



強制性公積金計劃管理局  
MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

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**By Email**

31 March 2020

Circular Letter: SU/CCI/2020/001

To: All Principal Intermediaries

Dear Responsible Officers,

**Introduction of Risk Class  
for Constituent Funds under MPF Schemes**

The Mandatory Provident Fund Schemes Authority (MPFA) would like to draw the attention of all principal intermediaries (PIs) to the new disclosure requirements in the fund fact sheet (FFS) of MPF schemes and to urge PI to ensure subsidiary intermediaries (SIs) are well prepared to explain the relevant information to the scheme members when conducting regulated activities.

Following the revision of the Code of Disclosure for MPF Investment Funds in early 2019, the MPFA has adopted an additional disclosure requirement of the risk level of constituent funds (CFs) in registered MPF schemes. To facilitate the communication of the investment risk of CFs and enhance comparability across the CFs of different registered MPF schemes, all FFSs having a reporting date on or after 31 March 2020 will be required to assign a risk class to each of the CFs in a registered MPF scheme with reference to a seven-point risk classification scale (Risk Class). The seven risk classes are divided according to the volatility intervals of the Fund Risk Indicator<sup>1</sup> of the CFs as shown in the Annex. With the adoption

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<sup>1</sup> Fund Risk Indicator of a CF represents an annualized standard deviation based on the monthly rates of return of the CF over the past three years.

of such Risk Class, scheme members will be able to compare more easily the relative risk (in terms of volatility) of the CFs across different registered MPF schemes.

While MPF trustees are responsible for ensuring proper disclosure of Risk Class in the FFS and compliance with other relevant disclosure requirements, PIs and SIs should familiarize themselves with the new Risk Class, such that they can clearly explain to the scheme members when conducting regulated activities. However, it should be noted that such Risk Class is independent from and an addition to the pre-existing risk rating scales developed with a number of different methodologies currently adopted by some MPF trustees themselves (Pre-existing Risk Scales). Unlike the Risk Class which is standardized across all trustees, schemes and CFs, these Pre-existing Risk Scales may not be comparable among different trustees or schemes. Moreover, Risk Class is designed to present only one dimension to compare the risk level among different CFs, SIs should assist scheme members in understanding other relevant risk factors when making decisions.

Section 34ZL(1)(c) of the Mandatory Provident Fund Schemes Ordinance (MPFSO) stipulates that when carrying on a regulated activity, a PI or an SI attached to a PI may advise only on matters for which the PI or SI (as the case may be) is competent to advise. Section 34ZL(1)(d) of the MPFSO further requires a PI or an SI attached to a PI must have regard to the client's particular circumstance as is necessary for ensuring that the regulated activity is appropriate to the client. The MPFA takes the opportunity to remind all PIs of the following requirements under the Guidelines on Conduct requirements for Registered Intermediaries (Conduct Guidelines):

- (a) A registered intermediary should have a good understanding of any registered scheme and CF which it promotes and/or on which it gives regulated advice. In particular, all PIs and SIs should familiarize themselves with the new Risk Class and understand how the information will be presented in FFS. SIs should also acquire adequate knowledge and skill about the Pre-existing Risk Scales shown on the FFS they use, and to use them properly before and when selling and advising on MPF products (III.14 of the Conduct Guidelines);
- (b) PIs should provide sufficient guidance and training to SIs on this matter and ensure that their SIs have adequate knowledge and skills to provide explanations, recommendations or advice to a client on the Risk Class of relevant CFs, and that their SIs are conversant with the selling procedures and relevant controls (III.23 of the Conduct Guidelines);

- (c) PIs should determine how the risk rating scales to be adopted (e.g., whether to use the Risk Class or the Pre-existing Risk Scales) for suitability assessment and risk matching (III.27 and III.29 of the Conduct Guidelines);
- (d) PIs and SIs should clearly explain to their customers that (i) the Risk Class is independent of and an addition to the Pre-existing Risk Scales, and (ii) the differences or relationship between them, where applicable (III.38 of the Conduct Guidelines);
- (e) All PIs should comprehensively review whether their existing controls and procedures need to be revised, taking into account the additional disclosure requirement on Risk Class (III.60 of the Conduct Guidelines); and
- (f) PIs should keep proper records and documentation for compliance in accordance with section 34ZL(2) of the MPFSO and the Conduct Guidelines. Such records and documentary evidence should be readily accessible by the frontline regulators for supervisory and inspection purposes (III.58 of the Conduct Guidelines).

The MPFA will organize industry briefing sessions on conduct issues and Risk Class and new CPD training courses will also be provided by CPD activity providers. Invitation to the briefing sessions will be sent out separately. To provide further support to the industry, the MPFA stands ready to collaborate with industry associations and professional bodies in delivering new core CPD training to SIs.

Should you have any questions about the contents of this letter, please contact Peter Lee on 2292 1267 or Susanna Lee on 2292 1151.

Yours sincerely,



Ginni Wong  
Director  
Supervision Division

- c.c. Ms Candy Tam, Senior Manager, Banking Conduct Department, Hong Kong Monetary Authority  
Ms Emily Ho, Associate Director, Licensing, Intermediaries, Securities and Futures Commission  
Ms Shirley To, Senior Manager, Market Conduct Division, Insurance Authority

**7-point Risk Class Classification**

| <b>Risk Class</b> | <b>Fund Risk Indicator</b> |                  |
|-------------------|----------------------------|------------------|
|                   | <b>Equal or above</b>      | <b>Less than</b> |
| <b>1</b>          | 0.0%                       | 0.5%             |
| <b>2</b>          | 0.5%                       | 2.0%             |
| <b>3</b>          | 2.0%                       | 5.0%             |
| <b>4</b>          | 5.0%                       | 10.0%            |
| <b>5</b>          | 10.0%                      | 15.0%            |
| <b>6</b>          | 15.0%                      | 25.0%            |
| <b>7</b>          | 25.0%                      |                  |

Remarks: The 7-point risk class classification is stratified based on the volatility intervals of the Fund Risk Indicator of the CFs.