund 5 BCOM Global Bond (CF) Fund 6 BCOM Greater China Equity (CF) Fund 7 BCOM Guaranteed (CF) Fund 8 BCOM Hong Kong Dynamic Equity (CF) Fund 9 BCOM HSI Tracking (CF) Fund 10 BCOM MPF Conservative Fund 11 BCOM Stable Growth (CF) Fund

## APPENDIX 3

# List of 41 MPF Schemes and 477 Constituent Funds (cont'd)

(as at 31 March 2014)

Name of Trustee	MPF Scheme	Underlying Constituent Funds
Bank of East Asia (Trustees) Limited	BEA (MPF) Industry Scheme	<ol style="list-style-type: none"> <li>1 BEA (Industry Scheme) Asian Equity Fund</li> <li>2 BEA (Industry Scheme) Balanced Fund</li> <li>3 BEA (Industry Scheme) Greater China Equity Fund</li> <li>4 BEA (Industry Scheme) Growth Fund</li> <li>5 BEA (Industry Scheme) Hong Kong Equity Fund</li> <li>6 BEA (Industry Scheme) MPF Conservative Fund</li> <li>7 BEA (Industry Scheme) RMB &amp; HKD Money Market Fund</li> <li>8 BEA (Industry Scheme) Stable Fund</li> <li>9 BEA China Tracker Fund</li> <li>10 BEA Hong Kong Tracker Fund</li> </ol>
Bank of East Asia (Trustees) Limited	BEA (MPF) Master Trust Scheme	<ol style="list-style-type: none"> <li>1 BEA (MPF) Asian Equity Fund</li> <li>2 BEA (MPF) Balanced Fund</li> <li>3 BEA (MPF) Conservative Fund</li> <li>4 BEA (MPF) European Equity Fund</li> <li>5 BEA (MPF) Global Bond Fund</li> <li>6 BEA (MPF) Global Equity Fund</li> <li>7 BEA (MPF) Greater China Equity Fund</li> <li>8 BEA (MPF) Growth Fund</li> <li>9 BEA (MPF) Hong Kong Equity Fund</li> <li>10 BEA (MPF) Japan Equity Fund</li> <li>11 BEA (MPF) Long Term Guaranteed Fund</li> <li>12 BEA (MPF) North American Equity Fund</li> <li>13 BEA (MPF) RMB &amp; HKD Money Market Fund</li> <li>14 BEA (MPF) Stable Fund</li> <li>15 BEA China Tracker Fund</li> <li>16 BEA Hong Kong Tracker Fund</li> </ol>
Bank of East Asia (Trustees) Limited	BEA (MPF) Value Scheme	<ol style="list-style-type: none"> <li>1 BEA Asian Equity Fund</li> <li>2 BEA Balanced Fund</li> <li>3 BEA Global Bond Fund</li> <li>4 BEA Global Equity Fund</li> <li>5 BEA Greater China Equity Fund</li> <li>6 BEA Greater China Tracker Fund</li> <li>7 BEA Growth Fund</li> <li>8 BEA Hong Kong Tracker Fund</li> <li>9 BEA MPF Conservative Fund</li> <li>10 BEA Stable Fund</li> </ol>
BOCI-Prudential Trustee Limited	BOC-Prudential Easy-Choice Mandatory Provident Fund Scheme	<ol style="list-style-type: none"> <li>1 BOC-Prudential Asia Equity Fund</li> <li>2 BOC-Prudential Balanced Fund</li> <li>3 BOC-Prudential Bond Fund</li> <li>4 BOC-Prudential China Equity Fund</li> <li>5 BOC-Prudential CSI HK 100 Tracker Fund</li> <li>6 BOC-Prudential European Index Tracking Fund</li> <li>7 BOC-Prudential Global Equity Fund</li> <li>8 BOC-Prudential Growth Fund</li> <li>9 BOC-Prudential Hong Kong Equity Fund</li> <li>10 BOC-Prudential Japan Equity Fund</li> <li>11 BOC-Prudential MPF Conservative Fund</li> <li>12 BOC-Prudential MPF RMB &amp; HKD Money Market Fund</li> <li>13 BOC-Prudential North America Index Tracking Fund</li> <li>14 BOC-Prudential Stable Fund</li> </ol>

Name of Trustee	MPF Scheme	Underlying Constituent Funds
BOCI-Prudential Trustee Limited	My Choice Mandatory Provident Fund Scheme	1 My Choice Asia Equity Fund 2 My Choice Balanced Fund 3 My Choice China Equity Fund 4 My Choice Global Bond Fund 5 My Choice Global Equity Fund 6 My Choice Growth Fund 7 My Choice HKD Bond Fund 8 My Choice Hong Kong Equity Fund 9 My Choice Hong Kong Tracking Fund 10 My Choice MPF Conservative Fund 11 My Choice Stable Fund
China Life Trustees Limited	China Life MPF Master Trust Scheme	1 China Life Balanced Fund 2 China Life Growth Fund 3 China Life Guaranteed Return Fund 4 China Life Hong Kong Equity Fund 5 China Life MPF Conservative Fund 6 China Life Retire-Easy Balanced Fund 7 China Life Retire-Easy Capital Stable Fund 8 China Life Retire-Easy Global Equity Fund 9 China Life Retire-Easy Guarantee Fund
FWD Pension Trust Limited	FWD MPF Master Trust Basic Scheme	1 FWD MPF Basic Scheme Balanced Growth Portfolio 2 FWD MPF Basic Scheme Capital Guaranteed Portfolio 3 FWD MPF Basic Scheme Hong Kong Equity Portfolio 4 FWD MPF Basic Scheme International Equity Portfolio 5 FWD MPF Basic Scheme MPF Conservative Portfolio 6 FWD MPF Basic Scheme Stable Growth Portfolio 7 FWD MPF Basic Scheme US & Hong Kong Equity Portfolio
FWD Pension Trust Limited	FWD MPF Master Trust Comprehensive Scheme	1 FWD MPF Comprehensive Scheme Asian Equity Portfolio 2 FWD MPF Comprehensive Scheme Balanced Growth Portfolio 3 FWD MPF Comprehensive Scheme Capital Guaranteed Portfolio 4 FWD MPF Comprehensive Scheme Growth Portfolio 5 FWD MPF Comprehensive Scheme Hong Kong Equity Portfolio 6 FWD MPF Comprehensive Scheme International Equity Portfolio 7 FWD MPF Comprehensive Scheme MPF Conservative Portfolio 8 FWD MPF Comprehensive Scheme Stable Growth Portfolio 9 FWD MPF Comprehensive Scheme Stable Portfolio 10 FWD MPF Comprehensive Scheme US & Hong Kong Equity Portfolio



## APPENDIX 3

# List of 41 MPF Schemes and 477 Constituent Funds (cont'd)

(as at 31 March 2014)

Name of Trustee	MPF Scheme	Underlying Constituent Funds
HSBC Institutional Trust Services (Asia) Limited	Fidelity Retirement Master Trust	<ol style="list-style-type: none"> <li>Asia Pacific Equity Fund</li> <li>Balanced Fund</li> <li>Capital Stable Fund</li> <li>Fidelity Hong Kong Tracker Fund</li> <li>Fidelity SaveEasy 2020 Fund</li> <li>Fidelity SaveEasy 2025 Fund</li> <li>Fidelity SaveEasy 2030 Fund</li> <li>Fidelity SaveEasy 2035 Fund</li> <li>Fidelity SaveEasy 2040 Fund</li> <li>Global Equity Fund</li> <li>Growth Fund</li> <li>Hong Kong Bond Fund</li> <li>Hong Kong Equity Fund</li> <li>MPF Conservative Fund</li> <li>Stable Growth Fund</li> <li>World Bond Fund</li> </ol>
HSBC Institutional Trust Services (Asia) Limited	Haitong MPF Retirement Fund	<ol style="list-style-type: none"> <li>Haitong Asia Pacific (excluding HK) Fund</li> <li>Haitong Global Diversification Fund</li> <li>Haitong Hong Kong SAR Fund</li> <li>Haitong Korea Fund</li> <li>Haitong MPF Conservative Fund</li> </ol>
HSBC Provident Fund Trustee (Hong Kong) Limited	Hang Seng Mandatory Provident Fund – SimpleChoice	<ol style="list-style-type: none"> <li>Global Bond Fund</li> <li>Global Equity Fund</li> <li>MPF Conservative Fund</li> </ol>
HSBC Provident Fund Trustee (Hong Kong) Limited	Hang Seng Mandatory Provident Fund – SuperTrust	<ol style="list-style-type: none"> <li>Balanced Fund</li> <li>Growth Fund</li> <li>Guaranteed Fund</li> <li>Hang Seng Index Tracking Fund</li> <li>MPF Conservative Fund</li> </ol>
HSBC Provident Fund Trustee (Hong Kong) Limited	Hang Seng Mandatory Provident Fund – SuperTrust Plus	<ol style="list-style-type: none"> <li>Asia Pacific Equity Fund</li> <li>Balanced Fund</li> <li>Chinese Equity Fund</li> <li>European Equity Fund</li> <li>Flexi-Managed Fund</li> <li>Global Bond Fund</li> <li>Growth Fund</li> <li>Guaranteed Fund</li> <li>Hang Seng Index Tracking Fund</li> <li>Hong Kong and Chinese Equity Fund</li> <li>MPF Conservative Fund</li> <li>North American Equity Fund</li> <li>Stable Fund</li> <li>Stable Growth Fund</li> </ol>
HSBC Provident Fund Trustee (Hong Kong) Limited	Hang Seng Mandatory Provident Fund – ValueChoice	<ol style="list-style-type: none"> <li>Global Bond Fund</li> <li>Hang Seng H-Share Index Tracking Fund</li> <li>Hang Seng Index Tracking Fund</li> <li>MPF Conservative Fund</li> <li>ValueChoice Asia Pacific Equity Fund</li> <li>ValueChoice Balanced Fund</li> <li>ValueChoice European Equity Fund</li> <li>ValueChoice Stable Growth Fund</li> <li>ValueChoice US Equity Fund</li> </ol>

Name of Trustee	MPF Scheme	Underlying Constituent Funds
HSBC Provident Fund Trustee (Hong Kong) Limited	HSBC Mandatory Provident Fund – SimpleChoice	<ol style="list-style-type: none"> <li>1 Global Bond Fund</li> <li>2 Global Equity Fund</li> <li>3 MPF Conservative Fund</li> </ol>
HSBC Provident Fund Trustee (Hong Kong) Limited	HSBC Mandatory Provident Fund – SuperTrust	<ol style="list-style-type: none"> <li>1 Balanced Fund</li> <li>2 Growth Fund</li> <li>3 Guaranteed Fund</li> <li>4 Hang Seng Index Tracking Fund</li> <li>5 MPF Conservative Fund</li> </ol>
HSBC Provident Fund Trustee (Hong Kong) Limited	HSBC Mandatory Provident Fund – SuperTrust Plus	<ol style="list-style-type: none"> <li>1 Asia Pacific Equity Fund</li> <li>2 Balanced Fund</li> <li>3 Chinese Equity Fund</li> <li>4 European Equity Fund</li> <li>5 Flexi-Managed Fund</li> <li>6 Global Bond Fund</li> <li>7 Growth Fund</li> <li>8 Guaranteed Fund</li> <li>9 Hang Seng Index Tracking Fund</li> <li>10 Hong Kong and Chinese Equity Fund</li> <li>11 MPF Conservative Fund</li> <li>12 North American Equity Fund</li> <li>13 Stable Fund</li> <li>14 Stable Growth Fund</li> </ol>
HSBC Provident Fund Trustee (Hong Kong) Limited	HSBC Mandatory Provident Fund – ValueChoice	<ol style="list-style-type: none"> <li>1 Global Bond Fund</li> <li>2 Hang Seng H-Share Index Tracking Fund</li> <li>3 Hang Seng Index Tracking Fund</li> <li>4 MPF Conservative Fund</li> <li>5 ValueChoice Asia Pacific Equity Fund</li> <li>6 ValueChoice Balanced Fund</li> <li>7 ValueChoice European Equity Fund</li> <li>8 ValueChoice Stable Growth Fund</li> <li>9 ValueChoice US Equity Fund</li> </ol>
HSBC Provident Fund Trustee (Hong Kong) Limited	Schroder MPF Master Trust	<ol style="list-style-type: none"> <li>1 Schroder MPF Asian Portfolio</li> <li>2 Schroder MPF Balanced Investment Portfolio</li> <li>3 Schroder MPF Capital Guaranteed Portfolio</li> <li>4 Schroder MPF Capital Stable Portfolio</li> <li>5 Schroder MPF Conservative Portfolio</li> <li>6 Schroder MPF Global Fixed Income Portfolio</li> <li>7 Schroder MPF Growth Portfolio</li> <li>8 Schroder MPF HK Dollar Fixed Income Portfolio</li> <li>9 Schroder MPF Hong Kong Portfolio</li> <li>10 Schroder MPF International Portfolio</li> <li>11 Schroder MPF Stable Growth Portfolio</li> </ol>

## APPENDIX 3

# List of 41 MPF Schemes and 477 Constituent Funds (cont'd)

(as at 31 March 2014)

Name of Trustee	MPF Scheme	Underlying Constituent Funds
Manulife Provident Funds Trust Company Limited	Manulife Global Select (MPF) Scheme	1 Manulife MPF 2015 Retirement Fund 2 Manulife MPF 2020 Retirement Fund 3 Manulife MPF 2025 Retirement Fund 4 Manulife MPF 2030 Retirement Fund 5 Manulife MPF 2035 Retirement Fund 6 Manulife MPF 2040 Retirement Fund 7 Manulife MPF 2045 Retirement Fund 8 Manulife MPF Aggressive Fund 9 Manulife MPF China Value Fund 10 Manulife MPF Conservative Fund 11 Manulife MPF European Equity Fund 12 Manulife MPF Fidelity Growth Fund 13 Manulife MPF Fidelity Stable Growth Fund 14 Manulife MPF Growth Fund 15 Manulife MPF Hang Seng Index Tracking Fund 16 Manulife MPF Healthcare Fund 17 Manulife MPF Hong Kong Bond Fund 18 Manulife MPF Hong Kong Equity Fund 19 Manulife MPF Interest Fund 20 Manulife MPF International Bond Fund 21 Manulife MPF International Equity Fund 22 Manulife MPF Japan Equity Fund 23 Manulife MPF North American Equity Fund 24 Manulife MPF Pacific Asia Bond Fund 25 Manulife MPF Pacific Asia Equity Fund 26 Manulife MPF RMB Bond Fund 27 Manulife MPF Stable Fund
Manulife Provident Funds Trust Company Limited	Manu-Lifestyle (MPF) Scheme (This Scheme was merged into Manulife Global Select (MPF) Scheme with effect from 27 March 2014)	1 Manulife MPF 2015 Retirement Fund 2 Manulife MPF 2020 Retirement Fund 3 Manulife MPF 2025 Retirement Fund 4 Manulife MPF 2030 Retirement Fund 5 Manulife MPF 2035 Retirement Fund 6 Manulife MPF 2040 Retirement Fund 7 Manulife MPF 2045 Retirement Fund 8 Manulife MPF Aggressive Fund 9 Manulife MPF Conservative Fund 10 Manulife MPF Growth Fund 11 Manulife MPF Interest Fund 12 Manulife MPF Stable Fund
MassMutual Trustees Limited	MASS Mandatory Provident Fund Scheme	1 Asian Balanced Fund 2 Asian Pacific Equity Fund 3 European Equity Fund 4 Global Bond Fund 5 Global Equity Fund 6 Global Growth Fund 7 Global Stable Fund 8 Greater China Equity Fund 9 Guaranteed Fund 10 Hong Kong Equities Fund 11 MPF Conservative Fund 12 US Equity Fund

Name of Trustee	MPF Scheme	Underlying Constituent Funds
Principal Trust Company (Asia) Limited	Principal MPF Scheme Series 500 (This Scheme was merged into Principal MPF Scheme Series 600 with effect from 27 March 2014)	<ol style="list-style-type: none"> <li>1 Aggressive Growth Fund</li> <li>2 Balanced Growth Fund</li> <li>3 Guaranteed Fund</li> <li>4 MPF Conservative Fund</li> <li>5 Stable Growth Fund</li> </ol>
Principal Trust Company (Asia) Limited	Principal MPF Scheme Series 600	<ol style="list-style-type: none"> <li>1 Principal Aggressive Strategy Fund</li> <li>2 Principal Asian Bond Fund</li> <li>3 Principal Global Growth Fund</li> <li>4 Principal Hang Seng Index Tracking Fund</li> <li>5 Principal HK Dollar Savings Fund</li> <li>6 Principal Long Term Accumulation Fund</li> <li>7 Principal Long Term Guaranteed Fund</li> <li>8 Principal MPF Conservative Fund</li> <li>9 Principal Stable Yield Fund</li> </ol>
Principal Trust Company (Asia) Limited	Principal MPF Scheme Series 800	<ol style="list-style-type: none"> <li>1 Principal Asian Equity Fund</li> <li>2 Principal Capital Guaranteed Fund</li> <li>3 Principal China Equity Fund</li> <li>4 Principal Global Growth Fund</li> <li>5 Principal Hang Seng Index Tracking Fund</li> <li>6 Principal HK Dollar Savings Fund</li> <li>7 Principal Hong Kong Bond Fund</li> <li>8 Principal Hong Kong Equity Fund</li> <li>9 Principal International Bond Fund</li> <li>10 Principal International Equity Fund</li> <li>11 Principal Long Term Accumulation Fund</li> <li>12 Principal Long Term Guaranteed Fund</li> <li>13 Principal MPF Conservative Fund</li> <li>14 Principal Stable Yield Fund</li> <li>15 Principal US Equity Fund</li> </ol>
RBC Investor Services Trust Hong Kong Limited	SHKP MPF Employer Sponsored Scheme	<ol style="list-style-type: none"> <li>1 Fidelity Balanced Fund</li> <li>2 Fidelity Stable Growth Fund</li> <li>3 HSBC Capital Stable Fund</li> <li>4 RCM Balanced Fund</li> <li>5 RCM Stable Growth Fund</li> <li>6 SHKP MPF Fund</li> <li>7 Standard Chartered Career Average Guaranteed Fund – SHKP</li> <li>8 Standard Chartered MPF Conservative Fund – SHKP</li> </ol>

## APPENDIX 3

# List of 41 MPF Schemes and 477 Constituent Funds (cont'd)

(as at 31 March 2014)

Name of Trustee	MPF Scheme	Underlying Constituent Funds
RBC Investor Services Trust Hong Kong Limited	Standard Chartered MPF Plan – Advanced	<ol style="list-style-type: none"> <li>1 Fidelity Global Investment Fund – Balanced Fund</li> <li>2 Fidelity Global Investment Fund – Capital Stable Fund</li> <li>3 Fidelity Global Investment Fund – Growth Fund</li> <li>4 HSBC MPF “A” – Balanced Fund</li> <li>5 HSBC MPF “A” – Hong Kong and Chinese Equity Fund</li> <li>6 HSBC MPF “A” – Stable Fund</li> <li>7 Invesco Global Balanced Fund</li> <li>8 Invesco Global Equities Fund</li> <li>9 Invesco MPF Bond Fund</li> <li>10 Legg Mason Balanced Fund</li> <li>11 Legg Mason Hong Kong Equities Fund</li> <li>12 Legg Mason Stable Growth Fund</li> <li>13 RCM Balanced Fund</li> <li>14 RCM Capital Stable Fund</li> <li>15 RCM Growth Fund</li> <li>16 Schroder MPF Asian Fund</li> <li>17 Schroder MPF Balanced Investment Fund</li> <li>18 Schroder MPF HK Dollar Fixed Income Fund</li> <li>19 Standard Chartered Balanced Fund – Advanced</li> <li>20 Standard Chartered Bond Fund – Advanced</li> <li>21 Standard Chartered Career Average Guaranteed Fund – Advanced</li> <li>22 Standard Chartered Growth Fund – Advanced</li> <li>23 Standard Chartered MPF Conservative Fund – Advanced</li> <li>24 Standard Chartered Stable Fund – Advanced</li> <li>25 Templeton MPF Asian Balanced Fund</li> <li>26 Templeton MPF Global Bond Fund</li> <li>27 Templeton MPF Global Equity Fund</li> </ol>
RBC Investor Services Trust Hong Kong Limited	Standard Chartered MPF Plan – Basic	<ol style="list-style-type: none"> <li>1 Standard Chartered Balanced Fund – Basic</li> <li>2 Standard Chartered Bond Fund – Basic</li> <li>3 Standard Chartered Career Average Guaranteed Fund – Basic</li> <li>4 Standard Chartered Growth Fund – Basic</li> <li>5 Standard Chartered MPF Conservative Fund – Basic</li> <li>6 Standard Chartered Stable Fund – Basic</li> </ol>
Sun Life Trustee Company Limited	Sun Life Rainbow MPF Scheme	<ol style="list-style-type: none"> <li>1 Sun Life First State MPF Balanced Portfolio Fund</li> <li>2 Sun Life First State MPF Conservative Fund</li> <li>3 Sun Life First State MPF Fixed Income Fund</li> <li>4 Sun Life First State MPF Global Bond Fund</li> <li>5 Sun Life First State MPF Hong Kong Equity Fund</li> <li>6 Sun Life First State MPF Progressive Growth Fund</li> <li>7 Sun Life First State MPF Stable Income Fund</li> <li>8 Sun Life FTSE MPF Hong Kong Index Fund</li> <li>9 Sun Life Invesco MPF Global Equities Fund</li> <li>10 Sun Life Invesco MPF Hong Kong and China Equity Fund</li> <li>11 Sun Life MPF RMB and HKD Fund</li> <li>12 Sun Life RCM MPF Asian Equity Fund</li> <li>13 Sun Life RCM MPF Balanced Fund</li> <li>14 Sun Life RCM MPF Capital Stable Fund</li> <li>15 Sun Life RCM MPF Stable Growth Fund</li> </ol>

## APPENDIX 4

# List of Corporate Administrators who Administer Pooling Agreements for ORSO Schemes

(as at 31 March 2014)

### Authorized Insurers

AIA Company Limited  
AIA International Limited  
China Life Insurance (Overseas) Company Limited  
FWD Life Insurance Company (Bermuda) Limited<sup>1</sup>  
Hang Seng Insurance Company Limited  
HSBC Life (International) Limited  
Manufacturers Life Insurance Company – The  
Manulife (International) Limited  
Sun Life Hong Kong Limited

### Corporate Trust Companies

AIA Company (Trustee) Limited  
AIA Pension and Trustee Co. Ltd.  
AXA China Region (Bermuda) Limited  
AXA China Region Trustees Limited  
AzureTrustees Limited  
Bank Consortium Trust Company Limited  
Bank of Communications Trustee Limited  
BOC Group Trustee Company Limited  
China Life Trustees Limited  
FWD Pension Trust Limited<sup>2</sup>  
Hong Kong Trust Company Limited – The  
HSBC Institutional Trust Services (Asia) Limited  
Manulife Provident Funds Trust Company Limited  
Principal Trust Company (Asia) Limited  
RBC Investor Services Trust Hong Kong Limited  
Shanghai Commercial Bank Trustee Limited  
Sun Life Trustee Company Limited

<sup>1</sup> From 13 August 2013, ING Life Insurance Company (Bermuda) Limited is renamed FWD Life Insurance Company (Bermuda) Limited.

<sup>2</sup> From 13 August 2013, ING Pension Trust Limited is renamed FWD Pension Trust Limited.

## APPENDIX 5

# Work of MPFA as the Registrar of Occupational Retirement Schemes

(1.4.2013 – 31.3.2014)

As the Registrar of Occupational Retirement Schemes, we	In 2013-14, we
■ Monitor ORSO registered schemes	Processed 4 351 annual returns and financial statements
■ Monitor ORSO exempted schemes	Processed 17 overseas compliance certificates and 555 membership statements
■ Process applications for ORSO registration	Approved the registration of 22 schemes
■ Process applications for ORSO exemption	Approved exemption in respect of 24 schemes
■ Process applications for MPF exemption	Approved MPF exemption in respect of 3 ORSO registered schemes
■ Process applications for withdrawal of MPF exemption	Approved withdrawal of MPF exemption in respect of 109 ORSO registered schemes and 6 ORSO exempted schemes
■ Process applications for change of trustees for MPF exempted ORSO registered schemes	Approved 72 applications
■ Process notice of termination of ORSO registered and exempted schemes	Processed notices given by 143 registered schemes and 57 exempted schemes
■ Process notifications of changes in relation to scheme name, administrator, employer and address	Processed 3 597 notifications
■ Process applications for cessation of application of pooling agreements to ORSO registered schemes	Granted consent to 10 ORSO registered schemes

We also recover default contribution, collect periodic fee, handle complaints and enquiries, and maintain a public register on ORSO schemes.



## APPENDIX 6

# List of Major Public Education and Publicity Activities

(April 2013 – March 2014)

### a) Investment Education Programmes – to educate the public on MPF investment

May – Jul & Nov – Dec 2013	A video series on the MPF investment decision-making process was telecast on websites and out-of-home platforms.
Jun – Jul 2013 & Feb – Mar 2014	Comic strips featuring popular comic character “Maggiology” with MPF investment education messages were run on websites and smartphone applications.
Jun – Aug 2013	Online publicity was carried out to promote the addition of fund performance information to the Fee Comparative Platform on MPFA’s website.
Aug – Sep 2013	Publicity programmes were launched to highlight the points to note when transferring MPF funds. The programmes included running newspaper advertorials and radio drama segments.
Aug – Oct 2013	Advertorials and banner advertisements were run on websites to remind scheme members of the importance of a proper attitude towards managing MPF investments through experience sharing by celebrities.
Aug, Oct 2013 & Mar 2014	Roving exhibitions with game booths and the provision of personal account checking service and MPF consultation service were held in shopping malls. Online and print advertisements were placed to promote the events.
Oct 2013	An online game on investment education comic strips featuring comic character “Maggiology” was held.
Jan – Mar 2014	“MPFA TV” with six videos, in the form of TV programmes – a finance programme, cooking show, game show and a beauty contest, etc and each with a 30-second and a 60-second version, was launched on YouTube to educate scheme members on key fundamental MPF investment concepts. The new channel was publicized on websites, out-of-home platforms, newspapers and radio. An online game and an outreach event were held to enhance the publicity impact.
Feb – Mar 2014	Publicity programmes to encourage scheme members to regularly review their MPF account and investments were rolled out. The programmes included a TV drama series with a magazine advertorial on the series, as well as newspaper advertorials carrying the same messages and in the form of case studies with analyses by a Certified Financial Planner on issues related to MPF investments faced by scheme members from different age brackets and at different life stages.
Mar 2014	A public seminar was held to enhance scheme members’ understanding of MPF investment.

### b) Youth Education Programmes – to educate the younger generation on the merits of early financial planning

Activities for different youth groups	
Apr 2013 – Mar 2014	25 MPF talks were given to students of tertiary institutions and members of youth centres.
Sep – Dec 2013	A school-based programme was held to spread money management concepts to kindergarten kids and MPF messages to their parents and teachers. The programme included the publication of a storybook <i>MPF Forest</i> and holding a series of money management workshops for the kindergarten kids.
Sep 2013 – Mar 2014	106 skit performances were held to educate junior secondary school students on the proper attitude towards money management and to publicize MPF concepts. Posters with money management and MPF messages were distributed to all local secondary schools for display.
Oct 2013	An interactive online platform, which tied in with the “Other Learning Experience” in the Senior Secondary Curriculum, was launched to enable students to use their knowledge acquired in Liberal Studies, and Business, Accounting and Financial Studies to complete a number of life planning tasks related to MPF and wealth management.
Oct 2013 – Mar 2014	A series of parenting workshops on money management and the MPF System for kindergarten kids and their parents was held.

## APPENDIX 6

# List of Major Public Education and Publicity Activities (cont'd)

(April 2013 - March 2014)

Oct 2013 – Mar 2014	A recognition programme for primary school students was held to educate the students on money management, and to disseminate MPF messages to their parents and teachers.
Oct 2013 – Mar 2014	A series of school-based money management workshops with activities at various simulated scenes for senior primary school students and seminars for parents were held to educate the students on basic money management skills and the parents on MPF.
Oct 2013 – Mar 2014	24 sessions of an Other Learning Experience programme and seven sessions of an abridged version were held to educate senior secondary school students on the MPF System and the merits of making an early start in retirement planning.
Oct 2013 – Apr 2014	Programmes for students of tertiary institutions (which included on-campus promotion counters and training workshops on 3D animation production) were held to prepare them to join the MPF System and to educate them on the merits of early financial planning.
Feb 2014	A talk was given to parents of kindergarten kids with the speakers sharing knowledge of MPF investments as well as tips on coaching children to develop a proper attitude towards wealth management. A money management workshop was also organized for the children.

### Facebook fan page and other online social media

Apr 2013 – Mar 2014	MPF messages were disseminated on the Facebook fan page “Rolling My Money” and the smartphone application, MVP (Most Valuable Player) @ Workplace.
Apr 2013 – Mar 2014	Thematic campaigns and quiz games on the Facebook fan page “Rolling My Money” were held to disseminate MPF messages.
Mar 2014	The smartphone application MVP @ Workplace was revamped with new features and updated information.

### Other programmes

Apr, May, Oct, Nov 2013 and Feb 2014	MPFA participated in various career and education fairs to introduce the MPF System to participants.
Jan 2014	A youth booklet <i>My MPF Blog</i> was distributed to all local secondary school leavers.

## c) Other Education and Publicity Activities – to disseminate MPF information to the public

Apr 2013 – Feb 2014	An MPF information counter was set up at the Construction Industry Recruitment Day for Ethnic Minorities organized by the Hong Kong Construction Industry Council (Apr 2013).
	A seminar was organized for staff of social service organizations serving ethnic minorities (Apr 2013).
	A seminar was organized for ethnic minorities (Feb 2014).
Apr 2013 – Mar 2014	A publicity and education campaign on Consolidation of MPF Personal Accounts was rolled out.
Apr 2013 – Mar 2014	91 talks were organized for various stakeholders and scheme members.
Jun, Sep, Dec 2013 & Mar 2014	Four issues of the <i>MPFA Newsletter</i> were published.
Jul – Aug 2013	Publicity was carried out to remind employers to make MPF contributions on time. Print advertisements were placed in local newspapers and publications of major employers and human resources associations.
Jul – Dec 2013	Publicity was given on the new minimum relevant income level for mandatory MPF contributions.
Jan 2014	A “2014 MPF Contribution Days” calendar was uploaded onto MPFA’s website.
Mar 2014	A three-lecture course on MPF investment and retirement planning for “Friends of MPF” was organized.

## APPENDIX 7

# Definition of Terms

### a) ORSO Schemes

Defined benefit scheme	Means an ORSO scheme which is not a defined contribution scheme.
Defined contribution scheme	Means an ORSO scheme which provides that the amount of a benefit under the scheme is to be an amount determined solely by reference to: <ul style="list-style-type: none"> <li>■ the contributions to the scheme's funds by or in respect of the member concerned and any declared return in respect of such contributions (where such return may be subject to a minimum guaranteed rate but is otherwise unascertainable before it is declared); and</li> <li>■ where appropriate, the qualifying service and age of the employee.</li> </ul>
Member	Includes, in relation to an ORSO scheme, an individual who is entitled or prospectively entitled to benefits under the scheme by virtue of: <ul style="list-style-type: none"> <li>■ the individual's employment by the relevant employer (whether past or present) of the scheme; or</li> <li>■ an agreement made between the relevant employer of the first-mentioned scheme and the relevant employer of another ORSO scheme of which such individual was formerly a member, whether or not such individual is a party to the agreement,</li> </ul> and where appropriate, "member" also includes the estate of a deceased member.
MPF exempted ORSO scheme	Means an ORSO scheme in respect of which an exemption has been granted under section 5 of MPFSO. Members, or a class of members, of such a scheme and their employer are exempt from the operation of all or any specified provisions of MPFSO.
Occupational retirement scheme/ ORSO scheme	Means, subject to section 2(6) of ORSO, any scheme not being a contract of insurance under which benefits are payable only upon the death or disability of the insured, which: <ul style="list-style-type: none"> <li>■ is comprised in one or more instruments or agreements; and</li> <li>■ has or is capable of having effect in relation to one or more descriptions or categories of employment so as to provide benefits, in the form of pensions, allowances, gratuities or other payments, payable on termination of service, death or retirement, to or in respect of persons gainfully employed (whether in Hong Kong or elsewhere) under a contract of service in any employment,</li> </ul> and includes, where the context admits, a proposed such scheme.
ORSO exempted scheme	Means: <ul style="list-style-type: none"> <li>■ an ORSO scheme in respect of which an exemption certificate has been issued under section 7 of ORSO and any withdrawal under section 12 of that Ordinance has not come into effect; or</li> <li>■ an ORSO scheme within the meaning of ORSO where the employer of the scheme is the government of a place outside Hong Kong or an agency or undertaking of or by such a government which is not operated for the purpose of gain.</li> </ul>
ORSO registered scheme	Means an occupational retirement scheme registered under section 18 of ORSO.
ORSO scheme administrator	Means: <ul style="list-style-type: none"> <li>■ in the case of a scheme or pooling agreement governed by a trust, the trustee concerned;</li> <li>■ in the case of a scheme or pooling agreement which is the subject of or regulated by an insurance arrangement, the insurer concerned;</li> <li>■ in any other case, the person who is principally responsible for the management of the scheme and its assets otherwise than as a person who is solely concerned with the investment or custody of the assets.</li> </ul>

## APPENDIX 7

### Definition of Terms (cont'd)

Pooling agreement	<p>Means an agreement or arrangement:</p> <ul style="list-style-type: none"> <li>■ which is: <ul style="list-style-type: none"> <li>(i) governed by a single trust; or</li> <li>(ii) the subject of or regulated by an insurance arrangement including a series of insurance arrangements which are of the same class or description;</li> </ul> </li> <li>■ which applies to two or more individual ORSO schemes each of which is: <ul style="list-style-type: none"> <li>(i) governed by such trust; or</li> <li>(ii) (where appropriate) the subject of or regulated by such insurance arrangement, by virtue of such application;</li> </ul> </li> <li>■ under which, in the case of an agreement or arrangement governed by such trust, the assets of its participating schemes are vested with the administrator of the agreement or arrangement, as the case may be;</li> <li>■ which is managed, in the case of an agreement or arrangement governed by such trust, by a registered trust company;</li> <li>■ in relation to which, and its participating schemes, proper accounts and records are kept; and</li> <li>■ under which the value of the assets attributable to, and the liabilities of, each of its participating schemes are readily determinable from such accounts and records.</li> </ul>
Registrar of Occupational Retirement Schemes	Means MPFA.

#### b) MPF Schemes

Accrued benefits	Means the amount of each scheme member's beneficial interest in an MPF scheme, including sums derived from the contributions made by or in respect of that scheme member, together with any related profits or losses arising from any investments of the contributions.
Approved pooled investment fund	Means a type of investment fund that a constituent fund invests into. Such fund can be in form of an insurance policy or a unit trust.
Casual employee	Means an employee who is at least 18 but under 65 years of age, and is employed in the construction industry or the catering industry on a day-to-day basis or for a fixed period of less than 60 days.
Constituent fund	In relation to an MPF scheme, means the fund that constitutes an MPF scheme, or a fund that forms part of the scheme, and complies with the requirements set out in section 36 of the Mandatory Provident Fund Schemes (General) Regulation.
Employer sponsored scheme	Means a provident fund scheme registered under section 21 of MPFSO as an employer sponsored scheme whose membership is limited to the employees of a single employer and its associated companies (if any).
Industry scheme	Means a provident fund scheme registered under section 21A of MPFSO as an industry scheme. This type of scheme is specially designed for employees who are engaged in industries with high labour mobility. Currently there are two industry schemes, each of which is available to employees, employers and self-employed persons in the construction and catering industries.

Mandatory contribution	<p>Means:</p> <ul style="list-style-type: none"> <li>■ in the case of an employee, an amount which is equal to 10% of the employee's relevant income (5% payable by the employer out of its own funds, 5% payable by the employee to be deducted from his/her relevant income) except in the following cases: <ul style="list-style-type: none"> <li>(i) for employees whose relevant income exceeds the maximum relevant income level – each of employer's mandatory contributions and employee's mandatory contributions is capped at 5% of the maximum relevant income level; and</li> <li>(ii) for employees whose relevant income is below the minimum relevant income level – employees are relieved of the obligation to make employee's mandatory contributions, though their employers are still required to make employer's mandatory contributions for them; and</li> </ul> </li> <li>■ in the case of a self-employed person, an amount which is equal to 5% of the self-employed person's relevant income except in the following cases: <ul style="list-style-type: none"> <li>(i) for self-employed persons whose relevant income exceeds the maximum relevant income level, mandatory contributions is capped at 5% of the maximum relevant income level; and</li> <li>(ii) for self-employed persons whose relevant income is below the minimum relevant income level, they are not obliged to make mandatory contributions.</li> </ul> </li> </ul>
Master trust scheme	<p>Means a provident fund scheme registered under section 21 of MPFSO as a master trust scheme whose membership is open to:</p> <ul style="list-style-type: none"> <li>■ the employees of more than one employer;</li> <li>■ self-employed persons and former self-employed persons; and</li> <li>■ persons who wish to have their benefits transferred to such a scheme from an ORSO exempted scheme or an ORSO registered scheme.</li> </ul>
MPF trustee	<p>Means a company or a natural person approved by MPFA as a trustee in accordance with section 20 of MPFSO.</p>
Provident fund scheme	<p>Means a scheme governed by a trust:</p> <ul style="list-style-type: none"> <li>■ the terms of which are set out in one or more documents; and</li> <li>■ that: <ul style="list-style-type: none"> <li>(i) provides for the payment of pecuniary benefits to the members of the scheme when they reach the retirement age, or any other prescribed event occurs in relation to them; or</li> <li>(ii) in the case of members who die before reaching that age or before the occurrence of such an event, provides for the payment of those benefits to the personal representatives or beneficiaries of the estates of those members,</li> </ul> </li> </ul> <p>and includes a proposed provident fund scheme.</p>
Registered scheme	<p>Means a provident fund scheme registered under the relevant provisions of MPFSO as:</p> <ul style="list-style-type: none"> <li>■ an employer sponsored scheme;</li> <li>■ a master trust scheme; or</li> <li>■ an industry scheme.</li> </ul> <p>The term is usually used interchangeably with MPF scheme.</p>
Relevant employee	<p>Means an employee who is at least 18 but under 65 years of age.</p>
Relevant income	<p>Means:</p> <ul style="list-style-type: none"> <li>■ in the case of a relevant employee, any wages, salary, leave pay, fee, commission, bonus, gratuity, perquisite or allowance, expressed in monetary terms, paid or payable by an employer (directly or indirectly) to that relevant employee in consideration of the employee's employment under that contract, but does not include severance payments or long service payments under the Employment Ordinance;</li> <li>■ in the case of a self-employed person, income of that person as ascertained in accordance with the regulations made under section 46 of MPFSO and in force.</li> </ul>
Retirement age	<p>In relation to an employee or a self-employed person, means 65 years of age or, if the regulations made under section 46 of MPFSO and in force prescribe an earlier age, that earlier age.</p>

## APPENDIX 7

# Definition of Terms (cont'd)

Scheme member	In relation to an MPF scheme, means a person who has a beneficial interest in the MPF scheme.
Self-employed person	Means a person whose relevant income is derived from the person's production of goods or services in Hong Kong, or trade in goods or services in or from Hong Kong.
Service provider	In relation to a provident fund scheme, means an investment manager, custodian of scheme assets or other person appointed or engaged by the trustee of the scheme to provide services for the purposes of the scheme, and includes a person to whom the provision of those services is delegated by such a manager, custodian or other person, but does not include a person appointed or so engaged as an auditor, solicitor, actuary or registered intermediary.
Voluntary contribution	Means the amount of contributions paid by employers, employees or self-employed persons to an MPF scheme exceeding the amount of mandatory contributions required to be paid under MPFSO.

## c) Abbreviations

APIF	stands for	approved pooled investment fund
ASFA	stands for	Association of Superannuation Funds Australia
AVS	stands for	Agency for Volunteer Service
CPD	stands for	Continuing Professional Development
CPI	stands for	Consumer Price Index
CRE	stands for	Central Register of Establishments
CSR	stands for	corporate social responsibility
ECA	stands for	Employee Choice Arrangement <sup>1</sup>
ePASS	stands for	Electronic Portability Automation Services System <sup>2</sup>
FER	stands for	Fund Expense Ratio
HKICPA	stands for	Hong Kong Institute of Certified Public Accountants
HKSAR	stands for	Hong Kong Special Administrative Region
IAQ	stands for	indoor air quality
IOPS	stands for	International Organisation of Pension Supervisors
IRR	stands for	internal rate of return
ISC	stands for	MPF Industry Schemes Committee
MPF	stands for	mandatory provident fund
MPFA	stands for	Mandatory Provident Fund Schemes Authority
MPFSAC	stands for	Mandatory Provident Fund Schemes Advisory Committee
MPFSO	stands for	Mandatory Provident Fund Schemes Ordinance
OECD	stands for	Organisation for Economic Co-operation and Development
ORSO	stands for	Occupational Retirement Schemes Ordinance
RI	stands for	relevant income
SMW	stands for	Statutory Minimum Wage
SEP	stands for	self-employed person
SFC	stands for	Securities and Futures Commission
SWC	stands for	Staff Welfare Committee
VT	stands for	Volunteer Team

<sup>1</sup> An arrangement that allows employees to elect to transfer the MPF accrued benefits derived from employees' mandatory contributions made during current employment and held in a contribution account under an MPF scheme to an MPF scheme of their own choice on a lump sum basis once per calendar year.

<sup>2</sup> An electronic system put in place in 2012 to standardize and automate the transfer process of MPF accrued benefits by transmitting data on scheme members' transfer requests electronically among MPF trustees.

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Level 16, International Commerce Centre  
1 Austin Road West, Kowloon, Hong Kong

Hotline : (852) 2918 0102  
Facsimile : (852) 2259 8806

**[www.mpfa.org.hk](http://www.mpfa.org.hk)**

