



MANDATORY PROVIDENT FUND  
SCHEMES AUTHORITY



STANDARDIZATION  
STREAMLINING  
AUTOMATION



ANNUAL REPORT  
— 2017-18 —



MPFA is taking a firm step towards its vision “to build a retirement savings system that is valued by Hong Kong people”. Standardization, streamlining and automation of MPF scheme administration is a major initiative towards this goal. As part of the initiative, a digitalization project, preliminarily known as eMPF, is in progress, under which we are drawing up the blueprint of a centralized electronic platform to automate scheme administration for greater efficiency and better user experience.

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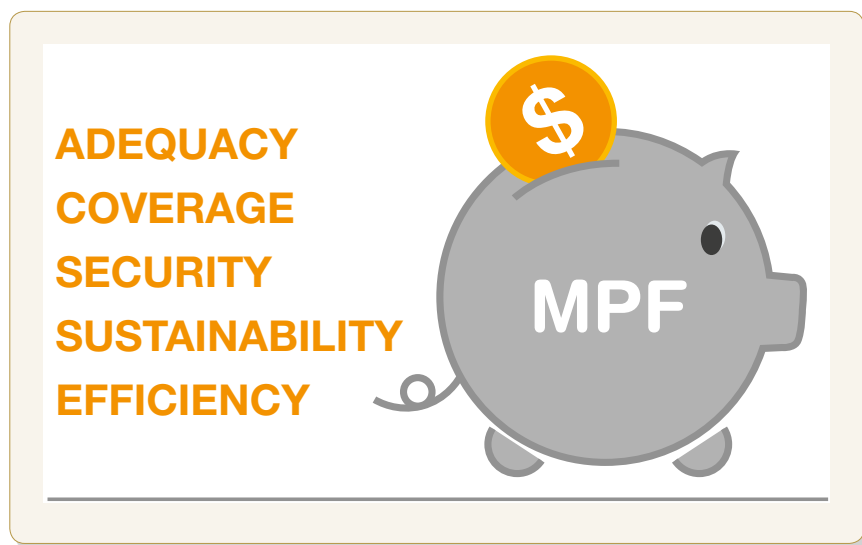
# A Snapshot of the Mandatory Provident Fund (MPF) System

As an integral part of the retirement protection framework in Hong Kong, the MPF System is established under the Mandatory Provident Fund Schemes Ordinance (MPFSO) to help the workforce set aside savings for retirement. The MPF System came into operation on 1 December 2000.

Below is a snapshot of the MPF System with reference to the five key outcomes of a private pension system identified by the World Bank: adequacy, coverage, security, sustainability and efficiency.

## (1) Adequacy:

MPF alone is inadequate for retirement by design, as it is only one of the pillars under the multi-pillar retirement protection system in Hong Kong. MPF mandatory contribution rate <sup>1</sup> is relatively low and the amount of mandatory contributions is limited by the minimum and maximum relevant income (RI) levels <sup>2</sup>. To help build up retirement savings, more and more scheme members and their employers are making further regular contributions voluntarily on top of the mandatory amount of MPF contributions.



<sup>1</sup> Currently, an employee and his/her employer are each required to contribute 5% of the employee's relevant income (RI) as MPF mandatory contributions for and in respect of the employee.

<sup>2</sup> An employee whose RI is less than the minimum RI level is not required to make MPF mandatory contributions. An employee and an employer are not required to make MPF mandatory contributions in respect of the amount of RI in excess of the maximum RI level.

## A Snapshot of the MPF System

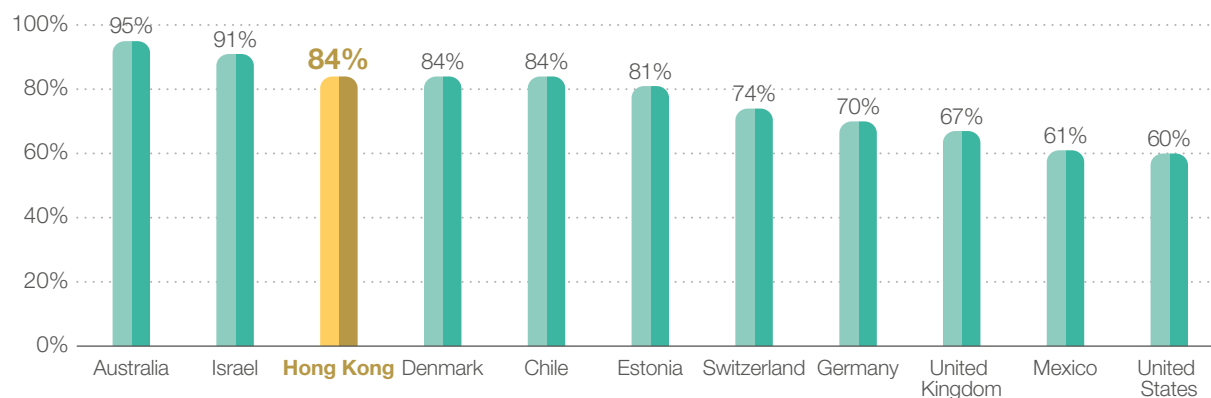
### (2) Coverage:

MPF has wide coverage. Employees and self-employed persons aged 18 to 64, unless exempt under the MPFSO, are covered by the MPF System.

84% of total employed population is covered under MPF schemes, schemes that are governed by the Occupational Retirement Schemes Ordinance (ORSO)<sup>3</sup>, or statutory pension or provident fund schemes. Most of the employed population who are not covered by private pension schemes in Hong Kong are exempt persons, including domestic employees and those aged above 65 or below 18.

#### Coverage of Private Pension Schemes

Coverage (as a % of labour force/working-age population)



#### Notes:

Figure for Australia refers to the Superannuation System only; figure for Denmark refers to the ATP System only; figure for Estonia refers to the Mandatory Funded Pension System only. Jurisdictions with mandatory private pension systems include Australia, Chile, Denmark, Estonia, Hong Kong, Israel, Mexico and Switzerland; jurisdictions with voluntary private pension systems include Germany, the United Kingdom and the United States.

#### Sources of data:

Australian Bureau of Statistics;

Office for National Statistics, UK; and

Organisation for Economic Co-operation and Development (OECD).

<sup>3</sup> ORSO schemes are retirement schemes set up voluntarily by employers to provide retirement benefits for their employees.

## A Snapshot of the MPF System

### (3) Security:

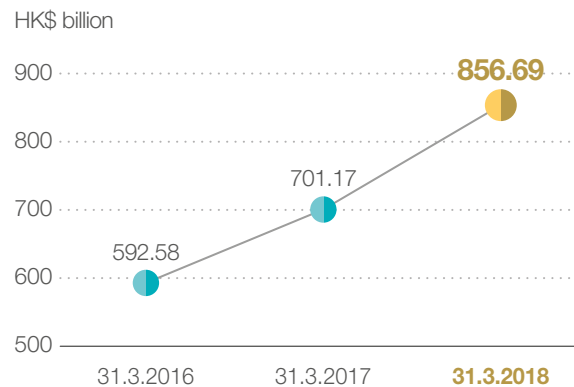
**Sound legal and financial system:** MPF savings are safeguarded under a sound legal and financial system in Hong Kong with high governance standards and robust regulation.

**Assets under trust:** MPF schemes are managed and maintained under trust by MPF trustees who must meet stringent statutory criteria. MPF assets are under the safe custody of qualified custodians and are kept separate from those of employers, MPF trustees and other service providers.

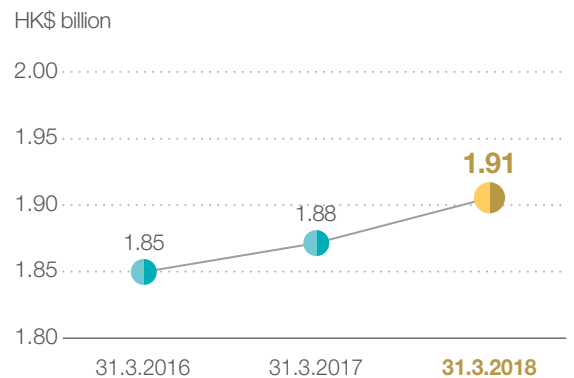
**Stringent regulation:** The interests of scheme members are protected by a comprehensive approval, monitoring and regulatory regime. The Mandatory Provident Fund Schemes Authority (MPFA) supervises MPF trustees to ensure their compliance with the MPF legislation and to facilitate early detection and correction of errors and deficiencies.

**‘Safety net’:** MPF trustees are required to take out professional indemnity insurance to indemnify scheme members against losses sustained from prescribed risks, such as fraud and negligence of MPF trustees or their service providers. Where such losses are not sufficiently indemnified by the professional indemnity insurance, scheme members may seek compensation from a Compensation Fund set up under the MPFSO to compensate scheme members for any loss in MPF benefits attributable to misfeasance or illegal conduct committed by MPF trustees or any other persons concerned with the administration of MPF schemes.

#### Net Asset Value of MPF Schemes



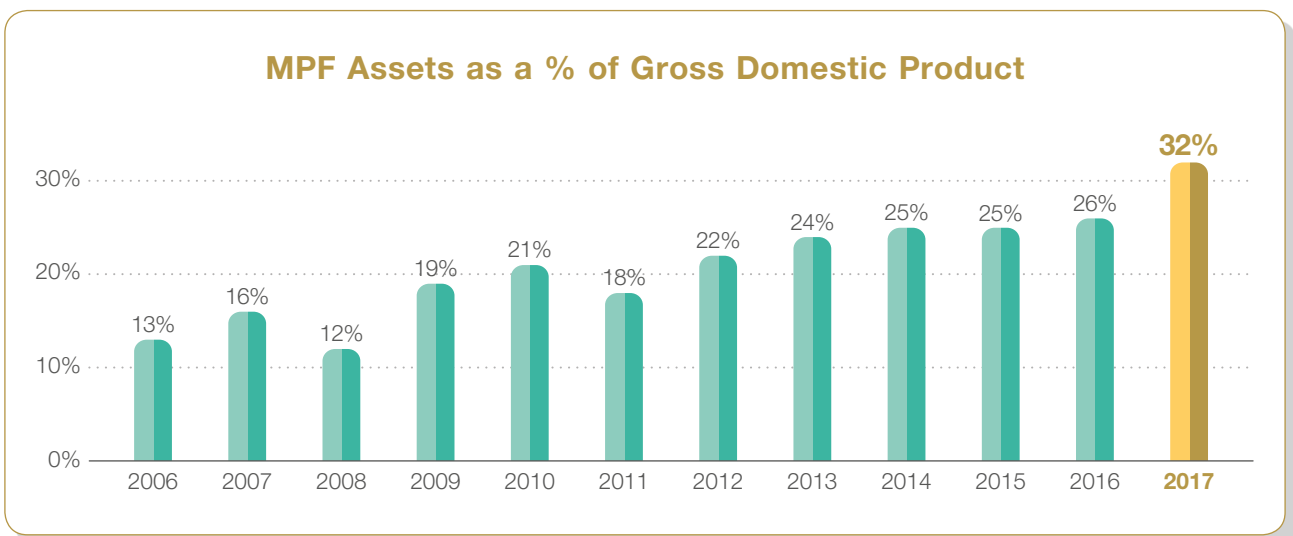
#### Value of MPF Schemes Compensation Fund



## A Snapshot of the MPF System

### (4) Sustainability:

Fully-funded defined contribution systems like MPF are financially sustainable without placing burdens on government, employers or employees for financing any shortfall of under-funded schemes in order to deliver savings outcomes. MPF is also growing in size as relative to the domestic economy. As at 31 March 2018, MPF assets reached \$856.69 billion, representing approximately 32% of Hong Kong's Gross Domestic Product in 2017.



Sources of data: MPFA and Census and Statistics Department.

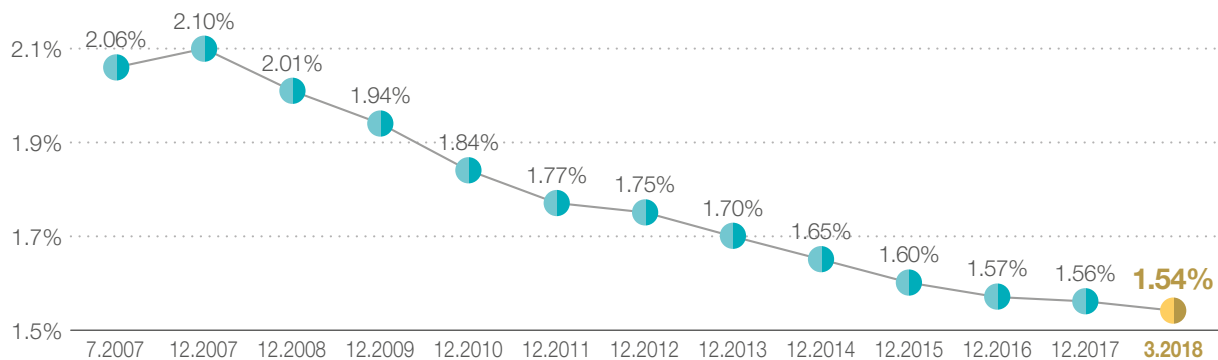
## A Snapshot of the MPF System

### (5) Efficiency:

The efficiency of the MPF System has improved with costs being lowered over the years, through various initiatives undertaken by MPFA.

Employees' control over their MPF has been enhanced under the Employee Choice Arrangement <sup>4</sup>. Better retirement solutions are available for achieving better savings outcomes under the Default Investment Strategy <sup>5</sup>. As one of our major objectives, we continuously enhance communication, public education and stakeholders engagement, and MPF information transparency. With the help of technology, a centralized electronic platform is being pursued to strengthen the MPF scheme administration infrastructure, with a view to bringing in greater efficiency and cost-effectiveness to the MPF System in the long run.

**Trend of Average Fund Expense Ratio <sup>6</sup> of MPF Funds**



<sup>4</sup> An arrangement launched in 2012 to allow employees to transfer on a lump sum basis once every calendar year the MPF benefits arising from employees' mandatory contributions in their MPF contribution accounts to a trustee and a scheme of their own choice.

<sup>5</sup> A ready-made investment solution with fee control, automatic risk adjustment according to age and globally diversified, which is designed with the help of OECD experts as suitable for long-term retirement savings. It was launched in April 2017 for MPF scheme members who are not interested or do not wish to make a selection of MPF funds and as an investment choice to scheme members who find it suitable for their own circumstances.

<sup>6</sup> Fund expense ratio (FER) is 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 FER, the higher the percentage of expenses to fund sizes.



## A Snapshot of the MPF System

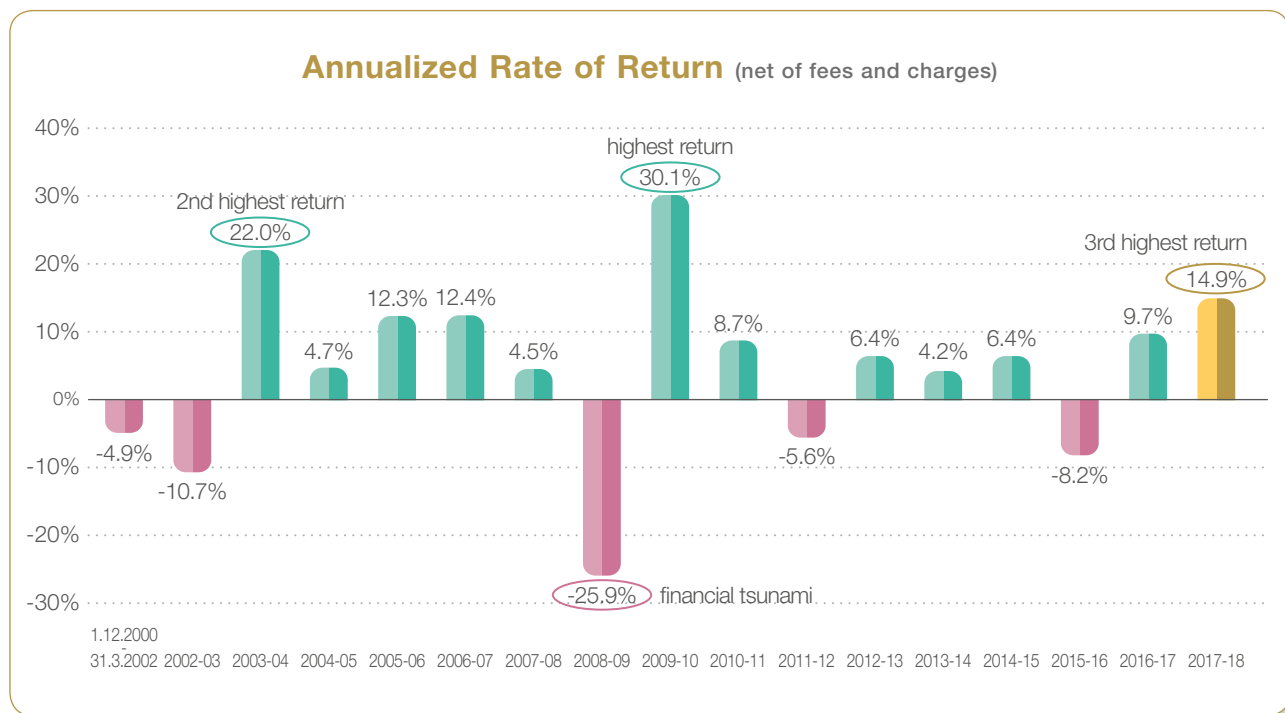
### About MPF Performance

The overall return of the MPF System mirrors the conditions of the financial market and scheme members' collective investment choices among the MPF fund types (i.e. equity fund, mixed assets fund, bond fund, guaranteed fund and money market fund).

A salient characteristic of scheme members' collective choices is the dominance of Hong Kong and other Asian markets in the overall allocation of MPF assets. The MPF System is also characterized by a relatively high exposure of MPF assets to equities (close to 70% of total assets as at 31 March 2018), making the investment return of the MPF System more susceptible to the performance of equity markets.

For the year ended 31 March 2018, the MPF System recorded an overall return of 14.9% after fees and charges, the highest rate since 2010-11 and the third highest since the inception of the MPF System. The annualized rate of return (net of fees and charges) of the MPF System as a whole was 4.7% for the period from 1 December 2000 (inception of the System) to 31 March 2018<sup>7</sup>, higher than the 1.8% annual inflation rate over the same period. As at 31 March 2018, about one-third of the MPF assets (\$268.05 billion out of \$856.69 billion) were investment returns.

Individual scheme members' MPF savings outcomes hinge on their own investment decisions and are reported in their Annual Benefit Statements.



<sup>7</sup> The return of the MPF System was calculated by way of the internal rate of return (IRR), a method commonly known as the dollar-weighted return. The IRR method takes into account the amount and timing of contributions made into and benefits withdrawn from the MPF System.

## Chairman's Statement

Under the MPF System, scheme members accumulate savings for their retirement through MPF schemes operated by trustees. We have often emphasized that trustees are fiduciaries and have the duty to act in the best interests of scheme members.

As the regulator overseeing the operation of the MPF System, MPFA is similarly mindful of how the System is run in the best interests of scheme members and creates value for them.

### Asset Growth

The year 2017 has been fruitful for investors. In line with the performance of the capital market, MPF investments recorded an overall return of 14.9% (net of fees and charges) for the financial year 2017-18, the third highest since the inception of the MPF System in December 2000.

For the period from 1 December 2000 to 31 March 2018, the annualized rate of return (net of fees and charges) of the MPF System as a whole was 4.7%, higher than the 1.8% annual inflation rate over the same period.

As at the end of March 2018, total assets in the MPF System amounted to \$856.69 billion, including \$588.64 billion of contributions (net of amounts withdrawn) and \$268.05 billion of investment returns (net of fees and charges). In other words, about one-third of the total assets under management is investment returns. There is no doubt that the MPF System has added value to scheme members' retirement savings.

### Financial Inclusion

Looking beyond the figures, we will notice that the MPF System has brought about changes in the Hong Kong community.

By mandating contributions to registered schemes, the MPF System helps the workforce develop investment discipline and set aside small sums regularly for their retirement reserves.

While quality products in the retail market are hardly accessible to individuals with only small sums to invest, the MPF System has made this possible – the small amounts of MPF savings contributed by many scheme members are pooled together and invested into quality markets and diversified portfolios through stringently regulated financial products managed by major financial institutions.

The contributions and their investment returns are accumulated over time to provide basic retirement protection. Furthermore, through managing their MPF accounts and with the benefit of education on retirement investment, scheme members acquire basic investment knowledge, which they may apply in managing and growing their other investments.





David Wong  
Chairman

## Chairman's Statement

When small savers are given access to quality investment products and equipped with basic investment skills, fund investment and asset accumulation for retirement is no longer a privilege of high asset individuals.

## Adding Further Value

To add further value to scheme members, the most important thing is to help them grow their savings. This has been and will remain the key objective of MPFA's work.

### Fees

Fee level is a factor that directly affects savings outcomes. All other things being equal, the lower the fees, the higher the net returns.

MPFA has pursued a range of initiatives to help bring down the level of fees through better working of market forces and streamlined administrative processes. MPF trustees have introduced various levels of fee reductions, benefiting millions of MPF account holders.

As a result, the average fund expense ratio, a measure of the total level of expenses incurred in investing through an MPF fund, has dropped by 25% to 1.54% over the past 10 years.

The fee-controlled Default Investment Strategy (DIS), launched on 1 April 2017, makes available a simple and low-fee retirement solution to scheme members. The fee cap, working through market forces, will likely place further downward pressure on fees of MPF funds.

Meanwhile, we are working on a blueprint for a centralized electronic platform to support the scheme administration of all MPF trustees. With scheme administration simplified and automated, user experience enhanced and operating costs reduced after the launch of this platform, there will be greater room for fee reduction and consequentially better returns for scheme members.

### Returns

Another key factor affecting the value of savings is investment returns. It is true that investment returns depend a lot on market performance and are often beyond the control of the investing public. Nevertheless, trustees can play a part in safeguarding scheme members' interests in this respect.

Trustees can help by offering investment products with risk-return profiles suitable for retirement investment. Their decision in picking diligent, well-performing asset managers can make a significant difference to a retiree's income over an investment period of several decades. Their ongoing monitoring of fund performance is also essential. Actions should be taken if a fund shows consistently poor performance, including replacing the fund manager.

As a regulator, MPFA spares no efforts in supervising trustees for the proper discharge of their duties, spearheading the development of a robust governance culture and the provision of value-for-money products and services, and advocating the importance of putting scheme members' interests first. The messages were conveyed through a programme of regulatory visits to and meetings with trustees and was reiterated at a Governance Workshop held in October 2017. Trustees further pledged their commitment to a Governance Charter in May 2018, and will be given more guidance in this regard going forward.

### Account management

The returns of retirement savings are also dependent on the decisions made by scheme members. In choosing the funds they would like to invest in, scheme members should take account of various factors, including their age and risk tolerance level.

The Fund Performance Platform newly launched in February 2018, together with other tools available on MPFA's website, provides comprehensive fund information to help scheme members review funds from different perspectives to see whether the selected funds suit their retirement needs.

## Chairman's Statement

During the investment period which often spans decades, scheme members should bear in mind that MPF is a long-term retirement investment and that they should not focus on short-term market fluctuations. By attempting to time the market, they may risk selling low and buying high.

In addition to MPFA's investment education efforts, I have launched a blog on MPFA's website since March 2018 to communicate directly with scheme members and the public at large. I will use the blog to share my thoughts on various issues related to MPF, enhance public understanding of the MPF System, and share some tips on MPF management.

## Increasing Inflow and Reducing Outflow

With a modest contribution rate of 5% each from the employer and the employee which is further subject to a cap, MPF savings have always been considered inadequate for retirement. The situation is aggravated when the employer's portion is offset against severance payment or long service payment.

I am therefore glad that the Government has expressed its determination to abolish the offsetting arrangement. This will ultimately stop the leakage from the MPF System and retain the full amount of MPF savings for retirement.

MPF is designed to provide basic retirement protection for scheme members. We have all along encouraged scheme members to save more on top of their mandatory contributions to boost their retirement savings. The Financial Secretary's proposal on tax concessions for MPF voluntary contributions is therefore most welcome. With this incentive, I hope that scheme members will set aside more for their MPF savings pot.

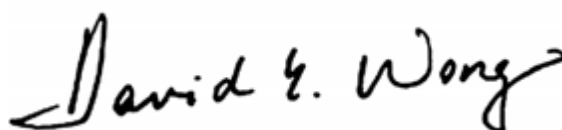
## Acknowledgements

In mapping out policies and strategies in the best interests of scheme members, I am fortunate to have the wise guidance and strong commitment of my fellow Management Board members. The valuable advice and staunch support of the MPF Schemes Advisory Committee and the MPF Industry Schemes Committee are also indispensable.

During the year, the industry contributed significantly to various initiatives, including the implementation of DIS and the planning for the eMPF platform, and provided valuable comments on a number of proposals. I am most thankful to them for their professional efforts and unwavering support.

My sincere appreciation goes to the staff of MPFA who, under the capable leadership of Managing Director Mrs Diana Chan, put in another year of dedicated hard work and relentless efforts.

Having served MPFA for over 18 years, Mrs Diana Chan will be retiring in mid-2018. She has played a crucial role in steering MPFA and the MPF System through good and bad times. Under her leadership, many significant reforms of the MPF System were rolled out, resulting in greater transparency, lower fees, expanded employee control over their MPF investments, and availability of a ready-made investment solution suitable for long-term retirement savings. I would like to express my heartfelt thanks to Mrs Chan for her dedication and enormous contributions over the years, and wish her happiness in her retirement.



David Wong Yau-kar  
Chairman



# Managing Director's Review and Outlook

MPFA's vision is "to build a retirement savings system that is valued by Hong Kong people".

We believe that a retirement savings system can win support if it provides value-for-money products and services, generates favourable savings outcomes, and is simple, cost-efficient, user-friendly, reliable and sustainable.

With such a desired system in mind, we need to always ask ourselves how MPF is doing and whether we are taking a firm step towards achieving our vision.

## The Year in Review

Let us first take a look at what we have accomplished in the past year.

### Enhancing the MPF System

Overall MPF returns reflect scheme members' collective fund choices and market conditions, and scheme members play a vital part by actively managing their MPF in order to achieve good savings outcomes.

However, some scheme members may not know how to choose MPF funds or are not interested in managing their MPF. The types of funds designated as default funds in different MPF schemes in the past also differed substantially.

The launch of the Default Investment Strategy (DIS) on 1 April 2017 has achieved our objective of standardizing the default arrangements of all MPF schemes. Developed with the help of international experts as suitable for long-term retirement savings and with fees capped, DIS is designed to address scheme members' concerns about high fees and the difficulty of making investment decisions.

This is only a small step forward. We hope that as and when scheme members understand DIS better, they will put more investments into DIS. We also expect DIS to serve as a benchmark for other MPF funds to adjust their fees downwards. In fact, since the passage of the legislation on DIS in May 2016 and up to 31 March 2018, 93 MPF funds have reduced their fees.





**Diana Chan**  
*Managing Director*

## Managing Director's Review and Outlook

### Supervising the industry

As we pointed out at the Workshop on Governance of MPF trustees in October 2017, MPF trustees, though not public trustees per se, are actually “trustees of the public”.

MPF trustees may have a client relationship with scheme members for some 40 years. As professionals entrusted with the management of over \$850 billion MPF savings which is set to grow further, trustees have a significant and fundamental responsibility to work for scheme members' greatest benefit.

We continued our efforts to enhance trustees' governance standards and compliance culture. Following a round of visits to their boards of directors to exchange views on governance issues, we shared with them our observations and recommended practices, and organized the Governance Workshop to promote a higher standard of governance among them.

A number of trustees have responded positively by incorporating “value for money” and “members first” as core values in their business plans for the coming years.

Putting this into action, some trustees have started to refine their fund investment structures, or are prepared to upgrade and revamp their MPF administration systems or enhance members' engagement through digital means.

It is encouraging that all 14 MPF trustees have endorsed a Governance Charter for MPF Trustees on 24 May 2018. This marks their commitment to promoting a strong governance culture and continued delivery of better value to scheme members.

### Protecting scheme members' interests

We continued to take enforcement actions against non-compliant employers and recover outstanding MPF contributions on behalf of employees.

To further improve the recovery process, trustees were asked to proactively follow up with their clients (i.e. employers) to promptly rectify MPF contributions in arrears. Trustees would also help clarify common misconceptions in handling MPF contributions and encourage their clients to make use of electronic services in dealing with MPF matters to reduce administrative errors at the outset.

In the year, we investigated over 55 000 suspected cases of employers defaulting on contributions and recovered \$127.2 million in default MPF contributions and surcharges on behalf of scheme members. The vast majority of the default contributions were recovered through persuasion and counselling of the employers concerned by MPFA, without having to resort to legal actions.

We also followed up cases that resulted in 548 employers being prosecuted during the year, of which 356 were convicted and fined, and two directors were sentenced to imprisonment.

To safeguard scheme members against improper sales practices, we impose disciplinary sanctions on MPF intermediaries in respect of substantiated cases of non-compliance with statutory conduct requirements. In the year, we made a disciplinary order of six-month suspension of registration against an MPF intermediary who had contravened the conduct requirements of acting honestly, fairly, in the best interests of scheme member and with integrity.



## Managing Director's Review and Outlook

### Educating the public

Public education and enhanced disclosure of MPF information are our key tools to help scheme members manage their MPF effectively.

In the year, we organized a variety of activities, held more than 300 talks and workshops and produced a number of educational materials in different forms to enhance and deepen the public's understanding and acceptance of MPF.

Various channels and platforms, including online social media that is more appealing to the younger generation, were used to widely disseminate MPF messages. We are the first among public organizations in Hong Kong to launch a messenger bot, offering an innovative channel to chat with users on MPF matters.

In addition to the comparative platforms on fees and trustee services, we launched a Fund Performance Platform in the year on our website to provide easy access to key information about the performance of MPF funds. The enhanced transparency will facilitate decision-making on MPF investment.

### How We are Doing

We have gone through another year packed with activities to refine and develop the MPF System. With the efforts made over the years, have we created value for scheme members?

Whether or not MPF adds value to one's retirement protection can probably be judged from the following remarkable statistics: the total net asset value of MPF has grown within a relatively short contribution period of 17 years from launch to \$856.69 billion as at 31 March 2018, an amount equivalent to about 78% of Hong Kong's fiscal reserves or 32% of Hong Kong's Gross Domestic Product; each scheme member has on average accumulated about \$200,000; and about 30 000 MPF accounts have accumulated more than \$1 million MPF savings.

### An International Perspective

With reference to the key outcomes of a private pension system identified by the World Bank, MPF is doing well in terms of coverage, security and sustainability, and is catching up in areas relating to adequacy and efficiency.

#### Adequacy

By design, MPF alone is not adequate for retirement, given that it is only one of the pillars under the multi-pillar retirement protection system in Hong Kong.

Moreover, contributions are limited due to a relatively low rate of mandatory contributions which is further subject to the minimum and maximum relevant income (RI) levels.

The RI levels are reviewed regularly and adjusted when necessary to better reflect the income distribution of the workforce in Hong Kong. A round of review is now in progress. Adjustments to the RI levels are crucial for maintaining an appropriate amount of benefits for retirement saving purposes.

With the abolition of the offsetting arrangement and the introduction of tax deductible voluntary contributions in future, it is expected that more savings will be retained in scheme members' MPF accounts to better meet their retirement needs.

#### Efficiency

As to efficiency, we have reviewed and improved the MPF legislation to streamline and simplify MPF scheme administration over the years, launched better solutions for retirement saving purposes, and worked with trustees to merge less efficient schemes and funds.

For the long run, we are now working towards strengthening the infrastructure of the MPF System with the help of technology to transform it to a truly simple, cost-efficient and user-friendly system.

## Managing Director's Review and Outlook

### Firm Step Forward

In an age of digitalization, the MPF System can ride on technological advancement and further improve its operational efficiency.

It is MPFA's key focus area in the next few years to put in place the eMPF centralized electronic platform to standardize, streamline and automate MPF administration and get rid of the current cumbersome and complicated administrative processes.

The direction of developing eMPF was affirmed in the Policy Addresses delivered in January and October 2017. The Government has set up a working group with MPFA and the trustees to steer the development of the eMPF infrastructure. We fully support the working group and will proceed with the project under the firm steer of the Government.

eMPF will bring about fundamental and significant changes to the administration of the MPF System. Once launched, it will contribute to a simpler, cheaper, more reliable and more user-friendly system, deliver much better user experience, significantly improve the cost efficiency of MPF administration, and enable future reforms in the years to come.

We would not underestimate the challenges involved. The success of eMPF would be highly dependent on various factors, notably the willingness of scheme members and employers to go electronic. Nevertheless, with the efforts of all parties concerned, we are cautiously optimistic that the project will come to fruition and eMPF could ultimately benefit scheme members and the MPF System as a whole.

### Looking Ahead

Retirement savings systems take some 40 years to mature. Being half way through the journey, the MPF System is notably under a continuous process of development and refinement.

In the early years, the focus of reform was on refining the administrative and operational aspects of the MPF System. This was followed by the introduction of the Employee Choice Arrangement, which enhances employees' autonomy in their choice of investments, and then the launch of DIS, which offers a fee-capped investment solution suitable for retirement savings. Now we are working on eMPF to improve efficiency, lower costs and enhance user experience.

Going forward, it is important to make the MPF System and its products simple and easy to understand. Introducing solutions that meet the objective of long-term retirement saving and improving the transparency of product information to facilitate investment decision-making will go a long way towards bringing about better value to scheme members' retirement.

### Vote of Thanks

I would like to express my gratitude for the tremendous contributions and wise counsel of the Chairman, members of the Management Board, and the chairmen and members of the committees and working groups throughout the year.

My sincere appreciation also goes to the chairmen and members of the MPF Schemes Advisory Committee and the Industry Schemes Committee for their sound advice and staunch support.

## Managing Director's Review and Outlook

In developing the MPF System and pursuing various reforms, we have benefited from the firm direction and continued support of the Government. Other partners, including labour unions, business chambers, employer bodies and others, have provided invaluable input to facilitate improvement to the MPF System. To them, I owe an enormous debt of gratitude.

I must also thank our fellow regulators who worked closely with us in supervising the MPF industry, and the industry for their cooperation and support in implementing various initiatives to make MPF better.

### Closing

This is the last time that I present MPFA's annual report as its Managing Director.

It is my privilege to witness the birth, growth and continuous development of the MPF System, and to have the opportunity to play a part in this major social programme over the past 18 years.

For the MPF System to accumulate savings for retirement and fulfil its purpose of providing retirement protection, 18 years is a short time, and the MPF System still has a long way to go. It is no easy task to further develop and refine the MPF System to make it perform its retirement protection function more effectively.

During my years with MPFA, I am most honoured and privileged to work under the distinguished leadership of four eminent Chairmen, namely, Mr Charles Lee, Mr Henry Fan, Ms Anna Wu and Dr David Wong, and to have the benefit of the inspiring guidance of intelligent Management Board members. With great insight and astute wisdom, they set a firm direction for MPFA's work and a clear path of reforms for the MPF System.

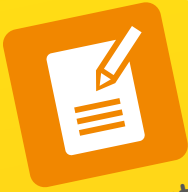
Furthermore, I have been fortunate to work together with very capable, professional, dedicated and enthusiastic colleagues, whose commitment and teamwork are essential in enabling MPFA to achieve its mission and vision. I am confident that the team will support my successor with their usual commitment and professionalism.

The Government is committed to enhancing the MPF System as a major pillar of the retirement protection system in Hong Kong. I am sure that MPFA, with its wise Management Board and capable staff, will continue to champion the cause and realize the vision of building "a retirement savings system that is valued by Hong Kong people".



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

eMPF



Enrolment



Scheme Transfer



Fund Switching



Withdrawal



Contributions



Fund Performance

# ELECTRONIC PLATFORM

Greater Efficiency

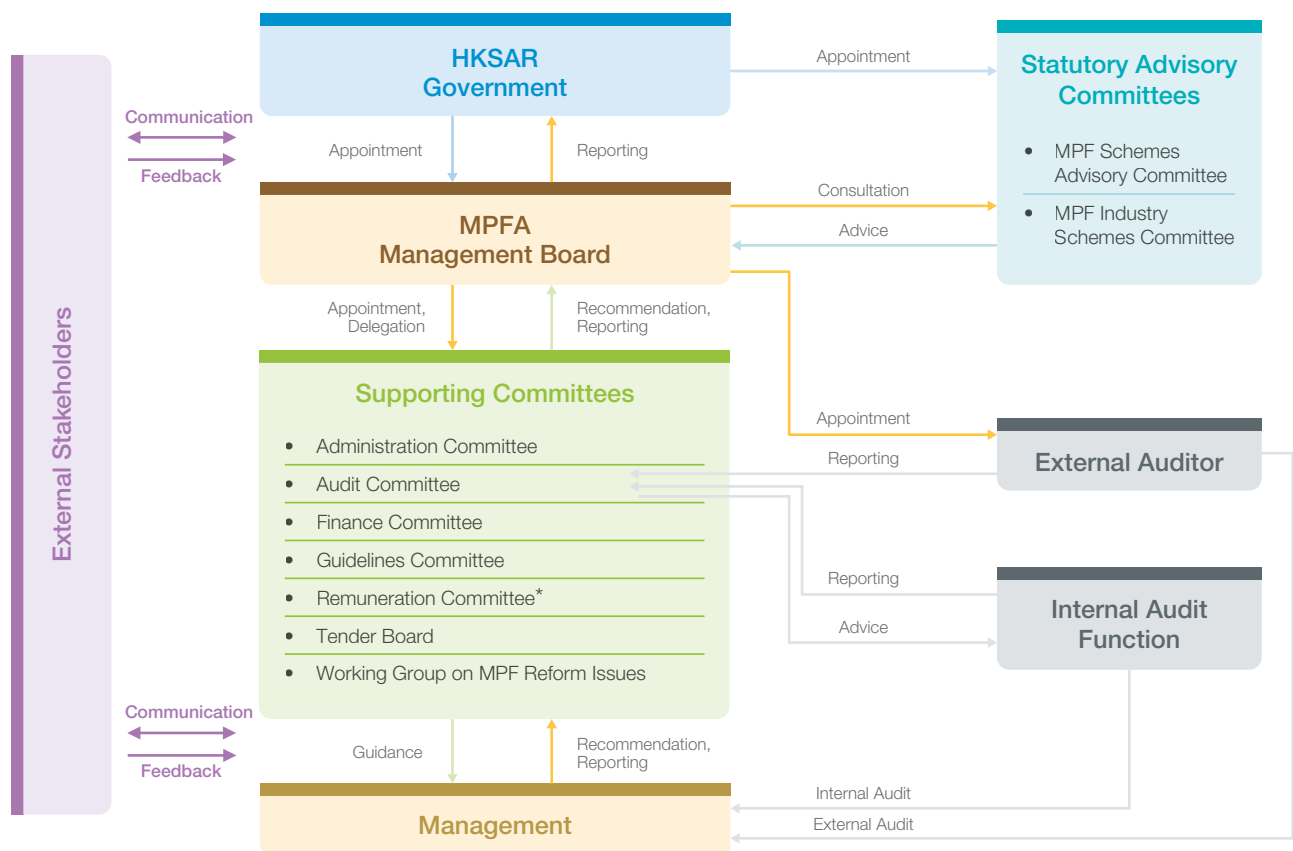


# Corporate Governance

The MPFA contributes to the sustainable development of the second pillar of the retirement protection system in Hong Kong through regulating, supervising and improving the MPF System. In fulfilling this role in the best interests of scheme members, we are committed to high standards of corporate governance to promote fairness and ethical conduct and ensure accountability and transparency in our operations.

Our corporate governance framework and practices are in line with the requirements of the Mandatory Provident Fund Schemes Ordinance (MPFSO) and the governance principles and best practices recommended for public bodies.

## Governance Structure



\* Remuneration Committee makes recommendations directly to the Government without having to report to the Management Board

## The Management Board

### Role and responsibilities

The Management Board is responsible for determining key corporate strategies and policies, overseeing the delivery of planned programmes, 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.

## Corporate Governance

### Membership (31 March 2018)



Dr David Wong  
Yau-kar, GBS, JP



Mr Horace Wong  
Yuk-lun, SC, JP



Hon Poon Siu-ping,  
BBS, MH



Hon Abraham Shek  
Lai-him, GBS, JP



Mr Kingsley Wong  
Kwok, JP



Mr Chan Kam-lam,  
GBS, JP



Mr Bankee Kwan  
Pak-hoo, JP



Mrs Ayesha  
Macpherson Lau, JP

### Chairman

#### Dr David Wong Yau-kar, GBS, JP

(from 17 Mar 2015; current term expires on 16 Mar 2019)

- Deputy, the National People's Congress
- Chairman, Land and Development Advisory Committee
- Member, Financial Leaders Forum
- Member, Chief Executive's Council of Advisers on Innovation and Strategic Development
- Member, Exchange Fund Advisory Committee
- Independent non-executive director of a number of listed and non-listed companies

### Non-executive Directors

#### Mr Horace Wong Yuk-lun, SC, JP

(from 1 Oct 2012; current term expires on 30 Sep 2018)

- Senior Counsel, Hong Kong
- Member, Disciplinary Chair Committee, Securities and Futures Commission
- Member, Appeal Board Panel (Human Organ Transplant Ordinance)
- Chairman, Appeal Tribunal Panel (Buildings)
- Deputy Chairman, Unsolicited Electronic Messages (Enforcement Notices) Appeal Board

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

(from 17 Mar 2013; current term expires on 16 Mar 2019)

- Member, Legislative Council
- Executive Committee Member, The Federation of Hong Kong and Kowloon Labour Unions
- Executive Committee Member, Hong Kong Storehouses, Transportation and Logistics Staff Association
- Member, Protection of Wages on Insolvency Fund Board
- Member, Fight Crime Committee

#### Hon Abraham Shek Lai-him, GBS, JP

(from 17 Mar 2015; current term expires on 16 Mar 2019)

- Member, Legislative Council
- Member, Court of The Hong Kong University of Science and Technology
- Member, Council and Court of The University of Hong Kong
- Member, Advisory Committee on Corruption of Independent Commission Against Corruption
- Independent non-executive director of a number of Hong Kong listed companies

#### Mr Kingsley Wong Kwok, JP

(from 17 Mar 2015; current term expires on 16 Mar 2019)

- Member, 13th National Committee of the Chinese People's Political Consultative Conference
- Member, Hainan Committee of the Chinese People's Political Consultative Conference
- Vice President and General Secretary, The Hong Kong Federation of Trade Unions
- Non-official Member, Minimum Wage Commission
- Vice-Chairman, Service Industry General Unions

#### Mr Chan Kam-lam, GBS, JP

(from 17 Mar 2017; current term expires on 16 Mar 2019)

- Member, National Committee of the Chinese People's Political Consultative Conference (2003-18)
- Member, Legislative Council (1995-2016)
- Member, Council of The Hong Kong Polytechnic University (2012-18)
- President, Kingrich Asia Holdings Limited
- President, Kingrich Trading Limited
- Director, Shenyang Wuai World Enterprise Company Limited



## Corporate Governance



Mr Simon Wong  
Kit-lung, JP



Mr James Henry  
Lau Jr, JP



Dr Law Chi-kwong,  
GBS, JP



Mrs Diana Chan Tong  
Chee-ching, JP



Mr Cheng Yan-chee



Ms Alice Law Shing-mui



Ms Cynthia Hui Wai-yee



Ms Gabriella Yee Gar-bo

### Mr Bankee Kwan Pak-hoo, JP

(from 17 Mar 2017; current term expires on 16 Mar 2019)

- Chairman & CEO, Celestial Asia Securities Holdings Limited (CASH Group)
- Director, Hong Kong Retail Management Association
- Member, Minimum Wage Commission
- Member, Business Facilitation Advisory Committee (BFAC); Convenor, Wholesale and Retail Task Force of BFAC
- Member, Small and Medium Enterprises Committee, Trade and Industry Department
- Member, Election Committee for the Fourth and Fifth Term of the Chief Executive Election of Hong Kong Special Administrative Region
- Member, Standing Committee of the Chinese People's Political Consultative Conference, Shanghai Committee
- Vice President, Hong Kong-Shanghai Economic Development Association

### Mrs Ayesha Macpherson Lau, JP

(from 17 Mar 2017; current term expires on 16 Mar 2019)

- Partner, KPMG China; Managing Partner, Hong Kong, KPMG
- Chairman, International Fiscal Association Hong Kong Branch
- Member, Joint Liaison Committee on Taxation
- Member, Financial Infrastructure Sub-Committee, Exchange Fund Advisory Committee
- Member, Policy Research Committee, Financial Services Development Council
- Member, Public Service Commission
- Member, Council of The University of Hong Kong
- Chairman, Joint Committee on Student Finance
- Member, Legal Aid Services Council
- Accounting Advisor, Ministry of Finance, the People's Republic of China

### Mr Simon Wong Kit-lung, JP

(from 17 Mar 2017; current term expires on 16 Mar 2019)

- Chairperson and Chief Executive Officer, LH Group
- President, Institution of Dining Art
- Chairman, Catering Industry Training Advisory Committee
- Convenor, Business Facilitation Advisory Committee – Food Business and Related Services Task Force
- Member, Minimum Wage Commission

### Secretary for Financial Services and the Treasury

(from 1 Jul 2007; current term expires on 16 Mar 2019)

#### Mr James Henry Lau Jr, JP

(The incumbent since 1 Jul 2017)

- Under Secretary for Financial Services and the Treasury (2014-17)
  - Chief Executive Officer, Hong Kong Mortgage Corporation (2004-12)
  - Head and Executive Director of various divisions, Hong Kong Monetary Authority (1993-2004)
  - Administrative Officer (AO) to AO Staff Grade C in the Administrative Service, Hong Kong Government (1979-93)
- Alternate: Permanent Secretary for Financial Services and the Treasury (Financial Services)

### Secretary for Labour and Welfare

(from 1 Jul 2007; current term expires on 16 Mar 2019)

#### Dr Law Chi-kwong, GBS, JP

(The incumbent since 1 Jul 2017)

- Member, Commission on Poverty
  - Chairman, Community Care Fund Task Force
  - Previously Associate Professor, Department of Social Work and Social Administration, The University of Hong Kong
  - Member, Legislative Council (1995-97, 1998-2004)
- Alternate: Permanent Secretary for Labour and Welfare



## Corporate Governance

### Executive Directors

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

*Deputy Chairman and Managing Director*

*(from 1 Jul 2004; current term expires on 30 Jun 2018)*

- Chief Operating Officer (Corporate Affairs), MPFA (2001-04)
- Executive Director (Corporate Services), MPFA (2000-01)
- Hospital Chief Executive, Wong Chuk Hang Hospital (1995-2000)
- Deputy Director (Administration), Hospital Authority (1991-95)
- Administrative Officer to Principal Assistant Secretary in the Administrative Service, Hong Kong Government (1980-91)

#### Mr Cheng Yan-chee

*Chief Corporate Affairs Officer and Executive Director*

*(from 3 Apr 2013; current term expires on 2 Apr 2019)*

- Member, Executive Committee of Investor Education Centre
- Deputy Secretary for Home Affairs, Hong Kong Special Administrative Region Government (HKSARG) (2011-12)
- Deputy Secretary for Financial Services and the Treasury, HKSARG (2007-11)
- Deputy Director-General of Trade and Industry, HKSARG (2006-07)
- Deputy Secretary for Education and Manpower, HKSARG (2001-06)
- Deputy Director of Information Technology Services, HKSARG (1999-2001)

#### Ms Alice Law Shing-mui

*Chief Operating Officer and Executive Director*

*(from 16 Jul 2012; current term expires on 15 Jul 2018)*

- Solicitor, Hong Kong (a partner specializing in corporate and commercial practice in a Hong Kong law firm before joining the public sector in 1998)
- Member, Global Future Council on the Future of Financial & Monetary Systems of World Economic Forum
- Member, Products Advisory Committee, Securities and Futures Commission
- Member, Advisory Committee on Bachelor of Business Administration Programme in Insurance, Financial and Actuarial Analysis, The Chinese University of Hong Kong
- Senior Fellow, Hong Kong Securities and Investment Institute
- Director to Senior Director positions at Securities and Futures Commission, with last position as Senior Director (Policy, China & Investment Products) (2004-12)
- Non-executive Director, Hong Kong Securities Institute (2004-08)

#### Ms Cynthia Hui Wai-yee

*Executive Director (Members)\**

*(from 1 Feb 2008; current term expires on 31 Jan 2020)*

- Qualified actuary
- Fellow of the Institute of Actuaries of Australia
- Member, Advisory Committee on Human Resources Development in the Financial Services Sector (2011-13)
- Chief Supervision Manager, MPFA (2006-08)
- Advisor (Insurance Affairs), MPFA (2005-06)
- Held Appointed Actuary, Chief Actuary and Regional Actuary positions in multi-national insurance firms, and positions with responsibilities for information technology in major financial institutions in Australia before joining MPFA

\* Former title: Executive Director (Supervision)

#### Ms Gabriella Yee Gar-bo

*Executive Director (Policy)\**

*(from 25 Mar 2017; current term expires on 24 Mar 2020)*

- Head (Policy Development and Research), MPFA (2011-17)
- Chief Manager (Policy Development and Research), MPFA (2008-11)
- Senior Manager, MPFA (1999-2008)
- Held various positions in the insurance/retirement benefits sector before joining MPFA

\* Former title: Executive Director (Regulation and Policy)

## Corporate Governance

### Composition

The composition of the Management Board is governed by the MPFSO. It is to consist of not fewer than 10 directors, a majority of whom must be non-executive directors (NEDs). As at 31 March 2018, the Management Board consists of 11 NEDs and five executive directors (EDs).

Directors on the Board are appointed by the Chief Executive of HKSAR or, under delegated authority, the Financial Secretary of HKSAR. All directors are appointed for a specific term.

The terms and conditions of office of the directors are determined by the Chief Executive of HKSAR or, under delegated authority, the Financial Secretary of HKSAR. The remunerations of individual directors are disclosed on pages 110 to 111. NEDs are not remunerated.

### Responsibilities of directors

With diverse expertise, experience and background, the directors exercise due care and diligence to oversee MPFA's performance.

NEDs provide insights, bring in independent judgment and maintain objectivity in the Board's decision-making process, and give supporting committees the benefit of their skills and knowledge. EDs are responsible for the management of executive functions and day-to-day operations.

### Chairman and Managing Director

The positions of Chairman and Managing Director are held by different persons and their roles are segregated. The Chairman is an NED providing the Management Board and MPFA with leadership and strategic direction, while the Managing Director is an ED and the administrative head responsible for executing the direction of the Management Board and administering the affairs of MPFA.

### Induction

Newly appointed directors are given briefings and information packages to familiarize them with the MPF System and the work of MPFA. Apart from monthly progress reports on various aspects of work of MPFA, directors are provided with information and briefings on specific issues when necessary to facilitate informed decisions.

### Board processes

Board processes adopted and documented in MPFA's Standing Orders facilitate directors' effective participation in Board business. Key elements include:

- Meetings are held as often as necessary, usually six to eight meetings a year;
- Telephone conferencing is arranged for directors who cannot attend meetings physically;
- Any director may propose a matter for discussion at Board meetings;
- Agendas and papers are issued to directors well in advance of a meeting;

### Directors' Profile

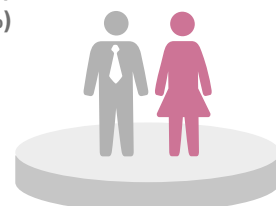
#### Category

NED	11 (69%)
ED	5 (31%)



#### Gender

Male	11 (69%)
Female	5 (31%)



## Corporate Governance

- The Secretary to the Management Board keeps minutes of meetings, recording the directors attending, matters discussed and decisions made;
- Draft minutes are sent to all directors for comments within a reasonable time; and
- Directors are required to observe procedures for declaration of interests.

The Secretary to the Management Board is responsible for ensuring that Board policy and procedures are followed and facilitating information flow within the Board.

### 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 Management Board promptly of any changes.

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.

### Management Board business in the year

The Management Board held six meetings in 2017-18. The average attendance rate was 85%. In addition, 31 papers were circulated for decision or information.

Key matters considered include:

#### Governance

- Membership of supporting committees
- Appointment of external auditor

#### Planning and performance monitoring

- Annual corporate plan and budget
- Half-yearly and annual reviews of corporate plan
- Annual financial statements
- Investment performance and investment strategy review of Capital Grant to MPFA and MPF Schemes Compensation Fund

#### Strategies and operations

- Review of approval criteria for stock exchanges
- Proposed legislative amendments to the Occupational Retirement Schemes Ordinance (ORSO)
- Study on early withdrawal of MPF benefits for first home purchase
- External communication strategies and programmes
- Progress of projects, including Default Investment Strategy (DIS) and eMPF
- Industry guidelines
- Measures to maintain long-term financial sustainability

#### Human resources

- Annual salary review
- Review of organization structure

The attendance rates of individual directors at meetings are provided on page 32.

### Years of service on MPFA Board

< 3 years	7 (44%)
3-6 years	7 (44%)
> 6 years	2 (12%)



### Professional expertise/experience

Business/Finance	5 (31%)
Legal	2 (13%)
Accounting/Actuary	3 (19%)
Labour affairs	2 (13%)
Public administration	4 (25%)



## Corporate Governance

### Statutory Advisory Committees

#### MPF Schemes Advisory Committee (31 March 2018)



Hon Wong Ting-kwong, GBS, JP



Mrs Diana Chan Tong Chee-ching, JP



Dr Roy Chung Chi-ping, GBS, JP



Mr Lam Chun-sing



Mr Karson Choi Ka-tsan, BBS



Ms Chow Yuen-yee



Hon Kenneth Leung Kai-cheong



Dr Pan Pey-chyou, BBS



Mr Philip Tsai Wing-chung, BBS, JP



Ms Winnie Wong Chi-shun

#### Chairman

##### **Hon Wong Ting-kwong, GBS, JP**

(from 1 Nov 2012; current term expires on 31 Oct 2018)

Member, Legislative Council

#### Deputy Chairman

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

(from 1 Jul 2003; current term expires on 30 Jun 2018)

Managing Director, MPFA

#### Member

##### **Dr Roy Chung Chi-ping, GBS, JP**

(from 30 Mar 2013; current term expires on 29 Mar 2019)

Co-founder and Non-executive Director, Techtronic Industries Company Limited

##### **Mr Lam Chun-sing**

(from 30 Mar 2015; current term expires on 29 Mar 2019)

Chairman, The Federation of Hong Kong and Kowloon Labour Unions

##### **Mr Karson Choi Ka-tsan, BBS**

(from 30 Mar 2017; current term expires on 29 Mar 2019)

Vice Chairman, Early Light International (Holdings) Limited

##### **Ms Chow Yuen-yee**

(from 30 Mar 2017; current term expires on 29 Mar 2019)

Managing Director and Head of Compliance, China International Capital Corporation (Hong Kong) Limited

##### **Hon Kenneth Leung Kai-cheong**

(from 30 Mar 2017; current term expires on 29 Mar 2019)

Member, Legislative Council

##### **Dr Pan Pey-chyou, BBS**

(from 30 Mar 2017; current term expires on 29 Mar 2019)

Vice President, The Hong Kong Federation of Trade Unions

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

(from 30 Mar 2017; current term expires on 29 Mar 2019)

Chairman, Deloitte China

##### **Ms Winnie Wong Chi-shun**

(from 30 Mar 2017; current term expires on 29 Mar 2019)

Chief Executive Officer, Asia Insurance Company Limited

## Corporate Governance

### Role and composition

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

### Committee business in 2017-18

During the year, the Committee held two meetings (average attendance rate: 95%). Members gave advice on the long-term initiative to standardize, streamline and automate MPF scheme administration, the proposed amendments to the ORSO, study on allowing early withdrawal of MPF benefits for buying the first home, and MPFA's proposed corporate plan for 2018-19. The Committee also received progress reports on various aspects of MPFA's work.

## Corporate Governance

### MPF Industry Schemes Committee (31 March 2018)



Dr Roy Chung  
Chi-ping, GBS, JP



Mr Lawrence Ng  
San-wa, MH



Mr Tang Ka-hin



Mr Simon Wong  
Kit-lung, JP



Mr Cyrus Chin  
Chi-keung



Mr Kwok Wang-hing



Mr Wong Ping



Mr Chan Pak-kan



Mr Lee Yuen-hong



Mr Adrian Li Man-kiu,  
JP

#### Chairman

##### **Dr Roy Chung Chi-ping, GBS, JP**

(from 25 Aug 2016; current term expires on 24 Aug 2018)

Co-founder and Non-executive Director, Techtronic Industries Company Limited

#### Member

##### **Mr Lawrence Ng San-wa, MH**

(from 25 Aug 2012; current term expires on 24 Aug 2018)

President, Hong Kong Construction Sub-Contractors Association

##### **Mr Tang Ka-hin**

(from 25 Aug 2012; current term expires on 24 Aug 2018)

Membership Affairs Officer, Chinese and Western Food Workers Union

##### **Mr Simon Wong Kit-lung, JP**

(from 25 Aug 2012; current term expires on 24 Aug 2018)

Chairperson and Chief Executive Officer, LH Group

##### **Mr Cyrus Chin Chi-keung**

(from 25 Aug 2014; current term expires on 24 Aug 2018)

Director, Hsin Chong Construction Company Limited

##### **Mr Kwok Wang-hing**

(from 25 Aug 2014; current term expires on 24 Aug 2018)

Chairman, Eating Establishment Employees General Union

##### **Mr Wong Ping**

(from 25 Aug 2014; current term expires on 24 Aug 2018)

Vice Chairman, Hong Kong Construction Industry Employees General Union

##### **Mr Chan Pak-kan**

(from 25 Aug 2016; current term expires on 24 Aug 2018)

Chairman, Construction Site Workers General Union

##### **Mr Lee Yuen-hong**

(from 25 Aug 2016; current term expires on 24 Aug 2018)

Chairman, Hong Kong Federation of Restaurants and Related Trades Limited

##### **Mr Adrian Li Man-kiu, JP**

(from 25 Aug 2006; current term expires on 24 Aug 2018)

Director, Bank of East Asia (Trustees) Limited

## Corporate Governance



Mr Johnson Wong  
Ho-shun



Mr Cheng Yan-chee

### Mr Johnson Wong Ho-shun

*(from 25 Aug 2016; current term expires on 24 Aug 2018)*

Business Director, BCT Financial Limited

### Mr Cheng Yan-chee

*(from 3 Apr 2013; current term expires on 24 Aug 2018)*

Chief Corporate Affairs Officer and Executive Director, MPFA

## Role and composition

The MPF Industry Schemes (IS) Committee is established under the MPFSO to monitor the effectiveness of IS and advise on ways to improve their administration and operation. It comprises a chairman, representative(s) of the trustee of each IS, and at least six other persons, including persons representing employees and employers, all appointed by the Financial Secretary of HKSAR. An ED is designated by MPFA to sit on the Committee.

## Committee business in 2017-18

During the year, the Committee held three meetings (average attendance rate: 78%), at which members advised on the operation of IS. It discussed the measures to handle MPF accounts with incomplete information under IS, minimum and maximum levels of relevant income, results of a survey on scheme members' MPF investment knowledge, and latest development of digital take-up and centralized electronic platform for MPF scheme administration. The Committee also received reports on IS-related enrolment, administration, enforcement, and public education and publicity matters.



## Corporate Governance

### Delegation of Functions by the Board

The MPFSO provides that MPFA may delegate its functions to a committee it establishes or to a director or employee of MPFA.

### Supporting committees

A number of committees, chaired by NEDs, are set up to give advice and assistance to the Management Board. Their terms of reference and membership lists are set out in Appendix 1 on pages 151 to 152.

Committee/ Working group	Composition	Summary of work in 2017-18
Audit Committee	3 NEDs	<ul style="list-style-type: none"> <li>● Held two meetings (attendance rate: 100%)</li> <li>● Considered two papers by circulation</li> <li>● Matters considered include:               <ul style="list-style-type: none"> <li>– the financial statements of MPFA and the MPF Schemes Compensation Fund for the financial year 2016-17</li> <li>– the half-yearly financial reports for 2017-18</li> <li>– internal audit reports on the following subjects:                   <ul style="list-style-type: none"> <li>– handling of default contribution including district court and high court cases and reporting of default contribution amount recovered, outstanding or written off</li> <li>– budgetary controls</li> <li>– inventory management</li> <li>– process control on prosecution</li> <li>– handling complaints against trustees</li> </ul> </li> <li>– summary report on monitoring of implementation of records management policies and procedures (disposal processes)</li> </ul> </li> </ul>
Administration Committee	3 NEDs and 2 EDs	<ul style="list-style-type: none"> <li>● Held three meetings (attendance rate: 100%)</li> <li>● Considered three papers by circulation</li> <li>● Matters considered include:               <ul style="list-style-type: none"> <li>– manpower plan for 2018-19</li> <li>– MPFA's organization structure</li> <li>– pay-related matters for non-directorate staff</li> <li>– staff group life and staff group medical and dental insurance schemes</li> <li>– re-appointment of directorate staff</li> </ul> </li> </ul>



## Corporate Governance

Committee/ Working group	Composition	Summary of work in 2017-18
Finance Committee	3 NEDs and 2 EDs	<ul style="list-style-type: none"> <li>Held four meetings (average attendance rate: 95%)</li> <li>Considered three papers and received five papers for information by circulation</li> <li>Matters considered include: <ul style="list-style-type: none"> <li>long-term financial sustainability of MPFA</li> <li>review of investment guidelines and performance of the Capital Grant and the MPF Schemes Compensation Fund</li> <li>review of investment strategy for the Capital Grant</li> <li>implementation of the Principles of Responsible Ownership</li> <li>audited financial statements for 2016-17</li> <li>half-yearly financial reports for 2017-18</li> <li>proposed budget for 2018-19</li> </ul> </li> </ul>
Guidelines Committee	1 NED, 1 ED and 6 co-opted members	<ul style="list-style-type: none"> <li>No meeting was held during the year</li> <li>Scrutinized new Guidelines and proposed revisions to Guidelines through circulation of five papers</li> <li>One set of new Guidelines and 13 sets of revised Guidelines were issued, mainly to: <ul style="list-style-type: none"> <li>provide guidance to regulated persons on matters in relation to collection of fees for MPF intermediaries</li> <li>update the list of MPF schemes in the annual return form for use by MPF intermediaries</li> <li>permit a type of depository receipts for investment by MPF funds</li> <li>update the list of approved central securities depositories and the list of approved stock exchanges established in a place outside Hong Kong</li> <li>update the list of approved trustees and MPF schemes for use by scheme members to elect for the purposes of consolidation of MPF personal accounts</li> <li>make corresponding amendments to the Guidelines in view of the commencement of the relevant provisions of the Insurance Companies (Amendment) Ordinance 2015</li> </ul> </li> <li>77 sets of Guidelines and two Codes were in force as at 31 March 2018 to provide guidance on the legislative requirements and operational arrangements of the MPF System</li> </ul>
Remuneration Committee	4 NEDs	<ul style="list-style-type: none"> <li>Held one meeting (attendance rate: 75%)</li> <li>Assessed the performance of EDs and considered various remuneration and personnel matters for EDs</li> </ul>
Tender Board	2 NEDs and 1 ED	<ul style="list-style-type: none"> <li>No tender was submitted to the Tender Board for consideration during the year</li> </ul>
Working Group on MPF Reform Issues	6 NEDs	<ul style="list-style-type: none"> <li>Held two meetings (average attendance rate: 67%)</li> <li>Deliberated on the pros and cons of allowing scheme members to withdraw their MPF benefits to buy their first home and the relevance of home purchase to retirement protection</li> <li>Reviewed the approval criteria for stock exchanges to be included in the list of approved stock exchanges and assessed the application for including the Shanghai and Shenzhen Stock Exchanges as approved stock exchanges</li> </ul>

## Corporate Governance

The table below sets out the attendance of individual directors at Management Board, Committee and Working Group meetings in 2017-18:

	Management Board	Audit Committee	Administration Committee	Finance Committee	Remuneration Committee	Working Group on MPF Reform Issues
<b>Number of meetings held during the year</b>	6	2	3	4	1	2
<b>Attendance of directors</b>						
Dr David Wong Yau-kar	6/6		3/3	3/4	1/1	2/2
Mr Horace Wong Yuk-lun	1/6					
Hon Poon Siu-ping	5/6		3/3			
Hon Abraham Shek Lai-him	2/6					1/2
Mr Kingsley Wong Kwok	4/6	2/2				1/2
Mr Chan Kam-lam	6/6		3/3	4/4	1/1	1/2
Mr Bankee Kwan Pak-hoo	6/6	2/2				2/2
Mrs Ayesha Macpherson Lau	6/6	2/2			0/1	
Mr Simon Wong Kit-lung	6/6			4/4	1/1	1/2
Secretary for Financial Services and the Treasury <sup>1</sup>	5/6					
Secretary for Labour and Welfare <sup>2</sup>	6/6					
Mrs Diana Chan Tong Chee-ching	6/6		3/3	4/4		
Mr Cheng Yan-chee	6/6		3/3	4/4		
Ms Alice Law Shing-mui	5/6					
Ms Cynthia Hui Wai-yee	6/6					
Ms Gabriella Yee Gar-bo	6/6					

*(The Guidelines Committee and the Tender Board did not hold any meeting in 2017-18)*

Notes:

1 Five meetings attended by alternate director

2 Six meetings attended by alternate director

## Corporate Governance

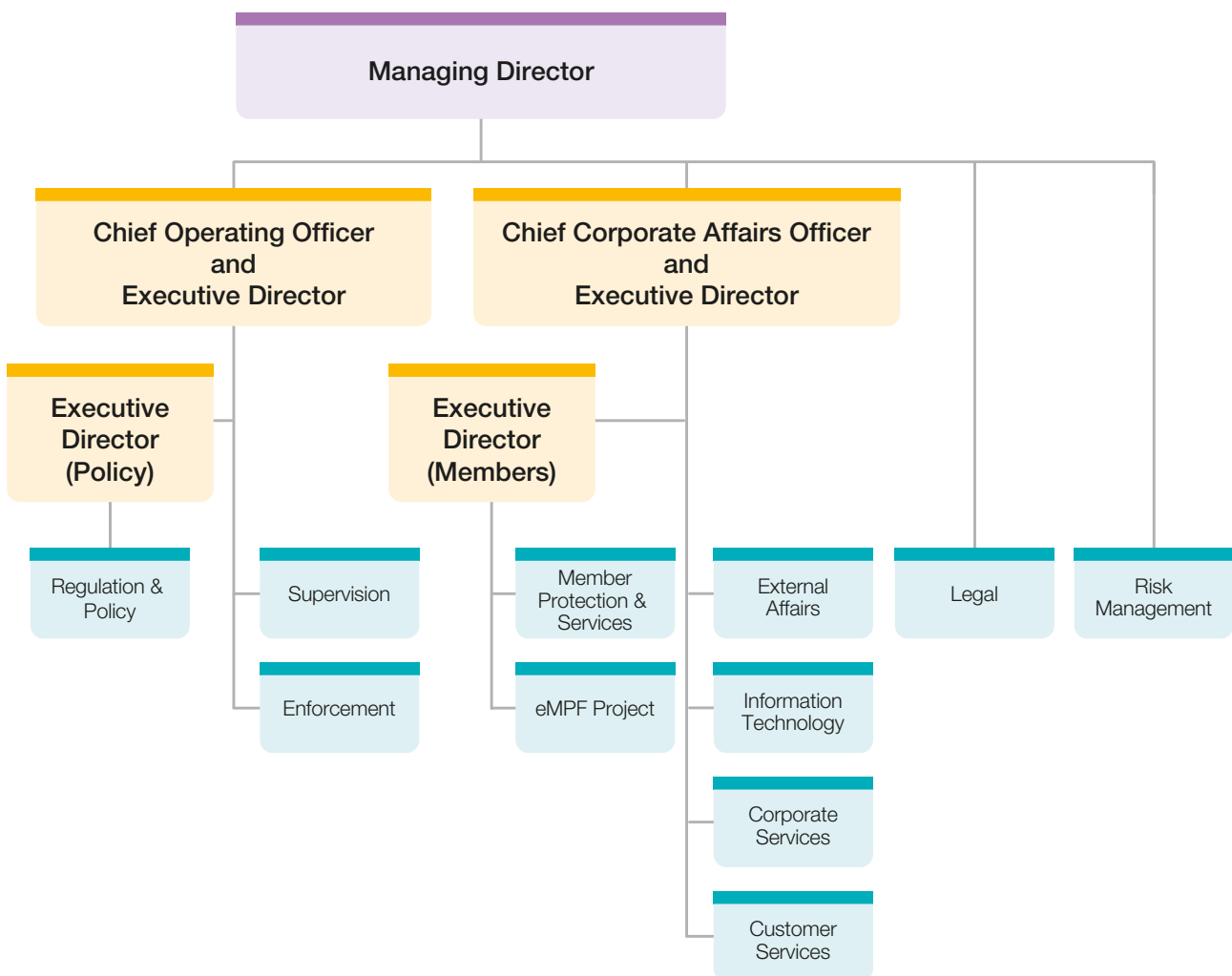


### The management team

The Management Board delegates the management of day-to-day operations to the executives. Its decisions are carried out by MPFA staff under the guidance of the management team.

The work of MPFA is performed by functional units overseen by the management team. In 2017, an eMPF Project Office was set up to take forward the eMPF initiative to enhance the administrative efficiency of the MPF System. The Office reports to the Chief Corporate Affairs Officer through the oversight of Executive Director (Members). During the year, the responsibilities and reporting lines among EDs had been reviewed, re-grouping all member-related functions and corporate affairs and development under Chief Corporate Affairs Officer whereas the regulation and supervision of the industry, enforcement and policy development under Chief Operating Officer.

Organization structure (31 March 2018):



## Corporate Governance

Members of the management team (31 March 2018):

- **Mrs Diana Chan**  
*Managing Director (from 2004)*  
*Formerly Chief Operating Officer (Corporate Affairs)*  
*(from 2001)*  
*Formerly Executive Director (Corporate Services)*  
*(from 2000)*
- **Mr Cheng Yan-chee**  
*Chief Corporate Affairs Officer and Executive Director*  
*(from 2013)*
- **Ms Alice Law**  
*Chief Operating Officer and Executive Director*  
*(from 2012)*
- **Ms Cynthia Hui**  
*Executive Director (Members) (from 2008)*  
*Former title: Executive Director (Supervision)*  
*Joined in 2005*
- **Ms Gabriella Yee**  
*Executive Director (Policy) (from 2017)*  
*Former title: Executive Director (Regulation and Policy)*  
*Formerly Head (Policy Development and Research)*  
*(from 2011)*  
*Joined in 1999*
- **Ms Ingrid Lai**  
*General Counsel (from 2002)*
- **Mrs Betty Chan**  
*Head (External Affairs) (from 2006)*
- **Mr Andy Tong**  
*Head (Information Technology) (from 2009)*
- **Mr Ronnie Lai**  
*Head (Customer Services) (from 2016)*  
*Formerly Head (Member Protection) (from 2011)*  
*Joined in 1999*
- **Mr Joseph Lee**  
*Head (Trustees Supervision) (from 2011)*  
*Joined in 1999*
- **Ms Stella Yiu**  
*Head (Investment Regulation) (from 2011)*  
*Joined in 2003*
- **Ms Cynthia Li**  
*Head (Enforcement) (from 2014)*  
*Joined in 2003*
- **Mr Felix Siu**  
*Head (Corporate Services) (from 2017)*  
*Joined in 2007*
- **Ms Ginni Wong**  
*Head (Supervision) (from 2018)*

## Accountability and Transparency

### Corporate planning

Before the end of each financial year, MPFA submits a corporate plan and budget for the following year to the Financial Secretary of HKSAR, specifying 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 by the senior management and Management Board. The results of a full year review of the corporate plan are submitted to the Financial Secretary of HKSAR.

## Corporate Governance

### Reporting

We deliver an annual report, together with audited financial statements and auditor's report, to the Financial Secretary of HKSAR each year. Our annual report for 2016-17 won a Bronze Award under the Non-profit Making and Charitable Organizations category at the Best Annual Reports Awards of the Hong Kong Management Association.

### Financial reporting

Directors are responsible for the preparation of the financial statements that give a true and fair view of MPFA's affairs. The financial statements comply with the accounting standards, reporting standards and interpretations promulgated by the Hong Kong Institute of Certified Public Accountants (HKICPA).

The financial statements are audited by an external auditor. The appointment of MPFA's external auditor is subject to the approval of the Financial Secretary of HKSAR, on the recommendation of the Management Board. PricewaterhouseCoopers continues to be MPFA's external auditor for the financial year 2017-18.

During the financial year, the auditor's remuneration for audit services provided to MPFA and the MPF Schemes Compensation Fund amounted to HK\$0.25 million and HK\$0.10 million respectively.

### Investment

The MPFA has appointed external fund managers to manage its investment portfolios in accordance with the Investment Guidelines approved by the Management Board. The performance of external fund managers is regularly reviewed by MPFA. The external fund managers have confirmed that they adopt the Principles of Responsible Ownership<sup>1</sup> in managing the Hong Kong equity portfolios.

### Code of conduct for staff

MPFA attaches great importance to the integrity and conduct of its staff and expects them to behave in a way consistent with the expectations for public officers with high standard of integrity and conduct.

To ensure that staff understand and observe the relevant standards, requirements and expectations, MPFA has put in place a code of conduct, covering various issues such as acceptance of advantages, conflicts of interest, declaration of financial interests, post-service employment restriction, etc.

Staff members are reminded of the requirements set out in the Code from time to time through various internal communication platforms such as staff bulletins, emails, circulars, etc. In addition, new staff are required to attend briefing sessions on the prevention of bribery and the Code conducted by the Independent Commission Against Corruption and Human Resources Department.

<sup>1</sup> A set of Principles of Responsible Ownership was issued by the Securities and Futures Commission in March 2016 to provide guidance to assist investors in meeting their ownership responsibilities in relation to their investments in Hong Kong listed companies for strengthening the corporate governance culture in Hong Kong. Adoption of the Principles is voluntary.

## Corporate Governance

### Communication with stakeholders

We take care to communicate news about MPF and latest developments of the MPF System and MPFA to stakeholders in a timely manner through effective means, including MPFA's website, media events, press releases, publicity and public education activities, briefings, seminars and talks, and various publications such as the quarterly Statistical Digest and MPFA Newsletter. Information is disseminated through various channels, including online channels, social media platforms and mobile applications. We collect feedback from stakeholders for refinement of the MPF System through meetings, briefings, seminars, talks and networking activities.

During the year, MPFA received and processed nine requests made under its Code on Access to Information.

### Handling complaints

The roles and policies of MPFA on handling complaints against employers, MPF trustees, MPF intermediaries, ORSO employers or administrators, and MPFA or MPFA staff are made available on the website of MPFA.

Statistics on complaints received in the year and the nature of these complaints are set out on page 150.

### Public recognition

Over 15 consecutive years, 26 members of our staff have won the Ombudsman's Awards for Officers of Public Organizations, an affirmation of MPFA's dedication to professionalism in customer service.

Our efforts to maintain high standards of corporate governance, enhance the effectiveness of management of the organization, ensure accountability to the public and maintain the transparency of our operations are recognized with a Gold Award in the HKICPA's Best Corporate Governance Awards 2017.

We develop and support our staff and protect our information systems to facilitate the performance of our functions.

We are a Manpower Developer under the Employee Retraining Board's Manpower Developer Award Scheme and a Family-friendly Employer under the Family-friendly Award Scheme jointly organized by the Home Affairs Bureau and the Family Council.

In recognition of their remarkable performance and excellent demonstration of best practices in cyber security, two members of our Information Technology Division were granted the Merit Award (Management Category) and Gold Award (Practitioner Category) respectively in the Cyber Security Professionals Awards 2017.

Our ongoing commitment to caring for our staff, the environment and the community has been recognized with the Caring Organization logo awarded by the Hong Kong Council of Social Service for 13 consecutive years.

## Corporate Governance

### Performance pledges

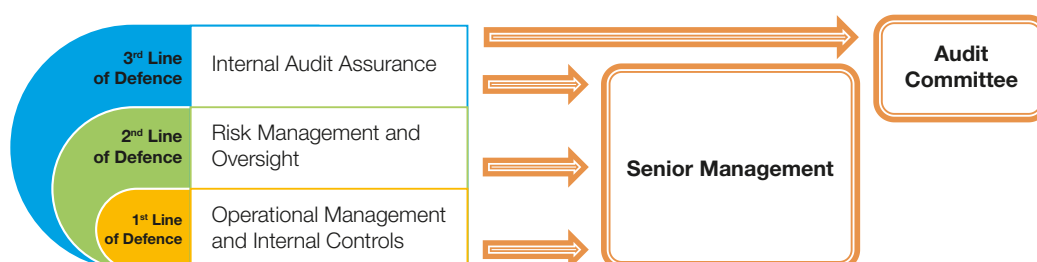
We endeavour to deliver expeditious and client-oriented services in handling public enquiries and complaints. The achievement of performance standards in the 2017-18 financial year is set out in the table below.

Service	Service standard	Performance achieved
<b>Call centre service (Hotline 2918 0102)</b>		
Answering hotline enquiries and messages	● Answer hotline enquiries within 3 minutes under normal circumstances (i.e. not more than 600 incoming calls a day)	98.44%
	● Reply hotline voice mail messages within the next working day	100%
Answering written enquiries	● Acknowledge receipt within 3 working days	100%
	● Answer enquiry or provide an interim reply within 10 working days	100%
Acknowledging receipt of complaints	● Acknowledge receipt within 3 working days	100%
<b>Complaints investigation (complaints relating to employers' non-compliance)</b>		
Making initial contact with complainant by Case Officer	● Contact complainant within 7 working days from the date of receiving a complaint	99.72%
Responding to enquiries by complainant/complaine on investigation progress	● Inform complainant/complaine of investigation progress within 3 working days	99.36%
Informing complainants of enforcement actions on cases involving prosecution	● Inform complainant of the plea date in writing within 7 working days from the date of receiving Plea Date Notice	100%
	● Inform complainant of prosecution results within 7 working days from the date of receiving court's decision	100%

## Internal Controls and Risk Management

### Three lines of defence

The MPFA has put in place an internal control and risk management structure which meets with a best practice model known as the “Three Lines of Defence Model”. Our three lines of defence designed to manage and mitigate risks are summarized as follows:



## Corporate Governance

### First line of defence: operational management and internal controls

Operational management serves as the first line of defence. Internal controls are designed and integrated into systems and processes of day-to-day operations.

All divisions and departments are responsible for maintaining effective internal controls and ensuring adequate supervisory controls are in place to safeguard employees' compliance with internal operational policies and procedures. They are required to assess the internal controls of their key processes by reviewing their operational manuals regularly. A team of experienced staff in possession of accounting expertise and relevant qualifications is responsible for the financial reporting and accounting functions.

### Second line of defence: risk management and oversight

The second line of defence comprises our risk management practices and oversight by appropriate levels of management according to the levels of different risks.

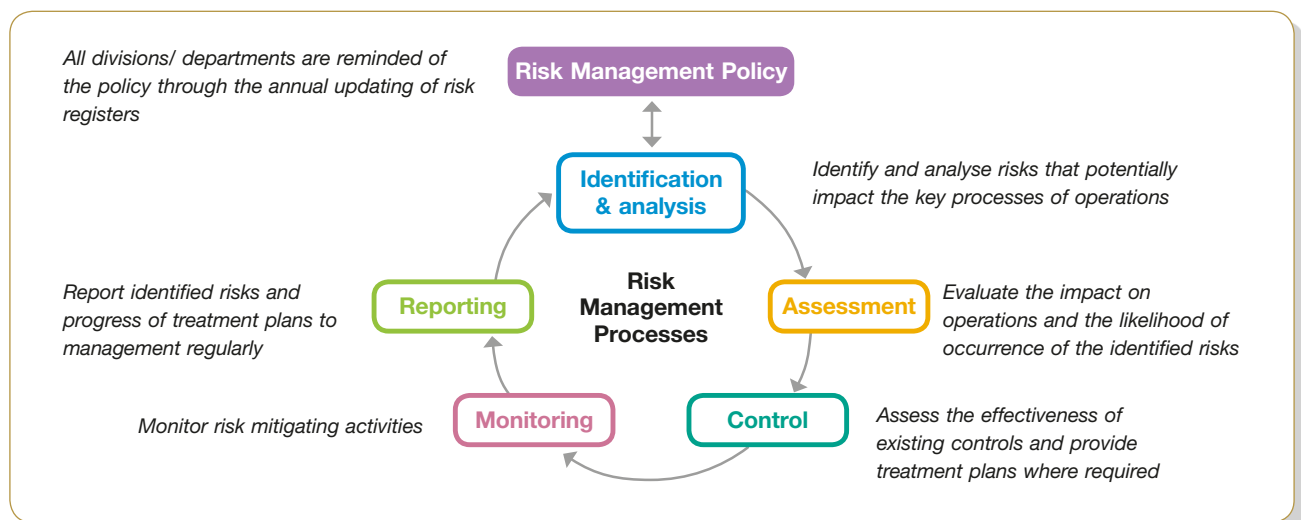
A holistic and well-structured risk management framework is adopted to facilitate a systematic approach to identifying and managing risks by risk owners. An open and effective communication channel to enable the timely escalation of material risks and adequate supervision of risk mitigation is also in place.

To effectively manage and monitor risk items of the organization, all identified risks are prioritized and assigned to different levels of management for monitoring according to the risk levels. A corporate level risk register and a divisional/departmental level risk register for each division/department are maintained for ongoing monitoring of treatments of identified risks, and are reviewed and updated annually during the corporate planning process.

Furthermore, a set of policies and procedures is in place to maintain continuity of our critical business functions at times of contingency and disaster. Through a business continuity plan database, staff members have ready access to the Guidelines on Crisis Handling and Monitoring and divisional/departmental business continuity plans.

### Third line of defence: internal audit assurance

The Risk Management Unit, reporting directly to the Managing Director, provides independent assurance on the effectiveness of governance, internal controls and risk management, including how the first and second lines of defence achieve the internal control and risk management objectives. The Unit is adequately and competently staffed and has unrestricted access to operational information for discharging its duties.





## Corporate Governance

Through a risk-based internal audit approach, the Unit assesses the effectiveness of internal controls of the organization according to the guidelines and standards on internal audit promulgated by HKICPA. The approach of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 2013 is adopted to assess the five major components of internal controls, namely, control environment, risk assessment, control activities, information and communication, and monitoring activities.

Internal audit exercises are conducted according to a three-year internal audit programme endorsed by the Audit Committee. Findings of internal audit exercises are reviewed by the senior management and reported to and considered by the Audit Committee, which reports to the Management Board to ensure the highest level of independence and objectivity.

This year, internal audits covered several important processes, including handling of default contribution and reporting process of default contribution amount recovered, outstanding or written off; budgetary control process; inventory management process; prosecution process; handling complaints against trustees; and disposal process of records.

The results of these audits showed that control systems in respect of the areas examined were generally adequate and effective, and relevant procedures were complied with. Further enhancement opportunities were identified during the exercises, and the divisions/departments audited have committed to the relevant improvement proposals.

To ensure internal control issues are addressed in a timely manner, a register is maintained by the Unit to monitor the implementation progress of audit recommendations on a half-yearly basis.

## Independent Checks and Balances

### Appeal Boards

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

### Process Review Panel

The Process Review Panel in relation to the Regulation of Mandatory Provident Fund Intermediaries (PRP) was established by the Chief Executive of HKSAR in November 2013 following the commencement of the statutory regime of MPF intermediaries in November 2012. It is an independent panel tasked to review and advise MPFA on the adequacy and consistency of its internal procedures and operational guidelines governing the actions taken and operational decisions made by MPFA and its staff in the performance of its regulatory functions relating to the regulation of MPF intermediaries and associated matters.

The PRP's second annual report was published in August 2017. Having studied PRP's observations and recommendations, we have adopted measures and optimized internal processes for case handling and enforcement actions.

In 2017-18, the PRP reviewed 41 completed cases in relation to MPF intermediaries. 14 of these cases were selected for detailed review. As at the end of the financial year, the PRP was preparing its 2018 annual report.

# IN YOUR HANDS

More Control



# Business Operations

## MPFA at a Glance

The MPFA is a statutory body established in 1998 under the Mandatory Provident Fund Schemes Ordinance (MPFSO) to regulate and supervise MPF schemes. It also assumes the role of the Registrar of Occupational Retirement Schemes.

### Our Mission

- To regulate and supervise privately managed provident fund schemes;
- To educate the working population about saving for retirement and the role of the MPF System; and
- To lead improvements to provident fund schemes to make them more efficient and user-friendly and better meet the needs of the working population.

### Our Vision

To build a retirement savings system that is valued by Hong Kong people.

## Key Figures about MPF (31.3.2018)

Trustees <sup>1</sup>	17
Intermediaries (total)	32 780
Principal intermediaries <sup>2</sup>	411
Subsidiary intermediaries <sup>3</sup>	32 369
Schemes <sup>1</sup>	32
Constituent funds	469
Approved pooled investment funds (APIF) <sup>4</sup>	319
Approved index-tracking collective investment schemes (ITCIS) <sup>5</sup>	119

1 These refer to the number of approved MPF trustees and MPF schemes in Hong Kong. As at 31 March 2018, there were 32 MPF schemes provided by 14 MPF trustees available in the MPF market.

2 Principal intermediary refers to a business entity registered by MPFA as an intermediary for selling, marketing or giving advice on MPF schemes.

3 Subsidiary intermediary refers to 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.

4 Approved pooled investment fund (APIF) refers to 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.

5 Index-tracking collective investment scheme (ITCIS) refers to a collective investment scheme which has the sole investment objective of tracking a particular market index.

## Business Operations

### MPF Industry Supervision and Development

#### MPF Trustees

##### Surveillance and monitoring

We adopt a proactive and risk-based approach in monitoring and supervising trustees.

We assess and oversee trustees' compliance and detect potential weaknesses. In respect of areas of concern, we issue newsletters to provide guidance and take supervisory or enforcement actions as appropriate. We investigate suspected non-compliance cases and make regulatory responses having regard to factors including the nature and scope of the cases.

#### Supervision and enforcement actions in 2017-18



Two newsletters were issued to trustees on compliance, scheme administration, and other MPF issues.

136 enquiries were handled in relation to scheme administration, investment and fund operations (cases arising from monitoring, enquiries, complaints and trustees' self-reporting).

281 complaint cases against trustees were received:

- ☐ 264 cases relating to service quality were referred to the trustees concerned to address the issues <sup>6</sup>; and
- ☐ 17 other cases were enquired into with the trustees concerned to assess if there were any suspected non-compliance.

46 cases of suspected non-compliance were investigated.

Supervisory compliance letters were issued to trustees in 159 cases in relation to internal controls, regulatory obligations, record keeping, investment compliance, and scheme administration. 14 independent reviews were subsequently engaged by trustees to undertake improvement measures.

21 financial penalty notices were issued to trustees <sup>7</sup> (fined \$5,915,000 in total) for non-compliance.

<sup>6</sup> 13 out of 264 cases were related to the implementation of the Default Investment Strategy (DIS) covering trustees' customer services and issuance of DIS notices. Two out of 264 cases were either withdrawn or non-pursuable.

<sup>7</sup> The non-compliances were in relation to scheme administration, including late reporting of default contributions to MPFA, late processing of transfer or payment of MPF benefits and failure to submit various returns or reports to MPFA, etc.

## Business Operations

### Thematic programme

#### On trustees' compliance

We pursued a focused supervisory programme to address operational risks and governance issues of trustees with key compliance issues.

A trustee was undertaking a transformation programme to overhaul its governance, risk management, administration infrastructure and processes.

We closely monitored its programme through regular meetings with the trustee and appointed an independent consultant to assist us in this matter.

#### On cybersecurity

We reminded trustees of their duties to put in place an appropriate cyber-resilience framework and lay down strategies with policies and measures for effective management of cybersecurity risks.

We conducted a thematic survey on cybersecurity risk management. The purpose was to understand trustees' status in cyber-resilience and cybersecurity strategies and measures to protect technological assets and customer information against cyber attacks.

We also required trustees to conduct a comprehensive self-assessment on the adequacy of their cyber-resilience measures with respect to their operation models for withstanding and recovering from disruption caused by cyber threats. The self-assessments would be completed by trustees in second half of 2018.

### Governance of trustees

Good governance is a substantial element of an efficient pension system. Promoting a high standard of governance among trustees has always been a key regulatory objective of MPFA.

We encouraged trustees to implement higher standards of governance, thus better protecting the interests of MPF scheme members.

Measures included meetings with trustees' boards of directors to discuss governance issues, and the first Workshop on Governance of MPF Trustees held in October 2017.

#### Workshop on Governance of MPF Trustees

The one-day workshop was attended by more than 100 representatives, including trustees' boards of directors, local financial regulators and experts on risk management, pension design and governance. The workshop provided a platform for discussion and sharing of experience on topics such as governance framework, risk management and mechanisms for checks and balances.

*"MPF trustees assume a fundamental role in protecting members' interests and delivering value-for-money outcomes for them. MPF trustees, though not public trustees, are indisputably trustees of the public."*



– Dr David Wong, MPFA Chairman

## Business Operations

All 14 trustees have endorsed a charter signifying their commitment to promoting a stronger governance culture and delivering better value-for-money outcomes for scheme members.

We plan to issue a set of high level principles on governance of MPF trustees as guidance for trustees' boards of directors in upholding good governance practices.

Going forward, we will maintain a supervisory dialogue with individual trustees on governance based on their respective business and governance plans.



*“Since MPF is a compulsory system, trustees have a special duty to protect members’ interests and play a key part in maintaining members’ trust in the integrity of MPF System.”*



– The Honourable Bernard Chan, Convenor of the HKSAR Executive Council

### Communication with trustees

We maintain regular dialogues with the trustees on MPF-related issues and work closely with them to pursue initiatives to enhance the MPF System.

The Trustees Operations Liaison Group (TOLG) with representatives of trustees and MPFA met two times in the year to discuss developments of the MPF System, MPF scheme operation, compliance issues, the development of information systems and cybersecurity issues.

The Information Technology Projects Advisory Committee under TOLG met two times to discuss system project plans, application system interfaces, technical infrastructure and arrangements for a disaster recovery test.

A working group formed with trustees met five times to discuss and resolve operational issues relating to the implementation of the Default Investment Strategy (DIS).

Through an Education Liaison Group, trustees joined hands with us to promote the MPF System and provide MPF investment education to scheme members.

Our Managing Director met regularly with the chief executive officers (CEOs) of the trustees to share updates on the development of the MPF System, brief them on the focus of MPFA's work, and exchange views with them on MPF-related issues.

Roundtable discussions were held with trustees' CEOs to exchange views on matters relating to governance and risk management.

28 prudential meetings with the senior management of individual trustees were held for us to assess how the trustees control their operations and view their business prospects, and for discussing supervisory concerns arising from off-site reviews, on-site inspections and other sources.

## Business Operations

### MPF intermediaries

#### Registration

We process applications for registration as MPF principal and subsidiary intermediaries to engage in MPF sales and marketing activities. New applicants or applicants who have left the industry for three years or more are required to take an examination.

Members of the public can check MPF intermediaries' registration through MPFA's website or hotline.

#### Application and annual fees

From 1 January 2018, new applications for registration as MPF intermediaries must be accompanied by an application fee. All registered intermediaries have to pay an annual fee after registration.

Existing intermediaries registered before 1 January 2018 have to pay an annual fee as well. If payment is not made on time, an additional fee will be incurred. Failure to settle the outstanding annual fee and/or additional fee may result in suspension or revocation of registration.

Various payment methods including electronic ones are available for settling the annual fees. Around 40% of the intermediaries used electronic means to pay the fees for 2018.

#### Professional development

To maintain professional competencies in MPF business, subsidiary intermediaries must undertake a minimum of 10 hours of Continuing Professional Development (CPD) activities on MPF each year. Non-compliance may result in suspension or revocation of registration.

As at 31 March 2018, 27 activities in the form of courses, seminars, lectures or conferences were recognized as core CPD activities for MPF intermediaries. We carry out quality assurance checks on these activities, which include vetting the materials used, visiting classes and reviewing participants' evaluation.

#### Supervision

MPF intermediaries are required to submit annual returns to MPFA within one month after the end of a calendar year.

Around 80% of intermediaries made use of an "eService"<sup>8</sup> platform to file the returns electronically for 2017.

Separately, we communicated regularly with intermediaries on regulatory requirements and legislative changes that impact on them.

In 2017-18, eight circulars were issued on regulatory issues, covering matters relating to conduct, fees for intermediaries and revised MPF guidelines. One circular was issued on administration issue about the electronic submission of personal account enquiries by intermediaries on behalf of scheme members.

In addition, a series of briefings were organized for intermediaries on the application and annual fees and promoting payment via the "eService" platform for efficiency.

<sup>8</sup> "eService" is an electronic platform established by MPFA to allow registered intermediaries to view their registration information, submit and view their returns, and view their submission history at any time. Registered intermediaries can also make electronic payment for their annual or additional fees through "eService".



## Business Operations

### Enforcement

We regulate MPF intermediaries in conjunction with the frontline regulators (i.e. the Insurance Authority (IA), Monetary Authority (HKMA) and Securities and Futures Commission (SFC)) under a multi-regulator framework.

The MPFA and the frontline regulators have distinct powers and functions under the framework. In cases concerning conduct issues, the frontline regulators are responsible for the supervision and investigation of the MPF intermediaries who are their regulatees. The MPFA is the sole authority to determine and impose any disciplinary orders against MPF intermediaries under the MPFSO.

Where MPF intermediaries or unlicensed persons are suspected to have conducted regulated activities in contravention of the law, we will investigate or refer the cases to the relevant frontline regulators for investigation.

All cases investigated by frontline regulators will be passed to us for assessment and consideration of whether to impose disciplinary sanctions or take enforcement actions.

During the year, 19 on-site inspections were conducted by the frontline regulators.

In 2017-18,



**We received 10 complaints and referral cases against MPF intermediaries, mainly concerning failure to comply with statutory conduct requirements.**

**Investigation was initiated by a frontline regulator in six cases concerning MPF intermediaries.**

**33 compliance advice or reminder letters were issued to principal or subsidiary intermediaries in 22 cases.**

**A disciplinary order of six-month suspension of registration was made against an MPF intermediary who had contravened the conduct requirements of acting honestly, fairly, in the best interests of scheme members and with integrity under the MPFSO and the Guidelines on Conduct Requirements for Registered Intermediaries.**

In the year, we convened two meetings of the MPF Intermediaries Regulation Committee with the frontline regulators to exchange views on supervisory and enforcement issues relating to MPF intermediaries.

Two meetings were held with the IA for mutual progress updates in relation to complaints handled by MPFA, cases referred by MPFA to IA for investigation, and supervisory work conducted by IA.

## Business Operations

### MPF schemes and funds

#### Default Investment Strategy (DIS)

The DIS, launched on 1 April 2017, represents a major reform of the MPF System to address concerns about high fees of MPF funds and the difficulty of making fund choices. The default investment arrangements of all MPF schemes have been standardized since then.

We oversaw trustees' implementation of DIS, and supervised them in carrying out transitional arrangements.

As required by us, trustees engaged independent auditors to conduct a post-implementation review on their controls for issuance of notices and transfer of MPF benefits from default investment arrangement accounts to DIS. No irregularities were noted from the review results.

With the concerted efforts of MPFA and the trustees, DIS has been operating smoothly since its launch.

As at 31 March 2018, around 1.5 million accounts (about 15% of the total number of 9.53 million MPF accounts) were partly or fully invested according to DIS or were invested in the two constituent funds of DIS, involving \$25 billion of MPF benefits (around 3% of the total net asset value of the MPF System).

#### Fees and charges

Lower fees can have a significant contribution to long-term investment return.

As a result of measures to facilitate market forces and streamline scheme administration, the average Fund Expense Ratio (FER) of MPF funds dropped significantly by 25% from 2.06% in July 2007 (when FER was first introduced) to a record low of 1.54% as at 31 March 2018.

The fee caps of DIS will likely place further downward pressure on fees of MPF funds, and reduce the FER over time. In fact, since the passage of the legislation on DIS in May 2016 and up to 31 March 2018, 93 MPF funds have reduced their fees (biggest reduction up to 55%).

As at 31 March 2018, there were 234 <sup>9</sup> (50%) low-fee MPF funds (with management fee of 1% or below or FER of 1.3% or below) of different types (192 of them investing in equities and/or bonds).

#### Scheme merger and consolidation

MPF trustees make continuous efforts to enhance the cost-effectiveness of their MPF schemes. Since 2003, applications have been received for 38 schemes to be consolidated into 14 schemes.

We have an internal specialist team to ensure that timely and effective regulatory response is provided in the complex transactions of scheme restructuring and mergers and to ensure the orderly conduct of trustees' business consolidation and scheme changes.

In 2017-18, Sun Life Hong Kong Limited (SLHK) acquired the entire issued share capital of FWD Pension Trust Limited. Consequential to the acquisition, the sponsorship of FWD MPF Master Trust Comprehensive Scheme and FWD MPF Master Trust Basic Scheme was transferred to SLHK on 3 October 2017.

<sup>9</sup> Including 64 constituent funds of DIS.

## Business Operations

### Product and entity approval

For MPF product applications, we provide trustees with a series of approval checklists on our website to facilitate better preparation of documents and information to expedite the processing time of approving applications.

In 2017-18,

- 13 APIFs and three ITCISs were approved.
- 56 constituent funds reduced fees.
- Four schemes were cancelled.
- 16 constituent funds, one APIF and 21 ITCISs were terminated.
- One trustee surrendered its licence.
- Approved status of two overseas banks was withdrawn.

### Transparency of MPF information

We make ongoing efforts to drive improvements to the materials for disclosing MPF information to scheme members, facilitating retirement planning and decision-making on MPF schemes and funds.

Following the simplification and standardization of the presentation of DIS-related information in offering documents <sup>10</sup> for MPF schemes, we have been working on the introduction of additional measures to improve general information presentation and risk disclosure in the offering documents. These measures are to be set out as requirements in the Code on Disclosure for MPF Investment Funds <sup>11</sup>.

We launched a Fund Performance Platform on our website to provide easy access to essential information about MPF funds to facilitate comparison of different MPF schemes and funds and decision-making on MPF investment.

#### Fund Performance Platform



There are three interactive sections on this one-stop platform to provide information about MPF funds' annualized returns, cumulative returns, fees and risk levels.

It helps scheme members review funds from different perspectives to see whether the selected funds suit their retirement needs and to compare the performance of different funds.

A repository of scheme documents has been made available since February 2018 on MPFA's website to provide scheme members with necessary information for actively managing their MPF accounts. The repository now contains offering documents and fund fact sheets and more scheme documents will be included progressively.

<sup>10</sup> A document that invites participation in an MPF scheme.

<sup>11</sup> The Code was published by MPFA to give guidance to MPF trustees and other service providers on the disclosure of information about MPF schemes and funds and in particular information about fees, charges and performance. It also gives guidance to operators of APIFs on the disclosure of information (particularly expense information) to operators of funds that invest in those APIFs. It also specifies the information to be contained in annual benefit statements.

## Business Operations

### Liaison with Frontline Regulators

We maintain a close dialogue with HKMA and SFC in respect of their supervision of MPF custodians and MPF investment managers. We exchange views with them on the regulation of MPF products, fund operation issues and the conduct of MPF investment managers.

Apart from half-yearly meetings, we maintain a close dialogue with IA in regulating financial groups with both MPF scheme operators and insurance entities, and on matters related to MPF investment funds in form of insurance policies providing retirement-related benefits (i.e. insurance policy APIFs).

## Refining the MPF System

### Reviews

#### Minimum and maximum relevant income (RI) levels for MPF contribution purposes

Mandatory MPF contributions are subject to the minimum and maximum RI levels, which are adjustable over time to better reflect changes in the earnings distribution of the working population with a view to ensuring the accumulation of a reasonable amount of benefits for retirement-saving purposes.

There is a mechanism under the MPFSO which requires MPFA to review the two RI levels regularly <sup>12</sup>.

In the current round of review, taking into account the statutory adjustment factors, preliminary adjustment proposals were prepared and views were collected from stakeholders, including business chambers, employer/human resources bodies, labour unions, professional bodies, representatives of employers and scheme members.

Taking into account the views received, we are refining the proposals for submission to the Government.

### Support the Government in developing proposals to progressively abolish the offsetting of severance payments and long service payments with MPF contributions

The Government is refining its proposal to progressively abolish the offsetting arrangement. We provided comments to the Government on aspects of its proposal that may impact on MPF schemes, and assisted the Government in discussing with trustees the implications of the proposal on MPF operations. We also provided necessary statistics and other information to support the Government's work in this regard.

Several meetings were held during the year among the Government, MPFA, the Hong Kong Trustees' Association, and trustees, to discuss issues regarding the Government's proposal.

We will continue to provide support to the Government on this matter.

## Market Efficiency

### Standardization, streamlining and automation of MPF scheme administration

As part of our initiative to standardize, streamline and automate MPF administration, we are working on a digitalization project, preliminarily known as eMPF, to facilitate the automation of scheme administration. A key component of the project is to put in place a centralized electronic platform.

The platform will support enrolment and contributions by employers and account management by scheme members.

The objectives are to improve accuracy, reliability and efficiency of the MPF System, enhance user experience, reduce costs, and enable future reforms of the MPF System.

<sup>12</sup> The MPF legislation stipulates an adjustment mechanism which provides that MPFA must, not less than once in every four years, conduct a review of the minimum and maximum RI levels.

## Business Operations

The Government and MPFA have jointly set up a working group with MPF trustees to steer the development of eMPF. High-level technical specifications of the electronic platform are being developed for cost estimation of building the infrastructure for the purpose of seeking funding approval from Legislative Council.

A user committee is formed to hear views of employers, human resources practitioners and scheme members on key functions of the electronic platform from users' perspective and users' experience of electronic services currently made available by trustees.

Wider digital adoption by users is necessary to reap benefit of the electronic platform. We are mapping out publicity and education strategies to promote digital take-up by users of existing trustees' e-services to pave the way for full digital adoption.

We will continue to work closely with the Government and the industry on matters including legislative amendments and operational arrangements to put in place the electronic platform.

### Leverage on technology

While pursuing eMPF for the long term, we developed or enhanced several systems for the more immediate term for greater market efficiency, higher quality services, and less paper consumption:

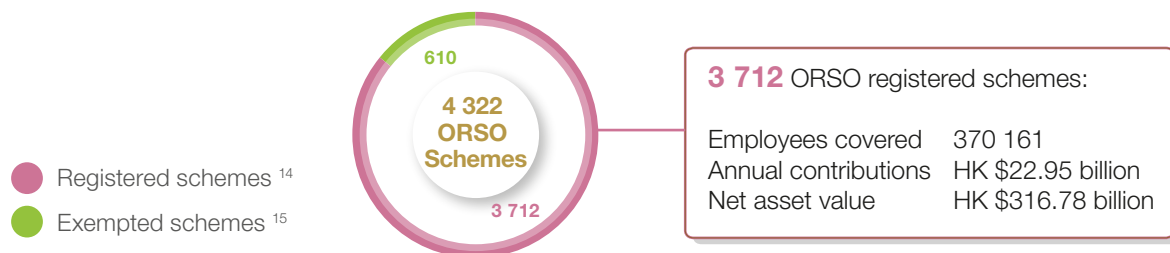
- A system supporting e-payment options for collecting fees from MPF intermediaries
- A Fund Performance Platform to facilitate access to key information and comparison of performance of MPF funds
- A new feature for online submission of documents to speed up the registration procedures for the use of an e-Enquiry of Personal Account (ePA)<sup>13</sup> platform

<sup>13</sup> ePA is a platform for scheme members who have registered for the service to obtain information about their MPF personal accounts easily for better account management.

## Business Operations

### Schemes Governed by the Occupational Retirement Schemes Ordinance (ORSO)

Key figures about ORSO (31.3.2018)



### Work of the Registrar of Occupational Retirement Schemes

The MPFA is the Registrar of Occupational Retirement Schemes. We process applications and notifications of changes, monitor compliance, recover default contributions, collect periodic fees, handle enquiries and complaints, and maintain a public register of ORSO schemes.

#### In 2017-18, we

**Approved the registration of 16 ORSO schemes.**

**Approved ORSO exemption in respect of one scheme.**

**Approved MPF exemption <sup>16</sup> in respect of four registered schemes.**

**Processed 3 874 annual returns and financial statements of ORSO registered schemes.**

**Processed 16 overseas compliance certificates and 444 membership statements of ORSO exempted schemes.**

**Processed 1 100 notifications of changes in relation to scheme name, administrator, employer and address.**

**Approved 55 applications for change of trustees for MPF exempted ORSO registered schemes.**

**Granted consent to six ORSO registered schemes for cessation of application of pooling agreements to the schemes.**

**Approved withdrawal of MPF exemption in respect of 120 ORSO registered schemes and 11 ORSO exempted schemes.**

**Processed notices of termination given by 152 ORSO registered schemes and 27 ORSO exempted schemes.**

**Cancelled the registration of six ORSO registered schemes and withdrew the exemption certificate of 26 ORSO exempted schemes.**

**Granted consent to 78 applications for consent for disclosure of information in compliance with the US Foreign Account Tax Compliance Act.**



<sup>14</sup> An ORSO registered scheme refers to one registered under section 18 of the ORSO.

<sup>15</sup> An ORSO exempted scheme refers to one in respect of which an exemption certificate has been issued under section 7 of the ORSO and any withdrawal under section 12 of the ORSO has not come into effect; or an ORSO scheme within the meaning of the 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.

<sup>16</sup> MPF exemption refers to an exemption under section 5 of the MPFSO. Members, or a class of members, of an MPF exempted ORSO scheme and their employer are exempt from the operation of all or any specified provisions of the MPFSO. This is an interface arrangement with the MPF System when the System was launched in 2000.

## Business Operations

### Funding status of ORSO registered schemes

We monitor the funding status of ORSO registered schemes by examining annual returns and audited financial statements. For defined benefit schemes, actuarial certificates must be supplied by designated persons at least once every three years.

According to the relevant reports received up to 31 March 2018,

20 (about 10%) out of 202 defined benefit ORSO schemes were under-funded, covering around 8 100 scheme members.

Total asset size of these under-funded schemes amounted to \$12,993 million.

Total shortfall of these under-funded schemes was \$597 million (about 4.6% of their total assets). The shortfall was caused by investment loss and/or salary increase higher than the assumption used by actuaries.

The relevant employers have to make up the shortfall in funding by a lump sum contribution or monthly contributions within three years and to submit actuarial certificates annually until the schemes were fully funded. We closely monitored the situation, and the process of making up the shortfall by the relevant employers was smooth.



### Relinquishing of MPF exemption status of ORSO schemes

In 2017-18, 131 MPF exempted ORSO schemes, covering about 3 000 scheme members, relinquished their exemption status. The employers subsequently terminated these schemes and had to enrol the employees in MPF schemes.

### Revision of levels of fees levied on ORSO schemes

The levels of periodic fees and application fees levied on ORSO schemes have been adjusted since 1 January 2018.

ORSO schemes for which periodic fees were due on or after 1 January 2018 must pay new periodic fees.

Applicants must pay new application fees for applications relating to ORSO schemes on or after 1 January 2018.

### Review of the ORSO

ORSO schemes are employment-based schemes set up voluntarily by employers for providing benefits to employees.

It has come to our attention that some ORSO schemes were inappropriately marketed or used for non-retirement related purposes.

In view of this, we reviewed the ORSO and prepared proposed amendments for improving the overall effectiveness of the regulation of ORSO schemes.

Views on the major amendment proposals were collected from stakeholders, including chambers, employer associations, ORSO employers, ORSO scheme administrators and professional bodies.

We are working closely with the Government on the proposed amendments with a view to introducing an amendment bill to amend the ORSO into the Legislative Council in the 2018-19 legislative year.

## Business Operations

### Protecting Retirement Benefits

#### Non-compliant employers under the MPFSO

We take enforcement actions against non-compliant employers, including filing civil claims to recover default contributions on behalf of affected employees and initiating criminal prosecutions to instil deterrent effect. In response to our call, trustees began from the contribution period of November 2017 to promptly follow up with their clients to resolve default contribution and surcharge issues.

**In 2017-18,**



**1 846 employment establishments were visited under inspection (major targets included catering establishments, retail outlets and construction sites).**

**271 900 payment notices were issued in respect of default contribution under MPF schemes <sup>17</sup>.**

**55 835 cases were investigated.**

*breakdown by alleged offences <sup>Δ</sup>*

Default contribution	55 590 cases
Non-enrolment	1 539 cases
Forced change to self-employed person	30 cases
Others <sup>18</sup>	123 cases

<sup>Δ</sup> as one case may involve several types of alleged offences, the total number of alleged offences may exceed the total number of cases investigated

**In respect of substantiated MPF non-compliance, claims were filed with:**

Small Claims Tribunal	503 cases
District Court	44 cases
High Court	1 case
Liquidators	161 cases



**82 Bailiff actions were taken to seize assets of defaulting employers.**

**108 Garnishee Orders were granted by court to seize money from defaulting employers' bank accounts.**

**Four court orders were granted by court to compel convicted employers to rectify non-compliance.**

**\$127.2 million default contributions were recovered on behalf of employees.**

**54 financial penalty notices were issued to repeat defaulters for breach of section 7A(8) of the MPFSO <sup>19</sup> (involving 53 employers and a total penalty of \$504,943).**

<sup>17</sup> A surcharge calculated at 5% of the amount of MPF contributions in arrears is imposed on employers who failed to make MPF contributions for their employees within the prescribed period. The surcharges received are credited into the MPF accounts of the employees concerned.

<sup>18</sup> Others include failure to notify trustees of termination of employment, failure to issue monthly pay record, etc.

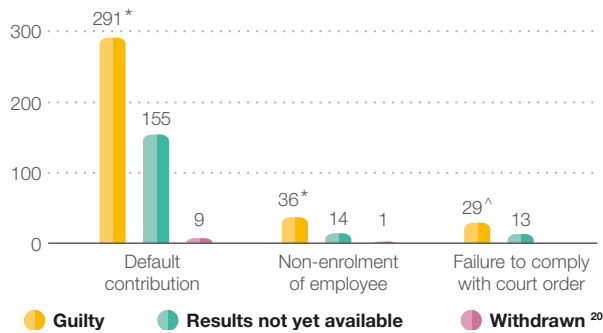
<sup>19</sup> Failure to pay MPF contributions in respect of an employee to the trustee within the prescribed period.



## Business Operations

548 summonses were issued to employers and directors/managers of limited companies for prosecution in respect of their suspected non-compliance.

### Prosecution Status (31.3.2018)



\* Involving 55 employers and one director of a limited company (total fine: \$1,000,600).

^ Involving eight employers and six directors of limited companies (fined between \$2,000 and \$125,000 each). Two of the directors were sentenced to imprisonment of two weeks (suspended for one year) and 21 days respectively.

The sentences strengthen MPFA's determination in taking enforcement actions against non-compliant employers and deliver a strong deterrent message that non-compliance under the MPF legislation is a serious crime.

We maintain a database of Non-Compliant Employer and Officer Records on MPFA's website. Members of the public can view and search for information on employers and officers with MPF non-compliance records.

As at 31 March 2018, 2 605 non-compliance records were kept in the database, including:

- 1 991 civil awards or judgments
- 614 criminal conviction records

## Non-compliant employers under the ORSO

In 2017-18, the following actions were taken to recover default contributions on behalf of affected employees under ORSO schemes:

145 payment notices were issued in respect of default contribution under MPF exempted ORSO registered schemes<sup>21</sup>.

Two civil claims were filed with Small Claims Tribunal.

\$205,000 default contributions in MPF exempted ORSO registered schemes were recovered on behalf of employees.



<sup>20</sup> Summonses could not be effectively served by the Police or Bailiff, as the defendants had moved away, closed, become untraceable or wound up.

<sup>21</sup> A surcharge calculated at 15% or 20% of the amount of ORSO contributions in arrears is imposed on employers who failed to make ORSO contributions for their employees. No surcharge will be imposed in the first payment notice in respect of ORSO contributions.

## Business Operations

### Non-compliant members of MPF and ORSO schemes

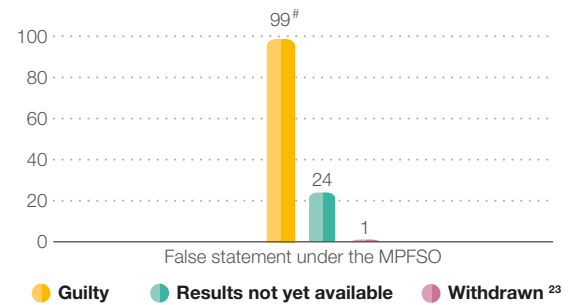
MPFA takes actions in respect of substantiated cases of false claims made by MPF scheme members to withdraw their MPF benefits or by MPF exempted ORSO registered scheme members to withdraw their minimum MPF benefits before attaining retirement age on the ground of permanent departure from Hong Kong.

Such withdrawal affects the amount of savings available to them for retirement.

Moreover, to tackle syndicate crime in arranging scheme members to make false statement for withdrawing MPF benefits, we refer cases to the Police for investigation from time to time.

In 2017-18, 124 summonses were issued to MPF scheme members for making false statements <sup>22</sup>.

*Prosecution Status (31.3.2018)*



<sup>#</sup> Involving 79 MPF scheme members (average fine: about \$4,800).

In 2017-18, 76 scheme members involved in the cases referred to the Police were convicted of making false declarations or statements. Five of them were fined from \$2,000 to \$5,000, 66 of them were sentenced to community service and the remaining five were sentenced to imprisonment from two weeks to two months (all suspended for one year).



## Public Education and Communication

We make continuous efforts to enhance public understanding and acceptance of the MPF System as a retirement savings system that is good for the working population in Hong Kong. A variety of activities is organized to educate scheme members and potential participants on the MPF System, their rights and obligations, and skills to manage MPF investment.

Different channels were used to widely deliver MPF messages to the general public, including television and radio programmes, out-of-home platforms, online publicity, online social media, mobile phone applications, and newspapers and magazines.

<sup>22</sup> MPF scheme members made a false statement in order to withdraw their MPF benefits on the ground of permanent departure from Hong Kong.

<sup>23</sup> Summons was withdrawn due to the absence of a key witness.

## Business Operations

Our education programmes held in 2017-18 for the public include the following:

### General Public



Entertaining videos in the form of television programmes on the fundamentals of MPF investment

A public seminar co-organized with a local university on MPF investment

Messenger bot <sup>24</sup> on the MPFA investment education Facebook fan page (*Workplace Incredibles*) to chat with users on MPF matters



Four infographic videos to encourage early retirement planning and about the concepts of retirement investment



<sup>24</sup> A tool built in the Facebook Messenger which can provide automated and instant responses to users through one-on-one communication.

## Business Operations

### General Public



15 workshops at workplace with a Certified Financial Planner sharing tips for retirement planning and MPF investment and introducing tools on MPFA's website



Four roving exhibitions on how to make informed decisions for MPF investment and consolidation of MPF personal accounts



Four advertorials on MPF investment and retirement planning in the form of case studies with analyses by a Certified Financial Planner of scenarios at different age brackets and life stages



12 buzzword cards designed by a popular illustrator to convey messages on retirement investment and MPF investment

## Business Operations

To further reach out to young people, we stepped up our publicity and education efforts on online platforms, including promotion on our Facebook fan page, short videos by key opinion leaders (KOLs) and crossover programmes with popular illustrators and KOLs. Our education programmes held in 2017-18 for the youth include the following:

### The Youth

MPF talks, financial planning / career cum MPF workshops, for tertiary students and members of youth centres

On-campus activities for tertiary students at local institutions on knowledge of the MPF System and MPF investment

Training workshop for teachers on the MPF System and MPF investment and encourage them to apply financial planning concepts and MPF knowledge in teaching and disseminate MPF messages to students

Participated in career and education fairs to familiarize fresh graduates and young job-seekers with the MPF System and MPF investment



Life-planning workshops simulating experience at different life stages on financial needs and MPF enrolment and investment for secondary school students

Interactive money management workshops and drama for secondary school students on financial planning, MPF investment, and early start on retirement planning



Online promotion of MPF messages for the youth in general: short videos, games and crossover programmes featuring popular illustrators and sports players on the MPFA Facebook fan page *Rolling My Money*; smartphone application *MVP (Most Valuable Player)@Workplace*



## Business Operations

Publicity programmes on specific topics are organized to generate public awareness of the changes to the MPF System, MPFA's new initiatives, the roles and functions of the MPF System and MPFA.

To widely publicize DIS, we arranged the following programmes in 2017-18:

Advertisements through TV, radio, and print and online media, on the launch of DIS and the transitional arrangements



The TV clips on DIS attracted close to three million views on YouTube, hitting the top of the 2017 Hong Kong YouTube Ads Leaderboard

Videos with the gimmick “DIS Kitchen” on online/social media platforms and out-of-home media to introduce the key features of DIS and enhance awareness of DIS as a new MPF investment choice

Comprehensive information on DIS disseminated through thematic website, publications and audio-visual materials

Panel displays in MTR stations to disseminate information on DIS and MPF investment education messages

Flyer carrying comic strips on arrangements under DIS for all the affected MPF account holders



## Business Operations

Other publicity programmes in 2017-18:

### Good MPF Employer Awards 2016-17

This annual event gives recognition to employers who are compliant with the MPF legislation and provide additional retirement benefits to their employees beyond the statutory requirements.

Two new awards, the “e-Contribution Award” and “Support for MPF Management Award”, were introduced to commend awardees who adopt electronic means for MPF administration and who encourage employees to actively manage their MPF accounts.

A total of 879 companies or organizations received the 2016-17 Award.



*“A harmonious employer-employee relation is key to Hong Kong’s economic development. The Good MPF Employers Award not only gives recognition to the good employers but also promotes positive energy in the community.”*



– Dr Law Chi-kwong, Secretary for Labour and Welfare



## Business Operations

### A thematic campaign on MPF account management

- Publicity on the MPF Fund Performance Platform on online media and mobile platforms.
- Telecasting of the “MPF Heroes” video series on TV panels/TV walls in commercial areas.
- Set up counter for checking personal accounts in office buildings and MTR stations.
- Kicked off a series of articles on MPF account management and the online tools provided by MPFA, on Yahoo! Better Me online magazine and its Facebook fan page, together with online promotion to direct traffic to the articles.
- Publicity on the ePA service.



The ePA platform and ePA mobile application give scheme members more flexibility in managing their personal accounts, help them take better care of their MPF accounts, and encourage them to consolidate their personal accounts.

Scheme members registered for ePA services can obtain anytime and anywhere a report on all their MPF personal accounts.

Trustees' contact information and various MPF-related information are provided on the platform. The mobile application also carries information about fees and performance of MPF funds.

Whenever the number of personal accounts held by a registered user increases, he/she will receive a notification urging him/her to consider consolidating his/her personal accounts.

As at 31 March 2018, about 51 000 scheme members have registered for the ePA service.





## Business Operations

Media events in 2017-18:

2017

September

A media briefing on the report *Statistical Analysis of Accrued Benefits Held by Scheme Members of Mandatory Provident Fund Schemes* to highlight the fact that the MPF System has helped scheme members save for retirement



October

Media publicity on MPFA's campaign to raise the governance standards of MPF trustees for better protection of scheme members' interests

2018

January and February

Media briefings on MPFA's work and the performance of MPF funds in 2017, and the launch of the Fund Performance Platform and its features



March

Launch of MPFA Chairman's blog on MPFA's website to boost public understanding of the latest developments of the MPF System and MPFA's work

## Networking and Engagement

### Networking and engagement with stakeholders

The support of our stakeholders is essential to the sustainable development of the MPF System. Our liaison network covers MPF trustees, other regulators, the HKSAR Government, Legislative Council and District Councils, political parties, labour unions, business chambers, employer/human resources bodies, professional bodies, think tanks, the media, the general public, scheme members and prospective scheme members, employers and overseas authorities and organizations. Our common goal is to make the MPF System work better as an important pillar in Hong Kong's retirement protection framework.

In addition to working closely with the industry and other regulators to ensure smooth operation of the MPF System, we are proactive in engaging with our stakeholders through effective liaison and communication channels to gain their support.

## Business Operations

Examples of programmes organized in 2017-18 are as follows:

Networking and engagement programmes	For
Four issues of <i>MPFA Newsletter</i> published to keep stakeholders abreast of the latest developments of the MPF System and MPFA	Members of the public
A retirement planning workshop with free investment consultation by CFA <sup>25</sup> charterholders to raise understanding of retirement planning and MPF investment	Friends of MPF <sup>26</sup>
<p>Programmes on the features of Industry Schemes (IS), the benefits of opening casual employee accounts in advance, and management of MPF investment</p> <ul style="list-style-type: none"> <li>● A series of lunch talks organized with a major labour union for the workers at various construction sites</li> <li>● Over 40 talks organized with the Construction Industry Council for trainees who were about to join the construction industry</li> <li>● Two dinner talks organized with the IS trustees and labour unions of the construction and catering industries for nearly a thousand workers</li> <li>● An outreach activity at a construction site in partnership with a major construction labour union with educational leaflets and souvenirs distributed and a talk delivered</li> </ul>	IS members and casual employees in the construction and catering industries
Over 100 talks on DIS, new initiatives and legislative updates, and employees' rights and employers' obligations under the MPF System (many were organized in collaboration with District Councillors, government departments, business chambers, employer/human resources bodies, labour unions, and professional bodies)	Employers, employees, civil servants, and human resources practitioners
A round of briefings to gather views on the proposed adjustment of the minimum and maximum RI levels	Business chambers, employer/human resources bodies, labour unions, professional bodies, chairmen/vice-chairmen of District Councils, and think tanks
A round of briefings to gather views on the proposed legislative amendments to the ORSO	Business chambers, employer bodies and professional bodies

We also communicated regularly with relevant Government bureaux and departments and collaborated with them in overseeing compliance with the legislation and seeking improvements to the MPF System. These include regular liaison with the Financial Services and the Treasury Bureau, cooperation with the Department of Justice on preparation of legislative proposals and prosecution cases, liaison with the Hong Kong Police on enforcement issues, joint inspection exercises and coordination of complaint cases with the Labour Department, and liaison with the offices of Legislative Councillors and District Councillors at the district level.

<sup>25</sup> Chartered Financial Analyst

<sup>26</sup> Members of the Friends of MPF programme receive periodically *MPFA Newsletter* and information updates about MPF and MPFA and can join the activities exclusively organized for them to enrich their understanding of MPF.

## Business Operations

### Participating in international conferences and meetings

The MPFA is a member of the International Organisation of Pension Supervisors (IOPS), an international standard-setting body for pension supervisory issues with the objective of improving the supervision of private pensions systems around the world.

We take part in the development of global thinking on private pensions through exchange of experience with IOPS members from over 70 countries and territories and engaging in the drafting of guidelines, good practices and working papers relating to pension regulation and supervision for IOPS. The insights gained assist us in undertaking ongoing reforms of the MPF System and enhancing the supervisory framework of MPF schemes.

Our executives take opportunities to participate in international conferences and meetings to establish a close rapport and exchange information with local and global professionals.

#### 2017

##### April

**Fund Forum Asia 2017** \* *by Fund Forum Asia*

**Town Hall Forum Series** \* *by Hong Kong General Chamber of Commerce*  
Chairman spoke on “Challenges and Developments of the MPF System”

**MPF Forum 2017** \* *by Gain Miles*

Chief Corporate Affairs Officer spoke on “DIS – A New MPF Choice, An Informed Decision”

##### May

**International Seminar on Financial Investigation** \*  
*by Independent Commission Against Corruption*

**Asian Investment Week** \* *by Haymarket Financial Media*

##### June

**Investment Management Summit Asia** \*  
*by Financial Times*

**Markets in Financial Instruments Directive (MiFID)II: What You Need to Know** \* *by Incisive Media*

**Joint Meetings of IOPS and Organisation for Economic Co-operation and Development (OECD) Working Party on Private Pensions and Research Seminar** *by IOPS and OECD (in Paris, France)*

##### September

**2017 Hong Kong Retirement Industry Conference\***  
*by JP Morgan*

Chief Operating Officer spoke on “Governance of Pension Trustees – A Regulator’s Perspective”

**Financial Planning Conference 2017** \*

*by Institute of Financial Planners of Hong Kong*  
Executive Director (Members) spoke on “The Latest Update on MPF System”

**Joint Roundtable on Insurance and Retirement Saving in Asia** *by U.S. National Association of Insurance Commissioners, OECD and Office of Insurance Commission, Thailand (in Bangkok, Thailand)*

Head (Investment Regulation) spoke on “Retirement Saving Adequacy: Addressing the Challenges that Face Asia”

**Annual Banking Conference 2017** \*

*by Hong Kong Institute of Bankers*

## Business Operations

### 2017

#### October

**MYGO Series** \* by Hong Kong Securities and Investment Institute

Chief Operating Officer spoke on “MPF System – Development, Updates and Governance Issues of Pension Trustees”

**7th FinTech Innovation Forum Hong Kong** \* by Questex Asia Limited

**IOPS Technical Committee Meeting, IOPS Annual General Meeting and OECD/IOPS Global Forum on Private Pensions** by IOPS and OECD (in Belle Mare, Mauritius)

**2017 Conference** \* by Hong Kong Trustees' Association

Chairman spoke on “Reforming the MPF System to Improve Administration and Trustee Governance”

#### November

**Annual Meeting of the Global Future Councils** by World Economic Forum (in Dubai, United Arab Emirates)

**11th Annual Conference** \* by Hong Kong Investment Funds Association

Chief Operating Officer was a panellist at the session on “Cross Over Between Retail Funds and MPF”

#### December

**Regional Pension Fund and Social Security Systems Summit** \* by Asia Pacific Investors Cooperation and Asia-Pacific Financial Forum  
Chairman spoke on “Pension Reform and the Development of the MPF System”

### 2018

#### February

**Seminar** \* by The Hong Kong Institute of Human Resource Management

Chief Corporate Affairs Officer spoke on “MPFA Updates: Latest Developments of MPF System and Their Impacts on HR Practitioners”

**IOPS Technical Committee Meetings and Joint IOPS/OECD/The Pensions Authority of Ireland International Seminar** by IOPS and OECD (in Dublin, Ireland)

Head (Trustees Supervision) spoke on “Fees and Value for Money in Private Pension Systems: Hong Kong's Experience”

#### March

**Cybersecurity Solutions Day** \* by Hong Kong Institute of Bankers

**Regulatory Forum 2018** \* by Securities and Futures Commission

**Asian Institutional Investor Forum** \* by Asia Institute

**Roundtable on Robo's Role in Virtual Banking** \* by Fintech Association of Hong Kong

\* Events held in Hong Kong

## Business Operations

### Receiving visitors

We receive visitors from overseas and the Mainland, briefing them on the key features and latest developments of the MPF System as well as the roles of MPFA. We also exchange views and share regulatory experience with them, thereby promoting understanding of the MPF System and enhancing the image of the System and MPFA internationally.

Visitors in 2017-18 include:

Department of Finance of Qinghai Province,  
the Mainland (5 June 2017)



Law School of Shantou University,  
the Mainland (7 July 2017)

Social Security Fund, Government of Macao  
Special Administrative Region, led by the  
President of its Administrative Committee,  
Mr Long Kong-io (15 August 2017)



China Insurance  
Regulatory Commission  
(20 November 2017)

Civil Service Exchange Programme  
with the Mainland and Macao  
(28 November 2017)

Shenzhen Social Insurance Fund Office,  
the Mainland (19 September 2017)

European Union Office to Hong Kong and  
Macao (18 October 2017)



ASABRI (Indonesia Army and Police  
Superannuation Company), Indonesia, led by  
the Chairman of its Board of Commissioners,  
Lieutenant General Agus Sutomo (2 November  
2017)



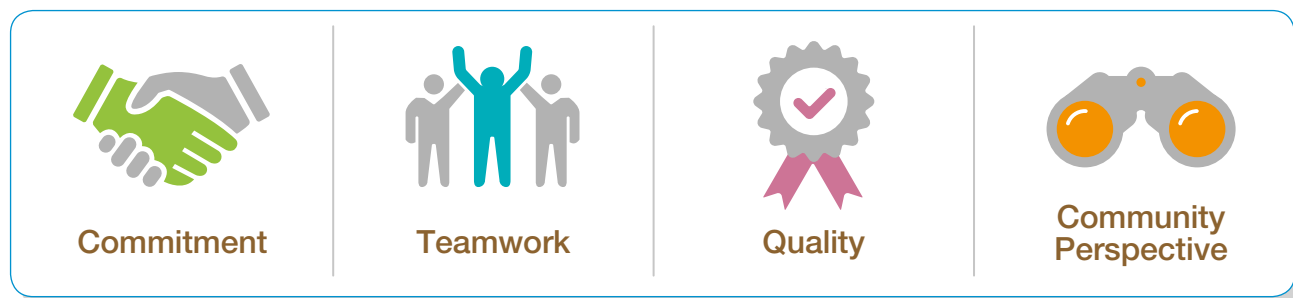
China Securities  
Regulatory Commission  
(30 November 2017)

# Our Organization

## Our People

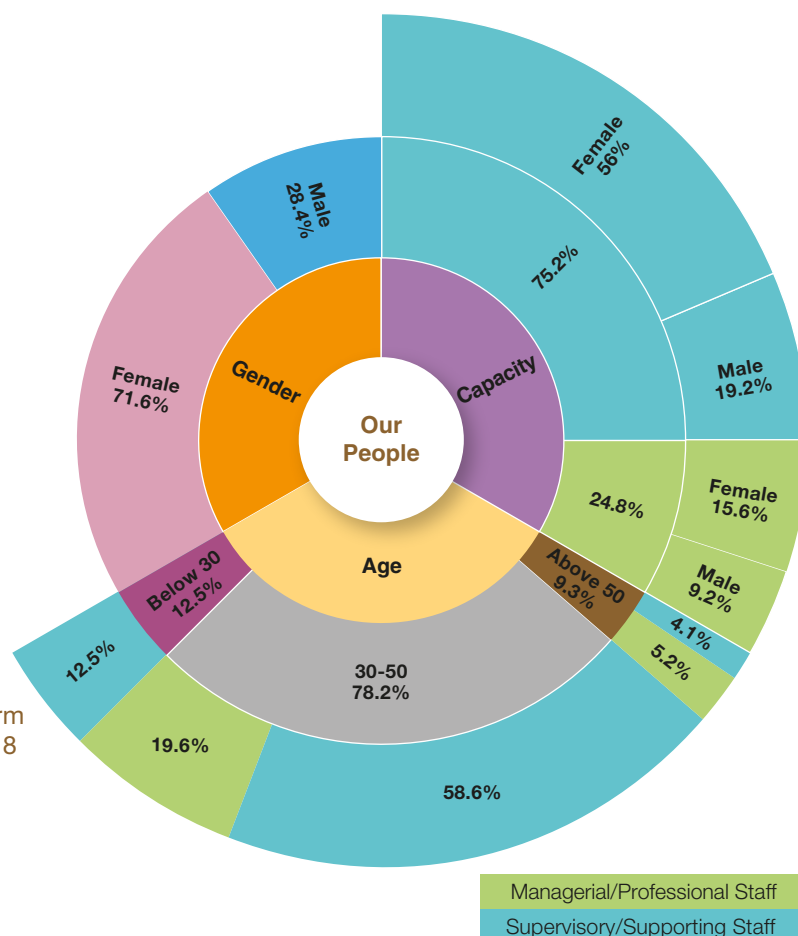
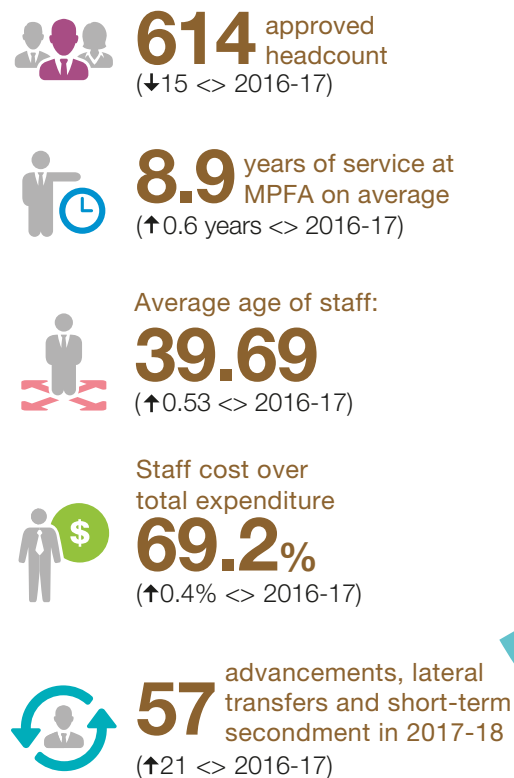
Staff are the most important asset of MPFA. Our corporate achievements would not be accomplished without a dedicated workforce.

### Core Values



Together they represent the attributes we seek in our staff.

### Key figures about our staff (31.3.2018)





## Our Organization

### Equal opportunities at our workplace

We endeavour to promote equal opportunities at the workplace.

We offer employment, advancement opportunities, training and development, compensation and benefits, and all other conditions of employment in a fair manner, without regard to sex, marital status, pregnancy, disability, family status, race, colour, descent, or national/ethnic origins.

Established guidelines are in place to ensure staff's awareness and understanding of the importance of prevention of discrimination in MPFA.

### Rewards and recognition

Our remuneration package comprises a fixed salary and a discretionary variable pay subject to individual performance.

Fringe benefits include annual leave, medical and dental benefits and insurance coverage.

We also grant staff retirement benefits by making MPF mandatory contributions for all staff and voluntary contributions for staff employed on continuous terms to enhance their retirement protection.

Pay and benefits reviews are conducted regularly to ensure competitiveness of MPFA.

We value the contributions of our staff and endeavour to foster a strong recognition culture in the workplace.

A structured Employee Recognition Framework is in place to promote appreciation of staff's contributions.

In 2017-18,

- A total of 90 individual staff and eight teams who have made good contributions and demonstrated MPFA's core values were recognized through different recognition awards.
- Long Service Awards were presented to 67 long-serving staff members with over 10 or 15 years of service at MPFA.



Externally, two staff members won The Ombudsman's Awards for Officers of Public Organizations in 2017, who were commended for the professional and excellent service they rendered to the public.

## Our Organization

### Training and Development

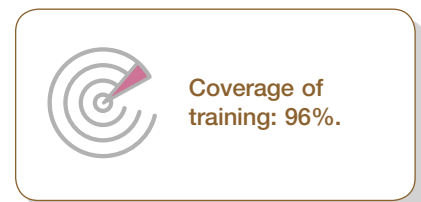
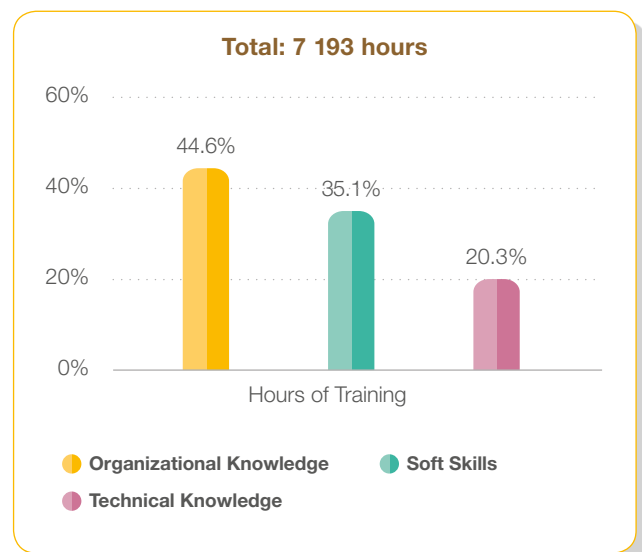
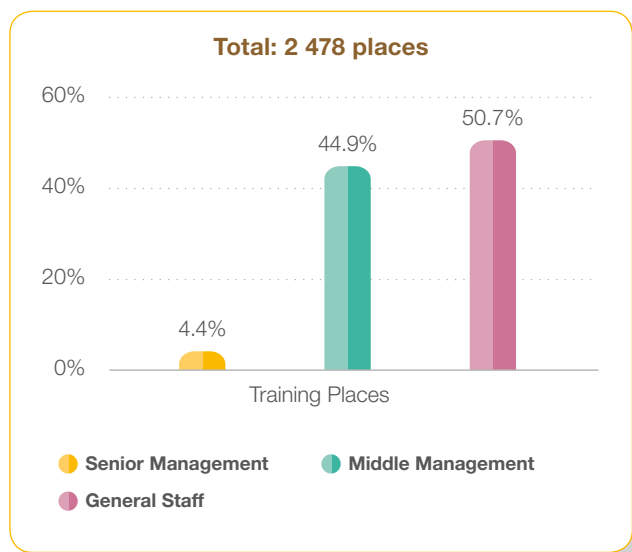
We offer training and development programmes responding to staff members' needs for technical and general skills to help maximize their performance.

Focuses in 2017-18 included technical training on enforcement and investigation, communication and people management.

Specifically, we offered a communication series covering public and cross-generation communication, and one-on-one and team coaching to hone the presentation skills of our staff. Workshops were also arranged on coaching skills and becoming more effective people managers.

Sharing sessions are organized regularly to keep staff updated on internal and external developments. Topics covered in the year included cybersecurity, the Apology Ordinance <sup>1</sup>, the eMPF initiative, and e-Enquiry of Personal Account (ePA) <sup>2</sup>.

Supporting staff to stay close to advancement in technology, we also made available training opportunities on FinTech, and other technology-related topics.



<sup>1</sup> Chapter 631, Laws of Hong Kong, took effect on 1 December 2017.

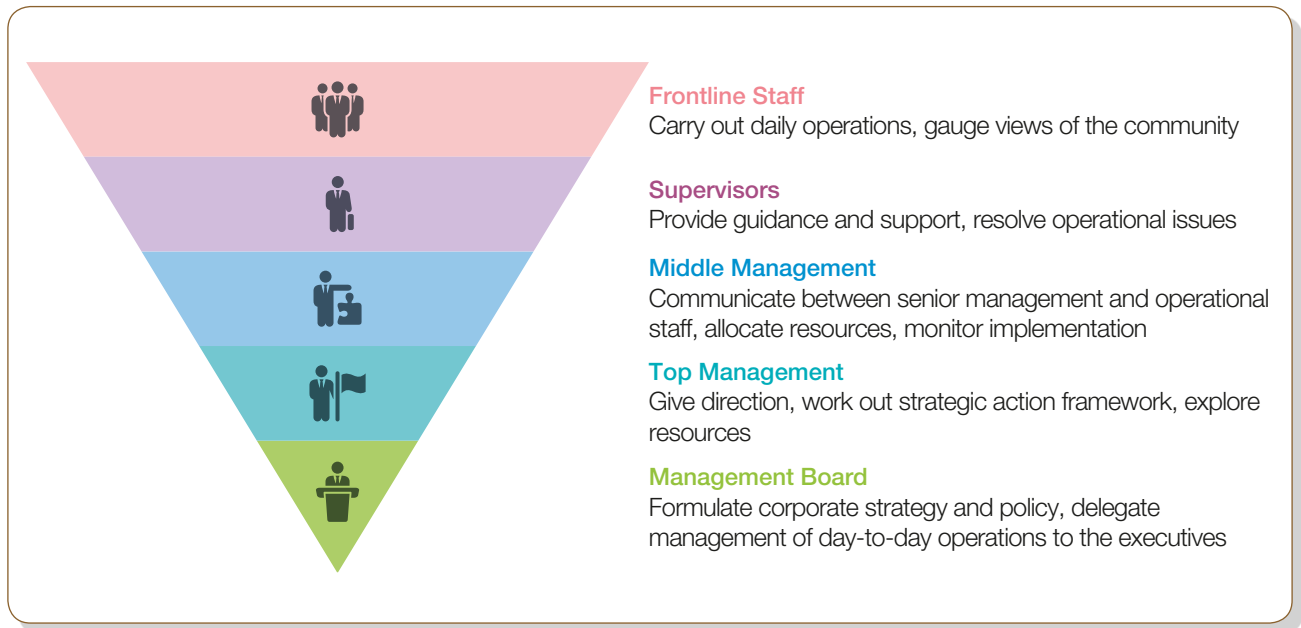
<sup>2</sup> ePA is a platform for scheme members who have registered for the service to obtain information about their MPF personal accounts easily for better account management.



## Our Organization

### Communicating with staff

We adopt an inverted pyramid management philosophy whereby the management supports the work of frontline staff by providing clear directions and securing for them the necessary resources and support to perform their duties.



We attach great importance to communication between management and staff. The work directions, strategies and goals of MPFA as set out in the corporate plan approved by the Management Board are cascaded to all staff members. Frontline staff, on the other hand, convey feedback from the community and give comments from the operational point of view to improve our work and services and help shape future corporate plans. Staff members set their work objectives to align with corporate objectives, and maintain communication with supervisors throughout the year to review the achievement of their work plans.

To facilitate understanding of organizational goals and how staff members can individually contribute to the success of the organization, we have a structured communication framework to cascade the corporate plan, corporate directions and developments and connect people within the organization. There is always a platform for everyone to share views and voice concerns and suggestions on corporate-wide issues.

## Our Organization


Communication channels	Participants	Frequency	Functions/Activities	Number of events in 2017-18
<b>Executive Directors' Meetings</b>	Executive Directors	Monthly	Identify strategic direction and projects, work out strategic plans	12
<b>Managing Director's Meetings</b>	Executive Directors and Heads	Every 1.5 months	Formulate action plans, monitor progress of implementation of the corporate plan	8
<b>Managing Director's Communication Sessions</b>	Managing Director and all staff members	Annually	Cascade the corporate plan, share views and suggestions on corporate-wide issues	31 group sessions covering all MPFA staff
<b>Executive Directors' Communication Sessions</b>	Executive Directors and their respective teams	Annually	Share views on management and operational issues	Individual sessions for 11 Divisions/ Departments/Units
<b>Divisional and Departmental Meetings</b>	Division/department heads and their respective teams	Periodically	Channel action plans, monitor work progress, align expectations, resolve operational issues	Individual meetings for 11 Divisions/ Departments/Units
<b>Divisional and Departmental Review and Planning Activities</b>	Division/department heads and their respective teams	Annually	Enhance organization awareness, build rapport, foster bonding, recognize the achievements and contributions of staff members, prepare staff for challenges ahead	Individual events for 11 Divisions/ Departments/Units
<b>Inter-departmental Liaison Meetings</b>	Executive Directors and managerial staff	Quarterly	Convey corporate directions, share experience, exchange views, share work progress, give suggestions, build rapport	4
<b>Corporate Bulletin</b> (an electronic publication)	For sharing among all staff	Quarterly	Highlight significant corporate events and projects	4
<b>Staff Newsletter</b> (an electronic publication)	For sharing among all staff	Quarterly	Highlight staff news	4
<b>Sharing and briefing sessions</b>	All levels of staff	Periodically	Share knowledge on job-related topics or latest developments in various areas of operations	11

## Our Organization

### Financial Resources

We operate on a self-financing basis with operations funded by statutory fees and investment income generated from a one-off Capital Grant of \$5 billion from the Government in 1998.

#### Income



		2017-18	2016-17
	%	\$ million	\$ million
Net investment income	92.3	225.5	160.1
Fees and charges	6.1	14.9	7.9
Interest income	1.1	2.8	2.3
Recoveries from MPF Schemes Compensation Fund <sup>3</sup>	0.5	1.1	1.1
<b>Total</b>	<b>100</b>	<b>244.3</b>	<b>171.4</b>


Annual registration fee on MPF schemes is intended to be a major source of recurrent income for MPFA, but the collection of the fee has been held in abeyance since 2000.

As a result, we rely heavily on the investment return on the Capital Grant to finance our operations.

In 2017-18, we posted an investment gain of \$225.5 million, benefiting from a favourable investment environment.

From 1 January 2018, we started collecting fees on ORSO schemes at revised levels and imposing application and annual registration fees on MPF intermediaries. \$8.5 million was recorded in these fees, accounting for the bulk of total fees and charges collected in 2017-18.

### Expenditure



		2017-18	2016-17
	%	\$ million	\$ million
Staff cost	69.2	341.2	341.9
Premises expenses	11.2	55.3	60.7
Other expenses	19.6	96.3	94.1
<b>Total</b>	<b>100</b>	<b>492.8</b>	<b>496.7</b>

Staff cost is the major expenditure item of MPFA. After removal of our office premises to Kwai Chung in 2016, premises-related expenditure was reduced and the proportion of staff cost to total expenditure increased in relative terms, amounting to 69.2% in 2017-18.

In addition to performing our ongoing functions, we deployed resources in support of the Government's blueprint announced in the Policy Address in January 2017, in particular the preparation for the eMPF project. These added to the total staff cost.

Following the launch of DIS, a publicity campaign was rolled out to raise public awareness and consumed considerable financial resources as well.

In face of the many demands on our resources, we will continue to exercise stringent fiscal discipline and make efforts in controlling our expenditure.

### Financial position

As at 31 March 2018, the capital and reserve of MPFA was \$3.37 billion. Details are set out in the audited financial statements of MPFA on pages 84 to 115.

Going forward, we will continue to explore steady income sources or other funding options so as to achieve a balanced budget in the long run.

<sup>3</sup> The MPF Schemes Compensation Fund is set up under the MPF legislation to compensate MPF scheme members or other persons who have beneficial interests in MPF schemes for any loss in MPF benefits attributable to misfeasance or illegal conduct committed by MPF trustees or any other persons concerned with the administration of those MPF schemes. Currently MPFA administers the MPF Schemes Compensation Fund and recoups the expenses incurred on a cost recovery basis.

# Corporate Social Responsibility

## Corporate Social Responsibility (CSR) Policy Statement

**MPFA strives for a sustainable future through building a retirement savings system that is valued by Hong Kong people, and in the process makes responsible and caring efforts towards our staff, the environment and the community.**

## CSR Governance

Corporate governance, environment, community and workplace are the four cornerstones of CSR in MPFA. With sound decision-making processes and properly controlled operations underpinned by good corporate governance principles and practices as presented in greater detail on pages 20 to 39, we foster the sustainable development of the MPF System, protect the environment, address community needs and maintain a happy and healthy workforce in the organization.

CSR development and performance in MPFA is overseen by the CSR Committee, chaired by the Chief Corporate

Affairs Officer and comprising representatives of the Staff Welfare Committee, the Volunteer Team and different divisions and departments.

The Committee steers the direction of our CSR strategic developments, promotes and enhances awareness of CSR within the organization, coordinates corporate-wide CSR-related programmes and evaluates their effectiveness. MPFA's CSR engagements are regularly communicated to staff to encourage support and participation.



## Corporate Social Responsibility

### Environmental Protection

The MPFA adopts ongoing green measures that aim to save energy and paper. They include:

- switching off office lighting during lunchtime;
- using timers to turn off office lighting and office equipment automatically at the preset time after office hours;
- using energy-efficient computer equipment;
- engaging regular waste paper shredding service provided by a paper recycling company (a total of 31 368 kg in 2017-18);
- using recycled and responsibly produced paper for certain office stationery;
- using electronic systems for a variety of internal management processes and record keeping; and
- installing LED spotlights.

To reduce waste, we joined the recycling programme organized by the management offices of our office buildings and donated 100 pieces of old office equipment and audio visual system hardware to other organizations for reuse and recycling.

The MPFA was awarded in 2017-18 the Excellence Level of Wastewi\$e Certificate by the Environmental Campaign Committee under the Environment Bureau for the eighth consecutive year.

This is a recognition of MPFA's continuous efforts in promoting environmental protection and waste reduction. MPFA so far has attained a total of 22 Wastewi\$e goals, which are related to paper saving, materials recycling and green procurement. This year, MPFA is specifically recognized for attaining a higher goal in donation of old but usable office furniture to charities for reuse.

#### Use of resources:

##### Electricity

	2017-18	2016-17
Total consumption	1 454 260 kWh	1 397 245 kWh
Consumption per unit office area	128 kWh/m <sup>2</sup>	123 kWh/m <sup>2</sup>



##### Office paper

	2017-18	2016-17
Total consumption	23 244 kg	23 308 kg
Consumption per employee	40 kg	40 kg

## Corporate Social Responsibility

Walk for Millions ➡



🏠 Home visit to the elderly



## Caring for the Community 🏠

### Addressing the needs of special groups

People who are employed or self-employed are covered by the MPF System and all of them, including those with special needs, have to be aware of their MPF rights and obligations.

In collaboration with relevant non-governmental organizations, MPFA delivered two talks in October and November 2017 to young people with autism and scheme members who are hearing impaired.

We also produced two sets of MPF leaflets in Nepali and Urdu for distribution to ethnic minority groups.

We continuously enhance our website with web accessibility design elements to facilitate barrier-free and convenient access to the information and services on the website by members of the public, including those with special needs.

### Volunteer service and charity events

Staff members and their families and friends participated in a variety of charitable activities and community services. The focus this year is on the elderly and young students.

- Our Volunteer Team members visited the elderly living in public housing estates to bring them traditional food and “fortune bags” with warm greetings at festive times.
- Our colleagues participated in an English Interview Workshop Programme to help senior secondary school students improve their English standard and job interview skills.
- Individual staff members continued participation in a “Life Buddies” Scheme, a mentorship programme to help the youngsters improve their life skills and prepare for achieving education, training and career goals.
- We offered summer internship placements for students, including those with special needs.

## Corporate Social Responsibility



Flag selling day



Volunteer team and runners at the Sowers Action charity marathon



We supported a number of fund-raising events including flag selling days, The Community Chest's Dress Casual Day and Walk for Millions.

Colleagues teamed up to participate in the Sowers Action Challenging 12 Hours charity marathon 2017 in support of education for students in remote regions on the Mainland, and got two silver awards for corporate participation and team fundraising respectively. Volunteer Team members provided service support at the finishing point in the same event.

Outside Hong Kong, through a programme of the China Care Fund, MPFA staff provided financial support to fund the education of high school students in poor financial conditions on the Mainland.

A number of staff participated in a blood donation campaign organized by the office building management of the Kowloon Commerce Centre and Millennium City 1 where MPFA offices are located.



### Volunteer service

Service hours contributed by staff and family members

Donation for charity

2017-18

2 000 hours

\$85,500

2016-17

1 500 hours

\$81,520



## Corporate Social Responsibility

### Caring for Staff

#### Workplace quality

We recognize the importance of providing a quality working environment to staff and endeavour to make it more family-friendly. Ongoing measures adopted in our offices include:

- provision of lactation facilities to nursing mothers;
- using lead filter to remove lead from drinking water;
- provision of Automated External Defibrillator (AED) at all offices for emergency use; and
- provision of breakout area for staff taking short breaks or having lunch gatherings.

Upon moving in our new head office, we converted part of the male toilets to female ones to accommodate the higher proportion of female staff. In 2017-18, we further enhanced the lactation facilities in one of our offices to better support nursing mothers.

In June 2017, all our offices were awarded with “Excellent Class” certificates under the Indoor Air Quality (IAQ) Certification Scheme, issued by the HKSARG’s IAQ Information Centre, in recognition of the very good IAQ management at our premises. The certification is based on the health-based air quality standards as set out by the Environmental Protection Department with reference to the recommendation of the World Health Organization.

In addition, capsule coffee machines have been provided in the office since late 2017 to enable staff to brew coffee conveniently for their enjoyment.

In 2017-18, a total of 101 assessments were conducted to comply with the occupational safety and health legislation to assess and re-assess the risks of workstations to the safety and health of colleagues. Suitable accessories such as keyboard drawers, document holders, footrests, etc. were provided to them accordingly.

The Premises and Facilities Management Committee held regular meetings to consider comments and suggestions collected from staff working in different offices for the improvement of working environment, premises management as well as information technology and office facilities and provisions.





## Corporate Social Responsibility

### Employee wellness, benefits and welfare

A healthy, happy and engaged workforce is important to MPFA. To promote employee wellness and strengthen staff's awareness of healthy living, a number of activities/programmes were held in the year:

- An Employee Wellness Week was organized in November 2017, featuring lunch-time seminars on health issues, basic health and vision screening, health massage, meditative relaxation workshop, etc.; and
- Voluntary health-related programmes, free flu vaccination and Employee Assistance Programme (relating to professional counselling and consultation service) were offered.

We support our staff in their family role. We continued our participation in the “Say Yes to Breastfeeding” Community Support Campaign initiated by UNICEF Hong Kong in collaboration with the Food and Health Bureau and Department of Health to promote breastfeeding at the workplace.

Through our Staff Welfare Committee, sports and interest clubs, different activities and interest classes are arranged regularly to promote work-life balance. These include arts and crafts workshops, indoor and outdoor activities (e.g. lunch-time board games gathering, virtual reality games, internal bowling competition, hiking, external basketball competition with other regulators), Staff Annual Dinner, etc.

Lunch-time art and craft workshop ➡



Employee Wellness Week ➡



## Corporate Social Responsibility

### Caring Organization

The MPFA was awarded the Caring Organization logo by the Hong Kong Council of Social Service for the 13th consecutive year, in recognition of our ongoing commitment to caring for our staff, the environment and the community.

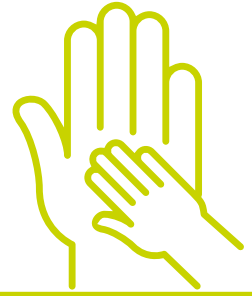
Three MPFA Volunteer Team members were selected as MPFA's Caring Ambassadors under the Caring Company Scheme to recognize their active participation in community and volunteer activities.



Staff Annual Dinner 2017



## Corporate Social Responsibility



*A variety of sports and leisure activities were organized to promote work-life balance*







# USER-FRIENDLY TOOLS

Easy MPF Management



Mandatory Provident Fund Schemes Authority

# Independent Auditor's Report

## **TO THE MANDATORY PROVIDENT FUND SCHEMES AUTHORITY (THE MPFA)**

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

## Opinion

### What we have audited

The financial statements of the MPFA set out on pages 87 to 115, which comprise:

- the statement of financial position as at 31 March 2018;
- the income and expenditure account for the year then ended;
- the statement of changes in capital and reserve for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

### Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the MPFA as at 31 March 2018, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

## Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSAs) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

## Independence

We are independent of the MPFA in accordance with the HKICPA's Code of Ethics for Professional Accountants (the Code), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Mandatory Provident Fund Schemes Authority

## Independent Auditor's Report

### Other Information

The MPFA is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the MPFA and the Audit Committee for the Financial Statements

The MPFA is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the MPFA determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the MPFA is responsible for assessing the MPFA's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the MPFA either intends to liquidate the MPFA or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the MPFA's financial reporting process.

Mandatory Provident Fund Schemes Authority

## Independent Auditor's Report

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 MPFA's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the MPFA.
- Conclude on the appropriateness of the MPFA's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the MPFA's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the MPFA to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 11 June 2018



Mandatory Provident Fund Schemes Authority

# Income and Expenditure Account

For the year ended 31 March 2018

	Notes	2018 HK\$	2017 HK\$
<b>INCOME</b>			
Fees and charges	7	14,907,194	7,856,408
Recoveries from the Mandatory Provident Fund Schemes Compensation Fund	22	1,114,542	1,109,730
Interest income on bank deposits		2,816,448	2,307,993
Net investment income	8	225,469,524	160,104,377
		244,307,708	171,378,508
Other income		4,490	2,805
		244,312,198	171,381,313
<b>EXPENDITURE</b>			
Staff costs	10	341,209,923	341,880,370
Depreciation and amortisation	13, 14	24,986,135	23,894,220
Premises expenses		55,340,845	60,666,462
Public education and publicity expenses		32,473,211	25,708,838
Investment expenses		9,904,236	10,464,747
Auditor's remuneration		252,000	242,000
Other operating expenses		28,626,584	33,889,734
		492,792,934	496,746,371
<b>DEFICIT FOR THE YEAR</b>		<b>(248,480,736)</b>	<b>(325,365,058)</b>

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 2018

	Notes	2018 HK\$	2017 HK\$
<b>NON-CURRENT ASSETS</b>			
Property and equipment	13	30,131,316	42,920,567
Intangible assets	14	12,091,020	14,877,260
Projects in progress	15	1,934,858	1,678,166
Other non-current deposits		7,669,204	13,377,729
		<b>51,826,398</b>	72,853,722
<b>CURRENT ASSETS</b>			
Investments designated at fair value	16	3,004,414,013	3,303,943,083
Interest receivable on investments designated at fair value		15,123,501	14,446,143
Derivative financial instruments	17	1,163,853	227,114
Unsettled investments receivable		301,875,023	6,818,424
Debtors, deposits and prepayments		16,051,265	8,105,482
Bank deposits		195,700,000	191,000,000
Cash and cash equivalents		384,249,764	446,875,895
		<b>3,918,577,419</b>	3,971,416,141
<b>NON-CURRENT LIABILITIES</b>			
Other payables		10,759,531	10,759,531
		<b>10,759,531</b>	10,759,531
<b>CURRENT LIABILITIES</b>			
Derivative financial instruments	17	4,157,867	3,076,257
Unsettled investments payable		545,745,699	379,277,013
Creditors and accrued charges		31,278,111	29,684,656
Fees received in advance		9,048,039	3,577,100
		<b>590,229,716</b>	415,615,026
<b>NET ASSETS</b>			
		<b>3,369,414,570</b>	3,617,895,306
<b>CAPITAL AND RESERVE</b>			
Capital grant	18	5,000,000,000	5,000,000,000
Income and expenditure account		(1,630,585,430)	(1,382,104,694)
		<b>3,369,414,570</b>	3,617,895,306

The financial statements on pages 87 to 115 were approved and authorised for issue by the Mandatory Provident Fund Schemes Authority on 11 June 2018 and are signed on its behalf by:

**Diana Chan**

*Managing Director*

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

Mandatory Provident Fund Schemes Authority

# Statement of Changes in Capital and Reserve

For the year ended 31 March 2018

	Capital Grant HK\$	Income and Expenditure Account HK\$	Total HK\$
At 1 April 2016	5,000,000,000	(1,056,739,636)	3,943,260,364
Deficit for the year	–	(325,365,058)	(325,365,058)
At 31 March 2017	5,000,000,000	(1,382,104,694)	3,617,895,306
Deficit for the year	–	(248,480,736)	(248,480,736)
At 31 March 2018	<b>5,000,000,000</b>	<b>(1,630,585,430)</b>	<b>3,369,414,570</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 2018

	2018 HK\$	2017 HK\$
<b>OPERATING ACTIVITIES</b>		
Deficit for the year	(248,480,736)	(325,365,058)
Adjustments for:		
Depreciation and amortisation	24,986,135	23,894,220
Gains on disposals of property and equipment and intangible assets	(178,030)	(58,422)
Interest income on bank deposits	(2,816,448)	(2,307,993)
Interest income on investments designated at fair value	(53,695,777)	(54,476,357)
Dividends from investments designated at fair value	(19,782,799)	(19,285,745)
Net gains on investments designated at fair value	(164,855,029)	(76,339,862)
Net losses/(gains) on derivative financial instruments	19,376,901	(8,109,695)
Operating cash flows before movements in working capital	(445,445,783)	(462,048,912)
Decrease/(increase) in other non-current deposits	5,708,525	(2,025)
(Increase)/decrease in debtors, deposits and prepayments	(7,831,861)	7,868,052
Increase/(decrease) in other payables, creditors and accrued charges	1,432,827	(9,324,238)
Increase/(decrease) in fees received in advance	5,470,939	(30,900)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(440,665,353)</b>	<b>(463,538,023)</b>
<b>INVESTING ACTIVITIES</b>		
Dividends received from investments designated at fair value	20,349,307	18,834,963
Interest received on bank deposits	2,702,526	2,144,612
Interest received from investments designated at fair value	53,018,418	56,279,174
Proceeds on disposals of property and equipment and intangible assets	216,290	103,990
Proceeds on disposals of investments designated at fair value	5,962,102,238	6,527,114,732
Purchase of property and equipment, intangible assets and projects in progress	(9,544,968)	(24,197,046)
Purchase of investments designated at fair value	(5,626,872,559)	(6,231,919,670)
Net settlement of derivative financial instruments	(19,232,030)	5,318,709
(Increase)/decrease in bank deposits	(4,700,000)	41,100,000
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>378,039,222</b>	<b>394,779,464</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(62,626,131)</b>	<b>(68,758,559)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>446,875,895</b>	<b>515,634,454</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>384,249,764</b>	<b>446,875,895</b>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>		
Bank balances held for investment purposes	54,897,323	77,331,871
Short term debt securities	324,242,437	364,860,078
Other bank balances and cash	5,110,004	4,683,946
	<b>384,249,764</b>	<b>446,875,895</b>

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

Mandatory Provident Fund Schemes Authority

# Notes to the Financial Statements

For the year ended 31 March 2018

## 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 8, Tower 1, Kowloon Commerce Centre, 51 Kwai Cheong Road, Kwai Chung, 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)

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 April 2017 that would be expected to have a material impact on the MPFA.

HKFRS 9 “Financial Instruments” addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The MPFA has reviewed the classification and measurement of its financial assets. The majority of the financial assets held by the MPFA include equity and debt instruments that are currently measured at fair value through profit or loss which will continue to be measured on the same basis under HKFRS 9. Accordingly, the MPFA does not expect the new guidance to affect the classification and measurement of these financial assets. There will be no impact on the MPFA’s accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the MPFA does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 “Financial Instruments: Recognition and Measurement” and have not been changed. The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 “Revenue from Contracts with Customers”, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the MPFA does not expect the new model to have a significant impact on the impairment provisions. The new standard also introduces expanded disclosure requirements and changes in presentation. It is not expected to have significant change on the MPFA’s disclosures about its financial instruments particularly in the year of the adoption of the new standard. HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. The MPFA does not intend to adopt the standard before its effective date.

Mandatory Provident Fund Schemes Authority

## Notes to the Financial Statements

For the year ended 31 March 2018

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (HKFRSs) (continued)

HKFRS 15 “Revenue from Contracts with Customers” will replace HKAS 18 “Revenue” which covers contracts for goods and services and HKAS 11 “Construction contracts” which covers construction contracts and the related literature. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. Management has assessed the effects of applying the new standard on the financial statements of the MPFA and has identified the following areas that will be affected:

- revenue from service – the application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue; and
- accounting for certain costs incurred in fulfilling a contract – certain costs which are currently expensed may need to be recognised as an asset under HKFRS 15.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. The MPFA intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in reserve as of 1 April 2018 and that comparatives will not be restated. Based on the assessments undertaken to date, the MPFA does not expect significant financial impact arising from the change in revenue recognition policy adopted by the MPFA.

HKFRS 16 “Leases” will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The standard will affect primarily the accounting for MPFA’s operating leases. However, the MPFA has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the MPFA’s profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16. The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the MPFA does not intend to adopt the standard before its effective date. Existing operating lease commitments are set out in Note 21.

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.

Mandatory Provident Fund Schemes Authority

## Notes to the Financial Statements

For the year ended 31 March 2018

### 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).

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

Fees and charges consist of application fees, annual fees, and financial penalties and other charges arising from retirement schemes registered under the Occupational Retirement Schemes Ordinance (ORSO schemes) and Mandatory Provident Fund schemes (MPF schemes), and in relation to MPF Intermediaries. Application fees and annual fees are accounted for on an accrual basis whereas financial penalties and other charges 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.



Mandatory Provident Fund Schemes Authority

## Notes to the Financial Statements

For the year ended 31 March 2018

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

##### *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.

Mandatory Provident Fund Schemes Authority

## Notes to the Financial Statements

For the year ended 31 March 2018

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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 in the income and expenditure account 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 other payables, 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.

Mandatory Provident Fund Schemes Authority

## Notes to the Financial Statements

For the year ended 31 March 2018

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

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.

Mandatory Provident Fund Schemes Authority

## Notes to the Financial Statements

For the year ended 31 March 2018

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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;
- (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 which are not yet completed and not yet subject to depreciation or amortisation. They are capitalised as property and equipment or intangible assets upon completion when the economic benefit can be realised.

#### 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.

Mandatory Provident Fund Schemes Authority

## Notes to the Financial Statements

For the year ended 31 March 2018

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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 Other payables, creditors and accrued charges

Other payables, creditors and accrued charges are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities. Other payables, 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.

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 MPF schemes are charged as expenses when employees have rendered services entitling them to the benefits.

Mandatory Provident Fund Schemes Authority

## Notes to the Financial Statements

For the year ended 31 March 2018

### 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 2018, 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 2018. 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\$4,479,020 (2017: HK\$3,421,252), 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\$4,479,020 (2017: HK\$3,421,252), 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.

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.

Mandatory Provident Fund Schemes Authority

## Notes to the Financial Statements

For the year ended 31 March 2018

### 6. FINANCIAL INSTRUMENTS

#### 6.1 Categories of financial instruments

	2018 HK\$	2017 HK\$
<b>Financial assets</b>		
At fair value	3,005,577,866	3,304,170,197
Loans and receivables (including bank deposits, cash and cash equivalents and receivables)	913,606,552	674,602,505
<b>Financial liabilities</b>		
At fair value	4,157,867	3,076,257
Other financial liabilities	580,252,088	411,196,566

#### 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, other payables, 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.



Mandatory Provident Fund Schemes Authority

## Notes to the Financial Statements

For the year ended 31 March 2018

### 6. FINANCIAL INSTRUMENTS (continued)

#### 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 BBB (2017: BBB) by Standard & Poor's Ratings Services (S&P) and Baa2 (2017: Baa2) 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/A2 (2017: A/A2).

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

Credit rating	2018 HK\$	% of net assets	2017 HK\$	% of net assets
AAA <sup>1</sup>	60,863,462	2	103,901,664	3
AA <sup>2</sup>	1,202,908,144	36	1,380,268,977	38
A <sup>3</sup>	735,357,343	22	721,942,492	20
BBB <sup>4</sup>	211,263,953	6	213,552,610	6
	<b>2,210,392,902</b>	<b>66</b>	<b>2,419,665,743</b>	<b>67</b>

<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

<sup>4</sup> BBB means between BBB and BBB+ by S&P and Baa2 and Baa1 by Moody's

The weighted average credit rating of the total debt securities portfolio is A+/A1 (2017: 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 2018 and 2017, none of the assets is impaired nor past due but not impaired.

Mandatory Provident Fund Schemes Authority

## Notes to the Financial Statements

For the year ended 31 March 2018

### 6. FINANCIAL INSTRUMENTS (continued)

#### 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 (2017: 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 (2017: 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\$0.6 million (2017: HK\$0.6 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 (2017: 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 (2017: 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:

	2018 Years	2017 Years
Benchmark duration	5.68	5.63
Portfolio duration	5.46	5.06

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

The MPFA adopts a sensitivity test of 10 basis points (2017: 10 basis points) movements. As at the reporting date, if interest rate had fluctuated by 10 basis points (2017: 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	
	2018 HK\$	2017 HK\$
If interest rate were 10 basis points lower	12,075,652	12,243,610
If interest rate were 10 basis points higher	(12,075,652)	(12,243,610)

Mandatory Provident Fund Schemes Authority

## Notes to the Financial Statements

For the year ended 31 March 2018

### 6. FINANCIAL INSTRUMENTS (continued)

#### 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 2018, if the Equity Market<sup>Note</sup> had increased or decreased by 10% (2017: 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\$88.0 million (2017: HK\$99.6 million).

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

Mandatory Provident Fund Schemes Authority

## Notes to the Financial Statements

For the year ended 31 March 2018

### 6. FINANCIAL INSTRUMENTS (continued)

#### 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% (2017: 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% (2017: 10%) of the value of the investments denominated in the same currency and the total over-hedging position must not exceed 1% (2017: 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.

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

	2018						Total HK\$ equivalent
	HK dollar HK\$ equivalent	%	US dollar HK\$ equivalent	%	Others HK\$ equivalent	%	
<b>Financial assets</b>							
Investments designated at fair value	878,727,877	29%	1,860,600,504	62%	265,085,632	9%	3,004,414,013
Interest receivable on investments designated at fair value	4,611,655	30%	10,511,846	70%	–	0%	15,123,501
Derivative financial instruments	–	0%	264,422,830	85%	46,171,164	15%	310,593,994
Unsettled investments receivable	658,410	0%	299,728,917	99%	1,487,696	1%	301,875,023
Debtors and deposits	16,658,264	100%	–	0%	–	0%	16,658,264
Bank deposits	195,700,000	100%	–	0%	–	0%	195,700,000
Cash and cash equivalents	20,877,775	5%	362,999,745	95%	372,244	0%	384,249,764
	1,117,233,981	27%	2,798,263,842	66%	313,116,736	7%	4,228,614,559
<b>Financial liabilities</b>							
Derivative financial instruments	–	0%	45,954,301	15%	267,633,707	85%	313,588,008
Unsettled investments payable	–	0%	536,360,017	98%	9,385,682	2%	545,745,699
Other payables, creditors and accrued charges	34,504,697	100%	1,692	0%	–	0%	34,506,389
	34,504,697	4%	582,316,010	65%	277,019,389	31%	893,840,096
	1,082,729,284	33%	2,215,947,832	66%	36,097,347	1%	3,334,774,463

Mandatory Provident Fund Schemes Authority

**Notes to the Financial Statements**

For the year ended 31 March 2018

**6. FINANCIAL INSTRUMENTS (continued)**

	2017						
	HK dollar HK\$ equivalent	%	US dollar HK\$ equivalent	%	Others HK\$ equivalent	%	Total HK\$ equivalent
<b>Financial assets</b>							
Investments designated at fair value	958,608,398	29%	2,104,049,569	64%	241,285,116	7%	3,303,943,083
Interest receivable on investments							
designated at fair value	4,852,392	34%	9,593,751	66%	–	0%	14,446,143
Derivative financial instruments	–	0%	225,038,025	90%	25,251,970	10%	250,289,995
Unsettled investments receivable	1,312,431	19%	2,566,486	38%	2,939,507	43%	6,818,424
Debtors and deposits	15,462,043	100%	–	0%	–	0%	15,462,043
Bank deposits	191,000,000	100%	–	0%	–	0%	191,000,000
Cash and cash equivalents	8,494,948	2%	438,369,464	98%	11,483	0%	446,875,895
	1,179,730,212	28%	2,779,617,295	66%	269,488,076	6%	4,228,835,583
<b>Financial liabilities</b>							
Derivative financial instruments	–	0%	25,205,207	10%	227,933,931	90%	253,139,138
Unsettled investments payable	2,622,115	1%	375,756,664	99%	898,234	0%	379,277,013
Other payables, creditors and accrued charges	31,917,862	100%	1,691	0%	–	0%	31,919,553
	34,539,977	5%	400,963,562	60%	228,832,165	35%	664,335,704
	1,145,190,235	32%	2,378,653,733	67%	40,655,911	1%	3,564,499,879

Mandatory Provident Fund Schemes Authority

## Notes to the Financial Statements

For the year ended 31 March 2018

### 6. FINANCIAL INSTRUMENTS (continued)

#### 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.

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 on bank deposits of HK\$580,574,999 (2017: HK\$638,387,209) 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 financial 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 financial instruments requiring gross settlement, the figures represent undiscounted gross inflows or outflows on these derivatives.

	2018			2017		
	≤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>	280,242,500	265,503,199	–	379,277,013	–	–
Other payables, creditors and accrued charges	13,965,470	6,113,272	14,427,647	11,857,010	7,204,265	12,858,278
Total	294,207,970	271,616,471	14,427,647	391,134,023	7,204,265	12,858,278
<b>Derivative financial instruments</b>						
Foreign currency forward contracts						
– Inflows	250,148,277	60,445,717	–	189,755,011	60,534,984	–
– Outflows	(253,228,275)	(60,359,733)	–	(192,143,861)	(60,995,277)	–
Total	(3,079,998)	85,984	–	(2,388,850)	(460,293)	–

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

Mandatory Provident Fund Schemes Authority

## Notes to the Financial Statements

For the year ended 31 March 2018

### 6. FINANCIAL INSTRUMENTS (continued)

#### 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;
- (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).



Mandatory Provident Fund Schemes Authority

**Notes to the Financial Statements**

For the year ended 31 March 2018

**6. FINANCIAL INSTRUMENTS (continued)**

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

	2018			
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
<b>Financial assets</b>				
Equity securities	809,144,612	–	–	809,144,612
Debt securities	1,622,857,129	572,412,272	–	2,195,269,401
Derivative financial instruments	1,163,853	–	–	1,163,853
	2,433,165,594	572,412,272	–	3,005,577,866
<b>Financial liabilities</b>				
Derivative financial instruments	4,157,867	–	–	4,157,867

	2017			
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
<b>Financial assets</b>				
Equity securities	898,723,483	–	–	898,723,483
Debt securities	1,825,456,573	579,763,027	–	2,405,219,600
Derivative financial instruments	227,114	–	–	227,114
	2,724,407,170	579,763,027	–	3,304,170,197
<b>Financial liabilities</b>				
Derivative financial instruments	3,076,257	–	–	3,076,257

“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 2018 and 2017, no financial assets or financial liabilities were classified under Level 3. During the year ended 31 March 2018, there was no transfer between levels. During the year ended 31 March 2017, there were a few debt securities being transferred from level 2 to level 1 amounting to HK\$8,414,759 as these debt securities existed more trading activities on 31 March 2017 than on 31 March 2016.

Mandatory Provident Fund Schemes Authority

## Notes to the Financial Statements

For the year ended 31 March 2018

### 7. FEES AND CHARGES

Fees and charges consist of application fees, annual fees, and financial penalties and other charges arising from ORSO schemes and MPF schemes, and in relation to MPF Intermediaries.

	2018 HK\$	2017 HK\$
Application fees	782,600	654,200
Annual fees	7,012,249	5,496,900
Financial penalties and other charges	7,112,345	1,705,308
	<b>14,907,194</b>	7,856,408

### 8. NET INVESTMENT INCOME

	2018 HK\$	2017 HK\$
Interest income on investments designated at fair value	53,695,777	54,476,357
Dividends from investments designated at fair value	19,782,799	19,285,745
Net realised gain on investments designated at fair value <sup>1</sup>	137,083,817	38,006,710
Net change in unrealised gain on investments designated at fair value <sup>2</sup>	34,284,032	40,225,870
Net realised (loss)/gain on derivative financial instruments	(19,232,030)	5,318,709
Net change in unrealised (loss)/gain on derivative financial instruments	(144,871)	2,790,986
	<b>225,469,524</b>	160,104,377

1 The amount included net realised foreign exchange gain of HK\$16,828,137 (2017: net realised foreign exchange loss of HK\$7,676,125) from foreign currency securities.

2 The amount included net change in unrealised foreign exchange gain of HK\$29,175,968 (2017: HK\$4,220,012) from foreign currency securities.

### 9. 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.

### 10. STAFF COSTS

	2018 HK\$	2017 HK\$
Salary and performance related remuneration	307,963,606	309,331,665
Contributions to MPF schemes	25,644,285	25,000,110
Staff benefits	7,602,032	7,548,595
	<b>341,209,923</b>	341,880,370

The MPFA operates three MPF schemes for all qualified employees. The assets of the MPF 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 MPF schemes at rates specified in the participation rules. As at 31 March 2018, contributions of HK\$266,403 were due but not yet paid over to the MPF schemes (2017: HK\$57,778).

Mandatory Provident Fund Schemes Authority

**Notes to the Financial Statements**

For the year ended 31 March 2018

**11. DIRECTORS' EMOLUMENTS**

The emoluments of all directors for the years ended 31 March 2018 and 2017 are set out below:

	2018				
	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	–	4,760,426	556,333	828,069	6,144,828
Cheng Yan-chee	–	3,730,020	423,544	523,962	4,677,526
Alice Law Shing-mui	–	3,809,728	436,102	578,500	4,824,330
Cynthia Hui Wai-yee	–	3,015,619	330,716	316,638	3,662,973
Gabriella Yee Gar-bo	–	2,769,945	303,620	290,598	3,364,163
<b>Non-Executive Directors</b>					
David Wong Yau-kar	–	–	–	–	–
K C Chan <sup>1</sup>	–	–	–	–	–
Chan Kam-lam	–	–	–	–	–
Chang King-yiu <sup>2</sup>	–	–	–	–	–
Bankee Kwan Pak-hoo	–	–	–	–	–
Ayesha Macpherson Lau	–	–	–	–	–
James Henry Lau Jr <sup>3</sup>	–	–	–	–	–
Law Chi-kwong <sup>3</sup>	–	–	–	–	–
Poon Siu-ping	–	–	–	–	–
Abraham Shek Lai-him	–	–	–	–	–
Stephen Sui Wai-keung <sup>1</sup>	–	–	–	–	–
Annie Tam Kam-lan <sup>4</sup>	–	–	–	–	–
Andrew Wong Ho-yuen <sup>5</sup>	–	–	–	–	–
Horace Wong Yuk-lun	–	–	–	–	–
Kingsley Wong Kwok	–	–	–	–	–
Simon Wong Kit-lung	–	–	–	–	–
	–	18,085,738	2,050,315	2,537,767	22,673,820

1 Retired as from 1 July 2017.

2 Appointed as from 26 July 2017; alternate to Law Chi-kwong.

3 Appointed as from 1 July 2017.

4 Retired as from 12 April 2017; alternate to Stephen Sui Wai-keung.

5 Alternate to K C Chan and James Henry Lau Jr.

Mandatory Provident Fund Schemes Authority

**Notes to the Financial Statements**

For the year ended 31 March 2018

**11. DIRECTORS' EMOLUMENTS (continued)**

	2017				
	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	–	4,695,379	539,257	722,185	5,956,821
Cheng Yan-chee	–	3,728,760	421,546	505,476	4,655,782
Alice Law Shing-mui	–	3,809,679	431,536	532,843	4,774,058
Darren Mark McShane <sup>1</sup>	–	4,222,724	391,923	646,192	5,260,839
Cynthia Hui Wai-yee	–	2,854,023	312,889	299,570	3,466,482
Gabriella Yee Gar-bo <sup>2</sup>	–	54,290	6,095	9,290	69,675
<b>Non-Executive Directors</b>					
David Wong Yau-kar	–	–	–	–	–
K C Chan	–	–	–	–	–
Chan Kam-lam <sup>3</sup>	–	–	–	–	–
Matthew Cheung Kin-chung <sup>4</sup>	–	–	–	–	–
Ip Kwok-him <sup>5</sup>	–	–	–	–	–
Bankee Kwan Pak-hoo <sup>3</sup>	–	–	–	–	–
Ayesha Macpherson Lau <sup>3</sup>	–	–	–	–	–
Paddy Lui Wai-yu <sup>5</sup>	–	–	–	–	–
John Poon Cho-ming <sup>5</sup>	–	–	–	–	–
Poon Siu-ping	–	–	–	–	–
Abraham Shek Lai-him	–	–	–	–	–
Stephen Sui Wai-keung <sup>6</sup>	–	–	–	–	–
Annie Tam Kam-lan <sup>7</sup>	–	–	–	–	–
Philip Tsai Wing-chung <sup>5</sup>	–	–	–	–	–
Andrew Wong Ho-yuen <sup>8</sup>	–	–	–	–	–
Horace Wong Yuk-lun	–	–	–	–	–
Kingsley Wong Kwok	–	–	–	–	–
Simon Wong Kit-lung <sup>3</sup>	–	–	–	–	–
	–	19,364,855	2,103,246	2,715,556	24,183,657

1 Retired as from 25 March 2017.

2 Appointed as from 25 March 2017.

3 Appointed as from 17 March 2017.

4 Retired as from 16 January 2017.

5 Retired as from 17 March 2017.

6 Appointed as from 13 February 2017.

7 Alternate to Matthew Cheung Kin-chung and Stephen Sui Wai-keung.

8 Alternate to K C Chan.

Mandatory Provident Fund Schemes Authority

## Notes to the Financial Statements

For the year ended 31 March 2018

### 12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments at the MPFA, in which four (2017: four) were Executive Directors, whose emoluments are included in note 11 above. The emoluments of the five highest paid individuals were within the following bands:

	2018 No. of employees	2017 No. of employees
HK\$3,500,001 to HK\$4,000,000	2	1
HK\$4,500,001 to HK\$5,000,000	2	2
HK\$5,000,001 to HK\$5,500,000	–	1
HK\$5,500,001 to HK\$6,000,000	–	1
HK\$6,000,001 to HK\$6,500,000	1	–
	5	5

### 13. 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 2016	58,330,846	33,629,892	28,650,821	529,900	121,141,459
Additions	4,594,498	2,616,008	3,900,029	–	11,110,535
Disposals	(13,426,509)	(3,673,431)	(2,081,831)	(529,900)	(19,711,671)
At 31 March 2017	49,498,835	32,572,469	30,469,019	–	112,540,323
Additions	1,500,000	3,590,313	746,436	–	5,836,749
Disposals	(769,899)	(1,109,175)	(6,415,000)	–	(8,294,074)
At 31 March 2018	50,228,936	35,053,607	24,800,455	–	110,082,998
<b>DEPRECIATION</b>					
At 1 April 2016	24,147,346	27,423,503	20,689,423	496,781	72,757,053
Charge for the year	11,118,373	2,685,423	2,691,891	33,119	16,528,806
Eliminated on disposals	(13,426,510)	(3,673,431)	(2,036,262)	(529,900)	(19,666,103)
At 31 March 2017	21,839,209	26,435,495	21,345,052	–	69,619,756
Charge for the year	12,521,851	2,883,834	3,182,055	–	18,587,740
Eliminated on disposals	(769,899)	(1,070,915)	(6,415,000)	–	(8,255,814)
At 31 March 2018	33,591,161	28,248,414	18,112,107	–	79,951,682
<b>CARRYING AMOUNT</b>					
At 31 March 2018	16,637,775	6,805,193	6,688,348	–	30,131,316
At 31 March 2017	27,659,626	6,136,974	9,123,967	–	42,920,567

Mandatory Provident Fund Schemes Authority

**Notes to the Financial Statements**

For the year ended 31 March 2018

**14. INTANGIBLE ASSETS**

	Computer software licenses HK\$	Software development costs HK\$	Total HK\$
<b>COST</b>			
At 1 April 2016	19,090,445	45,826,176	64,916,621
Additions	1,760,028	5,581,269	7,341,297
Disposals	(634,845)	(8,927,492)	(9,562,337)
At 31 March 2017	20,215,628	42,479,953	62,695,581
Additions	663,620	2,948,535	3,612,155
Disposals	–	–	–
At 31 March 2018	20,879,248	45,428,488	66,307,736
<b>AMORTISATION</b>			
At 1 April 2016	16,860,150	33,155,094	50,015,244
Charge for the year	1,064,941	6,300,473	7,365,414
Eliminated on disposals	(634,845)	(8,927,492)	(9,562,337)
At 31 March 2017	17,290,246	30,528,075	47,818,321
Charge for the year	1,126,690	5,271,705	6,398,395
Eliminated on disposals	–	–	–
At 31 March 2018	18,416,936	35,799,780	54,216,716
<b>CARRYING AMOUNT</b>			
At 31 March 2018	<b>2,462,312</b>	<b>9,628,708</b>	<b>12,091,020</b>
At 31 March 2017	2,925,382	11,951,878	14,877,260

**15. PROJECTS IN PROGRESS**

Projects in progress consisted of expenditure of capital projects not yet completed at 31 March 2018 amounting to HK\$1,934,858 (2017: HK\$1,678,166).

Mandatory Provident Fund Schemes Authority

**Notes to the Financial Statements**

For the year ended 31 March 2018

**16. INVESTMENTS DESIGNATED AT FAIR VALUE**

	2018 HK\$	2017 HK\$
<b>Equity securities</b>		
Listed	809,144,612	898,723,483
<b>Debt securities</b>		
Listed	1,391,896,916	1,503,880,727
Unlisted	803,372,485	901,338,873
	2,195,269,401	2,405,219,600
<b>Total</b>		
Listed	2,201,041,528	2,402,604,210
Unlisted	803,372,485	901,338,873
	3,004,414,013	3,303,943,083

**17. DERIVATIVE FINANCIAL INSTRUMENTS**

	2018		2017	
	Assets HK\$	Liabilities HK\$	Assets HK\$	Liabilities HK\$
Foreign currency forward contracts	1,163,853	4,157,867	227,114	3,076,257

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 2018 was HK\$313,588,008 (2017: HK\$253,139,138). The contractual maturity of these foreign exchange forward contracts was within 12 months.

**18. 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.

**19. LOANS TO DIRECTORS AND EXECUTIVES**

There were no loans to directors or executives during the years ended 31 March 2018 and 2017 and no loans were outstanding at 31 March 2018 and 2017.



Mandatory Provident Fund Schemes Authority

**Notes to the Financial Statements**

For the year ended 31 March 2018

**20. 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:

	<b>2018</b> <b>HK\$</b>	<b>2017</b> <b>HK\$</b>
Contracted but not provided for	<b>4,021,109</b>	3,717,555
Authorised but not contracted for	<b>45,600</b>	100,000
	<b>4,066,709</b>	3,817,555

**21. 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:

	<b>2018</b> <b>HK\$</b>	<b>2017</b> <b>HK\$</b>
Within one year	<b>37,917,645</b>	46,092,138
In the second to fifth year inclusive	<b>15,196,172</b>	53,113,817
	<b>53,113,817</b>	99,205,955

**22. 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 continues to administer the compensation fund until 31 March 2019. 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 seed money of the compensation fund and the capital grant of the MPFA are both funded by the Government of the Hong Kong Special Administrative Region.

Recoveries from the Mandatory Provident Fund Schemes Compensation Fund (the Fund) represents the recouping of expenses incurred by the MPFA for its services provided in administering the Fund.

Mandatory Provident Fund Schemes Compensation Fund

# 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)*

## Opinion

### What we have audited

The financial statements of the Fund set out on pages 119 to 133, which comprise:

- the statement of financial position as at 31 March 2018;
- the income and expenditure account for the year then ended;
- the statement of changes in capital and reserve for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

### Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2018, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

## Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSAs) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

## Independence

We are independent of the Fund in accordance with the HKICPA's Code of Ethics for Professional Accountants (the Code), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Mandatory Provident Fund Schemes Compensation Fund

## Independent Auditor's Report

### Other Information

The Administrator is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Administrator and the Audit Committee for the Financial Statements

The Administrator is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, 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.

In preparing the financial statements, the Administrator is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Administrator either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

The Audit Committee are responsible for overseeing the Fund's financial reporting process.

Mandatory Provident Fund Schemes Compensation Fund

## Independent Auditor's Report

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Administrator.
- Conclude on the appropriateness of the Administrator's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 11 June 2018

## Mandatory Provident Fund Schemes Compensation Fund

# Income and Expenditure Account

For the year ended 31 March 2018

	Notes	2018 HK\$	2017 HK\$
<b>INCOME</b>			
Interest income on bank deposits		<b>17,149,970</b>	14,660,859
Net investment income	6	<b>20,944,790</b>	13,447,296
		<b>38,094,760</b>	28,108,155
<b>EXPENDITURE</b>			
Auditor's remuneration		<b>103,200</b>	98,900
Administrative service expenses	11	<b>1,114,542</b>	1,109,730
Investment expenses		<b>96,180</b>	91,011
Other operating expenses		<b>995</b>	218
		<b>1,314,917</b>	1,299,859
<b>SURPLUS FOR THE YEAR</b>		<b>36,779,843</b>	26,808,296

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.

Mandatory Provident Fund Schemes Compensation Fund

# Statement of Financial Position

At 31 March 2018

	Notes	2018 HK\$	2017 HK\$
<b>CURRENT ASSETS</b>			
Investments designated at fair value	8	469,928,120	446,119,110
Interest receivable on investments designated at fair value		–	34,689
Interest receivable on bank deposits		3,387,705	4,364,825
Bank deposits		1,442,329,738	1,428,352,289
Cash and cash equivalents		208,587	193,462
		<b>1,915,854,150</b>	1,879,064,375
<b>CURRENT LIABILITIES</b>			
Creditors and accrued charges		1,233,791	1,223,859
<b>NET ASSETS</b>		<b>1,914,620,359</b>	1,877,840,516
<b>CAPITAL AND RESERVE</b>			
Seed money	10	600,000,000	600,000,000
Income and expenditure account		1,314,620,359	1,277,840,516
		<b>1,914,620,359</b>	1,877,840,516

The financial statements on pages 119 to 133 were approved and authorised for issue by the Mandatory Provident Fund Schemes Authority on 11 June 2018 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 2018

	Seed Money HK\$	Income and Expenditure Account HK\$	Total HK\$
At 1 April 2016	600,000,000	1,251,032,220	1,851,032,220
Surplus for the year	–	26,808,296	26,808,296
At 31 March 2017	600,000,000	1,277,840,516	1,877,840,516
Surplus for the year	–	36,779,843	36,779,843
At 31 March 2018	<b>600,000,000</b>	<b>1,314,620,359</b>	<b>1,914,620,359</b>

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



## Mandatory Provident Fund Schemes Compensation Fund

# Statement of Cash Flows

For the year ended 31 March 2018

	2018 HK\$	2017 HK\$
<b>OPERATING ACTIVITIES</b>		
Surplus for the year	36,779,843	26,808,296
Adjustments for:		
Interest income on bank deposits	(17,149,970)	(14,660,859)
Interest income on investments designated at fair value	(8,438)	(589,493)
Dividends from investments designated at fair value	(2,677,470)	(2,245,620)
Net gain on investments designated at fair value	(18,258,882)	(10,612,183)
Operating cash flows before movements in working capital	(1,314,917)	(1,299,859)
Increase in creditors and accrued charges	9,932	1,112,687
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(1,304,985)</b>	<b>(187,172)</b>
<b>INVESTING ACTIVITIES</b>		
Dividends received from investments designated at fair value	2,677,470	2,245,620
Interest received on bank deposits	18,127,090	13,608,201
Interest received from investments designated at fair value	43,127	1,503,724
Proceeds on disposals of investments designated at fair value	634,500,000	518,200,000
Purchase of investments designated at fair value	(640,050,128)	(522,843,539)
Increase in bank deposits	(13,977,449)	(12,438,255)
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>1,320,110</b>	<b>275,751</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>15,125</b>	<b>88,579</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>193,462</b>	<b>104,883</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>208,587</b>	<b>193,462</b>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>		
Bank balances	158,587	143,462
Bank balances held for investment purposes	50,000	50,000
	<b>208,587</b>	<b>193,462</b>

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

Mandatory Provident Fund Schemes Compensation Fund

# Notes to the Financial Statements

For the year ended 31 March 2018

## 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. The Mandatory Provident Fund Schemes Authority (the MPFA) continues to assume the role of the administrator of the Fund and recoup the expenses incurred in administering the Fund on a cost recovery basis. The MPFA's office address is Level 8, Tower 1, Kowloon Commerce Centre, 51 Kwai Cheong Road, Kwai Chung, 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)

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 April 2017 that would be expected to have a material impact on the Fund.

HKFRS 9 "Financial Instruments" addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Fund has reviewed the classification and measurement of its financial assets. The majority of the financial assets held by the Fund include equity and debt instruments that are currently measured at fair value through profit or loss which will continue to be measured on the same basis under HKFRS 9. Accordingly, the Fund does not expect the new guidance to affect the classification and measurement of these financial assets. There will be no impact on the Fund's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Fund does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 "Financial Instruments: Recognition and Measurement" and have not been changed. The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 "Revenue from Contracts with Customers", lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Fund does not expect the new model to have a significant impact on the impairment provisions. The new standard also introduces expanded disclosure requirements and changes in presentation. It is not expected to have significant change on the Fund's disclosures about its financial instruments particularly in the year of the adoption of the new standard. HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Fund does not intend to adopt the standard before its effective date.

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.

Mandatory Provident Fund Schemes Compensation Fund

## Notes to the Financial Statements

For the year ended 31 March 2018

### 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.

## Notes to the Financial Statements

For the year ended 31 March 2018

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

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 and investments designated at fair value, bank deposits and cash and cash equivalents, are carried at amortised cost using the effective interest method, less any identified impairment losses.

## Mandatory Provident Fund Schemes Compensation Fund

**Notes to the Financial Statements**

For the year ended 31 March 2018

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****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 in the income and expenditure account 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.

Mandatory Provident Fund Schemes Compensation Fund

## Notes to the Financial Statements

For the year ended 31 March 2018

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

## Mandatory Provident Fund Schemes Compensation Fund

**Notes to the Financial Statements**

For the year ended 31 March 2018

**5. FINANCIAL INSTRUMENTS****5.1 Categories of financial instruments**

	<b>2018 HK\$</b>	<b>2017 HK\$</b>
<b>Financial assets</b>		
At fair value	<b>469,928,120</b>	446,119,110
Loans and receivables (including bank deposits, cash and cash equivalents and receivables)	<b>1,445,926,030</b>	1,432,945,265
<b>Financial liabilities</b>		
Other financial liabilities	<b>1,233,791</b>	1,223,859

**5.2 Financial risk management objectives and policies**

The Fund's major financial instruments include bank deposits, cash and cash equivalents, interest receivable on investments designated at fair value and bank deposits, 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% (2017: less than 4%) 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.



Mandatory Provident Fund Schemes Compensation Fund

**Notes to the Financial Statements**

For the year ended 31 March 2018

**5. FINANCIAL INSTRUMENTS (continued)****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	2018 HK\$	% of net assets	2017 HK\$	% of net assets
AA <sup>1</sup>	382,406,520	20	375,762,249	20

1 AA means between AA- and AA+ by S&P and Aa3 and Aa1 by 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 2018 and 2017, none of the assets is impaired nor past due but not impaired.

## Mandatory Provident Fund Schemes Compensation Fund

**Notes to the Financial Statements**

For the year ended 31 March 2018

**5. FINANCIAL INSTRUMENTS (continued)****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 (2017: 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 (2017: 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 (2017: HK\$1.4 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 with maturity up to two years (2017: up to two years).

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

	<b>2018 Years</b>	2017 Years
Portfolio duration	<b>0.40</b>	0.26

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 (2017: 10 basis points) movements. As at the reporting date, if interest rate had fluctuated by 10 basis points (2017: 10 basis points) and all other variables were held constant, the impact on the Fund's income would have been as follows.

	<b>Increase/(decrease) in the Fund's income</b>	
	<b>2018 HK\$</b>	2017 HK\$
If interest rate were 10 basis points lower	<b>153,698</b>	98,624
If interest rate were 10 basis points higher	<b>(153,698)</b>	(98,624)

Mandatory Provident Fund Schemes Compensation Fund

**Notes to the Financial Statements**

For the year ended 31 March 2018

**5. FINANCIAL INSTRUMENTS (continued)****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 2018, if the Hong Kong stock market had increased or decreased by 10% (2017: 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\$8.3 million (2017: HK\$6.6 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 2018, the Fund held cash and deposits including interest receivable on bank deposits of HK\$1,445,926,030 (2017: HK\$1,432,910,576) that were expected to orderly mature. In addition, the Fund held marketable securities of HK\$469,928,120 (2017: HK\$446,119,110), 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 2018, the creditors and accrued charges of the Fund amounted to HK\$1,233,791 (2017: HK\$1,223,859) 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**

For the year ended 31 March 2018

**5. FINANCIAL INSTRUMENTS (continued)****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).

	<b>2018</b>	2017
	<b>HK\$</b>	HK\$
Level 1		
Financial assets measured at fair value:		
– Equity securities	<b>87,521,600</b>	70,391,550
– Debt securities	<b>382,406,520</b>	375,727,560
	<b>469,928,120</b>	446,119,110

“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 2018 and 2017, no financial assets were classified under Levels 2 and 3 and there was no transfer among levels.

**6. NET INVESTMENT INCOME**

	<b>2018</b>	2017
	<b>HK\$</b>	HK\$
Interest income on investments designated at fair value	<b>8,438</b>	589,493
Dividends from investments designated at fair value	<b>2,677,470</b>	2,245,620
Net realised gain/(loss) on investments designated at fair value	<b>1,514,939</b>	(458,351)
Net change in unrealised gain on investments designated at fair value	<b>16,743,943</b>	11,070,534
	<b>20,944,790</b>	13,447,296

**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.

Mandatory Provident Fund Schemes Compensation Fund

**Notes to the Financial Statements**

For the year ended 31 March 2018

**8. INVESTMENTS DESIGNATED AT FAIR VALUE**

	2018 HK\$	2017 HK\$
<b>Equity securities</b>		
Listed	87,521,600	70,391,550
<b>Debt securities</b>		
Unlisted	382,406,520	375,727,560
<b>Total</b>		
Listed	87,521,600	70,391,550
Unlisted	382,406,520	375,727,560
	<b>469,928,120</b>	<b>446,119,110</b>

**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 (HKSARG) as seed money of the Fund.

**11. ADMINISTRATIVE SERVICE EXPENSES**

Administrative service expenses represent the expenses incurred by the MPFA, of which its capital grant is also funded by the HKSARG, for its services provided in administering the Fund.

## Statistics

## Part A – MPF Scheme Members

### 1. Employed Population (by type of retirement schemes) (31.3.2018)



Figures or percentages may not sum up to the total or 100% due to rounding.

### 2. The MPF Universe (31.3.2018)

#### (a) Number of Employers under the MPF System

Main businesses <sup>1</sup>	367 000
<i>add</i>	
– Owners' corporations with employee(s) that are not covered in the Central Register of Establishments (CRE) <sup>2</sup>	5 000
– Employers engaged in other industries that are not covered in the CRE	8 000
<i>less</i>	
– Businesses with no employees <sup>3</sup>	96 000
<b>Employers under the MPF System</b>	<b>283 000</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.

## Part A – MPF Scheme Members

### (b) Number of 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:

Employees in Hong Kong (excluding those aged below 18 or above 65) <sup>1</sup>	3 437 000
less	
– Civil servants who are covered by the Civil Service Pension Schemes <sup>2</sup>	88 000
– Teachers who are covered by the Grant Schools or Subsidized Schools Provident Fund <sup>3</sup>	37 000
– Employees who choose to remain as members of MPF exempted ORSO registered schemes <sup>4</sup>	325 000
– Domestic employees <sup>1</sup>	333 000
– 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>	40 000
– Employees who are employed for less than 60 days, excluding employees participating in construction and catering industries <sup>6</sup>	17 000
<b>Relevant Employees under the MPF System</b>	<b>2 596 000</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.

### (c) Number of 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:

SEPs in Hong Kong (excluding those aged below 18 or above 65) <sup>1</sup>	297 000
less	
– SEPs who are licensed hawkers (excluding licensed hawkers aged below 18 or above 65) <sup>2</sup>	1 000
<b>SEPs under the MPF System</b>	<b>296 000</b>

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

The figures were estimated on the basis of:

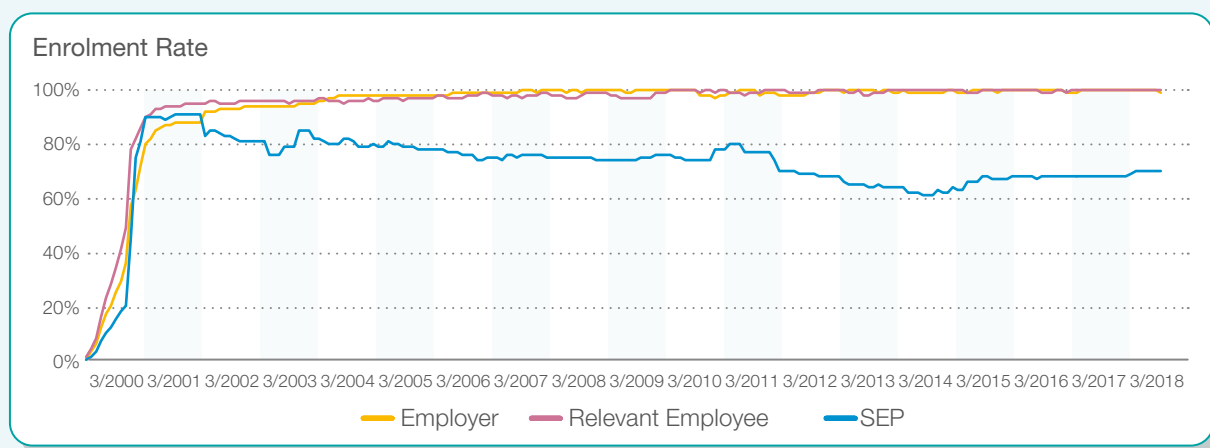
- 1 Statistics obtained from the General Household Survey by the Census and Statistics Department. SEPs under the MPF System include both “self-employed persons” and “employers” as defined in the *Quarterly Report on General Household Survey*.
- 2 Statistics obtained from the General Household Survey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



## Statistics

## Part A – MPF Scheme Members

## 3. Enrolment in MPF Schemes



Estimated figures.

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

As at	Employer		Relevant Employee		SEP		Contribution Accounts <sup>2</sup>	Personal Accounts <sup>3</sup>
	Participating Employers <sup>1</sup>	Enrolment Rate	Participating Members <sup>1</sup>	Enrolment Rate	Participating Members <sup>1</sup>	Enrolment Rate		
31.03.2017	278 000	100%	2 572 000	100%	202 000	68%	3 880 000	5 394 000
30.06.2017	279 000	100%	2 580 000	100%	202 000	68%	3 919 000	5 390 000
30.09.2017	279 000	100%	2 583 000	100%	204 000	69%	3 962 000	5 424 000
31.12.2017	280 000	100%	2 581 000	100%	205 000	70%	3 983 000	5 485 000
31.03.2018	281 000	99%	2 586 000	100%	206 000	70%	4 002 000	5 528 000

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.
- 3 A Personal Account is primarily used to receive and hold MPF 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 MPF 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

## 5. Contributions Received and Benefits Paid – MPF Schemes (1.4.2017-31.3.2018)

(HK\$ million)

Quarter	Contributions Received				Benefits Paid			
	Mandatory	Voluntary	Special Voluntary <sup>1</sup>	Total	Mandatory	Voluntary	Special Voluntary <sup>1</sup>	Total
Q2 2017	13,871	2,600	617	17,087	4,031	1,317	502	5,850
Q3 2017	13,931	2,570	487	16,988	4,388	1,564	497	6,449
Q4 2017	14,209	2,646	346	17,201	4,202	1,358	293	5,852
Q1 2018	15,107	2,802	386	18,295	4,300	1,687	786	6,773
<b>Total</b>	<b>57,119</b>	<b>10,617</b>	<b>1,835</b>	<b>69,572</b>	<b>16,921</b>	<b>5,927</b>	<b>2,077</b>	<b>24,925</b>

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

- 1 Special Voluntary Contributions refer 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 MPF benefits is neither tied to employment nor subject to preservation requirements.

## 6. Amount of MPF Benefits Paid (by grounds of withdrawal) (1.4.2017-31.3.2018)

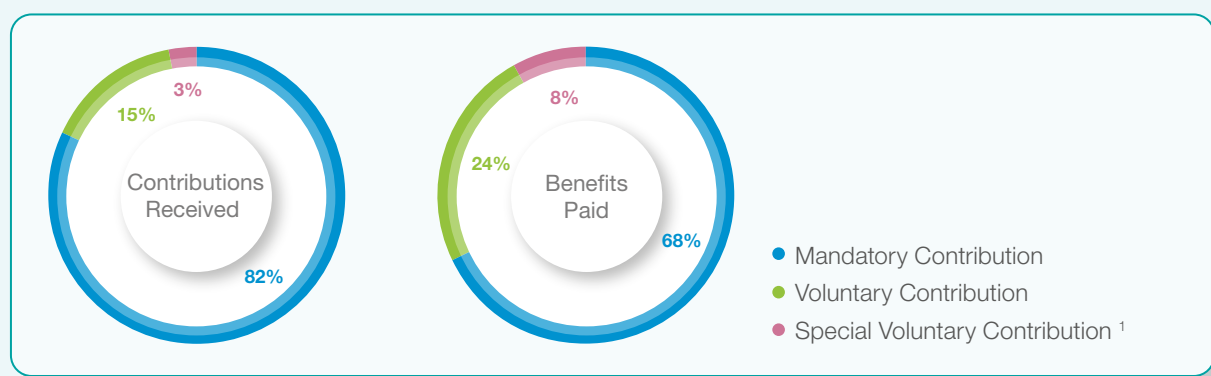
(HK\$ million)

Quarter	Retirement	Early Retirement	Permanent Departure from Hong Kong	Total Incapacity	Terminal Illness	Small Balance Account	Death	Offsetting Severance Payment	Offsetting Long Service Payment
Q2 2017	1,621	625	1,119	54	27	#	166	592	534
Q3 2017	1,867	705	1,316	52	32	#	194	537	567
Q4 2017	1,736	721	1,204	55	28	#	181	483	519
Q1 2018	1,949	713	1,150	52	26	#	181	548	609
<b>Total</b>	<b>7,173</b>	<b>2,764</b>	<b>4,789</b>	<b>213</b>	<b>113</b>	<b>#</b>	<b>722</b>	<b>2,161</b>	<b>2,229</b>

# Less than \$0.5 million.

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

## 7. Percentage Share of MPF Contributions Received and MPF Benefits Paid (by contribution type) (1.4.2017-31.3.2018)



Percentages may not sum up to 100% due to rounding.

- 1 Special Voluntary Contributions refer 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 MPF benefits is neither tied to employment nor subject to preservation requirements.

## Statistics

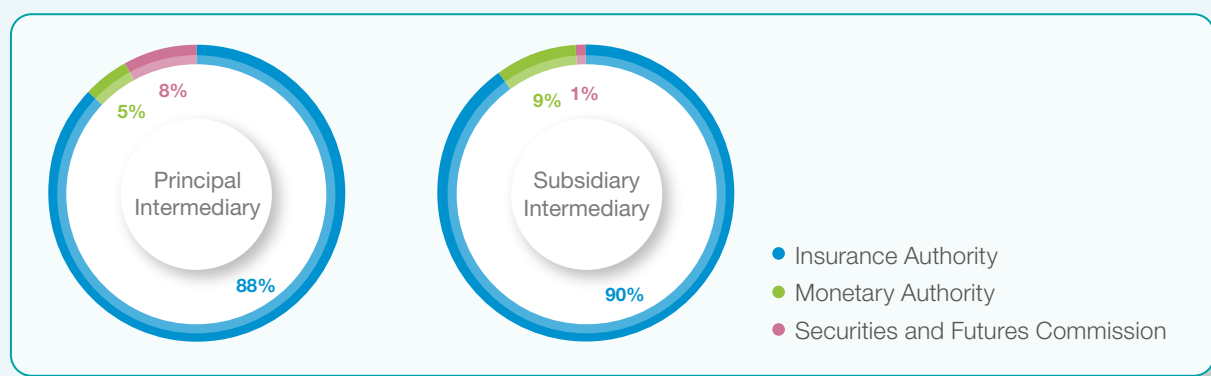
## Part B – MPF Intermediaries

### 1. Number of Registered MPF Intermediaries (31.3.2018)

	Principal Intermediary <sup>1</sup>	Subsidiary Intermediary <sup>2</sup>	Total
Registered MPF Intermediaries	411	32 369	<b>32 780</b>
By Frontline Regulator <sup>3</sup>	411	30 878	<b>31 289</b>
Insurance Authority	361	27 759	28 120
Monetary Authority	19	2 757	2 776
Securities and Futures Commission	31	362	393

- 1 A principal intermediary is a business entity registered by MPFA as an intermediary for selling, marketing or giving advice on MPF schemes.
- 2 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.
- 3 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.

### 2. Percentage Share of Principal Intermediary and Subsidiary Intermediary (by frontline regulator) (31.3.2018)

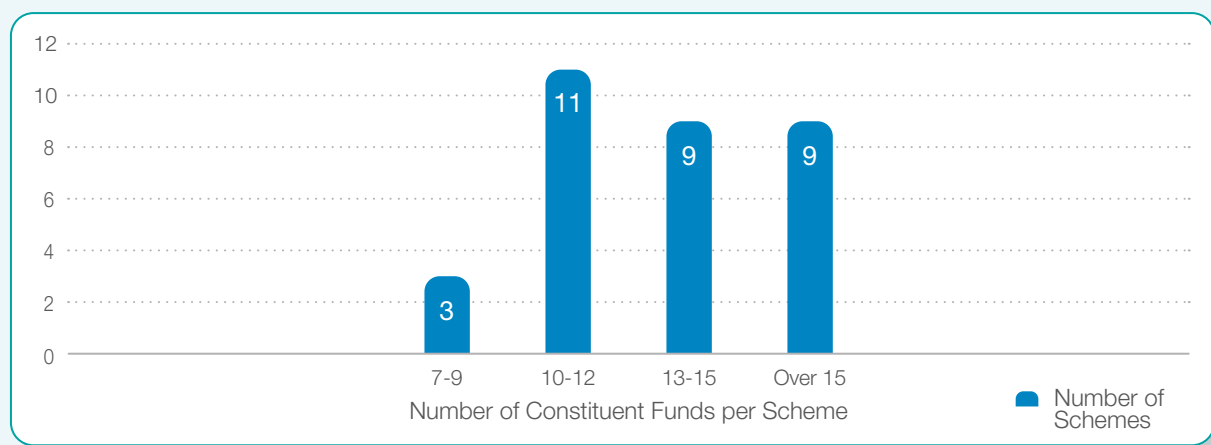


Percentages may not sum up to 100% due to rounding

## Part C – MPF Products

### 1. Number of Approved Constituent Funds per MPF Scheme

(31.3.2018)



### 2. Registration and Approval of MPF Schemes and Constituent Funds

	31.3.2017	Terminated / Withdrawn in 2017-18	Registered / Approved in 2017-18	31.3.2018
Registered Schemes	36	4	0	<b>32</b>
<i>Master Trust Schemes</i>	33	4	0	29
<i>Industry Schemes</i>	2	0	0	2
<i>Employer Sponsored Scheme</i>	1	0	0	1
Approved Constituent Funds	485	16	0	<b>469</b>
Approved Pooled Investment Funds (APIF)	307	1	13	<b>319</b>
Approved Index-tracking Collective Investment Schemes <sup>1</sup>	137	21	3	<b>119</b>

1 An index-tracking collective investment scheme is a collective investment scheme which has the sole investment objective of tracking a particular market index.

### 3. Number of APIFs (by fund structure) (31.3.2018)

	Unit Trust	Insurance Policy <sup>1</sup>	Total
Umbrella Funds <sup>2</sup>	26	1	<b>27</b>
Internal Portfolios <sup>3</sup>	182	1	<b>183</b>
Feeder Funds <sup>4</sup>	23	6	<b>29</b>
Portfolio Management Funds <sup>5</sup>	76	4	<b>80</b>
<b>Total</b>	<b>307</b>	<b>12</b>	<b>319</b>

1 These refer to Class G insurance policy APIFs. A class G insurance policy APIF is an APIF in the form of an insurance policy with capital or return guarantees.

2 An umbrella fund is a collective investment scheme which contains several distinct sub-funds.

3 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.

4 A feeder fund is a fund which invests its assets in a single APIF.

5 A portfolio management fund is a fund which invests its assets in more than one APIF.

## Statistics

## Part C – MPF Products

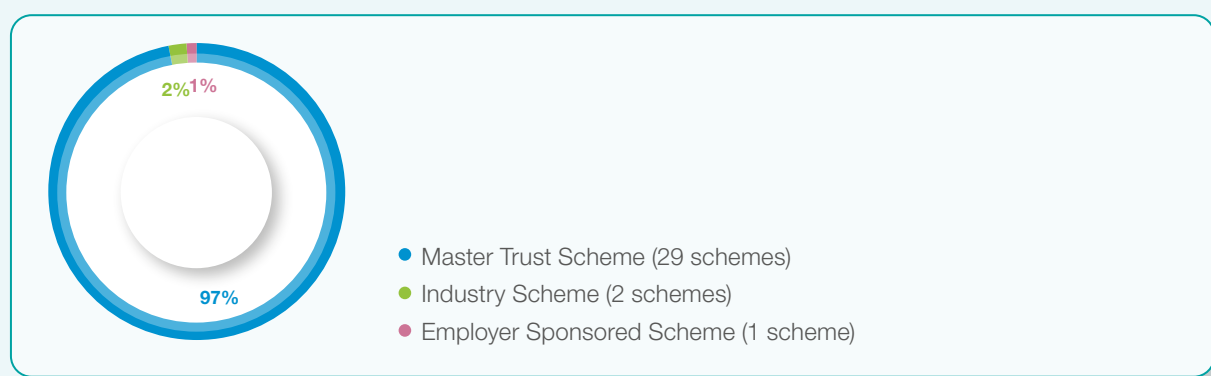
## 4. Net Asset Values of Approved Constituent Funds (by scheme type)

(HK\$ million)

As at	Master Trust Scheme	Industry Scheme	Employer Sponsored Scheme	Total
31.03.2017	682,582	13,906	4,677	701,166
30.06.2017	726,133	14,674	4,922	745,730
30.09.2017	772,232	15,461	5,153	792,846
31.12.2017	821,873	16,265	5,376	843,515
31.03.2018	834,617	16,615	5,460	856,692

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

## 5. Percentage Share of Aggregate Net Asset Values and Number of Schemes (by scheme type) (31.3.2018)



Percentages may not sum up to 100% due to rounding.

6. Net Asset Values <sup>1</sup> of Approved Constituent Funds (by fund type)

(HK\$ million)

As at	Equity Fund	Mixed Assets Fund	MPF Conservative Fund	Guaranteed Fund	Bond Fund	Money Market Fund and Others <sup>2</sup>	Total
31.03.2017	291,372	257,152	71,483	56,914	21,272	2,973	701,166
30.06.2017	313,417	276,836	72,185	57,658	22,763	2,871	745,730
30.09.2017	336,323	293,204	75,575	60,251	24,445	3,047	792,846
31.12.2017	362,273	312,419	77,631	62,156	25,853	3,184	843,515
31.03.2018	356,252	315,101	86,210	65,894	29,352	3,884	856,692

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

<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*.

## Statistics

## Part C – MPF Products

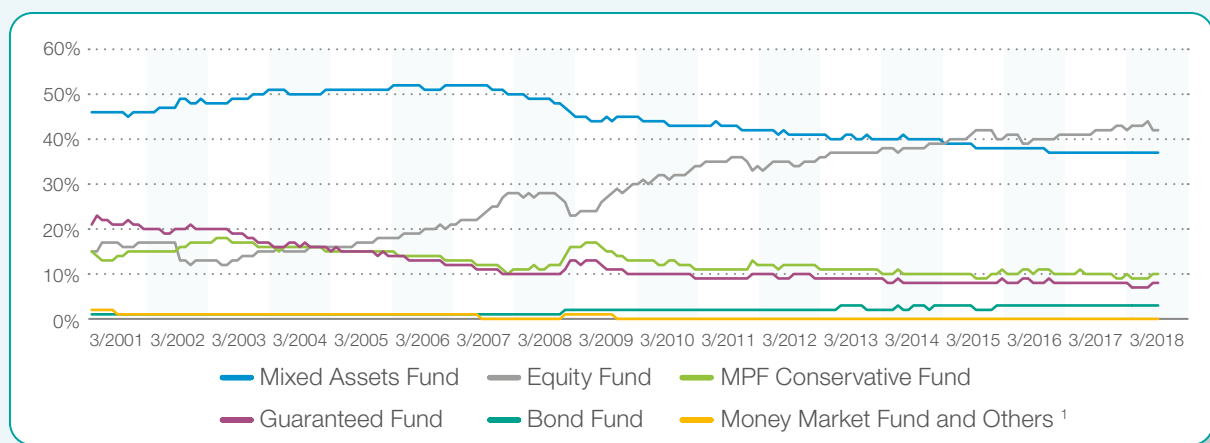
## 7. Percentage Share of Aggregate Net Asset Values and Number of Approved Constituent Funds (by fund type) (31.3.2018)



Percentages may not sum up to 100% due to rounding.

<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*.

## 8. Changes in Percentage Share of Net Asset Values of MPF Funds (by fund type)



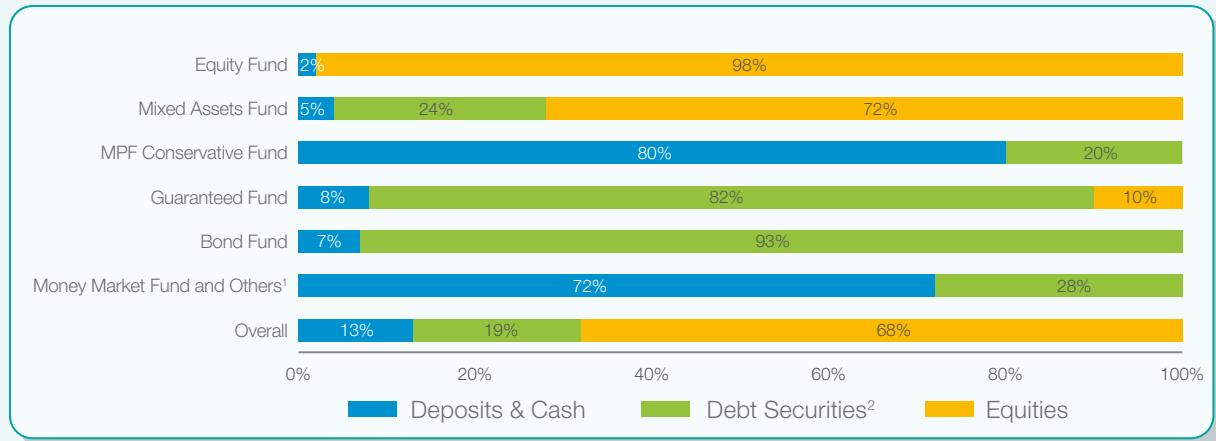
<sup>1</sup> Includes Money Market Funds that are not MPF Conservative Funds and Uncategorized Funds as per the *Performance Presentation Standards for MPF Investment Funds*.

## Statistics

## Part C – MPF Products

## 9. Asset Allocation of Approved Constituent Funds

(by fund type and asset class) (31.3.2018)



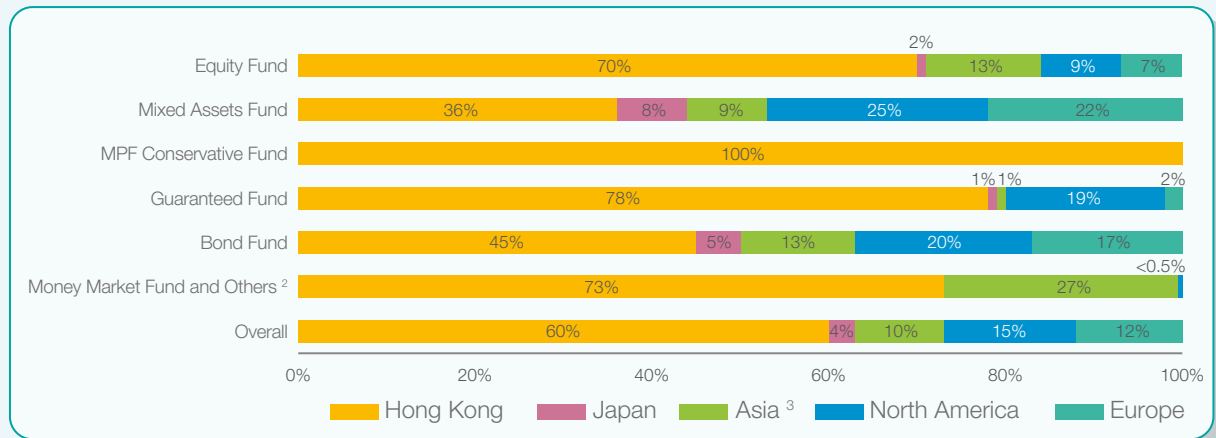
Percentages of each fund type and overall figures may not sum up to 100% due to rounding.

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

2 Includes convertible debt securities.

## 10. Asset Allocation of Approved Constituent Funds

(by fund type and geographical region ¹) (31.3.2018)



Percentages of each fund type and overall figures may not sum up to 100% due to rounding.

1 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.

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

3 Excludes Japan and Hong Kong but includes Australia, New Zealand and India.



## Statistics

## Part C – MPF Products

## 11. Asset Allocation of Approved Constituent Funds

(by geographical region <sup>1</sup> and asset class) (31.3.2018)

	Deposits & Cash	Debt Securities <sup>2</sup>	Equities	Overall
Hong Kong	12%	9%	39%	60%
Japan	\$	1%	3%	4%
Asia <sup>3</sup>	\$	1%	8%	10%
North America	\$	5%	10%	15%
Europe	\$	3%	8%	12%
<b>Overall</b>	<b>13%</b>	<b>19%</b>	<b>68%</b>	<b>100%</b>

Percentages may not sum up to the overall percentage due to rounding.

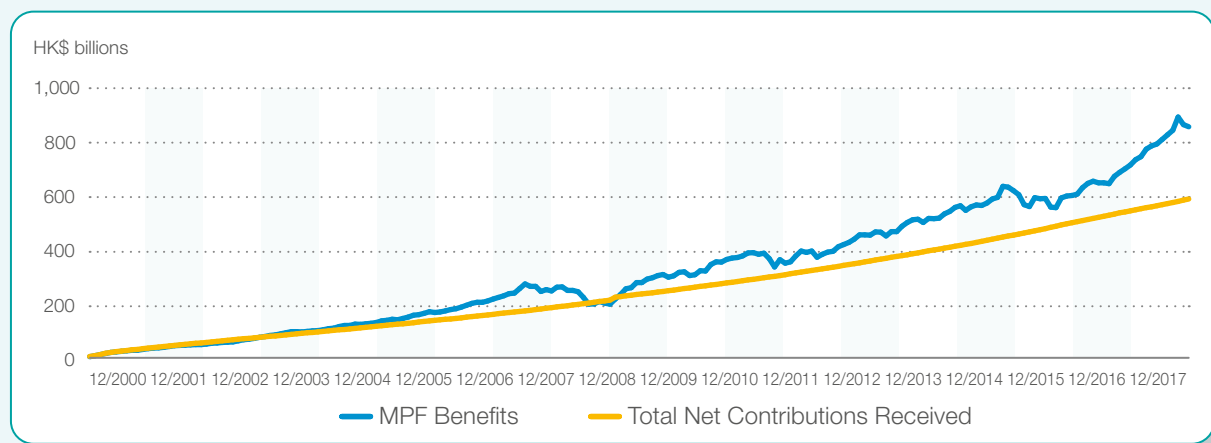
\$ Less than 0.5%.

1 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.

2 Includes convertible debt securities.

3 Excludes Japan and Hong Kong but includes Australia, New Zealand and India.

## 12. MPF Benefits and Total Net Contributions received since the Inception of the MPF System (1.12.2000 – 31.3.2018)



## Statistics

## Part C – MPF Products

### 13. Annualized Internal Rate of Return<sup>1</sup> (IRR) of the MPF System (by period)

(HK\$ million, unless otherwise specified)

Period	Net Asset Values		Total Net Contributions during the Period <sup>2</sup>	Net Investment Return during the Period <sup>3</sup> (b)–(a)–(c)	Annualized IRR <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%
1.4.2013 – 31.3.2014	455,331	516,192	40,898	19,963	4.2%
1.4.2014 – 31.3.2015	516,192	594,847	44,126	34,529	6.4%
1.4.2015 – 31.3.2016	594,847	592,578	48,721	-50,990	-8.2%
1.4.2016 – 31.3.2017	592,578	701,166	48,467	60,121	9.7%
<b>1.4.2017 – 31.3.2018</b>	<b>701,166</b>	<b>856,692</b>	<b>47,373</b>	<b>108,153</b>	<b>14.9%</b>
<b>Since inception of the MPF System</b>					
<b>1.12.2000 – 31.3.2018</b>	<b>-</b>	<b>856,692</b>	<b>588,639 <sup>4</sup></b>	<b>268,053</b>	<b>4.7%</b>

1 The return of the MPF System was calculated by way of the 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.

2 Total Net Contributions during the Period refer to the net contribution inflow after deducting the amount of benefits paid during the period.

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

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

## Statistics

## Part C – MPF Products

## 14. Annualized Return <sup>1</sup> of Approved Constituent Funds (by fund type and period) (31.3.2018)

Fund Type	Past 1 year	Past 3 years	Past 5 years	Since 1.12.2000
Equity Fund	22.6%	7.1%	7.4%	5.4%
Mixed Assets Fund	14.9%	5.3%	5.4%	4.6%
MPF Conservative Fund	0.1%	0.1%	0.1%	0.7%
Guaranteed Fund	1.6%	0.5%	0.6%	1.2%
Bond Fund	3.7%	1.0%	0.5%	2.7%
Money Market Fund and Others <sup>2</sup>	3.1%	0.7%	0.6%	0.6%
<b>Change of the Consumer Price Index (CPI) for the Same Periods</b>				
Annualized Composite CPI % Change <sup>3</sup>	2.6%	2.0%	2.8%	1.8%

1 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.

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

3 Calculated on the basis of the 2014/15-based Composite CPI compiled by the Census and Statistics Department.

## 15. Average, Highest and Lowest Fund Expense Ratios (FER) of Constituent Funds <sup>1</sup> (by fund type) (31.3.2018)

	Number of Funds	Average FER	Highest FER	Lowest FER
Equity Fund	181	1.55%	2.64%	0.65%
Mixed Assets Fund	248	1.69%	2.15%	0.80%
Bond Fund	50	1.31%	1.87%	0.78%
Guaranteed Fund	25	2.05%	3.37%	1.29%
Money Market Fund – MPF Conservative Fund	38	0.63%	0.88%	0.36%
Money Market Fund – non-MPF Conservative Fund	10	0.93%	1.34%	0.43%
Others	4	1.22%	1.29%	1.00%
<b>Overall</b>	<b>556<sup>2</sup></b>	<b>1.54%</b>	<b>3.37%</b>	<b>0.36%</b>

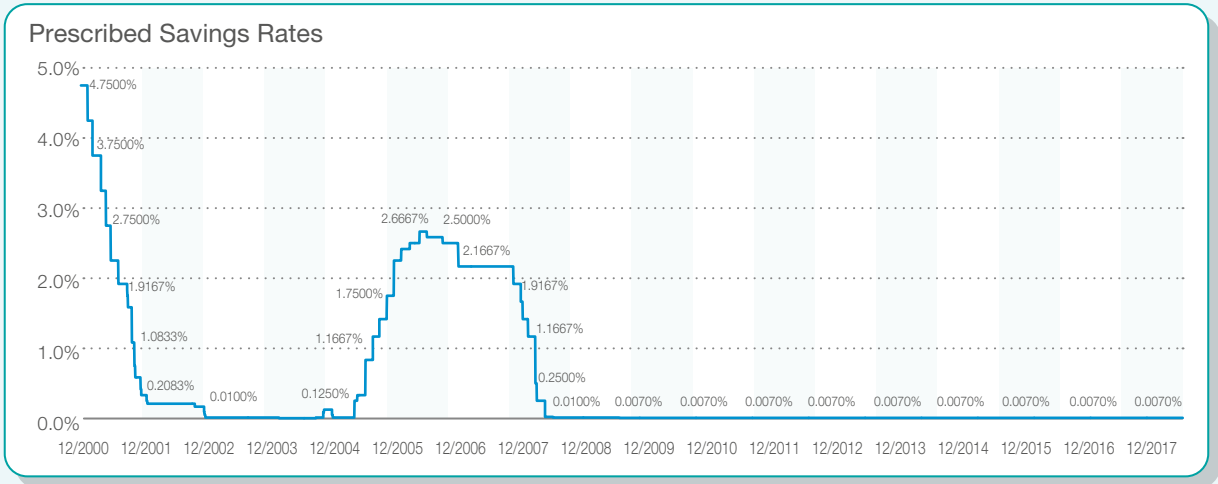
1 The FER figures in the table are related to individual constituent funds of MPF registered schemes with financial year end dates falling within the period from 1 July 2016 to 30 June 2017.

2 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.

Statistics

**Part C – MPF Products**

**16. Published Prescribed Savings Rates <sup>1</sup>** (1.12.2000 – 31.3.2018)



<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.

## Part D – ORSO Schemes

### 1. Number of ORSO Schemes (by benefit type) (31.3.2018)

	Defined Contribution		Defined Benefit		Total	
Registered Scheme	3 510	90%	202	47%	3 712	86%
MPF exempted	2 963	76%	186	43%	3 149	73%
Non-MPF exempted	547	14%	16	4%	563	13%
Exempted Scheme	382	10%	228	53%	610	14%
MPF exempted	118	3%	91	21%	209	5%
Non-MPF exempted	264	7%	137	32%	401	9%
<b>Total</b>	<b>3 892</b>	<b>100%</b>	<b>430</b>	<b>100%</b>	<b>4 322</b>	<b>100%</b>

### 2. Number of MPF Exempted ORSO Schemes (31.3.2018)

	ORSO Registered Schemes	ORSO Exempted Schemes	Total
(a) MPF Exempted ORSO Schemes approved (31.3.2017)	3 265	220	3 485
(b) New applications approved <sup>1</sup> (1.4.2017 – 31.3.2018)	4	0	4
(c) Withdrawals of MPF Exemption Certificates (1.4.2017 – 31.3.2018)	120	11	131
<b>(d) MPF Exempted ORSO Schemes (31.3.2018) [i.e. (d) = (a) + (b) – (c)]</b>	<b>3 149</b>	<b>209</b>	<b>3 358</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) (31.3.2018)

	Defined Contribution		Defined Benefit		Total	
MPF exempted	208 000	63%	120 000	37%	328 000	100%
Non-MPF exempted	37 000	88%	6 000	14%	42 000	100%
<b>Total</b>	<b>244 000</b>	<b>66%</b>	<b>126 000</b>	<b>34%</b>	<b>370 000</b>	<b>100%</b>

Figures and percentages may not sum up to the total due to rounding.

## Statistics

## Part D – ORSO Schemes

#### 4. Annual Contribution Amount to ORSO Registered Schemes (by employers and employees) (as at 31.3.2018)

(HK\$ million, unless otherwise specified)

	MPF Exempted		Non-MPF Exempted		Total	
Employer's contributions	16,809	79%	1,100	64%	17,909	78%
<i>Ordinary</i>	16,089	76%	666	39%	16,755	73%
<i>Initial/Special</i>	720	3%	434	25%	1,155	5%
Employee's contributions	4,428	21%	615	36%	5,044	22%
<b>Total</b>	<b>21,238</b>	<b>100%</b>	<b>1,715</b>	<b>100%</b>	<b>22,953</b>	<b>100%</b>

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

Source: The latest annual returns in respect of 3 700 ORSO registered schemes.

#### 5. Annual Contribution Amount to ORSO Registered Schemes (by benefit type) (as at 31.3.2018)

(HK\$ million, unless otherwise specified)

	Defined Contribution		Defined Benefit		Total	
MPF exempted	13,376	58.3%	7,862	34.3%	21,238	92.5%
Non-MPF exempted	1,633	7.1%	82	0.4%	1,715	7.5%
<b>Total</b>	<b>15,009</b>	<b>65.4%</b>	<b>7,944</b>	<b>34.6%</b>	<b>22,953</b>	<b>100%</b>

Percentages may not sum up to the total due to rounding.

Source: The latest annual returns in respect of 3 700 ORSO registered schemes.

#### 6. Asset Size of ORSO Registered Schemes (by benefit type) (31.3.2018)

(HK\$ million, unless otherwise specified)

	Defined Contribution		Defined Benefit		Total	
MPF exempted	192,226	60.7%	110,681	34.9%	302,907	95.6%
Non-MPF exempted	10,921	3.4%	2,956	0.9%	13,877	4.4%
<b>Total</b>	<b>203,147</b>	<b>64.1%</b>	<b>113,637</b>	<b>35.9%</b>	<b>316,784</b>	<b>100%</b>

Percentages may not sum up to the total due to rounding.

Source: The latest annual returns in respect of 3 700 ORSO registered schemes.

#### 7. Asset Arrangements on Termination of the ORSO Registered Schemes (1.4.2017 – 31.3.2018)

	Number of Schemes <sup>1</sup>		Asset Size (HK\$ million)	
Asset transferred to MPF scheme	33	21%	371	18%
Asset transferred to another ORSO scheme	7	5%	1,271	62%
Asset paid out to scheme members	114	74%	410	20%
<b>Total</b>	<b>154</b>	<b>100%</b>	<b>2,052</b>	<b>100%</b>

<sup>1</sup> There are three terminated schemes with more than one asset arrangement.

## Part E – Enquiries and Complaints

### 1. Number of Enquiries Received <sup>1</sup> (by enquirer type) (1.4.2017 – 31.3.2018)

Enquirer	Number of Enquiries	
Employee	48 858	48%
Employer	26 770	26%
SEP	1 115	1%
Service Provider	7 864	8%
Others/Unknown	18 138	18%
<b>Total</b>	<b>102 745</b>	<b>100%</b>

Percentages may not sum up to 100% due to rounding.

<sup>1</sup> Excludes enquiries about personal account information. For details of personal account enquiries, please refer to Item 3 – Number of Personal Account Enquiries Received (by enquirer type).

### 2. Nature of Enquiries <sup>1</sup> (1.4.2017 – 31.3.2018)



Percentages may not sum up to 100% due to rounding.

<sup>1</sup> Excludes enquiries about personal account information. For details of personal account enquiries, please refer to Item 3 – Number of Personal Account Enquiries Received (by enquirer type).

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

### 3. Number of Personal Account Enquiries Received (by enquirer type) (1.4.2017 – 31.3.2018)

Enquirer	Number of Enquiries	
Authorized Person of a Scheme Member	117 366	78%
Scheme Member	32 196	21%
Personal Representative or Persons Entitled to the Administration of the Estate of a Deceased Scheme Member	1 025	1%
<b>Total</b>	<b>150 587</b>	<b>100%</b>

Percentages may not sum up to 100% due to rounding.

## Statistics

## Part E – Enquiries and Complaints

## 4. Number of Complaints Received (by industry of complainee)

(1.4.2017 – 31.3.2018)



Percentages may not sum up to 100% due to rounding.

## 5. Number of Complaints Received (by complainee type)

(1.4.2017 – 31.3.2018)

Complainee	Number of Complaints
Employers (MPF and ORSO)	3 733
MPF Trustees and Service Providers	281
MPF Intermediaries	5
ORSO Administrators	18
Others	75
<b>Total</b>	<b>4 112</b>

## 6. Nature of Complaints Received (by complainee type and by issue)

(1.4.2017 – 31.3.2018)

Complainee and Issue	Number of Issues
Employers (MPF and ORSO)	5 203
<i>Default Contribution</i>	3 490
<i>Non-enrolment</i>	1 576
<i>Others</i>	137
MPF Trustees and Service Providers	376
<i>Scheme Administration</i>	354
<i>Others</i>	22
MPF Intermediaries	8
<i>Conduct</i>	8
ORSO Administrators	32
<i>Scheme Administration</i>	30
<i>Others</i>	2
Others	89
<b>Total</b>	<b>5 708<sup>1</sup></b>

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



## Appendix 1

# Membership lists of committees, appeal boards and process review panel (31.3.2018)

## Administration Committee

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

### Chairman

Mr Chan Kam-lam, GBS, JP

### Members

Dr David Wong Yau-kar, GBS, JP  
Hon Poon Siu-ping, BBS, MH  
Mrs Diana Chan Tong Chee-ching, JP  
Mr Cheng Yan-chee

## 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

Mrs Ayesha Macpherson Lau, JP

### Members

Mr Bankee Kwan Pak-hoo, JP  
Mr Kingsley Wong Kwok, JP

## 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 Simon Wong Kit-lung, JP

### Members

Dr David Wong Yau-kar, GBS, JP  
Mr Chan Kam-lam, GBS, JP  
Mrs Diana Chan Tong Chee-ching, JP  
Mr Cheng Yan-chee

## 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

Mr Horace Wong Yuk-lun, SC, JP

### Members

Ms Gabriella Yee Gar-bo  
Mr Guy Mills  
Mrs Sally Wong Chi-ming  
Ms Cynthia Chung Wing-suet  
Mr Bonn Liu Yun-bonn  
Ms Lau Ka-shi, BBS  
Mr David Adams

## Appendix 1

## Membership lists of committees, appeal boards and process review panel (31.3.2018)

### Remuneration Committee

Considers all remuneration matters in respect of Managing Director and other Executive Directors of MPFA or any other matters related to them referred to it by the Management Board, and reviews the structure and level of remuneration for directorate staff and make recommendations to the Chief Executive of HKSAR or a delegatee of the Chief Executive of HKSAR.

#### Chairman

Dr David Wong Yau-kar, GBS, JP

#### Members

Mr Chan Kam-lam, GBS, JP  
Mrs Ayesha Macpherson Lau, JP  
Mr Simon Wong Kit-lung, 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 tender submissions; and
- Reports to and advises the Managing Director or the Management Board on matters regarding tender submissions.

#### Chairman

Hon Abraham Shek Lai-him, GBS, JP

#### Members

Mr Bankee Kwan Pak-hoo, JP  
Mr Cheng Yan-chee  
An Executive Director/a Head responsible for the subject under consideration

### Working Group on MPF Reform Issues

Considers MPF reform issues focusing on

- evaluating and proposing measures to further reduce fees and charges of MPF schemes; and
- studying measures to increase choices of MPF schemes for employees.

#### Chairman

Dr David Wong Yau-kar, GBS, JP

#### Members

Mr Chan Kam-lam, GBS, JP  
Mr Bankee Kwan Pak-hoo, JP  
Hon Abraham Shek Lai-him, GBS, JP  
Mr Kingsley Wong Kwok, JP  
Mr Simon Wong Kit-lung, JP

### MPF Schemes Appeal Board

#### Chairman

Mr Stewart Wong Kai-ming, SC

#### Deputy Chairman

Ms Giovanna Kwong Fung-ping

#### Panel Members

Mr Kenny Chan Ngai-sang (*until 24.10.2017*)  
Ms Agnes Chan Sui-kuen (*until 24.10.2017*)  
Mr Ng Chau-pei  
Ms Ng Wai-yee, MH, JP  
Mr Jeff Wong Kwan-kit  
Ms Lau Yuk-kuen  
Mr Gerry Ng Joo-yeow  
Ms Belinda Luk Kwai-sim  
Ms Cecilia Lee Sau-wai, JP  
Ms Miranda So Man-wah  
Mr Dennis Ho Chiu-ping (*from 25.10.2017*)  
Mr Nelson Lam Chi-yuen (*from 25.10.2017*)

## Appendix 1

**Membership lists of committees, appeal boards  
and process review panel** (31.3.2018)**Occupational Retirement  
Schemes Appeal Board****Chairman**

Ms Cynthia Chung Wing-suet

**Deputy Chairman**

Ms Giovanna Kwong Fung-ping

**Panel Members**

Ms Ivy Cheung Wing-han

Ms Miranda So Man-wah

Mr Kenny Chan Ngai-sang

**Process Review Panel in relation  
to the Regulation of MPF  
Intermediaries****Chairman**

Dr Eddy Fong Ching, GBS, JP

**Members**

Miss Grace Chan Man-yee (*from 1.11.2017*)

Mr Chan Yim-kwong

Ms Agnes Choi Heung-kwan, MH

Mr Eugene Fung Ting-sek, SC

Mr Hui Ching-yu

Mr James Lin (*from 1.11.2017*)

Mr Alan Wong Kwok-lun (*until 31.10.2017*)

Ms Nicole Yuen Shuk-kam

**Ex-officio Members**

Chairman of MPFA

Secretary for Justice (or his representative)

Appendix 2

## List of 17 MPF Trustees (31.3.2018)

AIA Company (Trustee) Limited  
AXA Financial Services Trustees Limited  
Bank Consortium Trust Company Limited  
Bank of Communications Trustee Limited  
Bank of East Asia (Trustees) Limited  
BOCI-Prudential Trustee Limited  
China Life Trustees Limited  
Cititrust Limited  
HSBC Institutional Trust Services (Asia) Limited  
HSBC Provident Fund Trustee (Hong Kong) Limited  
Manulife Provident Funds Trust Company Limited  
MassMutual Trustees Limited  
Principal Trust Company (Asia) Limited  
RBC Investor Services Trust Hong Kong Limited  
Royal Bank of Canada Trust Company (Asia) Limited  
Sun Life Pension Trust Limited <sup>1</sup>  
Sun Life Trustee Company Limited

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<sup>1</sup> From 3 October 2017, FWD Pension Trust Limited is renamed Sun Life Pension Trust Limited.

## Appendix 3

# List of 32 Registered MPF Schemes and 469 Constituent Funds (31.3.2018)

Trustee	MPF Scheme	Underlying Constituent Funds
AIA Company (Trustee) Limited	AIA MPF – Prime Value Choice	<ol style="list-style-type: none"> <li>1. Age 65 Plus Fund</li> <li>2. Allianz Capital Stable Fund</li> <li>3. Allianz Growth Fund</li> <li>4. Allianz Stable Growth Fund</li> <li>5. American Fund</li> <li>6. Asian Bond Fund</li> <li>7. Asian Equity Fund</li> <li>8. Balanced Portfolio</li> <li>9. Capital Stable Portfolio</li> <li>10. China HK Dynamic Asset Allocation Fund</li> <li>11. Core Accumulation Fund</li> <li>12. Eurasia Fund</li> <li>13. European Equity Fund</li> <li>14. Fidelity Capital Stable Fund</li> <li>15. Fidelity Growth Fund</li> <li>16. Fidelity Stable Growth Fund</li> <li>17. Global Bond Fund</li> <li>18. Greater China Equity Fund</li> <li>19. Green Fund</li> <li>20. Growth Portfolio</li> <li>21. Guaranteed Portfolio</li> <li>22. Hong Kong and China Fund</li> <li>23. Hong Kong Equity Fund</li> <li>24. Japan Equity Fund</li> <li>25. Manager's Choice Fund</li> <li>26. MPF Conservative Fund</li> <li>27. North American Equity Fund</li> <li>28. World 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 Age 65 Plus Fund</li> <li>9. Allianz MPF Conservative Fund</li> <li>10. Allianz MPF Core Accumulation Fund</li> <li>11. Allianz Oriental Pacific Fund</li> <li>12. Allianz RMB Money Market Fund</li> <li>13. Allianz Stable Growth Fund</li> </ol>

## Appendix 3

## List of 32 Registered MPF Schemes and 469 Constituent Funds (31.3.2018)

Trustee	MPF Scheme	Underlying Constituent Funds
Bank Consortium Trust Company Limited	AMTD MPF Scheme	<ol style="list-style-type: none"> <li>1. AMTD Allianz Choice Balanced Fund</li> <li>2. AMTD Allianz Choice Capital Stable Fund</li> <li>3. AMTD Allianz Choice Dynamic Allocation Fund</li> <li>4. AMTD Allianz Choice Growth Fund</li> <li>5. AMTD Allianz Choice Stable Growth Fund</li> <li>6. AMTD Invesco Age 65 Plus Fund</li> <li>7. AMTD Invesco Asia Fund</li> <li>8. AMTD Invesco Core Accumulation Fund</li> <li>9. AMTD Invesco Europe Fund</li> <li>10. AMTD Invesco Global Bond Fund</li> <li>11. AMTD Invesco Hong Kong and China Fund</li> <li>12. AMTD Invesco MPF Conservative Fund</li> <li>13. AMTD Invesco Target 2018 Retirement Fund</li> <li>14. AMTD Invesco Target 2028 Retirement Fund</li> <li>15. AMTD Invesco Target 2038 Retirement Fund</li> <li>16. AMTD Invesco Target 2048 Retirement Fund</li> </ol>
Bank Consortium Trust Company Limited	BCT (MPF) Industry Choice	<ol style="list-style-type: none"> <li>1. BCT (Industry) Absolute Return Fund</li> <li>2. BCT (Industry) Age 65 Plus Fund</li> <li>3. BCT (Industry) Asian Equity Fund</li> <li>4. BCT (Industry) Core Accumulation Fund</li> <li>5. BCT (Industry) E30 Mixed Asset Fund</li> <li>6. BCT (Industry) E50 Mixed Asset Fund</li> <li>7. BCT (Industry) E70 Mixed Asset Fund</li> <li>8. BCT (Industry) Global Bond Fund</li> <li>9. BCT (Industry) Global Equity Fund</li> <li>10. BCT (Industry) Hong Kong Equity Fund</li> <li>11. BCT (Industry) MPF Conservative Fund</li> <li>12. BCT (Industry) RMB Bond Fund</li> </ol>
Bank Consortium Trust Company Limited	BCT (MPF) Pro Choice	<ol style="list-style-type: none"> <li>1. BCT (Pro) Absolute Return Fund</li> <li>2. BCT (Pro) Age 65 Plus Fund</li> <li>3. BCT (Pro) Asian Equity Fund</li> <li>4. BCT (Pro) China and Hong Kong Equity Fund</li> <li>5. BCT (Pro) Core Accumulation Fund</li> <li>6. BCT (Pro) E30 Mixed Asset Fund</li> <li>7. BCT (Pro) E50 Mixed Asset Fund</li> <li>8. BCT (Pro) E70 Mixed Asset Fund</li> <li>9. BCT (Pro) E90 Mixed Asset Fund</li> <li>10. BCT (Pro) European Equity Fund</li> <li>11. BCT (Pro) Global Bond Fund</li> <li>12. BCT (Pro) Global Equity Fund</li> <li>13. BCT (Pro) Greater China Equity Fund</li> </ol>

## Appendix 3

# List of 32 Registered MPF Schemes and 469 Constituent Funds (31.3.2018)

Trustee	MPF Scheme	Underlying Constituent Funds
		14. BCT (Pro) Hang Seng Index Tracking Fund 15. BCT (Pro) Hong Kong Dollar Bond Fund 16. BCT (Pro) Hong Kong Equity Fund 17. BCT (Pro) International Equity Fund 18. BCT (Pro) MPF Conservative Fund 19. BCT (Pro) RMB Bond Fund 20. BCT (Pro) SaveEasy 2020 Fund 21. BCT (Pro) SaveEasy 2025 Fund 22. BCT (Pro) SaveEasy 2030 Fund 23. BCT (Pro) SaveEasy 2035 Fund 24. BCT (Pro) SaveEasy 2040 Fund 25. BCT (Pro) World Equity Fund
Bank Consortium Trust Company Limited	Invesco Strategic MPF Scheme	1. Age 65 Plus Fund 2. Asian Equity Fund 3. Balanced Fund 4. Capital Stable Fund 5. Core Accumulation Fund 6. Global Bond Fund 7. Growth Fund 8. Guaranteed Fund 9. Hong Kong and China Equity Fund 10. Invesco Hang Seng Index Tracking Fund 11. MPF Conservative Fund 12. RMB Bond Fund
Bank of Communications Trustee Limited	BCOM Joyful Retirement MPF Scheme	1. BCOM Age 65 Plus Fund 2. BCOM Asian Dynamic Equity (CF) Fund 3. BCOM Balanced (CF) Fund 4. BCOM China Dynamic Equity (CF) Fund 5. BCOM Core Accumulation Fund 6. BCOM Dynamic Growth (CF) Fund 7. BCOM Global Bond (CF) Fund 8. BCOM Greater China Equity (CF) Fund 9. BCOM Guaranteed (CF) Fund 10. BCOM Hong Kong Dynamic Equity (CF) Fund 11. BCOM HSI Tracking (CF) Fund 12. BCOM MPF Conservative Fund 13. BCOM Stable Growth (CF) Fund

## Appendix 3

## List of 32 Registered MPF Schemes and 469 Constituent Funds (31.3.2018)

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) Age 65 Plus Fund</li> <li>2. BEA (Industry Scheme) Asian Equity Fund</li> <li>3. BEA (Industry Scheme) Balanced Fund</li> <li>4. BEA (Industry Scheme) Core Accumulation Fund</li> <li>5. BEA (Industry Scheme) Greater China Equity Fund</li> <li>6. BEA (Industry Scheme) Growth Fund</li> <li>7. BEA (Industry Scheme) Hong Kong Equity Fund</li> <li>8. BEA (Industry Scheme) MPF Conservative Fund</li> <li>9. BEA (Industry Scheme) RMB &amp; HKD Money Market Fund</li> <li>10. BEA (Industry Scheme) Stable Fund</li> <li>11. BEA China Tracker Fund</li> <li>12. 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) Age 65 Plus Fund</li> <li>2. BEA (MPF) Asian Equity Fund</li> <li>3. BEA (MPF) Balanced Fund</li> <li>4. BEA (MPF) Conservative Fund</li> <li>5. BEA (MPF) Core Accumulation Fund</li> <li>6. BEA (MPF) European Equity Fund</li> <li>7. BEA (MPF) Global Bond Fund</li> <li>8. BEA (MPF) Global Equity Fund</li> <li>9. BEA (MPF) Greater China Equity Fund</li> <li>10. BEA (MPF) Growth Fund</li> <li>11. BEA (MPF) Hong Kong Equity Fund</li> <li>12. BEA (MPF) Japan Equity Fund</li> <li>13. BEA (MPF) Long Term Guaranteed Fund</li> <li>14. BEA (MPF) North American Equity Fund</li> <li>15. BEA (MPF) RMB &amp; HKD Money Market Fund</li> <li>16. BEA (MPF) Stable Fund</li> <li>17. BEA China Tracker Fund</li> <li>18. 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 Age 65 Plus Fund</li> <li>2. BEA Asian Equity Fund</li> <li>3. BEA Balanced Fund</li> <li>4. BEA Core Accumulation Fund</li> <li>5. BEA Global Bond Fund</li> <li>6. BEA Global Equity Fund</li> <li>7. BEA Greater China Equity Fund</li> <li>8. BEA Greater China Tracker Fund</li> <li>9. BEA Growth Fund</li> <li>10. BEA Hong Kong Tracker Fund</li> <li>11. BEA MPF Conservative Fund</li> <li>12. BEA Stable Fund</li> </ol>



## Appendix 3

# List of 32 Registered MPF Schemes and 469 Constituent Funds (31.3.2018)

Trustee	MPF Scheme	Underlying Constituent Funds
BOCI-Prudential Trustee Limited	BOC-Prudential Easy-Choice Mandatory Provident Fund Scheme	<ol style="list-style-type: none"> <li>1. BOC-Prudential Age 65 Plus Fund</li> <li>2. BOC-Prudential Asia Equity Fund</li> <li>3. BOC-Prudential Balanced Fund</li> <li>4. BOC-Prudential Bond Fund</li> <li>5. BOC-Prudential China Equity Fund</li> <li>6. BOC-Prudential Core Accumulation Fund</li> <li>7. BOC-Prudential CSI HK 100 Tracker Fund</li> <li>8. BOC-Prudential European Index Tracking Fund</li> <li>9. BOC-Prudential Global Equity Fund</li> <li>10. BOC-Prudential Growth Fund</li> <li>11. BOC-Prudential Hong Kong Equity Fund</li> <li>12. BOC-Prudential Japan Equity Fund</li> <li>13. BOC-Prudential MPF Conservative Fund</li> <li>14. BOC-Prudential MPF RMB &amp; HKD Money Market Fund</li> <li>15. BOC-Prudential North America Index Tracking Fund</li> <li>16. BOC-Prudential Stable Fund</li> </ol>
BOCI-Prudential Trustee Limited	My Choice Mandatory Provident Fund Scheme	<ol style="list-style-type: none"> <li>1. My Choice Age 65 Plus Fund</li> <li>2. My Choice Asia Equity Fund</li> <li>3. My Choice Balanced Fund</li> <li>4. My Choice China Equity Fund</li> <li>5. My Choice Core Accumulation Fund</li> <li>6. My Choice Global Bond Fund</li> <li>7. My Choice Global Equity Fund</li> <li>8. My Choice Growth Fund</li> <li>9. My Choice HKD Bond Fund</li> <li>10. My Choice Hong Kong Equity Fund</li> <li>11. My Choice Hong Kong Tracking Fund</li> <li>12. My Choice MPF Conservative Fund</li> <li>13. My Choice RMB &amp; HKD Money Market Fund</li> <li>14. My Choice Stable Fund</li> </ol>
China Life Trustees Limited	China Life MPF Master Trust Scheme	<ol style="list-style-type: none"> <li>1. China Life Age 65 Plus Fund</li> <li>2. China Life Balanced Fund</li> <li>3. China Life Core Accumulation Fund</li> <li>4. China Life Growth Fund</li> <li>5. China Life Guaranteed Return Fund</li> <li>6. China Life Hong Kong Equity Fund</li> <li>7. China Life MPF Conservative Fund</li> <li>8. China Life Retire-Easy Balanced Fund</li> <li>9. China Life Retire-Easy Capital Stable Fund</li> <li>10. China Life Retire-Easy Global Equity Fund</li> <li>11. China Life Retire-Easy Guarantee Fund</li> </ol>

## Appendix 3

## List of 32 Registered MPF Schemes and 469 Constituent Funds (31.3.2018)

Trustee	MPF Scheme	Underlying Constituent Funds
HSBC Institutional Trust Services (Asia) Limited	Fidelity Retirement Master Trust	<ol style="list-style-type: none"> <li>1. Age 65 Plus Fund</li> <li>2. Asia Pacific Equity Fund</li> <li>3. Balanced Fund</li> <li>4. Capital Stable Fund</li> <li>5. Core Accumulation Fund</li> <li>6. Fidelity Hong Kong Tracker Fund</li> <li>7. Fidelity SaveEasy 2020 Fund</li> <li>8. Fidelity SaveEasy 2025 Fund</li> <li>9. Fidelity SaveEasy 2030 Fund</li> <li>10. Fidelity SaveEasy 2035 Fund</li> <li>11. Fidelity SaveEasy 2040 Fund</li> <li>12. Fidelity SaveEasy 2045 Fund</li> <li>13. Fidelity SaveEasy 2050 Fund</li> <li>14. Global Equity Fund</li> <li>15. Growth Fund</li> <li>16. Hong Kong Bond Fund</li> <li>17. Hong Kong Equity Fund</li> <li>18. MPF Conservative Fund</li> <li>19. RMB Bond Fund</li> <li>20. Stable Growth Fund</li> <li>21. World Bond Fund</li> </ol>
HSBC Institutional Trust Services (Asia) Limited	Haitong MPF Retirement Fund	<ol style="list-style-type: none"> <li>1. Haitong Age 65 Plus Fund</li> <li>2. Haitong Asia Pacific (excluding HK) Fund</li> <li>3. Haitong Core Accumulation Fund</li> <li>4. Haitong Global Diversification Fund</li> <li>5. Haitong Hong Kong SAR Fund</li> <li>6. Haitong Korea Fund</li> <li>7. Haitong 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>1. Age 65 Plus Fund</li> <li>2. Asia Pacific Equity Fund</li> <li>3. Balanced Fund</li> <li>4. Chinese Equity Fund</li> <li>5. Core Accumulation Fund</li> <li>6. European Equity Fund</li> <li>7. Global Bond Fund</li> <li>8. Growth Fund</li> <li>9. Guaranteed Fund</li> <li>10. Hang Seng Index Tracking Fund</li> <li>11. Hong Kong and Chinese Equity Fund</li> <li>12. MPF Conservative Fund</li> <li>13. North American Equity Fund</li> <li>14. Stable Fund</li> </ol>

## Appendix 3

# List of 32 Registered MPF Schemes and 469 Constituent Funds (31.3.2018)

Trustee	MPF Scheme	Underlying Constituent Funds
HSBC Provident Fund Trustee (Hong Kong) Limited	Hang Seng Mandatory Provident Fund – ValueChoice	<ol style="list-style-type: none"> <li>1. Age 65 Plus Fund</li> <li>2. Core Accumulation Fund</li> <li>3. Global Bond Fund</li> <li>4. Global Equity Fund</li> <li>5. Hang Seng China Enterprises Index Tracking Fund</li> <li>6. Hang Seng Index Tracking Fund</li> <li>7. MPF Conservative Fund</li> <li>8. ValueChoice Asia Pacific Equity Fund</li> <li>9. ValueChoice Balanced Fund</li> <li>10. ValueChoice European Equity Fund</li> <li>11. ValueChoice US Equity Fund</li> </ol>
HSBC Provident Fund Trustee (Hong Kong) Limited	HSBC Mandatory Provident Fund – SuperTrust Plus	<ol style="list-style-type: none"> <li>1. Age 65 Plus Fund</li> <li>2. Asia Pacific Equity Fund</li> <li>3. Balanced Fund</li> <li>4. Chinese Equity Fund</li> <li>5. Core Accumulation Fund</li> <li>6. European Equity Fund</li> <li>7. Global Bond Fund</li> <li>8. Growth Fund</li> <li>9. Guaranteed Fund</li> <li>10. Hang Seng Index Tracking Fund</li> <li>11. Hong Kong and Chinese Equity Fund</li> <li>12. MPF Conservative Fund</li> <li>13. North American Equity Fund</li> <li>14. Stable Fund</li> </ol>
HSBC Provident Fund Trustee (Hong Kong) Limited	HSBC Mandatory Provident Fund – ValueChoice	<ol style="list-style-type: none"> <li>1. Age 65 Plus Fund</li> <li>2. Core Accumulation Fund</li> <li>3. Global Bond Fund</li> <li>4. Global Equity Fund</li> <li>5. Hang Seng China Enterprises Index Tracking Fund</li> <li>6. Hang Seng Index Tracking Fund</li> <li>7. MPF Conservative Fund</li> <li>8. ValueChoice Asia Pacific Equity Fund</li> <li>9. ValueChoice Balanced Fund</li> <li>10. ValueChoice European Equity Fund</li> <li>11. ValueChoice US Equity Fund</li> </ol>

## Appendix 3

## List of 32 Registered MPF Schemes and 469 Constituent Funds (31.3.2018)

Trustee	MPF Scheme	Underlying Constituent Funds
HSBC Provident Fund Trustee (Hong Kong) Limited	Sun Life MPF Master Trust	<ol style="list-style-type: none"> <li>1. Schroder MPF Age 65 Plus Fund</li> <li>2. Schroder MPF Asian Portfolio</li> <li>3. Schroder MPF Balanced Investment Portfolio</li> <li>4. Schroder MPF Capital Guaranteed Portfolio</li> <li>5. Schroder MPF Capital Stable Portfolio</li> <li>6. Schroder MPF Conservative Portfolio</li> <li>7. Schroder MPF Core Accumulation Fund</li> <li>8. Schroder MPF Global Fixed Income Portfolio</li> <li>9. Schroder MPF Growth Portfolio</li> <li>10. Schroder MPF Hong Kong Portfolio</li> <li>11. Schroder MPF International Portfolio</li> <li>12. Schroder MPF RMB and HKD Fixed Income Portfolio</li> <li>13. Schroder MPF Stable Growth Portfolio</li> </ol>
Manulife Provident Funds Trust Company Limited	Manulife Global Select (MPF) Scheme	<ol style="list-style-type: none"> <li>1. Manulife MPF 2020 Retirement Fund</li> <li>2. Manulife MPF 2025 Retirement Fund</li> <li>3. Manulife MPF 2030 Retirement Fund</li> <li>4. Manulife MPF 2035 Retirement Fund</li> <li>5. Manulife MPF 2040 Retirement Fund</li> <li>6. Manulife MPF 2045 Retirement Fund</li> <li>7. Manulife MPF Age 65 Plus Fund</li> <li>8. Manulife MPF Aggressive Fund</li> <li>9. Manulife MPF China Value Fund</li> <li>10. Manulife MPF Conservative Fund</li> <li>11. Manulife MPF Core Accumulation Fund</li> <li>12. Manulife MPF European Equity Fund</li> <li>13. Manulife MPF Fidelity Growth Fund</li> <li>14. Manulife MPF Fidelity Stable Growth Fund</li> <li>15. Manulife MPF Growth Fund</li> <li>16. Manulife MPF Hang Seng Index Tracking Fund</li> <li>17. Manulife MPF Healthcare Fund</li> <li>18. Manulife MPF Hong Kong Bond Fund</li> <li>19. Manulife MPF Hong Kong Equity Fund</li> <li>20. Manulife MPF Interest Fund</li> <li>21. Manulife MPF International Bond Fund</li> <li>22. Manulife MPF International Equity Fund</li> <li>23. Manulife MPF Japan Equity Fund</li> <li>24. Manulife MPF North American Equity Fund</li> <li>25. Manulife MPF Pacific Asia Bond Fund</li> <li>26. Manulife MPF Pacific Asia Equity Fund</li> <li>27. Manulife MPF RMB Bond Fund</li> <li>28. Manulife MPF Smart Retirement Fund</li> <li>29. Manulife MPF Stable Fund</li> </ol>

## Appendix 3

# List of 32 Registered MPF Schemes and 469 Constituent Funds (31.3.2018)

Trustee	MPF Scheme	Underlying Constituent Funds
MassMutual Trustees Limited	MASS Mandatory Provident Fund Scheme	<ol style="list-style-type: none"> <li>1. Age 65 Plus Fund</li> <li>2. Asian Balanced Fund</li> <li>3. Asian Pacific Equity Fund</li> <li>4. Core Accumulation Fund</li> <li>5. European Equity Fund</li> <li>6. Global Bond Fund</li> <li>7. Global Equity Fund</li> <li>8. Global Growth Fund</li> <li>9. Global Stable Fund</li> <li>10. Greater China Equity Fund</li> <li>11. Guaranteed Fund</li> <li>12. Hong Kong Equities Fund</li> <li>13. MPF Conservative Fund</li> <li>14. US Equity Fund</li> </ol>
Principal Trust Company (Asia) Limited	Principal MPF – Simple Plan	<ol style="list-style-type: none"> <li>1. Principal – MPF Conservative Fund</li> <li>2. Principal Age 65 Plus Fund</li> <li>3. Principal Balanced Fund</li> <li>4. Principal Core Accumulation Fund</li> <li>5. Principal Dynamic Asia Pacific Equity Fund</li> <li>6. Principal Dynamic Global Bond Fund</li> <li>7. Principal Dynamic Global Equity Fund</li> <li>8. Principal Dynamic Hong Kong Equity Fund</li> <li>9. Principal Growth Fund</li> <li>10. Principal Stable Fund</li> </ol>
Principal Trust Company (Asia) Limited	Principal MPF – Smart Plan	<ol style="list-style-type: none"> <li>1. Principal – Hang Seng Index Tracking Fund</li> <li>2. Principal – MPF Conservative Fund</li> <li>3. Principal Age 65 Plus Fund</li> <li>4. Principal Balanced Fund</li> <li>5. Principal Cash Fund</li> <li>6. Principal Core Accumulation Fund</li> <li>7. Principal Dynamic Asia Pacific Equity Fund</li> <li>8. Principal Dynamic Asian Bond Fund</li> <li>9. Principal Dynamic Global Bond Fund</li> <li>10. Principal Dynamic Global Equity Fund</li> <li>11. Principal Dynamic Greater China Equity Fund</li> <li>12. Principal Dynamic Hong Kong Equity Fund</li> <li>13. Principal Growth Fund</li> <li>14. Principal Guaranteed Fund</li> <li>15. Principal Stable Fund</li> </ol>

## Appendix 3

## List of 32 Registered MPF Schemes and 469 Constituent Funds (31.3.2018)

Trustee	MPF Scheme	Underlying Constituent Funds
Principal Trust Company (Asia) Limited	Principal MPF Scheme Series 600	<ol style="list-style-type: none"> <li>1. Principal Age 65 Plus Fund</li> <li>2. Principal Aggressive Strategy Fund</li> <li>3. Principal Asian Bond Fund</li> <li>4. Principal Core Accumulation Fund</li> <li>5. Principal Global Growth Fund</li> <li>6. Principal Hang Seng Index Tracking Fund</li> <li>7. Principal HK Dollar Savings Fund</li> <li>8. Principal Long Term Accumulation Fund</li> <li>9. Principal Long Term Guaranteed Fund</li> <li>10. Principal MPF Conservative Fund</li> <li>11. 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 Age 65 Plus Fund</li> <li>2. Principal Asian Equity Fund</li> <li>3. Principal Capital Guaranteed Fund</li> <li>4. Principal China Equity Fund</li> <li>5. Principal Core Accumulation Fund</li> <li>6. Principal Global Growth Fund</li> <li>7. Principal Hang Seng Index Tracking Fund</li> <li>8. Principal HK Dollar Savings Fund</li> <li>9. Principal Hong Kong Bond Fund</li> <li>10. Principal Hong Kong Equity Fund</li> <li>11. Principal International Bond Fund</li> <li>12. Principal International Equity Fund</li> <li>13. Principal Long Term Accumulation Fund</li> <li>14. Principal Long Term Guaranteed Fund</li> <li>15. Principal MPF Conservative Fund</li> <li>16. Principal Stable Yield Fund</li> <li>17. Principal US Equity Fund</li> </ol>
RBC Investor Services Trust Hong Kong Limited	Manulife MPF Plan – Advanced	<ol style="list-style-type: none"> <li>1. Allianz Choice Balanced Fund</li> <li>2. Allianz Choice Capital Stable Fund</li> <li>3. Allianz Choice Growth Fund</li> <li>4. Fidelity Global Investment Fund – Balanced Fund</li> <li>5. Fidelity Global Investment Fund – Capital Stable Fund</li> <li>6. Fidelity Global Investment Fund – Growth Fund</li> <li>7. HSBC MPF “A” – Balanced Fund</li> <li>8. HSBC MPF “A” – Hong Kong and Chinese Equity Fund</li> <li>9. HSBC MPF “A” – Stable Fund</li> <li>10. Invesco Global Balanced Fund</li> <li>11. Invesco Global Equities Fund</li> <li>12. Invesco MPF Bond Fund</li> <li>13. Manulife Balanced Fund – Advanced</li> <li>14. Manulife Bond Fund – Advanced</li> </ol>

## Appendix 3

# List of 32 Registered MPF Schemes and 469 Constituent Funds (31.3.2018)

Trustee	MPF Scheme	Underlying Constituent Funds
		15. Manulife Career Average Guaranteed Fund – Advanced 16. Manulife Growth Fund – Advanced 17. Manulife MPF Age 65 Plus Fund – Advanced 18. Manulife MPF Conservative Fund – Advanced 19. Manulife MPF Core Accumulation Fund – Advanced 20. Manulife Stable Fund – Advanced 21. Principal Hong Kong Equity Fund 22. Schroder MPF Asian Fund 23. Schroder MPF Balanced Investment Fund 24. Schroder RMB and HKD Fixed Income Fund 25. Templeton MPF Asian Balanced Fund 26. Templeton MPF Global Bond Fund 27. Templeton MPF Global Equity Fund
RBC Investor Services Trust Hong Kong Limited	Manulife MPF Plan – Basic	1. Manulife Balanced Fund – Basic 2. Manulife Bond Fund – Basic 3. Manulife Career Average Guaranteed Fund – Basic 4. Manulife Growth Fund – Basic 5. Manulife MPF Age 65 Plus Fund – Basic 6. Manulife MPF Conservative Fund – Basic 7. Manulife MPF Core Accumulation Fund – Basic 8. Manulife Stable Fund – Basic
RBC Investor Services Trust Hong Kong Limited	SHKP MPF Employer Sponsored Scheme	1. Allianz Choice Balanced Fund 2. Allianz Choice Stable Growth Fund 3. Fidelity Balanced Fund 4. Fidelity Stable Growth Fund 5. Invesco Global Stable Fund 6. Manulife Career Average Guaranteed Fund – SHKP 7. Manulife MPF Conservative Fund – SHKP 8. Schroder MPF Age 65 Plus Fund 9. Schroder MPF Core Accumulation Fund 10. SHKP MPF Fund
Sun Life Pension Trust Limited	Sun Life MPF Basic Scheme	1. Sun Life MPF Basic Scheme Age 65 Plus Portfolio 2. Sun Life MPF Basic Scheme Balanced Growth Portfolio 3. Sun Life MPF Basic Scheme Capital Guaranteed Portfolio 4. Sun Life MPF Basic Scheme Core Accumulation Portfolio

## Appendix 3

## List of 32 Registered MPF Schemes and 469 Constituent Funds (31.3.2018)

Trustee	MPF Scheme	Underlying Constituent Funds
		5. Sun Life MPF Basic Scheme Hong Kong Equity Portfolio 6. Sun Life MPF Basic Scheme International Equity Portfolio 7. Sun Life MPF Basic Scheme MPF Conservative Portfolio 8. Sun Life MPF Basic Scheme Stable Growth Portfolio 9. Sun Life MPF Basic Scheme US & Hong Kong Equity Portfolio
Sun Life Pension Trust Limited	Sun Life MPF Comprehensive Scheme	1. Sun Life MPF Comprehensive Scheme Age 65 Plus Portfolio 2. Sun Life MPF Comprehensive Scheme Asian Equity Portfolio 3. Sun Life MPF Comprehensive Scheme Balanced Growth Portfolio 4. Sun Life MPF Comprehensive Scheme Capital Guaranteed Portfolio 5. Sun Life MPF Comprehensive Scheme Core Accumulation Portfolio 6. Sun Life MPF Comprehensive Scheme Growth Portfolio 7. Sun Life MPF Comprehensive Scheme Hong Kong Equity Portfolio 8. Sun Life MPF Comprehensive Scheme International Equity Portfolio 9. Sun Life MPF Comprehensive Scheme MPF Conservative Portfolio 10. Sun Life MPF Comprehensive Scheme Stable Growth Portfolio 11. Sun Life MPF Comprehensive Scheme Stable Portfolio 12. Sun Life MPF Comprehensive Scheme US & Hong Kong Equity Portfolio
Sun Life Trustee Company Limited	Sun Life Rainbow MPF Scheme	1. Sun Life FTSE MPF Hong Kong Index Fund 2. Sun Life MPF Age 65 Plus Fund 3. Sun Life MPF Asian Equity Fund 4. Sun Life MPF Balanced Fund 5. Sun Life MPF Conservative Fund 6. Sun Life MPF Core Accumulation Fund 7. Sun Life MPF Global Bond Fund 8. Sun Life MPF Greater China Equity Fund 9. Sun Life MPF Growth Fund 10. Sun Life MPF Hong Kong Dollar Bond Fund 11. Sun Life MPF Hong Kong Equity Fund 12. Sun Life MPF Multi-Sector Equity Fund 13. Sun Life MPF RMB and HKD Fund 14. Sun Life MPF Stable Fund



## Appendix 4

# List of Corporate Administrators who Administer Pooling Agreements for ORSO Schemes (31.3.2018)

## Authorized Insurers

AIA Company Limited  
 AIA International Limited  
 China Life Insurance (Overseas) Company Limited  
 FWD Life Insurance Company (Bermuda) Limited  
 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.  
 Bank Consortium Trust Company Limited  
 Bank of Communications Trustee Limited  
 BOC Group Trustee Company Limited  
 China Life Trustees Limited  
 HSBC Institutional Trust Services (Asia) Limited  
 Manulife Provident Funds Trust Company Limited  
 Principal Trust Company (Asia) Limited  
 Principal Trust Company (Bermuda) Limited  
 Principal Trust Company (Hong Kong) Limited  
 RBC Investor Services Trust Hong Kong Limited  
 Shanghai Commercial Bank Trustee Limited  
 Sun Life Pension Trust Limited <sup>1</sup>  
 Sun Life Trustee Company Limited  
 Zetland Trust Limited

<sup>1</sup> From 3 October 2017, FWD Pension Trust Limited is renamed Sun Life Pension Trust Limited.

## Appendix 5

# Abbreviations

Abbreviations	stand for
APIF	approved pooled investment fund
CEO	chief executive officer
CPD	continuing professional development
CPI	Consumer Price Index
CRE	Central Register of Establishments
CSR	corporate social responsibility
DIS	default investment strategy
ED	executive director
ePA	e-Enquiry of Personal Account
FER	fund expense ratio
HKICPA	Hong Kong Institute of Certified Public Accountants
HKMA	Hong Kong Monetary Authority
HKSAR	Hong Kong Special Administrative Region
IA	Insurance Authority
IAQ	Indoor Air Quality
IS	Industry Scheme
IOPS	International Organisation of Pension Supervisors
IRR	internal rate of return
ITCIS	index-tracking collective investment scheme
KOL	key opinion leader
MPF	mandatory provident fund
MPFA	Mandatory Provident Fund Schemes Authority
MPFSO	Mandatory Provident Fund Schemes Ordinance
NED	non-executive director
OECD	Organisation for Economic Co-operation and Development
ORSO	Occupational Retirement Schemes Ordinance
PRP	Process Review Panel in relation to the Regulation of Mandatory Provident Fund Intermediaries
RI	relevant income
SEP	self-employed person
SFC	Securities and Futures Commission
TOLG	Trustees Operations Liaison Group



Level 8, Tower 1, Kowloon Commerce Centre,  
51 Kwai Cheong Road, Kwai Chung, Hong Kong

Hotline: (852) 2918 0102  
Facsimile: (852) 2259 8806

[www.mpfa.org.hk](http://www.mpfa.org.hk)

