

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 89 to 126, which comprise:

- the statement of financial position as at 31 March 2020;
- 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 2020, 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.

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.

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.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- 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, 13 July 2020

INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 March 2020

	Notes	2020 HK\$	2019 HK\$
INCOME			
Fees and charges	7	20,042,860	21,044,728
Recoveries from the Mandatory Provident Fund Schemes Compensation Fund	25	1,245,680	1,194,005
Interest income on bank deposits		5,156,374	4,749,426
Net investment income	8	69,807,493	113,111,452
		96,252,407	140,099,611
Other income	9	50,060,298	5,160
		146,312,705	140,104,771
EXPENDITURE			
Staff costs	11	364,206,413	345,770,842
Depreciation and amortisation	15-17	63,300,424	23,075,561
Premises expenses		11,993,002	56,134,389
Public education and publicity expenses		22,688,712	15,204,591
Investment expenses		7,468,014	8,749,011
Auditor's remuneration		270,400	262,200
Other operating expenses	14	59,141,618	47,111,086
Finance cost	16	2,004,770	–
		531,073,353	496,307,680
DEFICIT FOR THE YEAR		(384,760,648)	(356,202,909)

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.

STATEMENT OF FINANCIAL POSITION

At 31 March 2020

	Notes	2020 HK\$	2019 HK\$
NON-CURRENT ASSETS			
Property and equipment	15	10,563,594	15,896,802
Right-of-use assets	16	115,612,931	–
Intangible assets	17	9,068,505	10,230,778
Projects in progress	18	2,696,394	2,219,757
Other non-current deposits		14,150,323	6,087,561
		152,091,747	34,434,898
CURRENT ASSETS			
Financial assets at fair value	19	2,296,345,075	2,726,372,047
Interest receivable on financial assets at fair value		12,496,669	14,517,470
Derivative financial instruments	20	697,713	900,143
Unsettled investments receivable		50,313,733	7,337,875
Debtors, deposits and prepayments	9	62,577,347	20,889,203
Bank deposits		96,600,000	146,400,000
Cash and cash equivalents		377,298,859	408,769,401
		2,896,329,396	3,325,186,139
NON-CURRENT LIABILITIES			
Lease liabilities	16	70,810,684	–
Other payables		12,259,531	1,500,000
		83,070,215	1,500,000
CURRENT LIABILITIES			
Lease liabilities	16	46,725,191	–
Derivative financial instruments	20	1,745,703	49,258
Unsettled investments payable		240,381,154	278,961,252
Creditors and accrued charges		37,637,461	55,983,238
Fees received in advance		10,410,406	9,915,628
		336,899,915	344,909,376
NET ASSETS		2,628,451,013	3,013,211,661
CAPITAL AND RESERVE			
Capital grant	21	5,000,000,000	5,000,000,000
Income and expenditure account		(2,371,548,987)	(1,986,788,339)
		2,628,451,013	3,013,211,661

The financial statements on pages 89 to 126 were approved and authorised for issue by the Mandatory Provident Fund Schemes Authority on 13 July 2020 and are signed on its behalf by:

Alice Law*Managing Director*

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

STATEMENT OF CHANGES IN CAPITAL AND RESERVE

For the year ended 31 March 2020

	Capital Grant HK\$	Income and Expenditure Account HK\$	Total HK\$
At 1 April 2018	5,000,000,000	(1,630,585,430)	3,369,414,570
Deficit for the year	–	(356,202,909)	(356,202,909)
At 31 March 2019	5,000,000,000	(1,986,788,339)	3,013,211,661
Deficit for the year	–	(384,760,648)	(384,760,648)
At 31 March 2020	5,000,000,000	(2,371,548,987)	2,628,451,013

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

STATEMENT OF CASH FLOWS

For the year ended 31 March 2020

	2020 HK\$	2019 HK\$
OPERATING ACTIVITIES		
Deficit for the year	(384,760,648)	(356,202,909)
Adjustments for:		
Depreciation and amortisation	63,300,424	23,075,561
Finance cost	2,004,770	–
(Gains) / losses on disposals of property and equipment and intangible assets	(7,700)	41,670
Interest income on bank deposits	(5,156,374)	(4,749,426)
Interest income on financial assets at fair value	(52,326,397)	(55,542,178)
Dividends from financial assets at fair value	(13,437,370)	(17,778,113)
Net losses / (gains) on financial assets at fair value	426,300	(14,183,735)
Net gains on derivative financial instruments	(2,756,010)	(19,886,426)
Operating cash flows before movements in working capital	(392,713,005)	(445,225,556)
(Increase) / decrease in other non-current deposits	(8,062,762)	1,581,643
Increase in debtors, deposits and prepayments	(41,830,348)	(4,730,442)
(Decrease) / increase in other payables, creditors and accrued charges	(5,763,714)	14,437,771
Increase in fees received in advance	494,778	867,589
NET CASH USED IN OPERATING ACTIVITIES	(447,875,051)	(433,068,995)
INVESTING ACTIVITIES		
Dividends received from financial assets at fair value	13,955,885	18,292,530
Interest received on bank deposits	5,298,578	4,641,930
Interest received from financial assets at fair value	54,347,197	56,148,209
Proceeds on disposals of property and equipment and intangible assets	7,700	1,080
Proceeds on disposals of financial assets at fair value	4,876,046,970	5,105,236,494
Purchase of property and equipment, intangible assets and projects in progress	(11,574,914)	(6,300,630)
Purchase of financial assets at fair value	(4,528,520,769)	(4,785,772,508)
Net settlement of derivative financial instruments	4,654,885	16,041,527
Decrease in bank deposits	49,800,000	49,300,000
NET CASH FROM INVESTING ACTIVITIES	464,015,532	457,588,632
FINANCING ACTIVITIES		
Principal element of lease payments	(45,606,253)	–
Interest element of lease payments	(2,004,770)	–
NET CASH USED IN FINANCING ACTIVITIES	(47,611,023)	–
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(31,470,542)	24,519,637
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	408,769,401	384,249,764
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	377,298,859	408,769,401
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances held for investment purposes	62,619,302	86,791,589
Short term debt securities	242,883,884	280,089,785
Other bank balances and cash	71,795,673	41,888,027
	377,298,859	408,769,401

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

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)

(i) New and amended standards adopted by the MPFA

The MPFA has applied HKFRS 16 'Leases' for the first time for annual reporting period commencing 1 April 2019.

Changes in accounting policies

This explains the impact of the adoption of HKFRS 16 on the MPFA's financial statements.

As indicated above, the MPFA has adopted HKFRS 16 retrospectively from 1 April 2019, but has not restated comparatives for the year ended 31 March 2019, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balances in the Statement of Financial Position on 1 April 2019. The new accounting policies are disclosed in note 3.15.

On adoption of HKFRS 16, the MPFA recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 1.44%.

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

(i) *New and amended standards adopted by the MPFA (continued)*

Practical expedients applied

In applying HKFRS 16 for the first time, the MPFA has used the following practical expedients permitted by the standard:

- (a) relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 April 2019;
- (b) excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- (c) using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The MPFA has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the MPFA relied on its assessment made applying HKAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

Measurement of lease liabilities

	2020 HK\$
Operating lease commitments disclosed as at 31 March 2019	86,532,346
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(2,267,352)
LEASE LIABILITIES RECOGNISED AS AT 1 APRIL 2019	84,264,994
Of which are:	
Current lease liabilities	35,364,426
Non-current lease liabilities	48,900,568
	84,264,994

Measurement of right-of-use assets

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 March 2019.

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

(ii) New standards and interpretations not yet adopted

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

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

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 a straight-line basis over the period covered 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. Interest income includes interest from bank deposits and interest from financial assets at fair value through profit or loss, which is recognised as part of net investment income.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial instruments

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

3.3 Financial assets

(a) Recognition and measurement

The MPFA's financial assets include financial assets at fair value through profit or loss and financial assets measured at amortised cost. 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.

At initial recognition, the MPFA measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the income and expenditure account.

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.

(b) Classification

The MPFA classifies its financial assets into the below categories based on the MPFA's business model for managing the asset and, where required, subsequent analysis of cash flow characteristics on individual financial assets.

The business model reflects how the MPFA manages particular groups of assets in order to generate future cash flows. Where the business model is to hold the assets to collect contractual cash flows the MPFA subsequently assesses whether the financial assets cash flows represent solely payments of principal and interest. The MPFA considers whether the cash flows represent basic lending arrangements. Where contractual terms introduce exposure to risk or volatility inconsistent with a basic lending arrangement the financial asset is classified and measured at fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets (continued)

i. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss have two subcategories, financial assets mandatorily measured at fair value and those designated at fair value through profit or loss on initial recognition. Financial assets that do not meet the criteria for amortised cost or financial assets classified at fair value through other comprehensive income are measured at fair value through profit or loss. The MPFA holds investments which had previously been designated at fair value through profit or loss. All of MPFA's financial assets measured at fair value through profit or loss are mandatorily measured at fair value with no assets being designated. Gains or losses will be recorded in the income and expenditure account.

ii. Financial assets at amortised cost

Financial assets at amortised cost are assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost mainly consist of debtors, deposits, unsettled investments receivable (including dividends receivable and amounts due from brokers), bank deposits and cash and cash equivalents, interest income from these financial assets is using the effective interest rate method. Any gain or loss of derecognition and impairment losses are recognised in the income and expenditure account.

3.4 Impairment of financial assets

The MPFA assesses on forward looking basis the expected credit losses associated with its financial assets measured at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For debtors, the MPFA applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the debtors. Note 6.3 sets out information about the impairment of financial assets and the MPFA's exposure to credit risk.

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, except for derivative financial instruments, 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.

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 mandatorily measured at fair value. Such derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

For derivative financial instruments that do not qualify for hedge accounting, they are financial assets or liabilities mandatorily measured at fair value. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Property and equipment (continued)

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

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

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

3.9 Intangible Assets

Computer software licenses

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

Software development costs

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Intangible Assets (continued)

Software development costs (continued)

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 to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognised as an expense immediately.

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

3.12 Cash and cash equivalents

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

3.13 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. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Leases

As explained in note 2(i) above, the MPFA has changed its accounting policy for leases where the MPFA is the lessee. The new policy is described below and the impact of the change in note 2(i).

Until 31 March 2019, 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.

From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the MPFA.

Contracts may contain both lease and non-lease components. For leases of office premises and storage space for which the MPFA is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- (a) fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- (b) variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- (c) amounts expected to be payable by the MPFA under residual value guarantees;

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Leases (continued)

- (d) the exercise price of a purchase option if the MPFA is reasonably certain to exercise that option; and
- (e) payments of penalties for terminating the lease, if the lease term reflects the MPFA exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the MPFA, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the MPFA:

- (a) uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the MPFA, which does not have recent third party financing; and
- (b) makes adjustments specific to the lease, eg term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the income and expenditure account over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- (a) the amount of the initial measurement of lease liability;
- (b) any lease payments made at or before the commencement date less any lease incentives received;
- (c) any initial direct costs; and
- (d) restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the MPFA is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

3.17 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the MPFA will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate. Note 9 provides further information on how the MPFA accounts for government grants.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 2020, 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 2020. 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Default contribution claims receivable and payable

As at the reporting date, the default contribution claims receivable amounting to HK\$4,336,533 (2019: HK\$5,979,121), 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\$4,336,533 (2019: HK\$5,979,121), 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.

Determination of the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Most extension options in office premises leases have not been included in the lease liability, because the MPFA could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the MPFA becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

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.

6. FINANCIAL INSTRUMENTS

6.1 Categories of financial instruments

	2020 HK\$	2019 HK\$
Financial assets		
At fair value	2,297,042,788	2,727,272,190
At amortised cost (including bank deposits, cash and cash equivalents and receivables)	604,083,612	593,646,081
Financial liabilities		
At fair value	1,745,703	49,258
Other financial liabilities	403,477,488	329,425,261

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 financial assets 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.

6. FINANCIAL INSTRUMENTS (continued)

6.2 Financial risk management objectives and policies (continued)

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

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

6.3 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The MPFA assesses credit risk and expected credit losses by considering probability of default, exposure at default and loss given default. Both historical and forward looking information are considered in assessing the expected credit loss.

The main concentration of credit risk to which the MPFA is exposed arises from the MPFA's investments in debt securities. The MPFA is also exposed to counterparty credit risk on the transactions in bank deposits, cash and cash equivalents, interest receivable from financial assets at fair value and derivative financial instruments.

To manage the credit risk, the investment portfolios can only invest in debt securities that have a minimum credit rating of BBB (2019: BBB) by Standard & Poor's Ratings Services (S&P) and Baa2 (2019: 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 (2019: A/A2).

6. FINANCIAL INSTRUMENTS (continued)

6.3 Credit risk (continued)

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

Credit rating	2020 HK\$	% of net assets	2019 HK\$	% of net assets
AAA ¹	29,369,702	1	37,822,013	1
AA ²	907,753,584	35	1,203,178,095	40
A ³	683,302,631	27	671,759,705	22
BBB ⁴	216,788,212	8	208,462,166	7
	1,837,214,129	71	2,121,221,979	70

1 AAA means AAA by S&P and Aaa by Moody's

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

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

4 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 (2019: A+/A1)

All transactions in securities are settled/paid for upon delivery using approved counterparties. The risk of default is considered minimal, as delivery of securities sold is only made once the counterparty has received payment. Payment is made on a purchase once the securities have been received by the counterparty. The trade will fail if either party fails to meet its obligation.

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, interest receivable from financial assets at fair value 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. Moreover, the counterparties have a strong capacity to meet their obligations in the near term and therefore the probability of default of the counterparties is considered to be close to zero. As a result, the expected credit losses is minimal. 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 2020 and 2019, none of the assets is impaired nor past due but not impaired.

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 (2019: 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 (2019: 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\$0.5 million (2019: 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 (2019: 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 (2019: 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:

	2020 Years	2019 Years
Benchmark duration	5.40	5.43
Portfolio duration	5.63	5.48

The MPFA 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.

6. FINANCIAL INSTRUMENTS (continued)

6.4 Interest rate risk (continued)

The MPFA adopts a sensitivity test of 10 basis points (2019: 10 basis points) movements. As at the reporting date, if interest rate had fluctuated by 10 basis points (2019: 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	
	2020 HK\$	2019 HK\$
If interest rate were 10 basis points lower	10,335,639	11,625,463
If interest rate were 10 basis points higher	(10,335,639)	(11,625,463)

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 financial assets 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 2020, if the Equity Market^{Note} had increased or decreased by 10% (2019: 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\$48.1 million (2019: HK\$66.3 million).

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

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% (2019: 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% (2019: 10%) of the value of the investments denominated in the same currency and the total over-hedging position must not exceed 1% (2019: 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.

6. FINANCIAL INSTRUMENTS (continued)

6.6 Currency risk (continued)

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

	2020						Total HK\$ equivalent
	HK dollar HK\$ equivalent	%	US dollar HK\$ equivalent	%	Others HK\$ equivalent	%	
Financial assets							
Financial assets at fair value	614,114,173	27%	1,585,337,233	69%	96,893,669	4%	2,296,345,075
Interest receivable on financial assets at fair value	3,092,895	25%	9,403,774	75%	–	0%	12,496,669
Derivative financial instruments	–	0%	90,961,730	80%	22,605,747	20%	113,567,477
Unsettled investments receivable	12,988,965	26%	36,633,077	73%	691,691	1%	50,313,733
Debtors and deposits	67,374,351	100%	–	0%	–	0%	67,374,351
Bank deposits	96,600,000	100%	–	0%	–	0%	96,600,000
Cash and cash equivalents	79,961,866	21%	297,001,721	79%	335,272	0%	377,298,859
	874,132,250	29%	2,019,337,535	67%	120,526,379	4%	3,013,996,164
Financial liabilities							
Derivative financial instruments	–	0%	20,388,892	18%	94,226,575	82%	114,615,467
Unsettled investments payable	4,637,248	2%	234,405,585	98%	1,338,320	0%	240,381,154
Other payables, creditors and accrued charges	45,558,793	100%	1,666	0%	–	0%	45,560,459
Lease liabilities	117,535,875	100%	–	0%	–	0%	117,535,875
	167,731,916	32%	254,796,144	49%	95,564,895	19%	518,092,955
	706,400,334	28%	1,764,541,391	71%	24,961,484	1%	2,495,903,209

6. FINANCIAL INSTRUMENTS (continued)

6.6 Currency risk (continued)

	2019						Total HK\$ equivalent
	HK dollar HK\$ equivalent	%	US dollar HK\$ equivalent	%	Others HK\$ equivalent	%	
Financial assets							
Financial assets at fair value	774,315,359	29%	1,806,825,250	66%	145,231,438	5%	2,726,372,047
Interest receivable on financial assets at fair value	3,914,766	27%	10,602,704	73%	–	0%	14,517,470
Derivative financial instruments	–	0%	95,406,399	99%	528,099	1%	95,934,498
Unsettled investments receivable	612,792	8%	6,303,234	86%	421,849	6%	7,337,875
Debtors and deposits	16,621,335	100%	–	0%	–	0%	16,621,335
Bank deposits	146,400,000	100%	–	0%	–	0%	146,400,000
Cash and cash equivalents	48,194,386	12%	360,339,249	88%	235,766	0%	408,769,401
	990,058,638	29%	2,279,476,836	67%	146,417,152	4%	3,415,952,626
Financial liabilities							
Derivative financial instruments	–	0%	532,434	1%	94,551,179	99%	95,083,613
Unsettled investments payable	6,997,900	3%	271,963,352	97%	–	0%	278,961,252
Other payables, creditors and accrued charges	50,457,877	100%	1,706	0%	4,426	0%	50,464,009
	57,455,777	14%	272,497,492	64%	94,555,605	22%	424,508,874
	932,602,861	31%	2,006,979,344	67%	51,861,547	2%	2,991,443,752

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\$474,489,387 (2019: HK\$555,902,133) that are of short maturity and will be due orderly. Therefore, liquidity risk is considered to be minimal.

6. FINANCIAL INSTRUMENTS (continued)

6.7 Liquidity risk (continued)

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.

	2020			2019		
	≤1 month HK\$	1-3 months HK\$	>3 months HK\$	≤1 month HK\$	1-3 months HK\$	>3 months HK\$
Non-derivative financial liabilities						
Unsettled investments payable ¹	240,381,154	-	-	278,961,252	-	-
Other payables, creditors and accrued charges	10,166,665	20,004,411	15,389,383	13,788,550	21,139,565	15,535,894
Lease liabilities	3,867,368	7,749,081	105,919,426	-	-	-
Total	254,415,187	27,753,492	121,308,809	292,749,802	21,139,565	15,535,894
Derivative financial instruments						
Foreign currency forward contracts						
- Inflows	113,567,477	-	-	-	95,934,498	-
- Outflows	(114,615,467)	-	-	-	(95,083,613)	-
Total	(1,047,990)	-	-	-	850,885	-

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

6. FINANCIAL INSTRUMENTS (continued)**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).

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

	2020			Total HK\$
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	
Financial assets				
Equity securities	471,627,615	–	–	471,627,615
Debt securities	1,343,959,152	480,758,308	–	1,824,717,460
Derivative financial instruments	697,713	–	–	697,713
	1,816,284,480	480,758,308	–	2,297,042,788
Financial liabilities				
Derivative financial instruments	1,745,703	–	–	1,745,703

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

6. FINANCIAL INSTRUMENTS (continued)**6.9 Fair value measurements recognised in the statement of financial position (continued)**

	2019			Total HK\$
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	
Financial assets				
Equity securities	619,667,538	–	–	619,667,538
Debt securities	1,535,283,375	571,421,134	–	2,106,704,509
Derivative financial instruments	900,143	–	–	900,143
	2,155,851,056	571,421,134	–	2,727,272,190
Financial liabilities				
Derivative financial instruments	49,258	–	–	49,258

During the years ended 31 March 2020 and 2019, no financial assets or financial liabilities were classified under Level 3. During the year ended 31 March 2020, there were a few debt securities being transferred from level 1 to level 2 amounting to HK\$4,490,538 as these debt securities had less trading activities on 31 Mar 2020 than on 31 March 2019. During the year ended 31 March 2019, there was no transfer between levels.

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.

	2020 HK\$	2019 HK\$
Application fees	2,767,320	2,719,780
Annual fees	14,325,013	13,545,645
Financial penalties and other charges	2,950,527	4,779,303
	20,042,860	21,044,728

8. NET INVESTMENT INCOME

	2020 HK\$	2019 HK\$
Interest income on financial assets at fair value	52,326,397	55,542,178
Dividends from financial assets at fair value	13,437,370	17,778,113
Net realised gain on financial assets at fair value ¹	76,083,720	41,088,578
Net change in unrealised loss on financial assets at fair value ²	(74,796,004)	(21,183,843)
Net realised gain on derivative financial instruments	4,654,885	16,041,527
Net change in unrealised (loss) / gain on derivative financial instruments	(1,898,875)	3,844,899
	69,807,493	113,111,452

1 The amount included net realised foreign exchange loss of HK\$7,756,888 (2019: net realised foreign exchange gain of HK\$4,335,927) from foreign currency securities.

2 The amount included net change in unrealised foreign exchange loss of HK\$17,274,272 (2019: HK\$21,536,142) from foreign currency securities.

9. OTHER INCOME AND DEBTORS, DEPOSITS AND PREPAYMENTS

In December 2019, the MPFA and the Government of the Hong Kong Special Administrative Region (the Government) entered into a Grant Agreement, whereas the Government provides funding (the Grant) to the MPFA for carrying out a project in developing and operating the eMPF Platform (the Project). The Grant will be paid into a separate bank account maintained for the Project in tranches for supporting its expenses, which include the expenses already incurred by the MPFA for the Project as at the financial year ending 31 March 2020 on reimbursement basis.

Since 2018, MPFA has been paying for the expenses in relation to the Project which may be reimbursable by the Government. In this connection, an amount of \$50.00 million (\$14.70 million for 2018-19 and \$35.30 million for 2019-20) was recorded during the financial year ended 31 March 2020, was approved by the Government on 28 May 2020 and has been included as a debtor as at 31 March 2020.

An Annual Budget and Work Plan, which covers the period from 1 April 2020 to 31 March 2021 and sets out the key targets, implementation plan and schedule, deliverables and budgets in respect of the Project, has been submitted for the Government's approval in accordance with the Grant Agreement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

10. 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.

11. STAFF COSTS

	2020 HK\$	2019 HK\$
Salary and performance related remuneration	327,958,454	311,403,210
Contributions to MPF schemes	26,535,533	25,164,541
Staff benefits	9,712,426	9,203,091
	364,206,413	345,770,842

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 2020, contributions of HK\$244,273 were due but not yet paid over to the MPF schemes (2019: HK\$195,218).

12. DIRECTORS' EMOLUMENTS

The emoluments of all directors for the years ended 31 March 2020 and 2019 are set out below:

			2020		
	Fees HK\$	Salaries and other benefits HK\$	Contributions to MPF schemes HK\$	Variable pay HK\$	Total emoluments HK\$
Executive Directors					
Alice Law Shing-mui	–	4,542,245	519,292	687,940	5,749,477
Cheng Yan-chee	–	4,010,459	458,306	607,135	5,075,900
Leo Chu King-chi ¹	–	2,108,556	197,360	–	2,305,916
Cynthia Hui Wai-yee	–	3,047,950	339,195	376,090	3,763,235
Gabriella Yee Gar-bo	–	2,782,079	309,373	343,019	3,434,471
Non-Executive Directors					
David Wong Yau-kar	–	–	–	–	–
Chan Kam-lam	–	–	–	–	–
Chang King-yiu ²	–	–	–	–	–
Yvonne Cheng Wai-sum	–	–	–	–	–
Bankee Kwan Pak-hoo	–	–	–	–	–
Ayesha Macpherson Lau	–	–	–	–	–
Lam Chun-sing	–	–	–	–	–
James Henry Lau Jr	–	–	–	–	–
Law Chi-kwong	–	–	–	–	–
Michelle Li Mei-sheung ³	–	–	–	–	–
Abraham Shek Lai-him	–	–	–	–	–
Andrew Wong Ho-yuen ⁴	–	–	–	–	–
Kingsley Wong Kwok	–	–	–	–	–
Simon Wong Kit-lung	–	–	–	–	–
	–	16,491,289	1,823,526	2,014,184	20,328,999

1 Appointed as from 19 August 2019. The variable pay for 2019-20 is yet to be determined as of 31 March 2020.

2 Alternate to Law Chi-kwong.

3 Alternate to James Henry Lau Jr; Appointed as from 10 September 2019.

4 Alternate to James Henry Lau Jr; Retired as from 10 September 2019.

12. DIRECTORS' EMOLUMENTS (continued)

			2019		
	Fees HK\$	Salaries and other benefits HK\$	Contributions to MPF schemes HK\$	Variable pay HK\$	Total emoluments HK\$
Executive Directors					
Diana Chan Tong Chee-ching ¹	—	1,190,668	119,882	207,018	1,517,568
Alice Law Shing-mui	—	4,359,036	487,555	551,188	5,397,779
Cheng Yan-chee	—	3,736,610	426,088	549,396	4,712,094
Cynthia Hui Wai-yee	—	3,021,271	334,938	358,857	3,715,066
Gabriella Yee Gar-bo	—	2,775,485	307,506	329,460	3,412,451
Non-Executive Directors					
David Wong Yau-kar	—	—	—	—	—
Chan Kam-lam	—	—	—	—	—
Chang King-yiu ²	—	—	—	—	—
Yvonne Cheng Wai-sum ³	—	—	—	—	—
Bankee Kwan Pak-hoo	—	—	—	—	—
Ayesha Macpherson Lau	—	—	—	—	—
Lam Chun-sing ⁴	—	—	—	—	—
James Henry Lau Jr	—	—	—	—	—
Law Chi-kwong	—	—	—	—	—
Poon Siu-ping ⁵	—	—	—	—	—
Abraham Shek Lai-him	—	—	—	—	—
Andrew Wong Ho-yuen ⁶	—	—	—	—	—
Horace Wong Yuk-lun ⁷	—	—	—	—	—
Kingsley Wong Kwok	—	—	—	—	—
Simon Wong Kit-lung	—	—	—	—	—
	—	15,083,070	1,675,969	1,995,919	18,754,958

- 1 Retired as from 1 July 2018.
- 2 Alternate to Law Chi-kwong.
- 3 Appointed as from 1 October 2018.
- 4 Appointed as from 17 March 2019.
- 5 Retired as from 17 March 2019.
- 6 Alternate to James Henry Lau Jr.
- 7 Retired as from 1 October 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments at the MPFA, in which three (2019: three) were Executive Directors, whose emoluments are included in note 12 above. The emoluments of the five highest paid individuals were within the following bands:

	2020 No. of employees	2019 No. of employees
HK\$3,500,001 to HK\$4,000,000	3	3
HK\$4,500,001 to HK\$5,000,000	–	1
HK\$5,000,001 to HK\$5,500,000	1	1
HK\$5,500,001 to HK\$6,000,000	1	–
	5	5

14. OTHER OPERATING EXPENSES

Other operating expenses consisted of legal and professional expenses of HK\$30,189,886 (2019: HK\$18,862,360) and other expenses of HK\$28,951,732 (2019: HK\$28,248,726).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

15. PROPERTY AND EQUIPMENT

	Leasehold improvements HK\$	Computer equipment HK\$	Office equipment and furniture HK\$	Total HK\$
COST				
At 1 April 2018	50,228,936	35,053,607	24,800,455	110,082,998
Additions	94,800	3,134,502	213,570	3,442,872
Disposals	–	(1,776,461)	(1,265,073)	(3,041,534)
At 31 March 2019	50,323,736	36,411,648	23,748,952	110,484,336
Additions	154,900	5,196,055	733,545	6,084,500
Disposals	–	(2,325,770)	(467,537)	(2,793,307)
At 31 March 2020	50,478,636	39,281,933	24,014,960	113,775,529
DEPRECIATION				
At 1 April 2018	33,591,161	28,248,414	18,112,107	79,951,682
Charge for the year	11,636,957	2,963,324	3,034,355	17,634,636
Eliminated on disposals	–	(1,776,461)	(1,222,323)	(2,998,784)
At 31 March 2019	45,228,118	29,435,277	19,924,139	94,587,534
Charge for the year	5,119,632	3,483,867	2,814,209	11,417,708
Eliminated on disposals	–	(2,325,770)	(467,537)	(2,793,307)
At 31 March 2020	50,347,750	30,593,374	22,270,811	103,211,935
CARRYING AMOUNT				
At 31 March 2020	130,886	8,688,559	1,744,149	10,563,594
At 31 March 2019	5,095,618	6,976,371	3,824,813	15,896,802

16. LEASES

This note provides information for leases where the MPFA is a lessee.

16.1 Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

	2020 HK\$	1 April 2019* HK\$
Right-of-use assets		
Office premises and storage space	115,612,931	83,224,886
Lease liabilities		
Current	46,725,191	35,364,426
Non-current	70,810,684	48,900,568
	117,535,875	84,264,994

* For adjustments recognised on adoption of HKFRS 16 on 1 April 2019, please refer to note 2(i).

Additions to the right-of-use assets amount at \$78,877,136 during the year ended 31 March 2020.

16.2 Amounts recognised in the income and expenditure account

The income and expenditure account shows the following amounts relating to leases:

	2020 HK\$	2019 HK\$
Depreciation charge of right-of-use assets		
Office premises and storage space	46,489,091	–
Interest expense on lease liabilities (included in finance cost)	2,004,770	–

The total cash outflow for leases during the year ended 31 March 2020 was HK\$47,611,023.

16.3 The MPFA's leasing activities and how these are accounted for

The MPFA leases various office premises and storage space. Rental contracts are typically made for fixed periods of 2 to 4 years, but may have extension options as described in below paragraph.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

16. LEASES (continued)

Extension and termination options

Extension and termination options are included in a number of leases of office premises across the MPFA. These are used to maximise operational flexibility in terms of managing the assets used in the MPFA's operations. The majority of extension and termination options held are exercisable only by the MPFA and not by the respective lessor.

17. INTANGIBLE ASSETS

	Computer software licenses HK\$	Software development costs HK\$	Total HK\$
COST			
At 1 April 2018	20,879,248	45,428,488	66,307,736
Additions	1,332,831	2,247,852	3,580,683
Disposals	–	(1,212,561)	(1,212,561)
At 31 March 2019	22,212,079	46,463,779	68,675,858
Additions	2,077,586	2,153,766	4,231,352
Disposals	(8,000)	(112,455)	(120,455)
At 31 March 2020	24,281,665	48,505,090	72,786,755
AMORTISATION			
At 1 April 2018	18,416,936	35,799,780	54,216,716
Charge for the year	1,109,547	4,331,378	5,440,925
Eliminated on disposals	–	(1,212,561)	(1,212,561)
At 31 March 2019	19,526,483	38,918,597	58,445,080
Charge for the year	1,392,338	4,001,287	5,393,625
Eliminated on disposals	(8,000)	(112,455)	(120,455)
At 31 March 2020	20,910,821	42,807,429	63,718,250
CARRYING AMOUNT			
At 31 March 2020	3,370,844	5,697,661	9,068,505
At 31 March 2019	2,685,596	7,545,182	10,230,778

18. PROJECTS IN PROGRESS

Projects in progress consisted of expenditure of capital projects not yet completed at 31 March 2020 amounting to HK\$2,696,394 (2019: HK\$2,219,757).

19. FINANCIAL ASSETS AT FAIR VALUE

	2020 HK\$	2019 HK\$
Equity securities		
Listed	471,627,615	619,667,538
Debt securities		
Listed	1,192,757,196	1,318,519,797
Unlisted	631,960,264	788,184,712
	1,824,717,460	2,106,704,509
Total		
Listed	1,664,384,811	1,938,187,335
Unlisted	631,960,264	788,184,712
	2,296,345,075	2,726,372,047

20. DERIVATIVE FINANCIAL INSTRUMENTS

	2020		2019	
	Assets HK\$	Liabilities HK\$	Assets HK\$	Liabilities HK\$
Foreign currency forward contracts	697,713	1,745,703	900,143	49,258

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 2020 was HK\$114,615,467 (2019: HK\$95,083,613). The contractual maturity of these foreign exchange forward contracts was within 12 months.

21. 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.

22. LOANS TO DIRECTORS AND EXECUTIVES

There were no loans to directors or executives during the years ended 31 March 2020 and 2019 and no loans were outstanding at 31 March 2020 and 2019.

23. 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:

	2020 HK\$	2019 HK\$
Contracted but not provided for	3,725,990	2,201,512
Authorised but not contracted for	112,670	2,090,212
	3,838,660	4,291,724

24. 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:

	2020 HK\$	2019 HK\$
Within one year	–	36,267,980
In the second to fifth year inclusive	–	50,264,366
	–	86,532,346

Balance for the year ended 31 March 2019 represented the commitments for future minimum lease payments of non-cancellable operating leases. Upon adoption of HKFRS 16, the operating leases are recognised in the statement of financial position as lease liabilities and right-of-use assets and no longer disclosed as commitments.

25. 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 2022. 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.

26. EVENTS OCCURRING AFTER THE REPORTING PERIOD

After the outbreak of Coronavirus Disease 2019 (COVID-19 outbreak) in early 2020, a series of precautionary and control measures have been and continued to be implemented across the globe. The MPFA will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the MPFA. As at the date on which this set of financial statements were authorised for issue, the MPFA was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.