Mandatory Provident Fund Schemes Examination/ MPF Intermediaries Examination

Study Notes

Tenth Edition
June 2026

ADDENDUM

(Effective Date: 6 November 2026)

Changes to the Study Notes (Tenth Edition) in relation to the MPF full portability and recent updates are set out below. **Please note that for examination sessions to be conducted from 6 February 2027 onwards, the examination questions will be based on the updated version of the Study Notes.**

3.10 PORTABILITY

Types of MPF Accounts

To better understand the portability of MPF benefits under different circumstances, you should have a clear concept about the three types of MPF accounts, namely, contribution accounts, personal accounts and TVC accounts.

(a) "Contribution account" refers to an account in an MPF scheme which mainly receives MPF contributions (both employer and employee portions) made by an employer in respect of a relevant employee under current employment. Contribution account can also receive MPF contributions made by a self-employed person while self-employed.

(b) "Personal account" refers to an account in an MPF scheme which mainly receives the accrued benefits attributable to a member's former employment or self-employment transferred from other MPF account(s). Personal accounts can also receive accrued benefits attributable to a member's current employment transferred from a contribution account during current employment [1] ~~under Employee Choice Arrangement (ECA).~~

(c) "TVC account" refers to an account which is opened for making of TVC in an MPF scheme that offers such account. Members of contribution accounts and personal accounts of MPF schemes or MPF exempted ORSO schemes can enjoy tax deduction for TVC made to TVC accounts. The member may, at any time, request transfer of all accrued benefits in a TVC account to a TVC account in another MPF scheme (partial transfer is not allowed).

---

[1] The accrued benefits attributable to a member's current employment transferred from a contribution account during current employment include the MPF derived from the employee mandatory contributions, and, for employees whose employment commenced on or after 1 May 2025, the MPF derived from the employer mandatory contributions under Phase One Full Portability. Please see the following sections.

3.10.1 Relevant Employee Who Is under Current Employment

~~ECA allows relevant employees to transfer part of the accrued benefits from their contribution accounts to the accounts nominated by them in an MPF scheme of his/her own choice during current employment.~~

~~**(a) What Is "ECA"?**~~

~~The ECA aims to increase employees' right to choose MPF trustees/schemes and to encourage employees to actively manage their MPF investment, thereby promoting greater market competition.~~

~~Under the MPF System, employers choose MPF trustee(s) and scheme(s) for their relevant employees and enrol them as scheme members, and the relevant employees choose the funds under the scheme in which the employers' and relevant employees' contributions are invested. The employers' and relevant employees' contributions are made to a contribution account under the employer-selected scheme. The accumulated contributions together with the investment returns are generally referred as accrued benefits.~~

~~Before the implementation of ECA, if relevant employees consider the services of the trustee or the MPF scheme chosen by their employers do not suit their personal needs, they cannot transfer the accrued benefits from their MPF contribution accounts to trustees/schemes of their own choice until they cease employment with their employers.~~

~~After the implementation of ECA in November 2012, relevant employees can enjoy greater autonomy in the selection of MPF trustees and schemes. That is, they can transfer the accrued benefits derived from the relevant employees' mandatory contributions made during current employment held in a contribution account to a personal account in another MPF scheme of their own choice in its entire amount once every calendar year*.~~

~~* Unless the governing rules of MPF scheme provide for more frequent transfer.~~

~~The transferability of accrued benefits derived from voluntary contributions is subject to the governing rules of individual schemes. The ECA does not bring changes to the existing arrangement. For the governing rules of individual schemes, members may enquire with the employer or the related trustee(s).~~

Under the MPF System, employers choose MPF trustee(s) and scheme(s) for their relevant employees and enrol them as scheme members, and the relevant employees choose the funds under the scheme in which the employers' and relevant employees' contributions are invested. The employers' and relevant employees' contributions are made to a contribution account under the employer-selected scheme. The accumulated contributions together with the investment returns are generally referred as accrued benefits.

Since November 2012, an employee has been allowed to transfer the accrued benefits derived from the employee mandatory contributions from the contribution

account in an MPF scheme participated by the employer to a personal account in an MPF scheme of the employee's choice in its entire amount once a calendar year.

To further enhance employees' autonomy in choosing their MPF trustees and schemes, MPF Full Portability is introduced to enable an employee to transfer accrued benefits derived from the employer mandatory contributions from the MPF scheme participated by the employer to an MPF scheme of the employee's own choice, in addition to the transfer of the accrued benefits derived from the employee mandatory contributions.

MPF Full Portability is implemented in two phases. Under Phase One Full Portability which is launched in December 2026, an employee whose employment commenced on or after 1 May 2025 is allowed to transfer the accrued benefits derived from the employer mandatory contributions from the contribution account in an MPF scheme participated by the employer to a personal account in an MPF scheme of the employee's choice in its entire amount once a calendar year. Phase Two Full Portability covering employees whose employment commenced before 1 May 2025 will be launched at a later stage. The implementation details and timetable for Phase Two will be announced in due course.

Coupled with the benefits brought by the full operation of the eMPF Platform, full portability is expected to further encourage employees to proactively manage their MPF investment choices, and help foster market competition, thereby creating room for further fee reductions.

Note: Even if relevant employees give effect to the transfer of accrued benefits to a personal account in another MPF scheme of their own choice while employed, employers should continue making contributions to the existing MPF scheme(s) selected by the employers by the contribution day for each contribution period.

~~(b)~~ (a) Destination ~~of Transfer~~ and Transferability for MPF Benefits held in Contribution Account

A relevant employee can elect to transfer the accrued benefits of the sub-accounts such as employee's mandatory contributions attributable to current employment, employer's mandatory contributions attributable to current employment (for employees whose employment commenced on or after 1 May 2025 under Phase One Portability) and mandatory contributions attributable to former employment in contribution accounts in a lump sum to the same MPF account. ~~Alternatively, a relevant employee can transfer the accrued benefits of the sub-accounts separately to different MPF schemes and MPF accounts on different days.~~

The table below shows the designated types of MPF accounts ~~for the two types~~ and transferability of accrued benefits in a contribution account to be transferred out:

~~**Type of accrued benefits in a contribution account**~~	~~**Type of MPF accounts**~~
~~Employee's Mandatory Contributions attributable to **Current Employment**~~	~~Can only be transferred to **Personal Account**~~
~~Mandatory Contributions attributable to **Former Employment or Self-employment**~~	~~Can be transferred to **Personal Account** or **Contribution Account**~~

Parts of accrued benefits in a contribution account	**Transferability**
Employee's Mandatory Contributions attributable to **Current Employment**	Transferable to **a personal account once per calendar year**
Employer's Mandatory Contributions attributable to **Current Employment** (For employees whose employment commenced on or after 1 May 2025)	Transferable to **a personal account once per calendar year**
Mandatory Contributions attributable to **Former Employment or Self-employment**	Transferable to **a personal account** or **contribution account anytime**

(b) **Transfer procedure and frequency**

The transfer instructions can be submitted via the eMPF Platform.

The accrued benefits derived from the employer's mandatory contributions (if applicable) and / or employee's mandatory contributions have to be transferred in its entire amount once a calendar year. Transfer of the accrued benefits derived from employer's and employee's mandatory contributions can be made together or separately to the same or different MPF schemes.

The accrued benefits derived from former employments held in the contribution account can be transferred to a personal account or a contribution account of an MPF scheme of the employee's choice in its entire amount anytime.

3.10.4 Notes to Member to Make an Election to Transfer

A scheme member may choose not to exercise the right to transfer the accrued benefits. However, if a member decides to exercise such right, he/she should consider the following factors:

- Trustee/scheme
  - Range and quality of services
  - Fees and charges
  - Choices and suitability of funds

- Personal factors
  - Investment objective(s)
  - Current life stage
  - Risk tolerance level
  - If he/she is currently investing in "guaranteed funds", he/she should note that he/she may fail to fulfill certain qualifying conditions when switching the funds, and therefore may not be able to enjoy the guaranteed returns.

- Investment risk due to market fluctuation during the transfer
  - During the process of transfer of accrued benefits, scheme members' accrued benefits are first cashed out from the original scheme to the new scheme for fund re-investment. In other words, there will be a time lag during which their redeemed accrued benefits will not be invested. During this period, fund prices may change due to market fluctuations, possibly resulting in a 'sell low, buy high' situation. Scheme members should take special note of this risk before transferring their funds.
  - MPF funds are traded on a "forward pricing" mechanism, i.e. the unit price of a fund has to be determined by calculating the fund's asset value when the relevant investment market closes and thus members cannot buy or sell fund units at a specific price.

- Relevant information
  - ~~Read the "Guide to Transfer of MPF Accrued Benefits under Employee Choice Arrangement" available on the MPFA website to learn more about the features of the ECA.~~
  - Read the MPFA investment education publications "Step-by-Step Investing in MPF Funds", "FAQs on MPF Investment" and "How to Make MPF Investment Decisions"[2] to learn more about MPF investment.
  - Study thoroughly the information provided by the trustees, such as offering documents, fee tables, fund fact sheets and Key Scheme Information Documents.
  - Make use of the information provided in fund fact sheets and MPF "MPF Fund Platform"

[2] Relevant publications have been posted on the MPFA website (www.mpfa.org.hk) and are available for collection at the MPFA offices, the Public Enquiry Service Centres of the District Offices or the regional offices of Labour Department.

(https://mfp.mpfa.org.hk/eng/mpp_index.jsp), such as fund expense ratio, fund risk indicator, on-going cost illustrations, fund performance information, etc.

3.12 UNCLAIMED BENEFITS

(a) The trustee may treat the accrued benefits as unclaimed benefits if:

(i) a scheme member or some other person has become entitled to be paid the member's accrued benefits but no claim has been lodged and the eMPF Platform is unable to locate the member or other person, the eMPF Platform must, as soon as practicable after becoming so aware, take the steps as specified in (b) below. If the eMPF Platform cannot locate the member or other person within 6 months after taking the specified steps, the accrued benefits become unclaimed benefits at the end of that period.

(ii) a scheme member or some other person has lodged a claim but the eMPF Platform is subsequently unable to locate the claimant before payment of the benefits, the eMPF Platform must, as soon as practicable after becoming so aware, take the steps as specified in (b) below. If the eMPF Platform cannot locate the claimant within 6 months after taking the specified steps, the accrued benefits become unclaimed benefits at the end of that period.

(iii) a scheme member has reached the retirement age and no claim has been lodged, the eMPF Platform will give a notice to the member requesting him/her to elect whether he/she will retain his/her accrued benefits with the scheme or not. If no reply is received within 6 months after the notice was given and the member is unlocated, the accrued benefits become unclaimed benefits at the end of that period. If a reply is received indicating that the member elects to retain the benefits within the scheme or no reply is received but the member can be located, the member annual benefit statements must continue to be issued.

(iv) a scheme member on whom an annual benefit statement has been served as mentioned in (iii) cannot be located subsequently while his/her accrued benefits are retained in the scheme, the eMPF Platform will, as soon as practicable, take the steps specified in (b) below. If the eMPF Platform is unable to locate the member within 6 months after taking the specified steps, the accrued benefits become unclaimed benefits.

(v) a cheque for payment of a scheme member's accrued benefits is not presented within 6 months from the issue date of the cheque (Specified Period) and the claimant is unlocated during the period of 6 months after the expiry of the Specified Period, the accrued benefits become unclaimed benefits at the end of the 6-month period. However, if the eMPF Platform receives a returned cheque before the expiry of the Specified Period, the eMPF Platform should take immediate follow-up action to locate the claimant.

(b) The steps to be taken by the eMPF Platform before they can classify the accrued benefits of a scheme member as unclaimed benefits are set out as follows:

~~(i) Send the scheme member/person a notice to the last known residential and correspondence address(es), if available;~~

~~(ii) Make 3 attempts (at different times and dates) within 1 month, to locate the scheme member/person via other means of contact, if known (e.g. all contact phone number(s) or fax); and~~

~~(iii) Contact the employer concerned to obtain any contact information of the scheme member and if the contact information so obtained is different from that in the records of the trustee, repeat steps (i) and (ii) above (as the case may be).~~

~~(c) The eMPF Platform Company Limited maintains a Central Register for members of the public to check the information set out in section 19S of the MPFSO. If a person or his/her authorized representative would like to check the person's unclaimed benefits, the person or his/her authorized representative may request the eMPF Platform to provide relevant information on the Central Register, which includes, among others, (i) the name of each MPF scheme that the person is a member and the particulars of each account established and maintained by the person under those MPF schemes; (ii) the name of the approved trustee of each of those MPF schemes; and (iii) the amount of the accrued benefits held by the person in each account of those MPF schemes.~~

~~3.13~~ 3.12 OFFSETTING OF LONG SERVICE PAYMENTS/SEVERANCE PAYMENTS

(a) Under the provisions of the Employment Ordinance (Cap.57), an employee may become entitled to a long service payment (LSP) or a severance payment (SP) from the employer on the occurrence of circumstances specified in that Ordinance.

(b) Before the abolition of MPF offsetting arrangement, employers can offset the LSP/SP payable to employees under the Employment Ordinance (Cap.57) against the MPF derived from the employer's mandatory and voluntary contributions (offsetting arrangement).

(c) The abolition of MPF offsetting arrangement took effect on 1 May 2025 (transition date). Starting from the transition date, employers can no longer use the accrued benefits derived from their mandatory contributions to offset LSP/SP of their employees in respect of the years of service starting from the transition date (post-transition portion of LSP/SP). However, they can continue to use the accrued benefits derived from their voluntary contributions to offset LSP/SP of the employees (irrespective of whether the LSP/SP are for the years of service before or after the transition date).

(d) The employer is entitled to offset the pre-transition portion of LSP/SP for the employment period before the "transition date" of 1 May 2025 against the accrued benefits derived from the mandatory or voluntary contributions made by the employer (irrespective of whether the contributions are made before, on or after the "transition date") in respect of the relevant employee in the MPF scheme.

(e) For details, please refer to Labour Department's Thematic Webpage on the Abolition of MPF Offsetting Arrangement (https://www.op.labour.gov.hk/en/index.html).

(f) For example, if the pre-transition portion of LSP is $40,000 and accrued benefits derived from the employer's mandatory contributions is $55,000, the employer can only request the trustee to reimburse the $40,000 paid to the departing relevant employee after the LSP has been paid. The remaining accrued benefits, namely the balance of $15,000 derived from the employer's contributions, together with those derived from the contributions made by the relevant employee, have to be transferred to a contribution account of the new employer or personal account under an MPF scheme designated by the relevant employee and preserved until the relevant employee ~~retires~~ reaches the age of 65 (except for other permitted circumstances described in section 3.11 for early withdrawals). (These rules apply to employer's and employee's mandatory contributions. The relevant employee may choose to withdraw his/her voluntary contributions subject to the governing rules of the scheme.)

(g) The employer should note that in offsetting LSP or SP, he/she will need to comply with other requirements set out in the Employment Ordinance (Cap.57) concerning such payments.

If an employer has paid LSP or SP to a relevant employee, he/she should submit the request to the eMPF Platform as soon as possible for reimbursement of the LSP or SP.

Representative Examination Questions For Chapter 3

3 ~~Under the Employee Choice Arrangement ("ECA"), a~~ A relevant employee whose employment commenced on or after 1 May 2025 has a right to transfer which of the following contributions (together with the related investment return) from the contribution account to an account nominated by him/her?

(a) employer's mandatory contributions attributable to current employment; .....
(b) employee's mandatory contributions attributable to current employment; .....
(c) employer's voluntary contributions attributable to current employment; .....
(d) both employer's and employee's mandatory contributions attributable to current employment. .....

[Answer is in **3.10.1**]

5.9 SWITCHING BETWEEN MPF SCHEMES/CONSTITUENT FUNDS

Important features of this include:

(a) Scheme members may choose to invest their contributions in any constituent funds under the MPF scheme in which they participate.

(b) Scheme members are allowed to change the choice of constituent funds at least once a year.

(c) Employers may elect to participate in another MPF scheme by transferring the accrued benefits of their employees to the other scheme.

(d) If there is a change in the ownership of a business, the new employer may elect to participate in another MPF scheme by transferring the accrued benefits of its employees to another scheme if the new employer has agreed to recognize the employees' length of employment with the previous employer and has assumed the liability of the previous employer for long service payment or severance payment in respect of the employees.

(e) Upon termination of employment, an employee may choose to have their accrued benefits remain in the scheme or they may transfer them to an MPF scheme of their own choice, or to the MPF scheme of the new employer.

(f) An employee can, ~~also~~ during his or her current employment, transfer ~~during their current employment, at least once per calendar year, any~~ the accrued benefits derived from the employee's mandatory contributions from the MPF scheme chosen by their relevant employer to an MPF scheme of their own choice ~~(Employee Choice Arrangement)~~ in its entire amount once per calendar year.

(g) With the implementation of Phase One Full Portability, an employee whose employment commenced on or after 1 May 2025 can, during his or her current employment, also transfer the accrued benefits derived from the employer's mandatory contributions from the MPF scheme chosen by their relevant employer to an MPF scheme of their own choice in its entire amount once a calendar year.

~~(g)~~ (h) Regardless of the frequency and type of transfer of accrued benefits, no fees or financial penalties may be charged to or imposed on a scheme member or deducted from the scheme member account, other than necessary transaction costs incurred or reasonably likely to be incurred in selling and buying investments in order to give effect to the transfer and are payable to a party other than the approved trustee.

For ease of reference, other changes to the Study Notes are set out below.

Chapter / Section	
3 KEY FEATURES OF THE MPF SYSTEM	**~~3.14~~ 3.13 MAJOR OBLIGATIONS OF EMPLOYERS** **~~3.14.1~~ 3.13.1 Employers Who Are Not Exempt from MPFSO** **~~3.14.2~~ 3.13.2 When a Relevant Employee (Other Than a Casual Employee) Ceases Employment** **~~3.15~~ 3.14 NON-COMPLIANT EMPLOYER AND OFFICER RECORDS**
Appendix VI Glossary Page AVI/3	~~**Employee Choice Arrangement (ECA)** Allows employees to transfer the accrued benefits (i.e. the accumulated contributions and investment returns) arising from their mandatory contributions (not their employer's portion) in their MPF contribution accounts during the period they are working for their current employer. Such benefits can be transferred to a trustee and a scheme of their own choice on a lump sum basis once every calendar year.~~ **~~3.10.1~~**
Appendix VI Glossary Page AVI/6	**MPF Full Portability** An employee is allowed to transfer the part of the accrued benefits derived from the mandatory contributions (i.e. employer (for employee whose employment commenced on or after 1 May 2025) and/or employee portion), during his current employment from the contribution account in an MPF scheme participated by the employer to an MPF scheme of the employee's choice in its entire amount once every calendar year. **3.10.1**
Appendix VI Glossary Page AVI/8	**Personal account** An account in an MPF scheme which mainly receives the accrued benefits attributable to a member's former employment or self-employment transferred from other MPF account(s). Personal accounts can also receive accrued benefits attributable to a member's current employment transferred from a contribution account during current employment ~~under ECA~~. **3.10**
Appendix VI Glossary Page AVI/8	~~**Portability** Under the MPF system, an employer or a self-employed person can change his participation from one MPF scheme to another. An employee can transfer his accrued benefits from the original MPF scheme to another when he changes jobs. With ECA, an employee may also transfer the part of the accrued benefits from his mandatory contributions made during his current employment to an MPF scheme of his own choice on a lump sum basis.~~ **~~3.10~~**

Chapter / Section	
Representative Examination Questions Correct Answers	

	QUESTIONS					
CHAPTER	**1**	**2**	**3**	**4**	**5**	**6**
3	(d)	(d)	~~**(b)**~~ **(d)**	(c)	(c)	(c)

PREFACE

These Study Notes have been prepared to correspond with the various Chapters in the Syllabus for the Mandatory Provident Fund Schemes Examination. The Examination will be based upon these Study Notes. A few representative examination questions are included at the end of each Chapter, for your further guidance.

The Study Notes are published for candidates preparing for the Mandatory Provident Fund Schemes Examination conducted by the Vocational Training Council and the MPF Intermediaries Examination conducted by the Hong Kong Securities and Investment Institute. Both examinations are based on the same syllabus and are the qualifying examinations specified by the Mandatory Provident Fund Schemes Authority for the purpose of enabling candidates to meet the examination requirement for registration as an MPF subsidiary intermediary.

We hope that these Study Notes serve as useful reference materials for candidates preparing for the Examination. Whilst every care has been taken in the preparation of the Study Notes, there may still be errors or omissions. You should therefore also refer to the relevant legislation and consult your own professional advisers. As further editions may be published from time to time to update and improve the contents of these Study Notes, we would appreciate your feedback, which will be taken into consideration when we prepare subsequent versions of the Study Notes.

First Edition: June 1999
Second Edition: June 2000
Third Edition: October 2001
Fourth Edition: November 2002
Fifth Edition: December 2005
Sixth Edition: January 2007
Seventh Edition: October 2009
Eighth Edition: January 2013
Ninth Edition: March 2016
Tenth Edition: June 2026

© Mandatory Provident Fund Schemes Authority 1999, 2000, 2001, 2002, 2005, 2007, 2009, 2013, 2016, 2026

Please note that no part of the Study Notes may be reproduced for the purposes of selling or making profit without the prior permission of the Mandatory Provident Fund Schemes Authority.

TABLE OF CONTENTS

Chapter			Page
1.	**INTRODUCTION TO THE MANDATORY PROVIDENT FUND (MPF) SYSTEM**		**1/1**
	1.1	**Need for Retirement Protection**	**1/1**
	1.2	**Demographic Challenges**	**1/1**
	1.3	**Birth of the MPF System**	**1/2**
	1.4	**Role of the MPF System in Hong Kong's Overall Retirements Protection Frameworks**	**1/3**
	1.5	**Salient Characteristics of the MPF System**	**1/4**
2.	**REGULATORY FRAMEWORK**		**2/1**
	2.1	**Overview of Regulatory Framework**	**2/1**
	2.2	**Mandatory Provident Fund Schemes Authority (MPFA)**	**2/1**
		2.2.1 Functions of the MPFA	
	2.3	**Other Regulators**	**2/3**
		2.3.1 Securities and Futures Commission (SFC)	
		2.3.2 Insurance Authority (IA)	
		2.3.3 Monetary Authority (MA)	
	2.4	**MPF Legislation, Codes, Guidelines and Standards**	**2/4**
		2.4.1 Mandatory Provident Fund Schemes Ordinance (MPFSO)	
		2.4.2 MPF Subsidiary Legislation	
		2.4.3 MPF Codes, Guidelines and Standards	
		2.4.4 Legislation on the Regulation of MPF Intermediaries	
3.	**KEY FEATURES OF THE MPF SYSTEM**		**3/1**
	3.1	**Security of Scheme Assets**	**3/1**
		3.1.1 Stringent Authorization Requirements	
		3.1.2 Professional Indemnity Insurance	
		3.1.3 Compensation Fund	
	3.2	**Functions of Appointed Service Providers**	**3/2**
	3.3	**Types of MPF Schemes**	**3/3**
	3.4	**Coverage**	**3/4**
	3.5	**Exempt Persons**	**3/6**

Chapter **Page**

3.6 Registration with the eMPF Platform and Enrolment into MPF Schemes 3/7
3.6.1 Duties of Employers
3.6.2 Duties of Self-employed Persons
3.6.3 Duties of Trustees
3.7 Contributions 3/8
3.7.1 Mandatory Contributions
3.7.2 Voluntary Contributions
3.7.3 TVC
3.7.4 Tax Allowances
3.7.5 Default Contributions
3.8 Vesting 3/23
3.9 Preservation 3/24
3.10 Portability 3/24
3.10.1 Relevant Employee Who Is under Current Employment
3.10.2 Relevant Employee Who Ceases Employment with His/Her Employer
3.10.3 Self-employed Person Becomes a Relevant Employee of an Employer
3.10.4 Notes to Member to Make an Election to Transfer
3.10.5 Duties of the Trustee on Transfer of Accrued Benefits
3.11 Withdrawal of Benefits 3/28
3.12 Unclaimed Benefits 3/30
3.13 Offsetting of Long Service Payments / Severance Payments 3/31
3.14 Major Obligations of Employers 3/32
3.14.1 Employers Who Are Not Exempt from MPFSO
3.14.2 When a Relevant Employee (Other Than a Casual Employee) Ceases Employment
3.15 Non-Compliant Employer and Officer Records (NCEOR) 3/34

4. MPF TRUSTEES 4/1
4.1 Trust Arrangement 4/1
4.1.1 Concept of Trust
4.1.2 Fiduciary Duties of Trustees
4.1.3 Recourse against Trustees
4.1.4 Advantages of the Trust Arrangement

Chapter **Page**

4.2 Categories of Trustees 4/3
4.3 Duties and Functions of Trustees 4/3
4.4 Approval of Trustees 4/4
4.5 On-going Monitoring 4/5
4.6 Compliance Standards for MPF Approved Trustees 4/6
4.7 Governance Principles for MPF Approved Trustees 4/7
4.8 Sanctions and Penalties 4/8

5. MPF SCHEMES AND INVESTMENT 5/1
5.1 Registration of MPF Schemes and Approval of Constituent Funds and Pooled Investment Funds 5/1
5.2 MPF Schemes 5/1
5.3 Constituent Funds 5/2
5.3.1 Features of Constituent Funds
5.3.2 Types of Constituent Funds
5.4 Default Investment Strategy (DIS) 5/7
5.4.1 What is the DIS?
5.4.2 Rules and Procedures Applicable to Investment through the DIS
5.4.3 Key Risks Relating to the DIS
5.5 Approved Pooled Investment Funds (APIFs) 5/13
5.5.1 Approval of Pooled Investment Funds
5.5.2 Types of Pooled Investment Funds
5.6 Statement of Investment Policy 5/13
5.7 Investment Standards and Restrictions 5/14
5.7.1 Investment Management
5.7.2 Permissible Investments
5.7.3 Other Investment Restrictions
5.7.4 Hong Kong Dollar Currency Exposure
5.8 Fees and Charges 5/17
5.9 Switching between MPF Schemes/Constituent Funds 5/17
5.10 Code on Disclosure for MPF Investment Funds 5/18
5.11 On-going Monitoring of MPF Investment Funds 5/20

Chapter **Page**

6. INTERFACE ARRANGEMENTS BETWEEN ORSO SCHEMES AND THE MPF SYSTEM **6/1**

6.1 Types of ORSO Schemes **6/1**

6.1.1 Types of Benefits Provided

6.1.2 ORSO Registered or ORSO Exempted

6.1.3 MPF Exempted or Not

6.2 Comparison of Features **6/3**

6.3 Exemption Criteria **6/4**

6.4 Different Forms of ORSO Schemes Following the Introduction of the MPF System **6/4**

6.5 Implications for Existing Members and New Eligible Employees **6/6**

6.5.1 Existing Members Chosen to Remain in an MPF Exempted ORSO Registered Scheme

6.5.2 Existing Members Chosen to Join an MPF Scheme

6.5.3 New Eligible Employees Chosen to Join an MPF Exempted ORSO Registered Scheme

6.6 On-going Requirements for MPF Exempted ORSO Schemes **6/7**

7. MPF INTERMEDIARIES **7/1**

7.1 Regulation of MPF Intermediaries **7/1**

7.2 Regulatory Framework **7/1**

7.2.1 Prohibition against Carrying on Regulated Activities etc.

7.2.2 Registration Requirements for MPF Intermediaries

7.2.3 Regulatory Scope of Frontline Regulators

7.2.4 Conduct Requirements for Registered Intermediaries

7.2.5 Other Requirements for Registered Intermediaries

7.2.6 Supervisory and Disciplinary Powers of MPFA and FRs

7.2.7 Appeal Mechanism for Decisions on Registration and Disciplinary Sanctions

7.2.8 Public Disclosure of Disciplinary Decisions Made against Registered Intermediaries

7.3 Handling of Complaints against MPF Intermediaries **7/19**

7.4 Guidelines of Conduct for MPF Intermediaries **7/19**

7.4.1 Guidelines on Conduct Requirements for Registered Intermediaries (Conduct Guidelines)

7.5 Sanctions and Penalties **7/20**

Chapter **Page**

8. INTRODUCTION TO THE eMPF PLATFORM 8/1

8.1 Objective of the eMPF Platform 8/1

8.2 Implementation of the eMPF Platform 8/1

8.3 "Straight Pass-on" of Cost Savings and "Corresponding Fee Reduction" 8/1

8.4 Oversight role of the MPFA 8/2

9. INTRODUCTION TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) 9/1

9.1 Environmental, Social and Governance (ESG) 9/1

9.2 Relevance of ESG Factors in MPF Investing 9/1

9.3 Policies and Measures Adopted by the MPFA 9/1

9.4 ESG Constituent Funds (CFs) within an MPF Scheme 9/2

9.4.1 Features

9.4.2 ESG Investment Strategies of ESG CFs

9.4.3 Enhanced Disclosure Requirements for ESG CFs

9.5 Green and Sustainable Finance Cross-Agency Steering Group 9/4

Appendix I Abbreviations

Appendix II Coverage

Appendix III Relevant Income

Appendix IV Date of Payment of Contribution

Appendix V Basic Concepts of Investment

Appendix VI Glossary

Index

Representative Examination Questions – Correct Answers

NOTE

For study purposes, it is important to be aware of the relative "weight" of the various Chapters in relation to the Examination. All Chapters should be studied carefully, but the following table indicates areas of particular importance:

Chapter	Relative Weight
1. Introduction to the Mandatory Provident Fund (MPF) System	1 %
2. Regulatory Framework	6 %
3. Key Features of the MPF System (including Appendices II, III, IV)	43 %
4. MPF Trustees	5 %
5. MPF Schemes and Investment (including Appendix V)	17 %
6. Interface Arrangements between ORSO Schemes and the MPF System	4 %
7. MPF Intermediaries (including the Guidelines on Conduct Requirements for Registered Intermediaries)	20 %
8. Introduction to the eMPF Platform	2 %
9. Introduction to the Environmental, Social and Governance (ESG)	2 %
Total	**100%**

1 INTRODUCTION TO THE MANDATORY PROVIDENT FUND (MPF) SYSTEM

1.1 Need for Retirement Protection

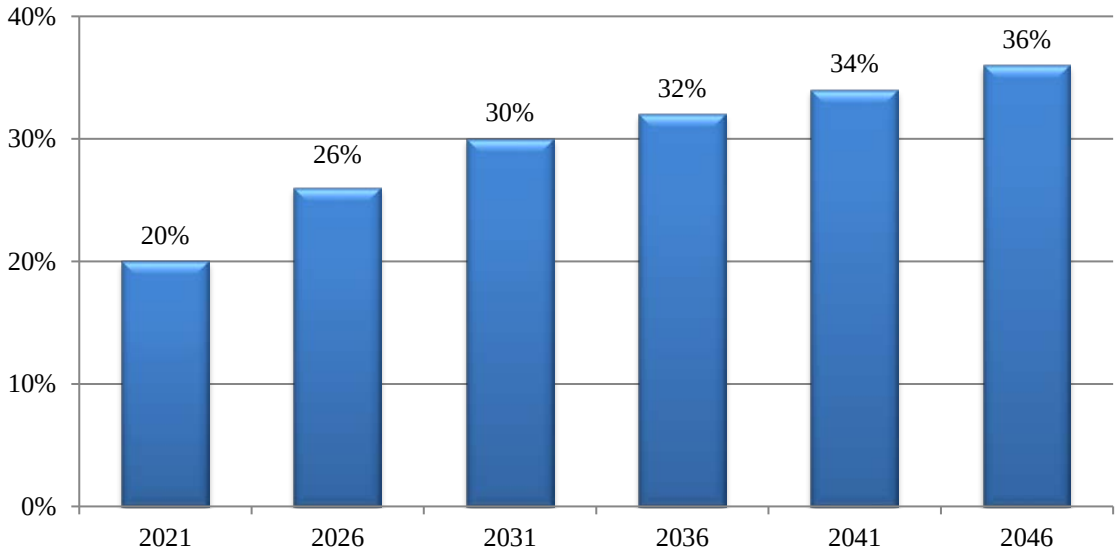
Most people are able to make ends meet during their working life. However, their income will inevitably decrease when they retire. Some of them may not have sufficient financial resources to support their expenses in retirement. To safeguard their financial future, individuals may prepare for their retirement by making sufficient savings early if they can afford to do so.

In reality, not everyone has both the awareness and the ability to make sufficient savings for retirement. In traditional societies, families play an important role in taking care of members who reach old age and children are expected to support their aged parents. There are shortcomings relying on family support as a major source of retirement protection. Some retirees may not have children to take care of them and for those who do, some families may not have the required resources to provide adequate care for the aged. Against this background, some people may face the risk of old-age poverty. To address this risk, properly designed retirement protection frameworks need to be in place.

1.2 Demographic Challenges

Like many other societies in the world, Hong Kong has been facing the challenge of population ageing. According to the Census and Statistics Department, the proportion of the population aged 65 and over is projected to rise markedly, from 20% in 2021 to 36% in 2046. Population ageing means that the working population will have a larger number of retirees to support for a longer period of time.

Percentage of the Population Aged 65 and above in Hong Kong

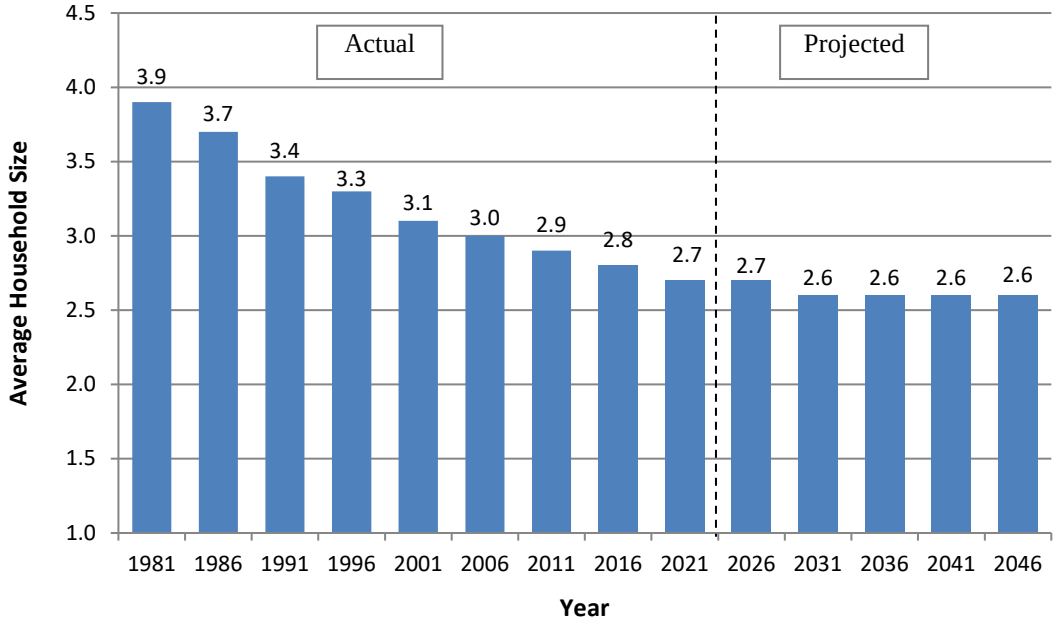


Note: Figures exclude foreign domestic helpers.
Source: Census and Statistics Department

Population ageing in Hong Kong is attributed to the combined effect of an increase in life expectancy and a decline in fertility rate. The life expectancy at birth was 72.3 years for male and 78.5 years for female back in 1981. In 2016, it rose to 81.3 years for male and 87.3 years for female. It is predicted that, by 2046, the male and female life expectancy at birth will become 86.4 and 91.8 years respectively. However, the fertility rate (number of live births per 1 000 women) in Hong Kong shows a downward trend. The fertility rate was 1 933 in 1981. It fell to 1 205 in 2016 and further declined in the ensuing years. The fertility rate is predicted to remain low at 938 in 2046.

On the back of a low fertility rate, the average size of Hong Kong's families also shrink over time. In 1981, the average household size comprised 3.9 members. In 2016, the average size dropped to 2.8 members. It is predicted that by 2046, the average household size will further decrease to 2.6 members. Family support used to be an important source of retirement protection in traditional societies. The shrinking family size will inevitably undermine the availability of this source of support.

Average Household Size in Hong Kong



Source: Census and Statistics Department

These demographic changes have heightened the need for strengthening retirement protection in Hong Kong.

1.3 Birth of the MPF System

Over many years, there had been intensive debate about the best way to provide financial security for the elderly. Proposals for different types of retirement protection framework were widely discussed by different stakeholders. Overseas retirement protection frameworks had been studied in order to devise a design which could best suit Hong Kong's needs. In the mid-1990s, the Government decided that some of these discussions should be put into action. After widespread consultations, the MPF System found support within the community and was seen to be a good means to provide basic retirement protection for the employed population of Hong Kong.

In July 1995, the Mandatory Provident Fund Schemes Ordinance (MPFSO) (Cap.485) was passed by the Legislative Council and supplemented by detailed subsidiary legislation in March 1998. The Mandatory Provident Fund Schemes Authority (MPFA), the statutory body charged with regulating and supervising MPF schemes, was set up in September 1998. The MPF System commenced operations in December 2000.

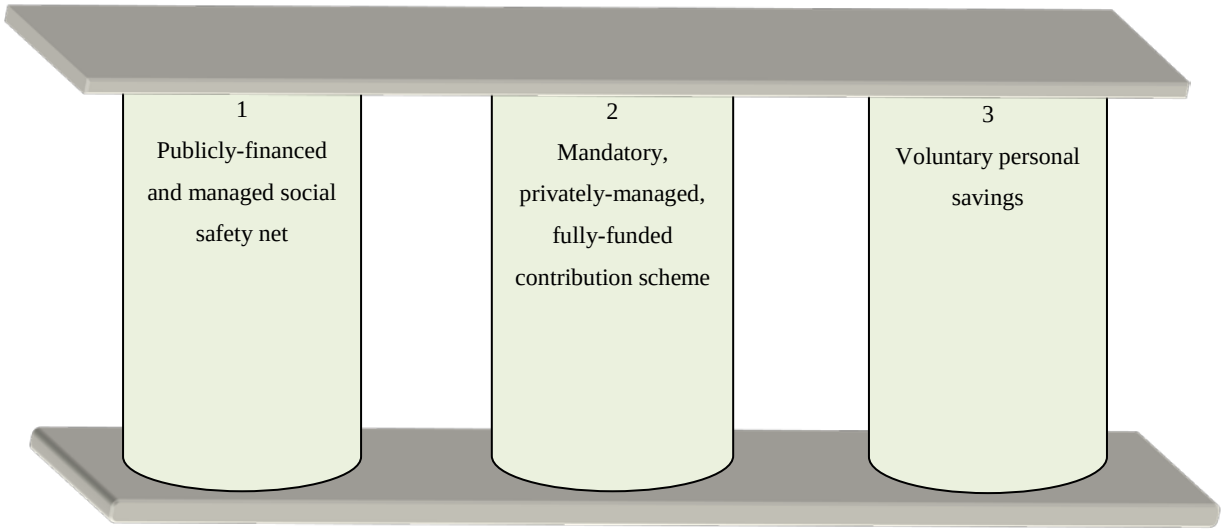
1.4 Role of the MPF System in Hong Kong's Overall Retirement Protection Framework

Providing income security in retirement to an ageing population is an issue of paramount importance faced by many societies. Policy makers, academics and pension experts continuously explore the best ways to enhance retirement income security for the aged on the one hand, and avoid excessive financial burden on society on the other. In this regard, there is no "one-size-fits-all" solution to retirement protection, but the multi-pillar framework recommended by the World Bank provides a sensible policy framework.

With reference to the retirement protection frameworks in many countries, the World Bank recommended a three-pillar approach in 1994 to address the issue of old-age protection. The three pillars, as proposed at that time, comprised:

Pillar One: a publicly-financed and managed social safety net;
Pillar Two: a mandatory, privately-managed, fully-funded contribution scheme; and
Pillar Three: voluntary personal savings.

World Bank's Three-pillar Framework



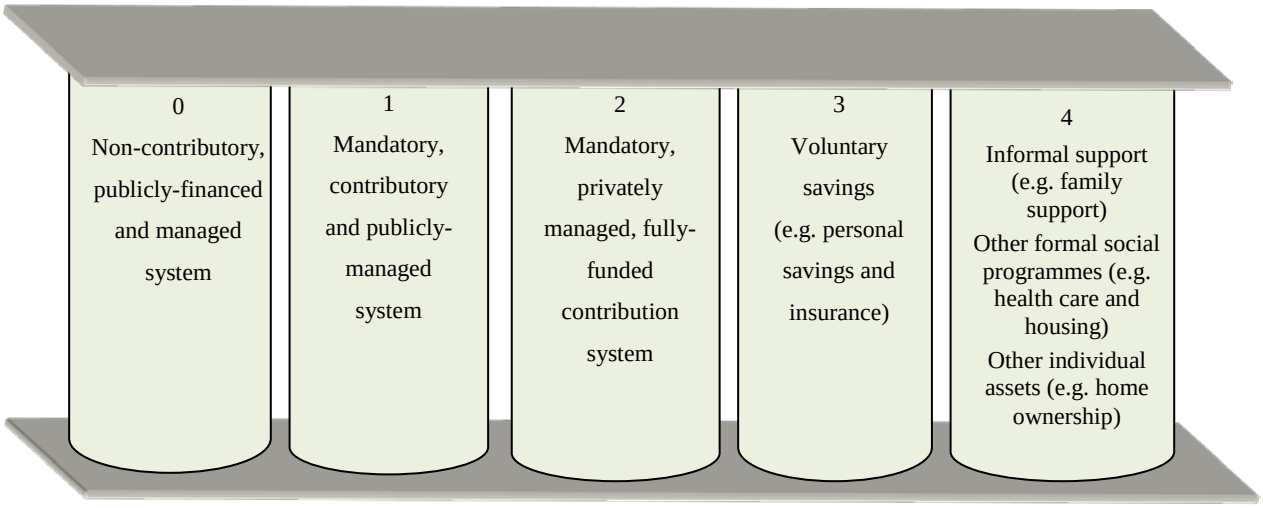
The MPF System was modelled on pillar two of this multi-pillar retirement protection framework, i.e., it is a mandatory, privately-managed, employment-based, fully-funded contribution system.

In 2005, in light of operational needs, the World Bank expanded the three-pillar framework into a five-pillar framework. The five pillars are:

Pillar Zero: a non-contributory, publicly-financed and managed system that provides

a minimal level of protection for retirement;
Pillar One: a mandatory, contributory and publicly-managed system;
Pillar Two: a mandatory, privately-managed, fully-funded contribution system;
Pillar Three: voluntary savings (e.g. personal savings and insurance); and
Pillar Four: informal support (e.g. family support), other formal social programmes (e.g. health care and housing), and other individual assets (e.g. home ownership).

World Bank's Five-pillar Framework



Under the five-pillar framework, mandatory contributions of the MPF System serves as pillar two while voluntary contributions under MPF constitutes part of pillar three of the overall retirement protection framework in Hong Kong.

It is primarily designed for the working population, assisting them in accumulating wealth for retirement. It should be noted that MPF alone will not be sufficient to cover all retirement needs of the population of Hong Kong. According to the World Bank, no single pillar can be an effective solution to the issue of retirement protection on its own, and the pillars should complement each others. Considering the unique circumstances of each society, the income security of the aged will be better served if relevant pillars could be put in place properly.

1.5 Salient Characteristics of the MPF System

As a pillar two system, the MPF System is a mandatory, employment-based, defined contribution, privately-managed, and fully-funded system. The key characteristics of the MPF System are as follows:

(a) Mandatory participation

The MPF System is a mandatory system. Except for exempt persons, all relevant employers, relevant employees and self-employed persons are required to join MPF. This regulatory requirement ensures a high coverage of the MPF System, so that retirement protection could be extended to all relevant employees and self-employed persons in Hong

Kong.

Before MPF was implemented, it is estimated that only about one-third of Hong Kong's employed population (about 1.1 million) were covered by any sort of occupational retirement protection schemes. As at 30 September 2023, 85% of Hong Kong's employed population (about 3.14 million) were covered by the MPF System or some other forms of retirement schemes. Most of the remaining workers were not legally required to join any local retirement scheme, such as workers with overseas retirement schemes, employees aged below 18 or 65 and above, and domestic helpers.

(b) Employment-based

The MPF System is employment-based. Under the MPF System, employers select MPF trustee(s), join one or more schemes, and then enrol their relevant employees in the chosen scheme(s). Relevant employees then choose among the funds offered by the scheme(s) chosen by their employers. Relevant employees and their employers are both required to make mandatory contributions of 5% of the employees' relevant income. Relevant employees earning less than the minimum relevant income level (i.e. $7,100 per month) do not need to contribute but their employers are still required to contribute 5% of the employees' relevant income. For a relevant employee whose relevant income is above the prescribed maximum (i.e. $30,000 per month), both the employee and the employer are not required to make mandatory contributions in excess of the maximum relevant income level.

Self-employed persons enrol in a scheme of their own choice, regardless of their level of income, unless they are exempt persons. They are required to make 5 % of their relevant income as contributions if they are earning $7,100 or more a month or $85,200 or more a year, up to a maximum relevant income level of $30,000 per month (or $360,000 per year) respectively.

(c) Defined contribution

Under the MPF System, mandatory contributions are made to a scheme member's account with reference to his income level. Contributions will be used to purchase units of MPF funds and accumulated in the scheme member's own account as are the returns generated by these MPF funds. As such, the amount of accrued benefits accumulated in the scheme member's account depends on the amount contributed to the scheme and the investment return thereon.

As at 31 March 2026, the aggregate accrued benefits (i.e. contributions plus investment return thereon) in the MPF System amounted to $1,530 billion.

(d) Privately-managed

MPF schemes are managed by private entities and are operated through market mechanism. Competition among private entities tends to increase efficiency, which works to the benefit of scheme members.

As at 31 March 2026, a total of 12 approved trustees, 24 schemes and 378 constituent funds were available in the MPF market.

(e) Fully-funded

Under the MPF System, any mandatory contributions paid for or in respect of a scheme member are fully and immediately vested in the scheme member once they are paid into an MPF scheme. Any investment return derived from the investment of the mandatory contributions is also fully and immediately vested in the scheme member. Therefore, the MPF System is fully-funded, meaning that the System possesses adequate assets to cover all future payments arising from withdrawal of benefits by scheme members.

- o - o - o -

Representative Examination Questions

The examination will consist of 80 multiple-choice questions. The majority of the questions will be straightforward, involving a simple choice from four alternatives. These we call ***Type "A" Questions****. A selection of the questions will be slightly more complex, but again involving a choice between four alternatives. These we call* ***Type "B" Questions.*** *Candidates should choose the most appropriate answer for each question. Examples of each are shown below.*

Type "A" Questions

1 In 2046, the projected percentage of the population of Hong Kong aged 65 or above is?

(a) 36%; .....
(b) 26%; .....
(c) 19%; .....
(d) 13%. .....

[Answer is in **1.2**]

2 It is predicted that, by 2046, the male and female life expectancy at birth will become?

(a) 72.3 years for male and 78.5 years for female; .....
(b) 81.2 years for male and 86.9 years for female; .....
(c) 84.4 years for male and 90.8 years for female; .....
(d) 86.4 years for male and 91.8 years for female. .....

[Answer is in **1.2**]

Type "B" Questions

3 MPF belongs to which pillar of the three-pillar approach to retirement protection suggested by the World Bank report in 1994?

(i) pillar zero;
(ii) pillar one;
(iii) pillar two;
(iv) pillar three.

(a) (ii); .....
(b) (iii); .....
(c) (i) and (ii); .....
(d) (iii) and (iv). .....

[Answer is in **1.4**]

4 Which three of the following are the key characteristics of the MPF System?

(i) employment-based
(ii) fully-funded
(iii) privately-managed
(iv) defined benefit

(a) (i), (ii) and (iii); .....
(b) (i), (ii) and (iv); .....
(c) (i), (iii) and (iv); .....
(d) (ii), (iii) and (iv). .....

[Answer is in **1.5**]

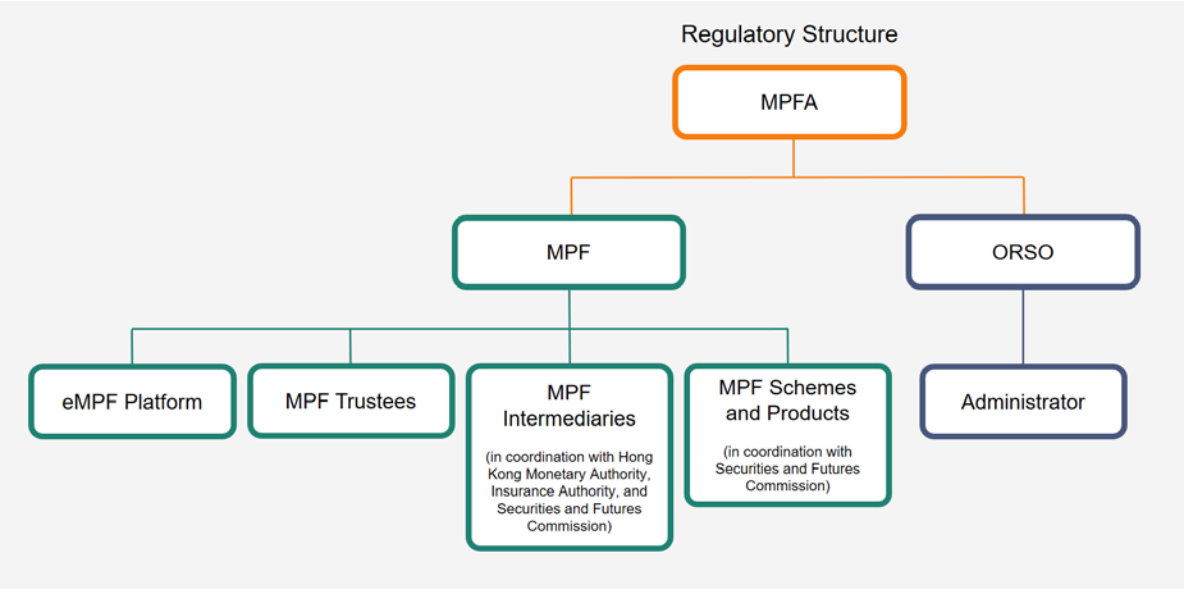
Note : *The answers can be found by reference to Chapter 1 of the Study Notes. If required, you can also find them at the end of the Study Notes.*

2 REGULATORY FRAMEWORK

In August 1995, Hong Kong took a major step in enacting the Mandatory Provident Fund Schemes Ordinance (MPFSO) (Cap.485) to provide a formal system of retirement protection. In 1998, amendments to the MPFSO, together with two major pieces of subsidiary legislation, namely the Mandatory Provident Fund Schemes (General) Regulation (Cap.485A) and the Mandatory Provident Fund Schemes (Exemption) Regulation (Cap.485B) were enacted. In 1999, the Mandatory Provident Fund Schemes (Fees) Regulation (Cap.485C) was enacted. The other pieces of MPF subsidiary legislation were enacted in the following years.

2.1 OVERVIEW OF REGULATORY FRAMEWORK

The MPFA oversees the administration and management of mandatory provident fund (MPF) schemes in accordance with the provisions under the MPF legislation, as well as the relevant codes and guidelines. According to the Occupational Retirement Schemes Ordinance (ORSO) (Cap.426), the MPFA is the Registrar of Occupational Retirement Schemes. In addition, the MPFA also issues circulars and standards to give guidance to the industry. The MPFA also oversees the operations of the eMPF Platform, including approving operating rules and giving to the system operator and MPF trustees directions or instructions the MPFA considers appropriate for safeguarding the integrity and stability of the eMPF Platform.



2.2 MANDATORY PROVIDENT FUND SCHEMES AUTHORITY (MPFA)

Pursuant to the MPFSO, the MPFA was established in September 1998 to ensure compliance with the MPFSO and to regulate, supervise and monitor the operation of the MPF System. The vision of the MPFA is:

MPF to be an ever stronger pillar in meeting the basic retirement needs of the Hong

Kong working population.

The mission of the MPFA: Enhancing value, strengthening MPF protection and safeguarding scheme members' interests,

- we drive efficiency
- we advocate innovation and reforms
- we regulate the industry
- we engage the community

With the amendment to the Occupational Retirement Schemes Ordinance (ORSO) (Cap.426) in 1998, the MPFA was designated as the Registrar of Occupational Retirement Schemes. On 10 January 2000, the MPFA formally took over the functions of the Registrar of Occupational Retirement Schemes from the Office of the Registrar of Occupational Retirement Schemes.

2.2.1 Functions of the MPFA

As provided under the MPFSO, the functions of the MPFA are:

(a) to ensure compliance with the MPFSO;

(b) to register provident fund schemes as registered schemes;

(c) to approve qualified persons to be approved trustees of registered schemes;

(d) to regulate the affairs and activities of approved trustees and to ensure as far as reasonably practicable that those trustees administer the registered schemes for which they are responsible in a prudent manner;

(e) to regulate sales and marketing activities, and the giving of advice in relation to registered schemes;

(f) to make rules or guidelines for the payment of mandatory contributions and for the administration of registered schemes with respect to those contributions;

(g) to consider and propose reforms of the laws relating to occupational retirement schemes or provident fund schemes;

(h) to promote and encourage the development of the retirement scheme industry in Hong Kong, including the adoption of a high standard of conduct and sound prudent business practices by trustees and other service providers;

(i) to oversee the operation of an electronic MPF system, including:
  (1) approving rules as described in the MPFSO;
  (2) giving to the system operator and approved trustees directions or

instructions MPFA considers appropriate for safeguarding the integrity and stability of the system; and

(3) monitoring the compliance with the operating rules and the directions and instructions mentioned in subparagraph (2) by the system operator;

(j) to supervise the performance by a specified entity of any of the functions assigned, conferred or imposed under relevant sections of the MPFSO to the entity;

(k) to enhance the understanding and knowledge of the members of the public of the features, objectives, operations and investments of registered schemes; and

(l) to exercise such other functions as are conferred or imposed on MPFA by or under the MPFSO or any other ordinance.

Note: The above list is not exhaustive and the functions of the MPFA are not limited to those stated above. Interested candidates may refer to section 6E of the MPFSO for details.

2.3 OTHER REGULATORS

Other than the MPFA, the Securities and Futures Commission, the Insurance Authority and the Monetary Authority also have key roles to play in the regulation of MPF products, service providers and registered intermediaries.

2.3.1 Securities and Futures Commission (SFC)

The main functions of the SFC, in respect of MPF, are to:

(a) authorize MPF schemes (including their constituent funds) and pooled investment funds through vetting/authorizing the disclosure of information in the offering documents and marketing materials relating to MPF products;

(b) license certain service providers, including investment managers responsible for the management of investment portfolios and custodians engaging in securities lending; and

(c) be responsible for supervision and investigation of relevant registered MPF intermediaries whose core business is in securities.

2.3.2 Insurance Authority (IA)

The main functions of the IA, in respect of MPF, are to:

(a) ensure that insurance companies engaging in MPF services operate properly, with sufficient assets to meet their liabilities as stipulated under the Insurance Ordinance (Cap.41); and

(b) be responsible for supervision and investigation of relevant registered MPF intermediaries whose core business is in insurance.

2.3.3 Monetary Authority (MA)

The main functions of the MA, in respect of MPF, are to:

(a) regulate authorized institutions (including banks) in Hong Kong which are involved in the MPF System, whether as custodians, guarantors for MPF investment products or providers of continuous financial support to trustees or custodians, and ensure that they maintain financial soundness; and

(b) be responsible for supervision and investigation of relevant registered MPF intermediaries whose core business is in banking.

Several agreements were signed by the MPFA and other regulatory bodies to protect the interests of MPF scheme members. For instance, the MPFA has signed a Memorandum of Understanding Concerning the Regulation of Mandatory Provident Fund Products with the SFC concerning the two regulatory bodies' respective roles in the regulation of MPF products. The MPFA has also signed a Memorandum of Understanding with the IA to strengthen cooperation in respect of supervision of MPF funds, entities or intermediaries. In addition, the MPFA has also signed a Memorandum of Understanding Concerning the Regulation of Regulated Persons with respect to Registered Schemes under the Mandatory Provident Fund Schemes Ordinance with the MA, the IA and the SFC.

2.4 MPF LEGISLATION, CODES, GUIDELINES AND STANDARDS

The **MPF legislation** includes the MPFSO and the related subsidiary legislation.

2.4.1 Mandatory Provident Fund Schemes Ordinance (MPFSO)

The MPFSO is the principal legislation to provide the framework for the establishment of a system of privately managed, employment-related MPF schemes to accrue MPF benefits for members of the workforce when they retire.

The MPFSO is the primary statute and its intentions are to:

(a) provide for the establishment of non-governmental mandatory provident fund schemes for the purpose of funding benefits on retirement;

(b) provide for contributions to such schemes;

(c) provide for the registration of such schemes;

(d) provide for a regulatory regime in respect thereof;

(e) provide for the creation of an authority (MPFA) to oversee the administration and management of MPF schemes;

(f) exempt certain classes of persons from contributing to MPF schemes;

(g) provide for the approval of persons as trustees of MPF schemes;

(h) provide for the control and regulation of approved trustees;

(i) regulate sales and marketing activities and the giving of advice, in relation to MPF schemes; and

(j) make consequential amendments to other Ordinances including pension related Ordinances, and for connected purposes.

The practical details of many of the above objectives are considered in greater detail in these Study Notes.

2.4.2 MPF Subsidiary Legislation

Under section 46 of MPFSO, the Chief Executive in Council may make regulations for or with respect to any matter that by the MPFSO is required or permitted to be prescribed by regulations; or that is necessary or convenient to be prescribed for achieving the objects of the MPFSO. Regulations may also be made under section 46 of the MPFSO for the purposes specified therein, which include setting out the requirements in relation to the operation of the MPF schemes (e.g. requirements on trustees, enrolment, contribution, portability and withdrawal of accrued benefits arrangements, and investment requirements), applications for exemption from MPF requirements in respect of schemes registered under the ORSO and the ongoing monitoring requirements, and prescribing the types and amounts of fees payable (e.g. fees for approval of trustees). Regulations made pursuant to section 46 of the MPFSO are subsidiary legislation.

Under section 47 of the MPFSO, the MPFA may make rules for or with respect to any matter that by the MPFSO is required or permitted to be prescribed by the rules. Rules may also be made under section 47 of the MPFSO for the purposes specified

therein, which include providing for matters relating to the administration of MPF schemes and the payment of mandatory contributions. Rules made pursuant to section 47 of the MPFSO are subsidiary legislation.

2.4.3 MPF Codes, Guidelines and Standards

To supplement the MPF legislation, the MPFA has issued a number of codes and guidelines to facilitate compliance with the legislation by service providers and scheme participants, including those relating to the interface arrangements between the MPF System and ORSO schemes. In addition, the MPFA has developed some standards such as the set of Compliance Standards for the guidance of MPF approved trustees in establishing a structured framework for monitoring their compliance with statutory duties and responsibilities.

(a) **MPF Codes**

The following codes have been issued by the MPFA:

(i) Code on MPF Investment Funds; and

(ii) Code on Disclosure for MPF Investment Funds.

(b) **MPF Guidelines**

The seven parts of the MPF Guidelines issued by the MPFA deal with various matters:

(i) Part I - Guidelines on Licensing;

(ii) Part II - Guidelines on Reporting Requirements;

(iii) Part III - Guidelines on Investment;

(iv) Part IV - Guidelines on Scheme Operations;

(v) Part V - Guidelines on ORSO Interface;

(vi) Part VI - Guidelines on Intermediaries; and

(vii) Part VII - Guidelines on Electronic MPF System.

(c) **Standards**

(i) Compliance Standards for MPF Approved Trustees issued by the MPFA; and

(ii) Performance Presentation Standards developed jointly by the Hong Kong Trustees Association and the Hong Kong Investment Funds Association.

Interested candidates may refer to the corporate website of the MPFA

(www.mpfa.org.hk) for more details on the MPF legislation and regulations. The MPF codes, guidelines and standards are published under “Information Centre” > “Legislation & Regulations”.

2.4.4 Legislation on the Regulation of MPF Intermediaries

A statutory regulatory regime for MPF intermediaries was set up on 1 November 2012.

The establishment of the statutory regime for MPF intermediaries enhances the regulation of sales and marketing activities of MPF schemes, thereby further strengthening protection of scheme members' interests.

Details of regulation of MPF intermediaries are discussed in Chapter 7.

- o - o - o -

Representative Examination Questions

Type "A" Questions

1 The centralized body with special responsibility for the regulation of banks in Hong Kong which are involved in the MPF System is the:

(a) Securities and Futures Commission (SFC); .....
(b) Insurance Authority (IA); .....
(c) Monetary Authority (MA); .....
(d) Mandatory Provident Fund Schemes Authority (MPFA). .....

[Answer is in **2.3.3**]

Type "B" Questions

2 Which three of the following areas are covered by the guidelines issued by the MPFA?

(i) ORSO Interface
(ii) MPF Schemes Operation
(iii) Intermediaries
(iv) Tax deductions allowable for MPF contributions

(a) (i), (ii) and (iii); .....
(b) (i), (ii) and (iv); .....
(c) (i), (iii) and (iv); .....
(d) (ii), (iii) and (iv). .....

[Answer is in **2.4.3**]

[If required, the answers may be found at the end of the Study Notes.]

3 KEY FEATURES OF THE MPF SYSTEM

The MPF System has a number of key features. This chapter explains the key features of the MPF System.

3.1 SECURITY OF SCHEME ASSETS

All MPF schemes must be governed by the law of Hong Kong. With even the "safest" investments, there will always be an element of risk. Because of the importance of the MPF System to so many people's lives, however, every effort has been made to ensure the security of the scheme's assets. This is achieved through various levels of protection, sometimes collectively termed as the "safety net".

3.1.1 Stringent Authorization Requirements

Trustees and other service providers, as well as MPF schemes, are subject to careful scrutiny as follows:

(a) **Trustees and Other Service Providers**

(i) All trustees must be approved by the MPFA before they can act as trustees for MPF schemes.

(ii) Trustees must meet stringent requirements, including having paid-up share capital and net assets of at least $150 million each (see **4.4**) in order to be approved.

(iii) The application for trustee approval is carefully examined by the MPFA in relation to the trustee, investment manager, custodian and other service providers engaged for the purpose of the scheme.

(iv) The purpose of the scrutiny in (iii) above is to ensure that the persons concerned have the knowledge, qualifications, experience, financial capability and control to administer the scheme, invest the funds and safeguard members' benefits.

(b) **MPF Schemes**

(i) Provident fund schemes must be registered by the MPFA in order to become MPF schemes.

(ii) The schemes must meet stringent requirements (see **Chapter 5**) in order to be registered.

(iii) The MPFA examines the governing rules to ensure that they comply with the legislative requirements.

3.1.2 Professional Indemnity Insurance

Professional indemnity insurance must be arranged to cover losses that MPF schemes might sustain from a number of prescribed risks. These include fraud and negligence on the part of the MPF trustee or other service providers to whom the MPF trustee have delegated their duties, as well as other risks, e.g. loss of scheme assets in transit. This insurance is in fact wider than normal professional indemnity coverage. However, the insurance does not cover losses attributable to investing the scheme's funds in the ordinary course of business.

3.1.3 Compensation Fund

The compensation fund:

(a) is established to compensate scheme members and other persons who have beneficial interests in those schemes for losses of accrued benefits due to misfeasance or illegal conduct of MPF trustees and other service providers concerned with the administration of those schemes;

(b) consists of an initial injection of $600 million from the Government, supplemented by a levy on MPF schemes at a rate of 0.03% of the net asset value of the scheme assets; and

(c) is a fund of "last resort", intended to be used after utilizing the professional indemnity insurance and upon application to the MPFA.

An automatic levy triggering mechanism was introduced in September 2012, under which the resumption and suspension of the compensation fund levy will be triggered at the reserve levels of $1 billion and $1.4 billion respectively.

3.2 FUNCTIONS OF APPOINTED SERVICE PROVIDERS

The trustee of an MPF scheme is the central party responsible for all scheme management functions. It may delegate its scheme custodial duties to other service providers (e.g. custodian) and, subject to exceptions, it must appoint an investment manager for the MPF scheme. The marketing of the scheme is conducted by MPF intermediaries. The duties and functions of an MPF trustee are covered in Chapter 4 (see **4.3**). Those of the appointed service providers are summarized below:

(a) **Investment Managers**

They must:

(i) be a company incorporated in Hong Kong or a re-domiciled company as defined in the Companies Ordinance (Cap.622);

(ii) be licensed by or registered with the SFC to carry on a business of Type 9 (asset management) regulated activity under Part V of the Securities and Futures Ordinance (Cap.571);

(iii) comply with their investment contracts and all applicable Guidelines issued by the MPFA and regulatory restrictions imposed upon them; and

(iv) continue to meet all financial and other requirements imposed upon them.

(b) **Custodians**

The word means a "guardian" or someone having the care, i.e. "custody", of something or someone, and in this context refers to the institution to which the trustee has delegated care of the trust assets. The trustee can act as a custodian of scheme assets if it satisfies the specified criteria. The custodian physically holds the assets and is likely to be an authorized institution as defined by section 2(1) of the Banking Ordinance (Cap.155); (e.g. bank) or a trust company registered under Part VIII of the Trustee Ordinance (Cap.29); .

If it is a registered trust company, it must have paid-up share capital and net assets of at least $150 million each. A registered trust company may satisfy the financial requirements if it has a paid up share capital and net assets of not less than $50 million each if it complies with other requirements under the MPFSO. Interested candidates may refer to section 68 of the Mandatory Provident Fund Schemes (General) Regulation (Cap.485A) for details.

Where appointed, they must:

(i) take proper care of all scheme assets;

(ii) comply with all requirements in their contract (which is known as the custodial agreement) and all applicable Guidelines issued by the MPFA and regulatory restrictions imposed upon them; and

(iii) continue to meet all financial and other requirements imposed upon them.

(c) **MPF Intermediaries**

Details of the role of MPF intermediaries are discussed in **Chapter 7**.

3.3 TYPES OF MPF SCHEMES

There are three types of MPF scheme:

(a) **Employer Sponsored Scheme**

(i) Membership is only open to the relevant employees of a single employer and its associated companies.

(ii) Because of the limited membership, it is only cost effective to run such a scheme if the number of relevant employees is large. It is therefore likely that only large companies will consider setting up their own employer sponsored schemes.

(b) **Master Trust Scheme**

(i) Membership is open to the relevant employees of different employers, self-employed persons, former self-employed persons, persons planning to open tax deductible voluntary contributions (TVC) accounts, and persons who, having benefits in another MPF scheme, an ORSO exempted scheme, or an ORSO registered scheme, wish to have those benefits transferred to this scheme.

(ii) By pooling the contributions of employers together for administration and investment, such schemes can enjoy a high degree of efficiency resulting from economies of scale.

(c) **Industry Scheme**

(i) Such a scheme is specially designed for relevant employees of industries with high labour mobility and employed on a day-to-day basis or for a fixed period of less than 60 days.

(ii) At present, the two designated industries are the catering and construction industries.

(iii) It is optional, not compulsory, for employers in these industries to enrol their relevant employees in such a scheme.

(iv) A relevant employee who is a casual employee member of an industry scheme does not need to change scheme if the previous and new employers are participating in the same industry scheme. This minimizes the administrative cost to employers and casual employees entailed by the transfer of accrued benefits from one scheme to another.

3.4 COVERAGE

(a) With certain exceptions (see **3.5** below) a relevant employee or a self-employed person, aged 18 to aged 64 is required to be enrolled in an MPF scheme.

(b) Those covered by the MPF System (subject to exemptions) are:

(i) Relevant employees (other than casual employees), including full-time and part-time employees, who have been employed for a continuous period of 60 days or more under an employment contract. The location of work and number of hours worked are irrelevant.

Basically, an employee is a person engaged by an employer under an employment contract (which may be in writing or oral and includes express or implied terms).

The 60-day employment rule, however, does not apply to "casual employees" in the catering and construction industries as mentioned below.

(ii) Casual employees in designated industries are covered by the MPF System

regardless of their duration of employment. At present, only the catering and construction industries have been designated.

"Casual employee" refers to any person employed in the catering industry or the construction industry by an employer on a day-to-day basis or for a fixed period of less than 60 days.

The coverage of these two industries is as follows:

Coverage for the Catering Industry

For the purpose of the industry schemes, the catering industry covers holders of food business licences or permits under the Food Business Regulation (Cap. 132X), canteens at schools and workplaces and catering establishments inside clubs. The following are examples of catering establishments:

1. Food factories, milk factories, frozen confection factories & bakeries;
2. Restaurants;
3. Factory canteens;
4. Siu mei or lo mei shops;
5. Cold stores;
6. Fresh provision shops;
7. Cooked food stalls operating in a public markets;
8. Cooked food stalls which are granted hawker licences; and
9. Chinese herb tea shops.

Coverage for the Construction Industry

The construction industry covers the following eight major categories:

1. Foundation and associated works;
2. Civil engineering and associated works;
3. Demolition and structural alteration works;
4. Refurbishment and maintenance works;
5. General building construction works;
6. Fire services, mechanical, electrical and associated works;
7. Gas, plumbing, drainage and associated works; and
8. Interior fitting out works.

The following are examples of establishments and units engaged in construction work:

Registered with the Buildings Department:

1. General building contractors;
2. Specialist contractors in the ventilation category;

Registered with the Electrical and Mechanical Services Department:

3. Electrical contractors;
4. Lift contractors and escalator contractors;
5. Builders' lift contractors;

6. Gas contractors;

Others:

7. Fire service installation contractors registered with the Fire Services Department;
8. Holders of a plumber's licence issued by the Water Supplies Department;
9. Public works contractors with an approval letter from the Development Bureau; and
10. All sub-contractors to which projects or works are delegated directly or indirectly from any of the 9 contractors specified above.

(iii) Self-employed person refers to any person whose relevant income (other than in the capacity as an employee) derives from the person's production (in whole or in part) of goods or services in Hong Kong, or trade in goods or services in or from Hong Kong.

In simple words, a self-employed person is one who works for himself/herself and is not employed as an employee. For example, if a person is a sole proprietor (such as a taxi driver) or a partner of a partnership, that person is regarded as a self-employed person under the MPF System.

Note: Please refer to **Appendix II** for explanations as to why persons of certain types of jobs are included in or excluded from, the MPF System.

3.5 EXEMPT PERSONS

There are certain categories of persons in Hong Kong who are not required to join an MPF scheme. Employers of these exempt persons will also be exempted as far as the employment is concerned. In certain cases, if these exempt persons cease to be exempted, the enrolment and contribution requirements apply as if the employment or self-employment has begun on the first day they ceased to be exempted.

Such persons include:

(a) employees and self-employed persons who are under 18 or have reached 65;

(b) domestic employees;

(c) self-employed licensed hawkers;

(d) people covered by statutory pension and provident fund schemes (such as civil servants and subsidized or grant school teachers);

(e) people from overseas who enter Hong Kong for employment for 13 months or less;

(f) people from overseas who enter Hong Kong for employment and are covered by overseas retirement schemes;

(g) employees of the European Union Office of the European Commission in Hong Kong;

and

(h) members of occupational retirement schemes which are exempted from MPF requirements ("MPF exempted ORSO schemes").

Note: A person under categories (b) to (d) and (g) to (h) above who have income from other employment or self-employment may not be exempted from the relevant provisions of MPFSO in respect of that other income.

3.6 REGISTRATION WITH THE eMPF PLATFORM AND ENROLMENT INTO MPF SCHEMES

3.6.1 Duties of Employers

(a) Employers can register with the eMPF Platform to access the electronic services on the eMPF Platform, including enrolling employees into an MPF scheme, making contributions and more.

(b) Relevant employees (other than casual employees) who have been employed for a continuous period of 60 days or more are covered by the MPF System, unless they are exempt persons. Employers are required to enrol their relevant employees (other than casual employees) into MPF schemes in which the employers participate before the end of the permitted period, i.e. the first 60 days of employment.

(c) However, if the relevant employees are casual employees, their employers are required to enrol such employees in MPF schemes participated in by the employers within the permitted period regardless of the duration of employment. The permitted period in respect of casual employees is the first 10 days of employment.

(d) Employers can change their MPF trustee(s) and scheme(s) on the eMPF Platform at any time as they consider appropriate.

Note: An employer means any person who has entered into a contract of employment to employ another person as his/her employee.

3.6.2 Duties of Self-employed Persons

(a) Self-employed persons can register with the eMPF Platform to open a self-employed person account in an MPF scheme to become a member of that scheme.

(b) A self-employed person has to become a member of MPF schemes within 60 days from the day he/she becomes self-employed ("permitted period").

(c) Self-employed persons are required to enrol themselves in an MPF scheme regardless of their level of income, unless they are exempt persons. However, they are only required to contribute if they are earning $7,100 or more a month or

$85,200 or more a year.

(d) Self-employed persons have an obligation to enrol themselves in an MPF scheme and make contributions regardless of whether they have filed tax returns or obtained business registration certificates.

3.6.3 Duties of Trustees

(a) Requirements for application for membership of, or participation in, an MPF scheme, the governing rules of the scheme and fees and charges payable under the scheme must be disclosed to a person who is considering becoming a scheme member or participating employer.

(b) A notice of participation should be issued to the scheme applicant for membership of or participation in the scheme within 30 days after the date on which the applicant submits all the information required for the application, or after the date on which the applicant agrees to comply with the governing rules of the scheme, whichever is the later.

Note: Except for exempt persons, all persons covered by the MPF System must join an MPF scheme. To allay any fears that some persons may have difficulty in joining a scheme, the MPF legislation includes a **"non-refusal of scheme applicants"** provision. Under this provision, an application must not be refused, provided that the applicant complies with all application requirements and agrees in writing that he/she will comply with the governing rules of the scheme.

3.7 CONTRIBUTIONS

The MPFSO spells out the provisions for mandatory contributions, which are set out as follows.

3.7.1 Mandatory Contributions

(a) **In Respect of Relevant Employees**

(i) Who must pay?

An employer is required to make employer's mandatory contributions in respect of a relevant employee from the employer's own funds. The employer must deduct the relevant employee's mandatory contribution from the relevant employee's relevant income for each contribution period.

Mandatory contributions are required to be paid on or before the contribution day (refer to (vii) below), but there are different implications for:

- an employer: it is required to make mandatory contributions for its relevant employee from the first day of employment of the employee;

- a relevant employee (other than a casual employee): the employee is not required to contribute for the first 30 days of employment and

    a) any incomplete wage period that immediately follows the 30-day period *(if the employee's wage period is monthly or shorter than monthly)*; or

    b) the calendar month in which the 30th day of employment falls *(if the employee's wage period is longer than monthly)*.

    That is, contributions should start from the first complete wage period/calendar month commencing on or after 31st day of employment

    The first 30 days of employment and any incomplete contribution period (depending on the remuneration cycle of the relevant employee concerned) that immediately follows, during which the relevant employee is not required to make mandatory contributions is commonly known as the "contribution holiday". Please also refer to the meaning of "contribution period" in (vi) below.

- a casual employee: the casual employee is required to make mandatory contributions from the first day of employment (i.e. no contribution holiday).

(ii) The amount

- Relevant Employees

    For relevant employees (other than casual employees), both the employees and the employers are required to contribute 5% of the employees' relevant income as the employees' and the employers' mandatory contributions respectively for the benefits of the relevant employees, subject to the minimum and maximum relevant income levels.

    Contributions are generally made on a monthly basis for monthly-paid relevant employees. The monthly minimum and maximum relevant income levels are:

    - Minimum relevant income level : $7,100 per month
    - Maximum relevant income level : $30,000 per month

    Relevant employees (other than casual employees) earning less than the minimum relevant income level (i.e. $7,100 per month) do not need to contribute but their employers are still required to contribute 5% of the employees' relevant income. If employees elect to make contributions, these are regarded as voluntary contributions.

    For relevant employees (other than casual employees) earning between the minimum and maximum relevant income levels (i.e.

between $7,100 and $30,000 per month), employers' and employees' mandatory contributions are each payable at 5% of the employee's relevant income.

For relevant employees (other than casual employees) earning more than the maximum relevant income level (i.e. $30,000 per month), the employees' mandatory contributions and the employers' mandatory contributions are each capped at $1,500 per month. With any amount of relevant income, however, both the employer and the relevant employee can opt to make voluntary contributions. However, the amount of the employer's voluntary contributions does not have to match the relevant employee's amount.

- Casual Employees of Industry Schemes

  In the case of casual employees, both employers' mandatory contributions and employees' mandatory contributions shall be payable from the first day of employment (i.e. no contribution holiday).

  The minimum and maximum relevant income levels are:

  - Minimum relevant income level : $280 per day
  - Maximum relevant income level : $1,000 per day

  Mandatory contributions of casual employees and their employers under industry schemes are made in accordance with the scale of contribution as follows:

Daily relevant income	**Employer's mandatory contributions**	**Employee's mandatory contributions**
Less than $280	$10	Not required
$280 to less than $350	$15	$15
$350 to less than $450	$20	$20
$450 to less than $550	$25	$25
$550 to less than $650	$30	$30
$650 to less than $750	$35	$35
$750 to less than $850	$40	$40
$850 to less than $950	$45	$45
$950 or more	$50	$50

Note: The contribution scale above does not apply to relevant employees (other than casual employees) and their employers.

(iii) Relevant income

This means, in the case of a relevant employee, any wages, salary, leave pay, fee, commission, bonus, gratuity, perquisite or allowance, expressed in monetary terms, paid or payable by an employer (directly or indirectly) to an employee in consideration of his/her employment. However, it does not include any severance or long service payments under the Employment Ordinance (Cap.57).

Note: Please refer to **Appendix III** for explanations as to why certain types of income are regarded or not regarded as relevant income under the MPF System.

(iv) Permitted period

The permitted period is the period within which an employer must enrol his/her employees into an MPF scheme. For a relevant employee (other than a casual employee), the permitted period is the first 60 days of his/her employment. However, in respect of a casual employee, the permitted period is the first 10 days of his/her employment regardless of the type of scheme into which the employee is enrolled.

When enrolling employees into an MPF scheme, if the last day of the permitted period is a Saturday, a public holiday, a gale warning day or black rainstorm warning day, or a day on which the eMPF Platform (or any part of it) is suspended under section 19J or 19L(1)(a) or (b) of the MPFSO (and the suspension affects the performance of the duty by the employer), the permitted period is extended to end on the next following day which is not a Saturday, a public holiday, a gale warning day or black rainstorm warning day, or a day on which the eMPF Platform (or any part of it) is suspended.

(v) Wage period

A wage period means each period for which the employer pays or should pay relevant income to the employee.

(vi) Contribution period

- In relation to an employer:

  A contribution period means each period for which the employer pays or should pay relevant income to the employee.

- In relation to a relevant employee (other than a casual employee):

a) where the wage period is not more than 1 month (e.g. weekly or monthly), a contribution period means each period for which the employer pays or should pay relevant income to the employee, but does not include any wage period commencing on or before the 30th day of employment;

b) where the wage period is more than 1 month (e.g. quarterly), a contribution period means each period for which the employer pays or should pay relevant income to the employee, but does not include the period commencing from the date of employment and ending on the last day of the calendar month in which the 30th day of employment falls.

Note: As explained in (vi) here, the contribution period in relation to an employee (other than a casual employee) excludes certain wage period(s). This effectively exempts the employee from paying employee's mandatory contributions in respect of the excluded wage period(s). This is in fact the contribution holiday mentioned in 3.7.1(a)(i) above.

- In relation to a casual employee:

  A contribution period means each period for which the employer pays or should pay relevant income to the employee.

(vii) Contribution day

Employers are required to make mandatory contributions for a contribution period to the scheme's trustee on or before the contribution day.

In the case of relevant employees (other than casual employees), the contribution day is defined as the 10th day after the last day of:

a) a calendar month within which the relevant contribution period ends; or

b) the month during which the permitted period ends,
whichever is the later.

In the case of casual employees who are not members of an industry scheme, the contribution day is defined as the 10th day after the last day of:

a) the relevant contribution period; or

b) the contribution period during which the permitted period ends,
whichever is the later.

In the case of casual employees who are members of an industry scheme, the contribution day is defined as one of the following days as agreed between the employer and the trustee of the scheme concerned:

a) the next working day (other than a Saturday) immediately after the payment of relevant income for the relevant contribution period; or

b) the 10th day after the last day of the relevant contribution period.

In computing a period of time for the definition of permitted period for the purpose of determining the contribution day for an employee mentioned above, even if the last day of the permitted period is a Saturday, a public holiday, a gale warning day or a black rainstorm warning, or a day on which the eMPF Platform (or any part of it) is suspended under section 19J or 19L(1)(a) or (b) of the MPFSO, the period ends on that day.

If the contribution day is a Saturday, a public holiday, a gale warning day or black rainstorm warning day, or a day on which the eMPF Platform is suspended (and the suspension affects the payment of mandatory contribution), the contribution day is extended to the next following day which is not a Saturday, a public holiday, a gale warning day or a black rainstorm warning day, or a day on which the eMPF Platform (or any part of it) is suspended.

Note: Please refer to **Appendix IV** for a guide on when the contribution is considered paid under different payment methods/channels.

(viii) Employees' contribution data/remittance statement

An employer must prepare and submit employees' contribution data or a remittance statement showing the relevant income and the amount of contribution for each of the relevant employees (not including casual employees in an industry scheme whose contributions are made on the next working day (other than a Saturday) immediately after the relevant income payments). The employees' contribution data can be submitted via the Employer Portal of the eMPF Platform, while the remittance statement can be submitted by post or through drop-in box at eMPF service centres. Employers are encouraged to make contributions by electronic means and cash payments are not accepted. Please check the payment methods available for the respective MPF schemes on eMPF website.

(ix) Monthly pay-record

An employer must provide each employee (other than casual employees in an industry scheme whose contributions are made on the next working day (other than a Saturday) immediately after the relevant income payments) with a monthly pay-record within 7 working days after the last contribution payment during the month. The pay-record includes:

- the employee's relevant income;
- the amount of contributions (mandatory and voluntary, if any) paid by the employer and deducted from the employee's relevant income;
- the date on which the contributions were paid to the trustee.

(b) **In Respect of Self-employed Persons**

(i) Definition and contribution

A self-employed person is one whose relevant income (other than in the capacity as an employee) derives from the person's production (in whole or in part) of goods or services in Hong Kong, or trade in goods or services in or from Hong Kong. Such a person is required to contribute 5% of the person's relevant income as mandatory contributions, subject to the minimum and maximum relevant income levels (refer to (vi) below).

Self-employed persons can make voluntary contributions on top of their mandatory contributions.

Note: There is no additional 5% contributions from an employer.

(ii) Contribution period and contribution day

Payment must be made to the scheme's trustee on or before the end of the contribution day of each contribution period. The contribution day means the last day of the relevant contribution period. If the contribution day falls on a Saturday, a public holiday, a gale warning day or black rainstorm warning day, or a day on which the eMPF Platform (or any part of it) is suspended under section 19J or 19L(1)(a) or (b) of the MPFSO (and the suspension affects the payment of mandatory contribution by the self-employed person), the contribution day is extended to the next following day which is not a Saturday, a public holiday, a gale warning day or black rainstorm warning day, or a day on which the eMPF Platform (or any part of it) is suspended.

A contribution period may either be a year or a month, at the self-employed person's option. Such a person must inform the eMPF Platform at least 30 days before the end of each financial period of the scheme:

- the relevant income for the next financial period of the scheme;
- whether the person will contribute yearly or monthly for the next financial period of the scheme. If the person chooses to contribute on a monthly basis, he/she should specify the contribution period on the eMPF Platform; and the monthly contribution day is the last day of each calendar month. If the contribution is on a yearly basis, the contribution day is the last day of the financial year of the scheme.

Otherwise, relevant income and contribution mode in the next financial year of the scheme will remain unchanged.

(iii) Relevant income

A self-employed person is required to produce evidence of relevant income to the trustee, but is not required to do so if the maximum mandatory contributions of $1,500 per month or $18,000 per year are paid.

(iv) Reporting of "relevant income"

If evidence of relevant income includes the most recent notice of assessment issued by the Inland Revenue Department, the assessable profits shown will be accepted as the relevant income (proportionally adjusted if the period covered by the notice is shorter or longer than one year), unless that assessment was issued more than 2 years ago.

If the most recent notice of assessment was issued more than 2 years ago, or the person objects to or appeals against that assessment in accordance with the Inland Revenue Ordinance (Cap.112), or if the evidence produced by the self-employed person does not consist of the most recent notice of assessment, the relevant income for the year will be an amount declared by the person as equal to the previous year's assessable profits. It is a criminal offence knowingly to make an untrue or misleading declaration to the trustee.

If the self-employed person cannot produce evidence of the relevant income (e.g. notice of assessment) to the trustee (and the trustee is satisfied that the person really cannot produce such evidence) and claims to earn less than the maximum level of relevant income (see **3.7.1(b)(vi)** below), then the relevant income will be taken as equivalent to the basic allowance within the meaning of section 28 of the Inland Revenue Ordinance (Cap.112).

If the self-employed person cannot produce any evidence and the trustee is not satisfied with the reason for not being able to do so, the relevant income will be taken to be equal to the maximum level of relevant income ($360,000 per year).

(v) Net loss

If a self-employed person suffers losses, a written statement should be made to the eMPF Platform declaring that his/her business has sustained a net loss. The net loss should cover the last financial period of the self-employed business (which will be used to determine the relevant income of the self-employed person for the next financial period of the scheme). The self-employed person concerned can discontinue payment of mandatory contributions and resume when his/her relevant income exceeds the minimum level of relevant income (i.e. $85,200 per year).

(vi) Minimum and maximum relevant income levels

For a self-employed person, the minimum level of relevant income for mandatory contribution purposes is $7,100 per month or $85,200 per year. The maximum level of relevant income is $30,000 per month or $360,000 per year.

If the person is not a member of an MPF scheme for a complete 12-month financial period, the above minimum and maximum relevant income levels should be adjusted proportionally by dividing the relevant amount by the number of days in the period as follows:

- Minimum relevant income level = $85,200 x DC/365
- Maximum relevant income level = $360,000 x DC/365

Note: DC is the number of days during the financial period of the scheme of which the self-employed person is a member.

Same as employers and employees, voluntary contributions can always be paid by self-employed persons.

(vii) Permitted period

The permitted period in relation to a self-employed person is the period within which a self-employed person must become a member of an MPF scheme. The permitted period is 60 days for self-employed persons.

When a self-employed person enrolls himself/herself into an MPF scheme, if the last day of the permitted period is a Saturday, a public holiday, a gale warning day or black rainstorm warning day, or a day on which the eMPF Platform (or any part of it) is suspended under section 19J or 19L(1)(a) or (b) of the MPFSO (and the suspension affects the performance of the duty of the self-employed person), the permitted period is extended to end on the next following day which is not a Saturday, a public holiday, a gale warning day or black rainstorm warning day, or a day on which the eMPF Platform (or any part of it) is suspended.

(viii) Monthly contributions

For mandatory contributions to be paid on a monthly basis, the monthly relevant income is calculated by dividing the yearly income by the number of whole months in the financial period.

(ix) Partners

Self-employed persons who are partners should calculate their relevant income by making proportional adjustments according to their share of profits of the business for that financial period.

(x) Cessation of self-employment

A self-employed person should inform the eMPF Platform of his/her

cessation of self-employment and should make his/her last contribution on or before the end of the contribution period in which he/she ceases to be self-employed.

(c) **Examples to Demonstrate the Enrolment into MPF Scheme and Contribution Arrangements for a Relevant Employee (Other Than a Casual Employee)**

In order to facilitate the understanding of the requirements for enrolment into MPF scheme and the contribution arrangements for a relevant employee (other than a casual employee), some practical examples are provided below:

Illustrations:

Enrolment and Contribution Arrangements for a Relevant Employee (Other Than a Casual Employee)

I. ***Monthly Payroll which runs from the first day to the last day of the month***

Commencement date of employment	:	2 September 2015
30th day of employment	:	1 October 2015
60th day of employment	:	31 October 2015 (Saturday)
Commencement date of employer's mandatory contribution (ERMC)	:	2 September 2015
Commencement date of employee's mandatory contribution (EEMC)	:	1 November 2015
Deadline for performing enrolment by employer	:	2 November 2015
Deadline for remittance of first payment of ERMC	:	10 November 2015
Contribution periods covered by the first payment of ERMC	:	2 September 2015 – 30 September 2015 AND 1 October 2015 – 31 October 2015

Deadline for remittance of second payment of ERMC and first payment of EEMC	:	10 December 2015
Contribution period covered by the second payment of ERMC and first payment of EEMC	:	1 November 2015 – 30 November 2015

II. ***Monthly Payroll which runs from the 15th day of the month to the 14th day of the following month***

Commencement date of employment	:	2 September 2015
30th day of employment	:	1 October 2015
60th day of employment	:	31 October 2015 (Saturday)
Commencement date of ERMC	:	2 September 2015
Commencement date of EEMC	:	15 October 2015
Deadline for performing enrolment by employer	:	2 November 2015
Deadline for remittance of first payment of ERMC	:	10 November 2015
Contribution periods covered by the first payment of ERMC	:	2 September 2015 – 14 September 2015 AND 15 September 2015 – 14 October 2015
Deadline for remittance of second payment of ERMC and first payment of EEMC	:	10 December 2015
Contribution period covered by the second payment of ERMC and first payment of EEMC	:	15 October 2015 – 14 November 2015

III. ***Twice a month payroll which runs from the 1st day to the 15th day of the month and then 16th day to the last day of the same month***

Commencement date of employment	:	2 September 2015
30th day of employment	:	1 October 2015
60th day of employment	:	31 October 2015 (Saturday)
Commencement date of ERMC	:	2 September 2015
Commencement date of EEMC	:	16 October 2015
Deadline for performing enrolment by employer	:	2 November 2015
Deadline for remittance of first payment of ERMC & EEMC	:	10 November 2015
Contribution periods covered by the first payment of ERMC	:	2 September 2015 – 15 September 2015 AND 16 September 2015 – 30 September 2015 AND 1 October 2015 – 15 October 2015 AND 16 October 2015 – 31 October 2015
Contribution period covered by the first payment of EEMC	:	16 October 2015 – 31 October 2015

IV.	Relevant income:	$2,000 per month
	Employee / Employer	No mandatory contributions are required to be made by the relevant employee, unless the relevant employee chooses to do so as voluntary contributions, because his/her relevant income is below the minimum relevant income level for contribution purpose. However, the employer must contribute $100 (5% of $2,000) as employer's mandatory contributions for the relevant employee.
	Self-employed person	Only makes contributions if the person so chooses as voluntary contributions, because his/her relevant income is below the minimum relevant income level for contribution purpose.
V.	Relevant income:	$15,000 per month
	Employee / Employer	The relevant employee and the employer must each make mandatory contributions of $750 (5% of $15,000)
	Self-employed person	Mandatory contributions of $750 (5% of $15,000)
VI.	Relevant income:	$40,000 per month
	Employee / Employer	Mandatory contributions by the relevant employee and the employer limited to $1,500 each (5% of maximum level of relevant income for contribution purpose). Additional amounts may be paid by the relevant employee or the employer or both as voluntary contributions.
	Self-employed person	Mandatory contributions of $1,500 (5% of maximum level of relevant income for contribution purpose). Voluntary contributions may be made.

3.7.2 Voluntary Contributions

Although voluntary contributions are not required to be made under the MPF legislation, the MPFA encourages employers and scheme members to make such contributions to accumulate additional benefits. A number of matters requiring attention in relation to voluntary contributions are addressed below. These, the MPFA believes, effectively safeguard accrued benefits derived from voluntary contributions.

(a) **MPF Legislative Provisions**

All provisions of the MPF legislation applying to accrued benefits derived from mandatory contributions apply equally to accrued benefits derived from voluntary contributions, except those provisions relating to:

(i) vesting;
(ii) preservation;
(iii) portability; and
(iv) withdrawal

which are governed by the governing rules of the relevant MPF scheme.

(b) **Trust Arrangements**

Scheme assets derived from voluntary contributions are managed by the same approved trustees, qualified investment managers and custodians responsible for managing the scheme assets derived from mandatory contributions in accordance with MPF legislation. Scheme assets derived from voluntary contributions are also covered by indemnity insurance.

(c) **Investment of Contributions**

Investment of voluntary contributions is subject to the same investment restrictions applicable to mandatory contributions under an MPF scheme.

(d) **Compensation Fund**

The compensation fund covers accrued benefits derived from voluntary contributions in the same way as from mandatory contributions.

(e) **Employers to Contribute**

Subject to the governing rules of an MPF scheme, employers may make voluntary contributions for their employees and the relevant trustees of the scheme have to follow up with employers in the case of any outstanding voluntary contributions.

3.7.3 TVC

Starting from 1 April 2019, members with contribution accounts or personal accounts in MPF schemes as well as members of MPF exempted ORSO schemes are eligible to make TVC under MPF schemes.

(a) Making of TVC

To enjoy the tax deduction, members with contribution accounts or personal accounts in MPF schemes or members of MPF exempted ORSO schemes must open a tax deductible voluntary contribution account (TVC account) in an MPF scheme of his/her own choice. Other than mandatory contributions, only contributions made to TVC accounts by a scheme member are tax deductible under salaries tax or tax under personal assessment. In other words, voluntary contributions made to other MPF accounts by the scheme members are not tax deductible.

Making TVC is a convenient and flexible way to save for the retirement. TVC account holder can make TVC to his/her TVC account at any time and at different

amounts as he/she wishes. TVC account holders can also stop or change the contribution instructions at any time.

To facilitate the TVC account holder's filing of tax return, once a scheme member has made TVC to a TVC account in a tax assessment year, a TVC contribution summary will be provided to the scheme member.

(b) Preservation Requirements

To meet the purpose of encouraging extra retirement savings, TVC are subject to the same preservation requirements as mandatory contributions. Please refer to 3.11 below for details on withdrawal of benefits.

(c) Transfer of Contributions

The accrued benefits in a TVC account may be transferred to a TVC account in another MPF scheme, subject to the requirement that all the accrued benefits in the original TVC account must be transferred in a lump sum at the same time (i.e., partial transfer is not allowed).

3.7.4 Tax Allowances

The Government grants certain tax concessions, as follows:

(a) mandatory contributions made by an employee or a self-employed person are tax deductible, but subject to the maximum amount of $18,000 per year for the year of assessment 2015/16 and each subsequent year of assessment;

(b) mandatory contributions by an employer are also tax deductible, but there is an annual limit. Total mandatory amounts paid into MPF schemes by the employer, together with the employer's voluntary contributions to MPF schemes or to other registered retirement schemes (ORSO schemes etc, see **Chapter 6**) are deductible up to 15% of the total annual emoluments of the employees concerned; and

(c) TVC are tax deductible under salaries tax and tax under personal assessment. Tax deduction cap is $60,000 per year for the year of assessment 2019/20 onwards and TVC exceeding this cap will not be tax deductible. It should be noted that the tax deduction cap is an aggregate amount for both qualifying deferred annuity premiums* and TVC.

*Qualifying deferred annuity premiums means premiums paid for qualifying deferred annuity policies that satisfy a set of criteria set out in the Guideline on Qualifying Deferred Annuity Policy issued by the IA and have been certified by the IA for this purpose. The list of qualifying deferred annuity policies is available on the IA's website (http://www.ia.org.hk).

(d) benefits from mandatory contributions, voluntary contributions made by employees and TVC are tax exempt. Benefits received from voluntary contributions made by employers may be subject to tax, depending on when and how they are paid.

Note: Tax allowances are subject to the provisions of the Inland Revenue Ordinance (Cap.112). For details, please refer to the Inland Revenue Department website (www.ird.gov.hk).

3.7.5 Default Contributions

A mandatory contribution is in arrears if it is not paid by the contribution day of a contribution period. The defaulter is liable to pay the contribution in arrears and a contribution surcharge. A financial penalty may also be imposed on the defaulter.

(a) **Duties of Approved Trustees**

(i) The trustee concerned must take action as may be reasonably required by the MPFA in connection with the recovery of arrears or surcharges.

(b) **Actions to be Taken by MPFA**

(i) The MPFA will take action to recover the arrears. This may include the issue of a notice chasing the default contribution and imposing a contribution surcharge on the defaulter. The contribution surcharge is imposed at a flat rate of 5% of the amount of mandatory contribution in arrears. In addition, the MPFA may impose a financial penalty (at the higher of $5,000 or 10% of the amount of mandatory contribution in arrears) on the defaulter.

(c) **Offences**

(i) An employer who fails to pay mandatory contributions to the MPF trustee (without deducting 5% from relevant employee's relevant income) and is convicted of an offence is liable to a fine of $350,000 and imprisonment for 3 years. An employer who fails to pay the deducted wages as employee mandatory contributions and is convicted of the offence, is liable to a fine of $450,000 and imprisonment for 4 years.

(ii) A self-employed person who fails to pay mandatory contributions and is convicted of an offence is liable to a fine of $50,000 and imprisonment for 6 months on the first occasion. For each subsequent occasion, the fine is $100,000 and imprisonment of 12 months.

3.8 VESTING

(a) The meaning of "vesting" in this context is to endow or to give legal rights of possession regarding a particular financial interest. Thus, once both the relevant employee's and the relevant employer's mandatory contributions are paid to the approved trustee of an MPF scheme, the contributions are said to be vested fully and immediately in the relevant employee as accrued benefits.

(b) Investment income or profit arising from the investment of mandatory contributions (after taking into account any loss arising from such investment) is also fully and immediately vested in the scheme member.

(c) Voluntary contributions made by a relevant employee or a self-employed person and TVC made by TVC account holders are vested in full as accrued benefits in that relevant employee, self-employed person or TVC account holder when they are paid to the trustee. However, voluntary contributions made by an employer in respect of a relevant employee are vested in the relevant employee as accrued benefits, in accordance with the governing rules of the scheme.

(d) Even if the relevant employee ceases employment after a short while, the employer cannot claw back the accrued benefits derived from the employer's portion of mandatory contributions and the vested portion of the employer's voluntary contributions made previously.

3.9 PRESERVATION

The primary intention of the MPF System must never be forgotten. That is to provide a sum of money for the scheme member on retirement. It is therefore extremely important that there should be a strict preservation of any accrued benefits until the time they are to be paid. Accordingly, all benefits derived from mandatory contributions and TVC must be preserved until the scheme member reaches the age of 65, except for early withdrawals under specific circumstances described in **3.11** below.

Note: The above only applies to mandatory contributions and TVC. Voluntary contributions are not bound by the same rules. Such voluntary contributions made by or in respect of a scheme member can be paid to the scheme member as provided by the governing rules of the scheme.

3.10 PORTABILITY

Types of MPF Accounts

To better understand the portability of MPF benefits under different circumstances, you should have a clear concept about the three types of MPF accounts, namely, contribution accounts, personal accounts and TVC accounts.

(a) "Contribution account" refers to an account in an MPF scheme which mainly receives MPF contributions (both employer and employee portions) made by an employer in respect of a relevant employee under current employment. Contribution account can also receive MPF contributions made by a self-employed person while self-employed.

(b) "Personal account" refers to an account in an MPF scheme which mainly receives the accrued benefits attributable to a member's former employment or self-employment transferred from other MPF account(s). Personal accounts can also receive accrued benefits attributable to a member's current employment

transferred from a contribution account during current employment under Employee Choice Arrangement (ECA).

(c) "TVC account" refers to an account which is opened for making of TVC in an MPF scheme that offers such account. Members of contribution accounts and personal accounts of MPF schemes or MPF exempted ORSO schemes can enjoy tax deduction for TVC made to TVC accounts. The member may, at any time, request transfer of all accrued benefits in a TVC account to a TVC account in another MPF scheme (partial transfer is not allowed).

3.10.1 Relevant Employee Who Is under Current Employment

ECA allows relevant employees to transfer part of the accrued benefits from their contribution accounts to the accounts nominated by them in an MPF scheme of his/her own choice during current employment.

(a) What Is "ECA"?

The ECA aims to increase employees' right to choose MPF trustees/schemes and to encourage employees to actively manage their MPF investment, thereby promoting greater market competition.

Under the MPF System, employers choose MPF trustee(s) and scheme(s) for their relevant employees and enrol them as scheme members, and the relevant employees choose the funds under the scheme in which the employers' and relevant employees' contributions are invested. The employers' and relevant employees' contributions are made to a contribution account under the employer-selected scheme. The accumulated contributions together with the investment returns are generally referred as accrued benefits.

Before the implementation of ECA, if relevant employees consider the services of the trustee or the MPF scheme chosen by their employers do not suit their personal needs, they cannot transfer the accrued benefits from their MPF contribution accounts to trustees/schemes of their own choice until they cease employment with their employers.

After the implementation of ECA in November 2012, relevant employees can enjoy greater autonomy in the selection of MPF trustees and schemes. That is, they can transfer the accrued benefits derived from the relevant employees' mandatory contributions made during current employment held in a contribution account to a personal account in another MPF scheme of their own choice in its entire amount once every calendar year*.

* Unless the governing rules of MPF scheme provide for more frequent transfer.

The transferability of accrued benefits derived from voluntary contributions is subject to the governing rules of individual schemes. The ECA does not bring changes to the existing arrangement. For the governing rules of individual schemes, members may enquire with the employer or the related trustee(s).

Note: Even if relevant employees give effect to the transfer of accrued benefits to a personal account in another MPF scheme of their own choice while employed, employers should continue making contributions to the existing MPF scheme(s) selected by the employers by the contribution day for each contribution period.

(b) Destination of Transfer

A relevant employee can elect to transfer the accrued benefits of the sub-accounts such as employee's mandatory contributions attributable to current employment and mandatory contributions attributable to former employment in contribution accounts in a lump sum to the same MPF account. Alternatively, a relevant employee can transfer the accrued benefits of the sub-accounts separately to different MPF schemes and MPF accounts on different days.

The table below shows the designated types of MPF accounts for the two types of accrued benefits in a contribution account to be transferred out:

Type of accrued benefits in a contribution account	**Type of MPF accounts**
Employee's Mandatory Contributions attributable to **Current Employment**	Can only be transferred to **Personal Account**
Mandatory Contributions attributable to **Former Employment or Self-employment**	Can be transferred to **Personal Account** or **Contribution Account**

3.10.2 Relevant employee Who Ceases Employment with His/Her Employer

The accrued benefits of a relevant employee held in a contribution account can be transferred to another MPF account or scheme when the relevant employee ceases employment with his/her employer.

(a) If a relevant employee participates in a master trust scheme, on change of employment, the relevant employee can elect to transfer the accrued benefits to the contribution account under his/her new employer's scheme, or to a personal account under any scheme of his/her choice, or retain the benefits within the same master trust scheme in his/her own personal account. If the relevant employee would like to transfer his/her accrued benefits to the scheme of his/her new employer, he/she can submit the instructions to the eMPF Platform. The eMPF Platform will process the transfer of accrued benefits from the original scheme to the new scheme.

(b) If a relevant employee is a member of an employer sponsored scheme, when the relevant employee changes employment, the relevant employee must transfer the accrued benefits from the employer sponsored scheme to another MPF scheme,

i.e. to the scheme in which the new employer is participating or a scheme to which the relevant employee is eligible to join.

(c) If a relevant employee is employed in an industry (i.e. catering or construction for the time being) for which an industry scheme has been established, and both the previous and the new employers have joined the same industry scheme, on change of employment within the same industry, the relevant employee may retain the accrued benefits in the industry scheme. However, the relevant employee may also choose to transfer the accrued benefits to a master trust scheme of his/her choice.

3.10.3 Self-employed Person Becomes a Relevant Employee of an Employer

If a self-employed person who is a member of a master trust scheme ceases to be self-employed and becomes a relevant employee of an employer, the person may retain the accrued benefits in the existing account in the master trust scheme, or transfer the accrued benefits to another master trust scheme or an industry scheme to which the person is eligible to belong. The person may also transfer the accrued benefits to the MPF scheme in which the new employer is participating.

3.10.4 Notes to Member to Make an Election to Transfer

A scheme member may choose not to exercise the right to transfer the accrued benefits. However, if a member decides to exercise such right, he/she should consider the following factors:

- Trustee/scheme
  - Range and quality of services
  - Fees and charges
  - Choices and suitability of funds

- Personal factors
  - Investment objective(s)
  - Current life stage
  - Risk tolerance level
  - If he/she is currently investing in “guaranteed funds”, he/she should note that he/she may fail to fulfill certain qualifying conditions when switching the funds, and therefore may not be able to enjoy the guaranteed returns.

- Investment risk due to market fluctuation during the transfer
  - During the process of transfer of accrued benefits, scheme members' accrued benefits are first cashed out from the original scheme to the new scheme for fund re-investment. In other words, there will be a time lag during which their redeemed accrued benefits will not be invested. During this period, fund prices may change due to market fluctuations, possibly resulting in a 'sell low, buy high' situation. Scheme members should take special note of this risk

before transferring their funds.

- MPF funds are traded on a "forward pricing" mechanism, i.e. the unit price of a fund has to be determined by calculating the fund's asset value when the relevant investment market closes and thus members cannot buy or sell fund units at a specific price.

➢ Relevant information

- Read the "Guide to Transfer of MPF Accrued Benefits under Employee Choice Arrangement" available on the MPFA website to learn more about the features of the ECA.
- Read the MPFA investment education publications "Step-by-Step Investing in MPF Funds", "FAQs on MPF Investment" and "How to Make MPF Investment Decisions"[1] to learn more about MPF investment.
- Study thoroughly the information provided by the trustees, such as offering documents, fee tables, fund fact sheets and Key Scheme Information Documents.
- Make use of the information provided in fund fact sheets and MPF "MPF Fund Platform" (https://mfp.mpfa.org.hk/eng/mpp_index.jsp), such as fund expense ratio, fund risk indicator, on-going cost illustrations, fund performance information, etc.

3.10.5 Duties of the Trustee on Transfer of Accrued Benefits

In general, the original trustee (transferor trustee) must take all practicable steps to ensure that the accrued benefits concerned are transferred within 30 days after being notified by the new trustee (transferee trustee) of the transfer election or if a transfer request is made by a relevant employee who ceases to be employed by the employer concerned, within 30 days after the last contribution day in respect of the employment that has ceased, whichever is the later. A notification will be sent to the scheme member concerned via the eMPF Platform when the transfer of accrued benefit is completed.

3.11 WITHDRAWAL OF BENEFITS

Since the MPF System was introduced to assist members of the workforce save for their retirement, scheme members can only claim payment of their accrued benefits derived from mandatory contributions when they reach the age of 65.

However, early withdrawals are permitted under the following specific circumstances:

(a) **Early retirement** — The scheme member must reach the age of 60 and declare that he/she has ceased all employment or self-employment, with no intention of becoming employed or self-employed again.

[1] Relevant publications have been posted on the MPFA website (www.mpfa.org.hk) and are available for collection at the MPFA offices, the Public Enquiry Service Centres of the District Offices or the regional offices of Labour Department.

(b) **Permanent departure from Hong Kong** — The scheme member must declare that he/she has departed or will depart from Hong Kong to reside elsewhere with no intention of returning for employment or to resettle in Hong Kong as a permanent resident, and provide proof satisfying the trustee that he/she is permitted to reside permanently in a place outside Hong Kong. This reason for early withdrawal can only be used once in a lifetime.

(c) **Death** — The accrued benefits of a deceased member are a part of the member's estate and therefore must be claimed by the scheme member's personal representative or the Official Administrator.

(d) **Total incapacity** — The scheme member must provide a medical certificate which must be issued by a registered medical practitioner or registered Chinese medicine practitioner, certifying that the scheme member has become permanently unfit to perform the particular kind of work he/she was doing in his/her last job before becoming totally incapacitated. The scheme member must also declare that the employment contract of the particular kind of work has been terminated.

(e) **Terminal Illness** — The scheme member must provide a medical certificate filled in and signed by a registered medical practitioner or a registered Chinese medicine practitioner stating that in the practitioner's opinion, the scheme member is considered as having an illness that is likely to reduce his/her life expectancy to 12 months or less.

(f) **Small balance** — The scheme member's balance in an MPF scheme does not exceed $5,000. If a scheme member wants to withdraw benefits on this ground, he/she must provide statutory declaration stating the following:

(i) the member does not intend to become employed or self-employed again;

(ii) as at the date of the claim, at least 12 months have lapsed since the contribution day in respect of the latest contribution period for which a mandatory contribution is required to be made to any registered scheme; and

(iii) the member does not have accrued benefits kept in any other MPF schemes.

- Accrued benefits may be withdrawn on the ground of attaining the age of 65 or early retirement either in a lump sum or by instalments. If accrued benefits are not withdrawn in a lump sum, the remaining accrued benefits will continue to be invested. Withdrawal of accrued benefits on other grounds can only be made in a lump sum.

- No fees or financial penalties may be charged to or imposed on a scheme member or deducted from the scheme member account, other than necessary transaction costs incurred or reasonably likely to be incurred in selling or buying investments in order to give effect to the withdrawal and are payable to a party other than the approved trustee, for payment of the member's accrued benefits in a lump sum or for the first 4 withdrawals by instalments each year.

- Except for claims for payment of MPF benefits on death, which can only be made by the personal representative of a deceased scheme member, claims for payment of MPF benefits on other grounds can be made by the scheme member or a committee of the estate appointed under Mental Health Ordinance (Cap.136).

Upon receipt of all required documents, the trustee is required to pay the accrued benefits no later than whichever is the later of the following:

(a) 30 days after the claim is lodged;

(b) 30 days after the contribution day in respect of the last contribution period that ends before the claim is lodged.

In addition, the eMPF Platform will provide a benefit payment statement to the claimant containing the date and the amount of accrued benefits paid.

3.12 UNCLAIMED BENEFITS

(a) The trustee may treat the accrued benefits as unclaimed benefits if:

(i) a scheme member or some other person has become entitled to be paid the member's accrued benefits but no claim has been lodged and the eMPF Platform is unable to locate the member or other person, the eMPF Platform must, as soon as practicable after becoming so aware, take the steps as specified in (b) below. If the eMPF Platform cannot locate the member or other person within 6 months after taking the specified steps, the accrued benefits become unclaimed benefits at the end of that period.

(ii) a scheme member or some other person has lodged a claim but the eMPF Platform is subsequently unable to locate the claimant before payment of the benefits, the eMPF Platform must, as soon as practicable after becoming so aware, take the steps as specified in (b) below. If the eMPF Platform cannot locate the claimant within 6 months after taking the specified steps, the accrued benefits become unclaimed benefits at the end of that period.

(iii) a scheme member has reached the retirement age and no claim has been lodged, the eMPF Platform will give a notice to the member requesting him/her to elect whether he/she will retain his/her accrued benefits with the scheme or not. If no reply is received within 6 months after the notice was given and the member is unlocated, the accrued benefits become unclaimed benefits at the end of that period. If a reply is received indicating that the member elects to retain the benefits within the scheme or no reply is received but the member can be located, the member annual benefit statements must continue to be issued.

(iv) a scheme member on whom an annual benefit statement has been served as mentioned in (iii) cannot be located subsequently while his/her accrued benefits are retained in the scheme, the eMPF Platform will, as soon as practicable, take the steps specified in (b) below. If the eMPF Platform is unable to locate the member within 6 months after taking the specified steps, the accrued benefits become

unclaimed benefits.

(v) a cheque for payment of a scheme member's accrued benefits is not presented within 6 months from the issue date of the cheque (Specified Period) and the claimant is unlocated during the period of 6 months after the expiry of the Specified Period, the accrued benefits become unclaimed benefits at the end of the 6-month period. However, if the eMPF Platform receives a returned cheque before the expiry of the Specified Period, the eMPF Platform should take immediate follow-up action to locate the claimant.

(b) The steps to be taken by the eMPF Platform before they can classify the accrued benefits of a scheme member as unclaimed benefits are set out as follows:

(i) Send the scheme member/person a notice to the last known residential and correspondence address(es), if available;

(ii) Make 3 attempts (at different times and dates) within 1 month, to locate the scheme member/person via other means of contact, if known (e.g. all contact phone number(s) or fax); and

(iii) Contact the employer concerned to obtain any contact information of the scheme member and if the contact information so obtained is different from that in the records of the trustee, repeat steps (i) and (ii) above (as the case may be).

(c) The eMPF Platform Company Limited maintains a Central Register for members of the public to check the information set out in section 19S of the MPFSO. If a person or his/her authorized representative would like to check the person's unclaimed benefits, the person or his/her authorized representative may request the eMPF Platform to provide relevant information on the Central Register, which includes, among others, (i) the name of each MPF scheme that the person is a member and the particulars of each account established and maintained by the person under those MPF schemes; (ii) the name of the approved trustee of each of those MPF schemes; and (iii) the amount of the accrued benefits held by the person in each account of those MPF schemes.

3.13 OFFSETTING OF LONG SERVICE PAYMENTS/SEVERANCE PAYMENTS

(a) Under the provisions of the Employment Ordinance (Cap.57), an employee may become entitled to a long service payment (LSP) or a severance payment (SP) from the employer on the occurrence of circumstances specified in that Ordinance.

(b) Before the abolition of MPF offsetting arrangement, employers can offset the LSP/SP payable to employees under the Employment Ordinance (Cap.57) against the MPF derived from the employer's mandatory and voluntary contributions (offsetting arrangement).

(c) The abolition of MPF offsetting arrangement took effect on 1 May 2025 (transition date). Starting from the transition date, employers can no longer use the accrued benefits derived from their mandatory contributions to offset LSP/SP of their employees in respect of the years of service starting from the transition date (post-transition portion of

LSP/SP). However, they can continue to use the accrued benefits derived from their voluntary contributions to offset LSP/SP of the employees (irrespective of whether the LSP/SP are for the years of service before or after the transition date).

(d) The employer is entitled to offset the pre-transition portion of LSP/SP for the employment period before the "transition date" of 1 May 2025 against the accrued benefits derived from the mandatory or voluntary contributions made by the employer (irrespective of whether the contributions are made before, on or after the "transition date") in respect of the relevant employee in the MPF scheme.

(e) For details, please refer to Labour Department's Thematic Webpage on the Abolition of MPF Offsetting Arrangement (https://www.op.labour.gov.hk/en/index.html).

(f) For example, if the pre-transition portion of LSP is $40,000 and accrued benefits derived from the employer's mandatory contributions is $55,000, the employer can only request the trustee to reimburse the $40,000 paid to the departing relevant employee after the LSP has been paid. The remaining accrued benefits, namely the balance of $15,000 derived from the employer's contributions, together with those derived from the contributions made by the relevant employee, have to be transferred to a contribution account of the new employer or personal account under an MPF scheme designated by the relevant employee and preserved until the relevant employee retires. (These rules apply to employer's and employee's mandatory contributions. The relevant employee may choose to withdraw his/her voluntary contributions subject to the governing rules of the scheme.)

(g) The employer should note that in offsetting LSP or SP, he/she will need to comply with other requirements set out in the Employment Ordinance (Cap.57) concerning such payments.

If an employer has paid LSP or SP to a relevant employee, he/she should submit the request to the eMPF Platform as soon as possible for reimbursement of the LSP or SP.

3.14 MAJOR OBLIGATIONS OF EMPLOYERS

These may be considered under a number of headings, as follows:

3.14.1 Employers Who Are Not Exempt from MPFSO

An employer is required to arrange for all his/her relevant employees to join an MPF scheme, unless the employees are exempt persons. Duties imposed upon the employer include, for example:

(a) selecting an MPF scheme (or schemes) from those available in the market, or arranging to set up an employer sponsored scheme;

(b) arranging for all relevant employees within the coverage of the MPFSO to join an MPF scheme within the time limit specified as described under paragraph 3.7.1(a)(iv) of this Chapter;

(c) calculating individual relevant employee's relevant income and amount of

contributions for each contribution period;

(d) deducting the relevant mandatory contributions from the relevant employee's income and making the employer's mandatory contribution from his/her own funds;

Note: It is the employer's responsibility to ensure that both the employer's and the relevant employee's contributions are made on time.

Even if an employer fails to arrange for his/her relevant employees to join an MPF scheme as required under (b) above, the employer is still obliged to ensure that both the employer's and the employee's mandatory contributions are made. Such contributions need to be paid to the MPFA. The MPFA will then pay the contributions to the appropriate MPF scheme for the benefit of the employees concerned.

(e) ensuring the mandatory contributions are paid to the trustee of the scheme on or before the stipulated contribution day as described under paragraph 3.7.1(a)(vii) of this Chapter;

(f) providing the eMPF Platform with a remittance statement or contribution data showing all relevant details of relevant employees (not including casual employees in an industry scheme as described in paragraph 3.7.1(a)(viii) of this Chapter), relevant income and contributions;

(g) providing each relevant employee (other than casual employees in an industry scheme as described in paragraph 3.7.1(a)(ix) of this Chapter) with a monthly pay-record, showing the relevant employee's relevant income, the amount of contribution paid by the employer and deducted from the relevant employee's relevant income, and the date on which the contributions were paid to the trustee, within 7 working days after the last contribution payment during a month.

3.14.2 When a Relevant Employee (Other Than a Casual Employee) Ceases Employment

(a) When a relevant employee ceases employment, the employer must give a written notice to the eMPF Platform no later than the 10th day after the month in which the relevant employee concerned ceases employment. The employer may use the remittance statement to inform the eMPF Platform of the relevant employee's cessation of employment and the date of cessation.

(b) In cases where the former employer cannot be located or refuses to notify the eMPF Platform about the cessation of employment of the relevant employee, the relevant employee may give a written notice to the eMPF Platform to declare the relevant employee's cessation of employment and the date of cessation. The notice given by the relevant employee must be in a form approved by the MPFA.

(c) If the relevant employee has not informed the eMPF Platform of his/her transfer election within 30 days after the eMPF Platform receives his/her termination

notice, the eMPF Platform will inform the relevant employee, by written notice, of his/her different transfer options and the consequences of not electing any transfer options within the specified time limit. If the eMPF Platform has not received his/her election within 3 months after it receives the termination notice, the relevant employee is deemed to elect to transfer his/her accrued benefits to a personal account in the same scheme. Then the eMPF Platform will process the transfer accordingly.

3.15 NON-COMPLIANT EMPLOYER AND OFFICER RECORDS

The MPFA set up the Non-Compliant Employer and Officer Records (NCEOR) in May 2011 to further enhance the deterrent effect on non-compliant employers and officers as well as to increase the transparency of the MPFA's enforcement actions. Using the NCEOR, members of the public can view and search for information on employers and officers with MPF non-compliance records resulting from legal proceedings initiated by the MPFA.

The NCEOR comprises two parts. The first part contains records of both criminal convictions and civil awards/judgments in connection with the violation of the MPFSO by employers (including limited companies and individuals such as sole-proprietors or partners) or their officers.

The second part of the NCEOR contains records of repeated offenders. Employers and/or their officers who have been convicted of offence(s) under the MPFSO on two or more occasions will be shown under this section.

- o - o - o -

Representative Examination Questions

Type "A" Questions

1 The MPF legislation includes a "non-refusal of scheme applicants" provision. The meaning of this is that:

(a) the MPFA cannot refuse to register a scheme; .....
(b) everyone in Hong Kong is included within the scheme; .....
(c) nobody can be rejected on the ground of sex or ethnic origin; .....
(d) a person who complies with all requirements on enrolment/participation cannot be refused by the trustee. .....

[Answer is in **3.6.3**]

2 Which of the following contributions are vested fully and immediately in the scheme member concerned when they are paid to the trustee of the MPF scheme?

(a) voluntary contributions made by the employer only; .....
(b) mandatory contributions made by the employee only; .....
(c) mandatory contributions made by the employer only; .....
(d) mandatory contributions made by both the employee and employer. .....

[Answer is in **3.8**]

3 Under the Employee Choice Arrangement ("ECA"), a relevant employee has a right to transfer which of the following contributions (together with the related investment return) from the contribution account to an account nominated by him/her?

(a) employer's mandatory contributions attributable to current employment; .....
(b) employee's mandatory contributions attributable to current employment; .....
(c) employer's voluntary contributions attributable to current employment; .....
(d) both employer's and employee's mandatory contributions attributable to current employment. .....

[Answer is in **3.10.1**]

Type "B" Questions

4 Which two of the following represent the current relevant income levels for the purposes of making mandatory contributions in respect of a relevant employee (other than a casual employee) to an MPF scheme?

(i) Minimum relevant income level - $5,000 per month
(ii) Minimum relevant income level - $7,100 per month
(iii) Maximum relevant income level - $30,000 per month
(iv) Maximum relevant income level - $35,000 per month

(a) (i) and (iii); .....
(b) (i) and (iv); .....
(c) (ii) and (iii); .....
(d) (ii) and (iv). .....

[Answer is in **3.7.1**]

5 Which of the following statements is/are true, if the relevant income of a relevant employee under an employer sponsored scheme is only $3,000 in a particular month?

(i) the employer has to pay a $150 mandatory contribution
(ii) the employer does not have to pay a mandatory contribution
(iii) the employee does not have to pay a mandatory contribution
(iv) neither the employer nor the employee has to pay a mandatory contribution

(a) (i) only; .....
(b) (i) and (ii) only; .....
(c) (i) and (iii) only; .....
(d) (i), (ii), (iii) and (iv). .....

[Answer is in **3.7.1**]

6 Which three of the following statements are correct in relation to the tax situation with MPF contributions and benefits?

(i) all accrued benefits derived from mandatory contributions, when payable, are exempt from tax
(ii) all contributions are not tax deductible
(iii) employee's mandatory contributions are tax deductible (limited to $18,000 per year for the year of assessment 2015/16 and afterwards)
(iv) employer's contributions are tax deductible (limited to 15% of the employees' emoluments paid)

(a) (i), (ii) and (iii); .....
(b) (i), (ii) and (iv); .....
(c) (i), (iii) and (iv); .....
(d) (ii), (iii) and (iv). .....

[Answer is in **3.7.3**]

[If required, answers may be found at the end of the Study Notes.]

4 MPF TRUSTEES

Under the MPF System, all MPF schemes must be managed by a "trustee" who is an "approved trustee".

4.1 TRUST ARRANGEMENT

4.1.1 Concept of Trust

The salient features of a trust are as follows:

(a) A trust is an arrangement whereby the trustee is made the registered owner of certain property, which is held for the benefit of others, who are known as "beneficiaries".

(b) The term "property" in (a) above is used in its widest legal sense namely, that a trustee holds – or is "entrusted" with – the assets in the trust.

(c) There may be more than one trustee appointed for one trust.

(d) A trustee may be either an individual (natural person) or a corporation (company).

(e) Although the trustee is the registered owner, it is not the beneficial owner. The trustee therefore cannot give away the property in the trust, nor can the trustee benefit from it, other than as permitted under the terms of the trust.

(f) Any income which the trust property generates belongs to the beneficiaries and any profit made from the trust property accrues for the interest of the beneficiaries.

(g) Normally, a trust is established by a legal document generally known as a "trust deed".

(h) All the duties, powers and rights of the trustee and the beneficiaries in respect of the trust are clearly stipulated in the trust deed.

(i) If the trustee deals with the trust property in a way that is contrary to the provisions of the trust deed, this constitutes a breach of trust, and the trustee is liable to the beneficiaries for all the losses or reduction in trust properties caused by the breach.

(j) From the above, it is obvious that being a trustee is a considerable responsibility, and it is very important that only people of integrity act as trustees.

4.1.2 Fiduciary Duties of Trustees

The word "fiduciary" comes from a root word meaning to have faith or "trust" in someone. It implies that considerable discretion and confidence are expected from the trustee. In general terms, their duties include the following:

(a) to exercise any discretion in the interests of the beneficiaries of the trust as a whole (this is a primary trust law obligation);

(b) to exercise a high degree of diligence and care with the management and security of the fund;

(c) to ensure that money is only paid to those eligible at the time the entitlement arises;

(d) to keep proper and adequate accounts and other records, which must be available to all entitled to see them;

(e) to ensure that assets are wisely and properly invested;

(f) to ensure that the trust is administered in accordance with the laws and the trust deeds; and

(g) to hold the trust properties on behalf of the beneficiaries and to act in the interest of beneficiaries and not in the trustee's own interest.

4.1.3 Recourse against Trustees

The recourse against trustees can be categorized as:

(a) **Restoration**

(i) A trustee is liable for breach of trust if it fails to perform the duties that are required of it as a trustee, or if it does what it is not entitled to do as a trustee. That means, should a breach of trust occurs, and the trust properties become lost or reduced, the beneficiaries are entitled to take legal action against the trustee to recover the loss.

(ii) A defaulting trustee that causes loss or damage to the trust property must, at the trustee's own cost, restore the property. If the property in question cannot be returned or restored, the trustee would be required to pay sufficient compensation. That is, the trustee must not apply the assets of the MPF scheme to indemnify its liabilities as a result of its mistake that causes loss or reduction of scheme assets.

(b) **Accountability**

All profits made by the trustee from the trust properties must be transferred to the beneficiaries.

4.1.4 Advantages of the Trust Arrangement

The advantage of a trust arrangement is that even if the scheme trustee, other service providers or the employer is in financial difficulties, the creditor cannot request the trustee, other service providers or the employer to make use of the assets under trusteeship to repay a debt. In other words, trust arrangement provides basic protection for scheme members' assets.

4.2 CATEGORIES OF TRUSTEES

There are three categories of trustees:

(a) local corporate trustee and re-domiciled corporate trustee;

(b) offshore (outside Hong Kong) corporate trustee; and

(c) individual (natural person) trustee.

All master trust schemes and industry schemes must be managed by corporate trustees. Individuals may act as trustees only in respect of employer sponsored schemes.

4.3 DUTIES AND FUNCTIONS OF TRUSTEES

The approved trustee is the central party responsible for all scheme management functions. Although the trustee may appoint other service providers to perform the scheme functions (see **3.2**), it has the duty to closely monitor the performance of those service providers in order to fulfill its fiduciary duties with respect to the scheme. The MPFSO and General Regulation specify many detailed requirements for trustees, breaches of which could constitute criminal offences, incur penalties or result in suspension of scheme administration, or revocation of approval as approved trustees. In general terms, their duties include but are not limited to the following:

(a) to secure scheme registration;

(b) to ensure maintenance of adequate capital and professional indemnity insurance;

(c) to maintain investment policy statements, control objectives and internal control procedures;

(d) to exercise a reasonable level of care, skill, diligence and prudence;

(e) to supervise and exercise proper control over all service providers appointed or engaged;

(f) to ensure that the funds of the scheme are invested in different investments so as to minimize investment risks;

(g) to act in the interest of scheme members and in accordance with the governing rules of the scheme;

(h) to provide scheme information to scheme members;

(i) to arrange for payment of benefits to members after instructions are received from the eMPF Platform;

(j) to keep proper accounting records and members' register; and

(k) to prepare and lodge annual audited financial statements, scheme reports and investment reports of MPF schemes with the MPFA.

4.4 APPROVAL OF TRUSTEES

All persons purporting to be trustees of MPF schemes must apply to the MPFA for approval.

(a) **Corporate Trustee**

In general terms, the approval requirements in respect of a corporate trustee include:

(i) Capital adequacy and financial soundness

Corporate trustees must have paid-up share capital and net assets of at least $150 million each.

(ii) Suitability

The directors and the chief executive officer of the trustee must be "suitable" persons, i.e. they are of good reputation and character. The chief executive officer and a majority of the directors (which must include an independent director) must possess sufficient skills, knowledge and expertise in administering provident fund schemes.

(iii) Capability

The trustee must be capable of carrying on a business of administering MPF schemes and have proper internal control procedures.

(iv) Presence and control

The trustee must have sufficient presence and control in Hong Kong.

(b) **Offshore Corporate Trustee**

An offshore corporate trustee must meet additional criteria e.g. it must be supervised by an offshore authority that is acceptable to the MPFA, and the standards of the local trust and company laws are comparable to those in Hong Kong. This ensures that scheme members enjoy the same degree of protection.

(c) **Individual Trustee**

An individual trustee must ordinarily reside in Hong Kong and be of good reputation and character. An individual trustee (natural person, as opposed to company) will be required to provide performance guarantee, in the form of an insurance policy or a bank guarantee, covering losses from the trustee's failure to perform or other breach of duties. This performance guarantee must be for 10% of the net asset value of the scheme, with a maximum of $10 million. If an individual is to be appointed as a trustee, there must be at least two such trustees.

4.5 ON-GOING MONITORING

It must never be assumed that once a scheme has been launched it will carry on without problems or there is not any need for further supervision. Adequate monitoring of trustee performance and compliance with requirements must therefore be an on-going process. Some ways in which the MPFA performs this on-going monitoring function include:

(a) requiring trustees to have proper internal control and procedures to ensure compliance with requirements;

(b) conducting off-site reviews of reports and returns;

(c) conducting on-site inspections of trustees;

(d) meeting with trustees regularly to exchange views on various issues;

(e) handling of complaints received from employers or members;

(f) requiring trustees to report to the MPFA significant events, including (suspected) cases of breach;

(g) conducting investigations where it reasonably believes that MPF requirements have or might have been breached;

(h) investigating any other situation where it believes that the interests of scheme members may be adversely affected;

(i) requesting "whistle blowing" reports from other service providers of an MPF scheme in respect of the performance of the trustee; and

(j) requiring trustees' rectification of any deficiencies.

As the eMPF Platform is in full operation, all approved trustees are mandated to use the eMPF Platform to perform scheme administration functions in relation to the MPF schemes they operate. Participating employers and scheme members of all MPF schemes are required to manage their MPF accounts through the eMPF Platform and submit their MPF administration instructions to the eMPF Platform for processing. The MPFA is empowered

under the MPFSO to oversee the operation of the eMPF Platform. For more information on the oversight role of the MPFA, please refer to chapter 8 of the Study Notes, Introduction to the eMPF Platform.

4.6 COMPLIANCE STANDARDS FOR MPF APPROVED TRUSTEES

To enhance the effective operation of the MPF System, the MPFA promotes a positive compliance culture, good corporate governance and proper risk management among the approved trustees. The MPFA has developed a set of Compliance Standards for the guidance of approved trustees in establishing a structured framework for monitoring their compliance with statutory duties and responsibilities. There are eight standards, each accompanied by detailed explanatory notes and examples.

Standard 1 – Compliance Programme to Address Statutory Obligations

(a) An approved trustee should have a compliance programme which provides a framework enabling the approved trustee to monitor and ensure compliance with its obligations, as well as to address any breach issues.

Standard 2 – Compliance Policy

(a) An approved trustee should develop and maintain a compliance policy that drives the organization towards a positive compliance culture and encourages compliance practices.

(b) The compliance policy should be endorsed by the approved trustee's Board of Directors and be readily available to management, staff and service providers.

Standard 3 – Compliance Resources

(a) An approved trustee should have adequate and independent compliance resources to monitor its compliance and ensure that compliance reporting is timely, accurate and complete.

Standard 4 – Compliance Training and Communication

(a) An approved trustee should achieve and sustain a positive compliance culture by ensuring that relevant staff understand their roles in meeting the trustee's statutory obligations.

Standard 5 – Complaints Handling Procedures

(a) An approved trustee should have in place measures that enable the proactive and timely management of complaints from scheme members and participating employers.

Standard 6 – Compliance Programme Maintenance and Review

(a) An approved trustee should monitor the effectiveness of its compliance programme by having measures in place for its maintenance and review.

Standard 7 – Reporting Mechanism to the Board of Directors including the Independent Director

(a) The Board, including the independent directors, should be provided with timely and accurate information so that they are able to take responsibility for monitoring compliance of an approved trustee's operation.

Standard 8 – Compliance Plan to Address Identified Obligations

(a) An approved trustee should have in place compliance measures that enable it to effectively identify, monitor, supervise and report on its statutory obligations.

4.7 GOVERNANCE PRINCIPLES FOR MPF TRUSTEES

To assist MPF trustees in performing their duties and making decisions concerning the operation of MPF schemes, the MPFA has developed a set of core governance principles. These principles are good references to approved trustees in implementing sound governance framework with a view to discharging their duties effectively and efficiently.

Principle 1 – An MPF trustee should thoroughly understand its duties and at all times act in the best interest of scheme members

Principle 2 – An MPF trustee should establish and maintain a comprehensive and robust governance framework for the oversight and management of its MPF business and operations

Principle 3 – An MPF trustee should ensure that its Board of Directors (Board) is properly composed and that its role and any delegated authorities are properly defined, documented and monitored

Principle 4 – An MPF trustee should ensure all members of its Board are fit and proper and suitably qualified to perform their duties

Principle 5 – An MPF trustee should deliver value-for-money MPF schemes and services to its scheme members

Principle 6 – An MPF trustee should ensure proper policies and procedures are in place to effectively identify, manage and address conflicts of interest

Principle 7 – An MPF trustee should properly monitor the performance of its appointed service providers[1]

Principle 8 – An MPF trustee should ensure effective monitoring of the investment performance of constituent funds under its MPF schemes

Principle 9 – An MPF trustee should establish and maintain an effective risk management framework for its MPF business and operations

Principle 10 – An MPF trustee should communicate clearly and effectively with its scheme members and provide appropriate information to assist them with decision-making over their retirement savings in the MPF System

[1] As defined in section 2 - Interpretation of MPFSO, a service provider means an investment manager, custodian of scheme assets or other person appointed or engaged by the trustee of the scheme to provide services for the purposes of the scheme, and includes a person to whom the provision of those services is delegated by such a manager, custodian or other person, but does not include a person appointed or so engaged as an auditor, solicitor, actuary or registered intermediary, or the system operator of an electronic MPF system.

For more information on the explanations and practical examples under each principle, please visit the MPFA website (https://www.mpfa.org.hk). The Governance Principles for MPF Trustees is published under "Supervision" > "MPF Trustees" > "Legislation and Regulations".

4.8 SANCTIONS AND PENALTIES

The MPFA investigates cases of suspected breach with these requirements.

(a) For cases of breach, the MPFA may:

(i) request the trustee to take proper remedial action;

(ii) conduct a formal investigation on the trustee;

(iii) impose a level of financial penalty which is proportionate to the seriousness of breach in question;

(iv) suspend the trustee from the administration of an MPF scheme, and appoint another trustee to administer the scheme on a temporary basis;

(v) depending on the results of the investigation, terminate the trustee's administration of the scheme, prosecute the trustee for the non-compliance, and/or revoke the approval of the trustee.

(b) Certain breaches constitute offences under the MPF legislation. An approved trustee who is convicted of an offence is liable to a fine of up to $5,000,000 and imprisonment for up to 7 years and, in the case of a continuing offence, to a further fine of $100,000 for each day on which the offence is continued.

- o - o - o -

Representative Examination Questions

Type "A" Questions

1 Under the law of trusts, the trustee is considered to be:

(a) the registered owner of the trust assets; ....
(b) the beneficial owner of the trust assets; ....
(c) totally independent and unconnected with the trust assets; ....
(d) none of the above. ....

[Answer is in **4.1.1**]

2 Which of the following is not one of the Compliance Standards for MPF Approved Trustees?

(a) Complaints Handling Procedures; ....
(b) Compliance Plan to Address Identified Obligations; ....
(c) Compliance Policy; ....
(d) Code of Ethics. ....

[Answer is in **4.6**]

Type "B" Questions

3 Which three of the following are approval criteria required in the appointment of a trustee for an MPF scheme?

(i) fit and proper person
(ii) must have been a trustee before
(iii) adequate capital and financial soundness
(iv) capable of carrying on a business of administering MPF schemes

(a) (i), (ii) and (iii); ....
(b) (i), (ii) and (iv); ....
(c) (i), (iii) and (iv); ....
(d) (ii), (iii) and (iv). ....

[Answer is in **4.4**]

[If required, answers may be found at the end of the Study Notes.]

5 MPF SCHEMES AND INVESTMENT

5.1 REGISTRATION OF MPF SCHEMES AND APPROVAL OF CONSTITUENT FUNDS AND POOLED INVESTMENT FUNDS

MPF schemes, constituent funds and pooled investment funds must be approved by the MPFA and authorized by the SFC. There are complementary regulatory functions between the MPFA and the SFC. Both the MPFA and the SFC have issued codes relating to MPF products, but the codes serve different purposes with each specifying requirements relating to different aspects of MPF products.

(a) Generally speaking, the MPFA is responsible for the overall administration of the MPF System. This involves registering MPF schemes and approving constituent funds and pooled investment funds in accordance with the provisions of the MPFSO and the rules and regulations made thereunder. Therefore, the Code on MPF Investment Funds focuses on the operational and investment aspects that MPF products must comply with and specifies requirements additional to those prescribed in the MPF legislation. It also specifies the delineation of work between the MPFA and the SFC concerning the approval/authorization of these products.

(b) On the other hand, the SFC is responsible for authorizing MPF schemes, constituent funds and pooled investment funds, vetting/authorizing the disclosure of information in offering documents, advertisements and marketing materials and licensing investment managers. As such, the SFC Code on MPF Products sets out the requirements for the authorization of MPF schemes, constituent funds and pooled investment funds, as well as disclosure requirements on offering documents. Advertisements and other invitations or documents issued to the public in Hong Kong to invest or participate in master trust schemes, industry schemes and pooled investment funds must comply with the Advertising Guidelines issued by the SFC. The SFC Code on MPF Products also specifies the requirements on the qualifications and experience of the investment managers who manage the products.

(c) The Code on MPF Investment Funds and the SFC Code on MPF Products are complementary to each other.

(d) The SFC Code on MPF Products sets out post-authorization requirements for MPF products, which require that any proposed changes to the offering document of an MPF product as a result of certain changes must be submitted to the SFC for prior approval. These changes include, without limitation, changes to constitutive documents, key operators and investment objectives.

5.2 MPF SCHEMES

As mentioned in Chapter 3, there are three types of MPF schemes, namely employer sponsored schemes, master trust schemes and industry schemes. Each of these schemes consists of constituent funds into which scheme members invest their contributions and accrued benefits.

5.3 CONSTITUENT FUNDS

5.3.1 Features of Constituent Funds

An MPF scheme, whether employer sponsored, master trust or industry scheme, may consist of a number of constituent funds. Constituent funds are investment funds within an MPF scheme into which scheme members invest their contributions and accrued benefits. Each scheme member is entitled to decide which of the constituent fund(s) of the scheme to invest in.

All constituent funds have to meet the following requirements:

(a) each constituent fund within a scheme must have a different investment policy, so that members have a choice in investing their accrued benefits;

(b) all constituent funds within an MPF scheme, and any investment option that is formed by a combination of constituent funds within an MPF scheme (e.g. the Default Investment Strategy) must be made available to all scheme members;

(c) a constituent fund may maintain a portfolio of direct investment in equities, bonds, etc., or invest in one or more approved pooled investment funds and/or index-tracking collective investment schemes approved by the Authority;

(d) a constituent fund must be governed by Hong Kong law and denominated in Hong Kong dollars;

(e) a constituent fund must have at least one regular dealing day per month;

(f) all constituent funds must be unitized except for those which are non-investment linked and provide investment guarantees;

(g) there must be an MPF Conservative Fund (pursuant to section 37 of General Regulation) in each scheme;

(h) pricing of unitized constituent funds must be on a forward basis. If constituent funds are non-unitized, the accounts of scheme members must be credited with the investment return at least once a month; and

(i) for master trust and industry schemes, the latest available offer and redemption prices or net asset value per unit of unitized constituent funds must be made public free of charge on every dealing day in an appropriate manner. Means of dissemination may include websites, newspapers and telephone hotlines. For unitized constituent funds of an employer sponsored scheme, the approved trustee may choose other means to release such information to scheme members.

5.3.2 Types of Constituent Funds

(a) **MPF Conservative Fund**

At least one of the constituent funds of an MPF scheme must be an MPF Conservative Fund. As suggested by the name of the fund, its intention is to offer members a relatively conservative option of investment. It should be noted that the MPF Conservative Fund is not a guaranteed fund. In times of high inflation, it is possible that the rate of return of the MPF Conservative Fund may not catch up with the rate of inflation.

Certain safeguards have been built into an MPF Conservative Fund, as follows:

(i) it must be 100% invested in Hong Kong dollar investments;

(ii) the funds must be placed in short-term bank deposits or invested in short-term debt securities that are issued or guaranteed by the government or an authority of similar standing, or meet the minimum short term credit rating set by the MPFA;

(iii) the average portfolio remaining maturity period must not exceed 90 days;

(iv) investments in equities or commodities are strictly prohibited;

(v) monthly reporting to the MPFA must be performed;

(vi) administrative expenses (such as fees payable to trustee, custodian, investment manager and eMPF Platform Company Limited) for running the fund cannot be deducted from the fund in any particular month, unless the achieved investment earnings of the fund for that month exceed the earnings calculated based on the prescribed savings rate (as declared by the MPFA) for the same month; and

(vii) neither initial fees nor redemption charges can be imposed on an MPF Conservative Fund. Bid and offer spreads are also not allowed.

The two main objectives of an MPF Conservative Fund are:

(i) to provide a low investment risk product, with minimum exposure to market fluctuations; and

(ii) to produce a net investment return for scheme members comparable to banks' Hong Kong Dollar savings rate.

(b) **Guaranteed Fund**

A guaranteed fund operates by providing some form of guarantee. Holders of guaranteed funds, however, are subject to the additional risk that they may not meet the qualifying conditions for the guarantee.

Basically, there are two types of "guaranteed" fund:

(i) The first type provides a "hard" guarantee which promises to pay a minimum net return without imposing any qualifying conditions for the guarantee.

(ii) The second type provides a "soft" guarantee which promises to pay a minimum return when the fund holder meets certain qualifying conditions imposed by the guarantor.

In general, most guaranteed funds guarantee one of the following:

(i) capital guarantee i.e. guaranteeing the total amount of MPF contributions; or

(ii) return guarantee i.e. guaranteeing the total amount of MPF contributions plus a rate of return on investment.

Most guaranteed funds available in the market are "soft" guaranteed funds requiring that a minimum period of investment be met and/or that the guarantee will only be provided under specified "qualifying events", such as attainment of age 65, early retirement at age 60, total incapacity, terminal illness or permanent departure from Hong Kong.

If an investor redeems the guaranteed fund prior to the occurrence of a qualifying event, they will receive an amount that reflects the actual investment return. This amount may be higher or lower than the guaranteed return.

Some important features of guaranteed funds include:

(i) Minimum investment period

During this period, if one switches out of the guaranteed fund or if the employer switches to another scheme, the guarantee becomes void.

(ii) Withdrawal

The investment guarantee may only be applicable to withdrawal of accrued benefits under specific circumstances such as reaching age 65, early retirement, death, total incapacity, etc.

(iii) Change of guarantee features

Subject to any necessary regulatory approval, the guarantor may change the guaranteed features by giving advance notice in accordance with the scheme governing rules.

(iv) Reserve charge

A reserve charge or guarantee fee will be deducted from the fund assets. Some guaranteed funds offer an exemption of the reserve charge.

The major risk faced by an investor of a guaranteed fund is the default risk of the guarantor, i.e. the inability of the guarantor to fulfill its financial obligations. However, all guarantors are required to maintain sufficient assets as reserves or provisions to support their obligations for the investment guarantees.

(c) **Other Types of Funds**

In addition to the above-mentioned funds, there is a range of different kinds of constituent funds offered by MPF service providers. They vary from conservative funds (such as money market funds, bond funds) to aggressive funds (such as equity funds, growth funds). Regardless of the type of fund, it should be emphasized that investments involve risk and investment returns are affected by prevailing economic and market conditions. Care should be taken in choosing a fund that meets one's financial situation and objectives.

The following funds are also commonly found in an MPF scheme:

(i) Money Market Fund

Money market funds mainly invest in short-term instruments such as treasury bills, certificates of deposit, commercial papers. This type of funds is the least risky compared with other types of funds, but its return may not beat inflation and may even be negative.

(ii) Bond Fund

A bond fund primarily invests in bonds which are debt securities issued by governments, public organizations, banks, commercial organizations and supranational agencies like the World Bank. A bond issuer promises to pay interest during the life of the bond and repay the principal upon maturity of the bond.

A bond fund may earn its income from interests generated by the bonds held by the fund. The fund may either hold the bonds till maturity and get back the principal from the issuers, or trade the bonds, taking advantage of market movements. Generally, a bond fund aims to achieve a modest but stable level of income; capital appreciation is of secondary importance.

Bond funds can be categorized by the term to maturity of the bonds in which they invest. Long-term bond funds invest in bonds with at least 10 years to maturity; medium-term bond funds in bonds with 3 to 10 years to maturity and short-term bond funds in bonds of less than 3 years to maturity.

In general, while long-term bonds will tend to offer a higher yield, the longer the maturity of the bonds, the more susceptible are the bond prices to interest rate movements.

Aside from the interest rate risk, the credit ratings of the bonds that the fund invests in should also be considered as they indicate the degree of credit risk involved in investing in the fund. Generally, the higher the credit rating of the bonds, the lower the risk of the fund that invests in them.

(iii) Mixed Assets Fund

A mixed assets fund is an investment mix of bonds and equities (stocks). There are many mixed assets funds offered in the MPF market, though they may be called by other names.

A typical mixed assets fund invests in both stock markets and bond markets, either globally or regionally (e.g. Asia or North America), in order to reduce the overall risk as well as to take advantage of investment opportunities in different markets and economies. Therefore, the risk level of this kind of fund is usually somewhere between that of a bond fund and an equity fund.

As a rule of thumb, the higher the proportion invested in equities, the higher the risk. The more countries the fund invests in, the lower the risk of concentration.

Due to the investment mix of the fund, the expected return of a mixed assets fund is usually higher than that of a bond fund but lower than that of an equity fund.

Some mixed assets fund, known as Target Date Fund, automatically adjust the asset allocation (the proportion invested in equities and bonds) in the investment portfolio for scheme member as the date for retirement gets nearer. The asset mix in the fund changes by reducing the exposure to equities and gradually increasing investments into conservative assets such as bonds closer to the target date.

(iv) Equity Fund

An equity fund primarily invests in equities traded on stock exchanges. Through investment in stocks of companies, an equity fund aims to achieve capital appreciation over a period of time. However, since stock markets may go up or down quite substantially in a short period of time, the price of an equity fund could be volatile at times.

There are many different types of equity fund. Some are characterized by the countries they invest in, such as a global fund that invests in global equity markets or an Asia-Pacific regional fund that invests in the Asia-Pacific markets.

(v) Index-tracking Fund

An index-tracking fund is a collective investment scheme with the primary objective of tracking or replicating the investment performance

of an index in either equities or debt securities. Such funds aim at producing or achieving investment returns that closely match or correspond to the performance of the index being tracked.

An index-tracking fund may seek to track a particular index by investing all or substantially all of its assets in the constituent securities of the underlying index, either in proportion to their respective weightings or in a representative sample of the constituent securities of that index.

5.4 Default Investment Strategy (DIS)

Before 1 April 2017, each MPF scheme already had a default investment arrangement (DIA) about how MPF benefits would be invested where a member had not made any choice of constituent funds. With effect from 1 April 2017, the MPF legislation has been amended to introduce an important feature called the Default Investment Strategy (DIS) in every MPF scheme to replace the pre-existing DIA.

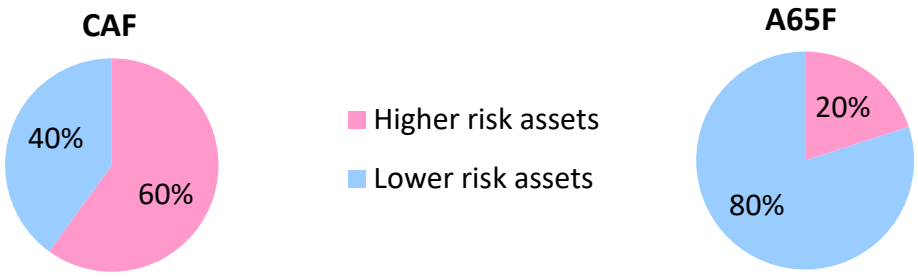
5.4.1 What is the DIS?

The DIS is a ready-made investment arrangement mainly designed for scheme members who do not know how to choose MPF funds or who have no time to manage their MPF investments. It is also available as an investment choice for members who find it suitable for their own circumstances. Effective 1 April 2017, the DIS has been implemented and is required by law to be offered in every MPF scheme. For members who do not make a fund choice for their MPF benefits in their MPF accounts, all those benefits must be invested in accordance with the DIS.

Two Constituent Funds

The DIS aims to balance the long term effects of risk and return through investing in two constituent funds, namely the Core Accumulation Fund (CAF) and the Age 65 Plus Fund (A65F) (collectively the DIS Constituent Funds), according to the pre-set allocation percentages at different ages. Both the CAF and the A65F are mixed asset funds. The CAF will invest around 60% of its net asset value (NAV) in higher risk assets (generally mean equities or similar investments) and 40% of its NAV in lower risk assets (generally mean bonds or similar investments) whereas the A65F will invest around 20% in higher risk assets and 80% in lower risk assets (see Diagram 1 below).

Diagram 1: Asset Allocation of CAF and A65F



Three Key Features

(a) Automatic Reduction of Investment Risk According to Member's Age

The MPF benefits of a member invested according to the DIS will be invested in a way that adjusts investment risk according to a member's age. The risk reduction process of the DIS (de-risking) will manage investment risk exposure by automatically reducing a member's exposure to higher risk assets and correspondingly increasing the exposure to lower risk assets as the member gets older. Such de-risking is to be achieved by way of reducing the investment holding in the CAF and increasing the holding in the A65F over time. The asset allocation of the DIS remains unchanged below age 50 (100% in CAF). Then the percentage holding in the CAF reduces steadily from age 50 until age 64 and after which the member's MPF benefits will be fully invested in the A65F.

In summary, under the DIS:

(1) When a member is below the age of 50, all MPF benefits (i.e. accrued benefits and future investments) will be invested in the CAF (i.e. 100% allocate to the CAF).

(2) When a member is between the ages of 50 and 64, all MPF benefits will be invested according to the allocation percentages between the CAF and the A65F as shown in the DIS De-risking Table (see Diagram 2 below). The de-risking will be automatically carried out (i.e. no action is required by member) as described above.

Diagram 2: DIS De-risking Table*

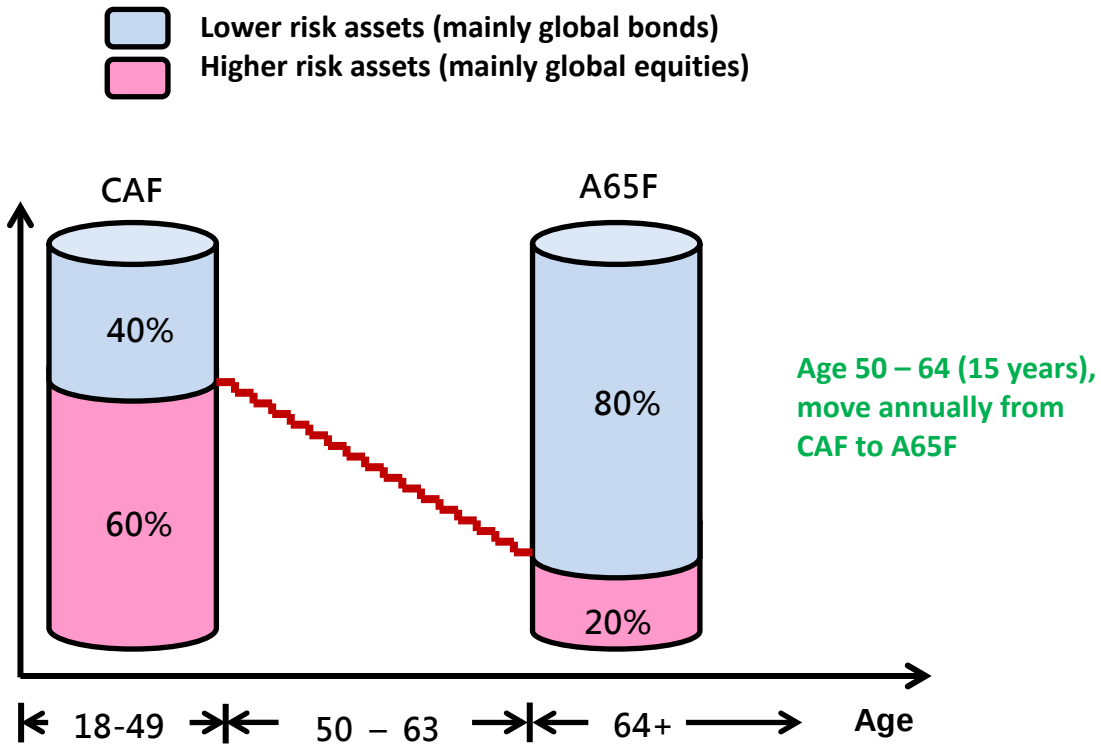
Age	CAF	A65F
Below 50	100.0%	0%
50	93.3%	6.7%
51	86.7%	13.3%

52	80.0%	20.0%
53	73.3%	26.7%
54	66.7%	33.3%
55	60.0%	40.0%
56	53.3%	46.7%
57	46.7%	53.3%
58	40.0%	60.0%
59	33.3%	66.7%
60	26.7%	73.3%
61	20.0%	80.0%
62	13.3%	86.7%
63	6.7%	93.3%
64 and above	0.0%	100.0%

*The above asset allocation between the CAF and the A65F is made at the point of reaching the specified age (i.e. annual de-risking) and the proportion of the CAF and the A65F under the DIS portfolio may vary during the year due to market fluctuations.

Diagram 3 below presents graphically the target proportion of investment (between the CAF and the A65F) in the DIS over time.

Diagram 3: Asset allocation between the DIS Constituent Funds in the DIS



(3) When a member reaches the age of 64 (or if a member's age is unknown to the MPF trustee), all MPF benefits will be invested in the A65F (i.e. 100% allocate to the A65F).

Note: It should be noted that the above de-risking arrangement will not apply where the member chooses the CAF and the A65F as standalone constituent funds (rather than as part of the DIS).

(b) **Fee Caps of the CAF and the A65F**

The CAF and the A65F are subject to fee and expense caps as imposed by law.

(i) **Management Fees: Not More Than 0.75% of the NAV of the Fund Per Annum**

The aggregate of the payments for services in relation to the CAF and the A65F must not, in a single day, exceed a daily rate of 0.75% per annum of the NAV of each of the DIS Constituent Funds divided by the number of days in the year. It generally includes the fees paid or payable for the services provided in relation to the DIS Constituent Funds by the MPF trustee, eMPF Platform Company Limited, investment manager(s), custodian and MPF scheme provider and/or promoter of the MPF scheme, any delegates of the investment manager or custodian, and the relevant fees in relation to underlying investments of the respective DIS Constituent Funds.

(ii) **Recurrent Out-of-pocket Expenses: Not More Than 0.2% of the NAV of the Fund Per Annum (and it will be further reduced to 0.1% after individual trustees and schemes have onboarded the eMPF Platform)**

The total amount of all payments that are charged to or imposed on the DIS Constituent Funds or members who invest in the DIS Constituent Funds, for out-of-pocket expenses incurred by the MPF trustee on a recurrent basis in the discharge of the trustee's duties to provide services in relation to the DIS Constituent Funds, shall not in a single year exceed 0.2% of the NAV of each of the DIS Constituent Funds (and it will be further reduced to 0.1% after individual trustees and schemes have onboarded the eMPF Platform).

For this purpose, out-of-pocket expenses would include, e.g. annual audit expenses, printing or postage expenses relating to recurrent activities (such as issuing annual benefit statements), recurrent legal and professional expenses, transaction costs incurred by a DIS Constituent Fund in connection with recurrent acquisition of investments for the DIS Constituent Fund (including, e.g. costs incurred in acquiring underlying investments) and annual statutory expenses (such as compensation fund

levy where relevant).

(c) **Globally Diversified Investment**

As mentioned above, the DIS is an investment solution that uses two mixed asset constituent funds to diversify and reduce investment risk. The DIS Constituent Funds adopt globally diversified investment principles by investing in different markets and in different classes of assets, including global equities, fixed income, money market instruments and cash, and other types of assets allowed under the MPF legislation.

5.4.2 Rules and Procedures Applicable to Investment through the DIS

(a) **Fund Choice Combination**

With effect from 1 April 2017, members may choose to invest their MPF benefits in:

(i) the DIS*; and/or

(ii) one or more constituent funds (including the two DIS Constituent Funds as standalone constituent funds) of their own choice under their MPF scheme and according to their assigned allocation percentage(s) to relevant fund(s) of their choice.

*** Some MPF schemes allow partial investment in the DIS (i.e. a combination of the DIS and other constituent funds). Members should refer to offering documents for the rules of their MPF schemes or contact their MPF trustees for more information.**

It should be noted that, if members choose the CAF and/or the A65F as standalone constituent funds, those investments will **not** be subject to the automatic de-risking process. If a member's MPF benefits are invested in the DIS (whether by default or by member's specific investment instruction), the MPF benefits will be subject to the automatic de-risking process. If a member's MPF benefits are invested in any combination of the CAF and/or the A65F as standalone constituent funds (rather than as part of the DIS), the MPF benefits will **not** be subject to the de-risking process.

MPF members can give investment instruction for their MPF benefits when they set up a new MPF account. If members fail to or do not want to submit to the trustee of the scheme an investment instruction, the trustee must invest their MPF benefits in accordance with the DIS.

Apart from giving investment instruction at enrolment, MPF members can give or change their investment instructions anytime in accordance with the rules of their MPF schemes. As such, members can also switch into or out of the DIS at any time subject to scheme rules and there is no lock-in period for investment through the DIS.

Again, it should be noted that some MPF schemes allow partial investment when switching / transferring in and out of the DIS. Members should refer to offering documents for the rules of their MPF schemes or contact their MPF trustees for more information.

(b) **Annual De-risking**

The annual de-risking will be carried out automatically when a member is between the ages of 50 and 64 by gradually redeeming units in the CAF and then subscribing units of the A65F to achieve the pre-set allocation percentages between the CAF and the A65F at different ages (as per **Diagram 2** and **Diagram 3** above) in order to reduce the proportion of investment in higher risk assets when the member approaches retirement age.

The annual de-risking will normally take place on the member's birthday, and if such date is not a dealing day, it will be done on the next available dealing day.

MPF trustees will disclose clearly the handling procedures where one or more instructions (including but not limited to subscription, redemption, switching or transfer) are received immediately prior to or on the date of de-risking. Members may refer to the rules of their MPF schemes or contact their trustees for more information.

Again, it should be noted that the automatic de-risking process will not apply where a member chooses the two DIS Constituent Funds as standalone constituent funds (rather than as part of the DIS).

5.4.3 Key Risks Relating to the DIS

The DIS and the two DIS Constituent Funds do not provide any guarantee on the capital and returns.

The CAF and the A65F must follow the asset allocation between higher risk assets and lower risk assets as set out in the MPF legislation and the investment manager has limited discretion to adjust the portfolio of investments to a more defensive or aggressive approach in response to market fluctuations.

The de-risking process of the DIS will not take into account factors other than age. The reduction of investment in higher risk assets through switching between the CAF and A65F will be carried out automatically solely based on the member's age regardless of the market conditions or the member's personal circumstances.

Members should refer to the offering document for further information about the investment policies of the CAF and A65F and the risks associated with investing through the DIS and in the DIS Constituent Funds under their MPF scheme(s).

5.5 APPROVED POOLED INVESTMENT FUNDS (APIFs)

5.5.1 Approval of Pooled Investment Funds

If a constituent fund is structured not to operate as an internal portfolio, it may invest in pooled investment funds that are approved by the MPFA and authorized by the SFC. The MPFA is responsible for approving pooled investment funds in accordance with the requirements set out in the General Regulation and the Code on MPF Investment Funds.

For pooled investment funds that are offered to MPF schemes only, the SFC authorizes the funds in accordance with the requirements set out in SFC Code on MPF Products.

For pooled investment funds that are unit trusts available to both MPF service providers and retail investors, the SFC authorizes the funds in accordance with the requirements set out in both the SFC Code on MPF Products and the Code on Unit Trusts and Mutual Funds.

5.5.2 Types of Pooled Investment Funds

A constituent fund may invest in one or more APIFs. An APIF may be an insurance policy, a unit trust or a mutual fund. Currently, APIFs are in the form of unit trusts or insurance policies. Similar to constituent funds, APIFs must be governed by Hong Kong law.

(a) **Unit Trusts**

A pooled investment fund, if in the form of a unit trust, must be authorized as a collective investment scheme by the SFC under section 104 of the SFO.

(b) **Insurance Policies**

An APIF, if in the form of an insurance policy, must be issued by an authorized insurer as a Class G insurance policy (Class G policies are long term insurance policies for the purpose of providing retirement-related benefits with a guarantee on capital or return). Relevant trustees are required to incorporate additional disclosure of the associated risks in their scheme offering documents. Similar to a unit trust, it must be authorized as a collective investment scheme by the SFC under section 104 of the SFO.

5.6 STATEMENT OF INVESTMENT POLICY

The MPF legislation requires a statement of investment policy to be prepared and maintained in respect of each constituent fund and APIF to ensure a high degree of transparency in the operation of MPF schemes and APIFs (i.e. members should not be confused or

uninformed in relation to the scheme investments). As such, the statement of investment policy for each constituent fund and APIF must clearly indicate:

(a) the investment objectives of the fund;

(b) the kinds of securities and other assets in which the fund may invest;

(c) the balance (proportion) between various kinds of securities and markets;

(d) the risk of the investment strategy of the overall portfolio;

(e) the expected return of the overall portfolio;

(f) the policy regarding the acquisition, holding and disposal of financial futures and option contracts; and

(g) whether the fund will engage in securities lending.

5.7 INVESTMENT STANDARDS AND RESTRICTIONS

To safeguard scheme members against undue investment risk, comprehensive regulations governing the investment of scheme assets have been prescribed in the MPF legislation.

5.7.1 Investment Management

(a) **Requirements of Investment Manager**

(i) The primary investment manager of an MPF scheme/APIF must be a locally incorporated or re-domiciled investment management company, with at least $10 million paid-up share capital and net assets of at least the same amount.

(ii) The investment manager must be licensed by or registered with, the SFC to carry on a business of Type 9 (asset management) regulated activity.

(iii) The investment manager must be qualified and experienced in the various financial services and products it manages or in which it invests.

(iv) The investment manager must be independent of the trustee and the custodian(s) of the MPF scheme/APIF and of any delegates of the custodian.

(v) The investment management of MPF funds is subject to the investment restrictions as set out in the law.

(b) **Delegates of the Investment Manager**

(i) With the approval of the trustee, the investment manager of an MPF scheme/APIF may delegate the investment management functions to a company/corporation that complies with the requirements set out in the

General Regulation.

(ii) The delegate of the investment manager must be independent of the trustee and custodian of the MPF scheme/APIF and of any delegates of the custodian.

5.7.2 Permissible Investments

A balance must be struck between the desire to safeguard assets and to allow a reasonable degree of flexibility for the investment manager in making investment decisions. A list of permissible investments for MPF schemes/APIFs has therefore been specified by law and includes investments such as:

(a) **Equities and Other Securities**

Including fully-paid up shares listed on approved stock exchanges, index-tracking collective investment schemes approved by the MPFA, securities listed on approved stock exchanges that are approved by the MPFA, such as fully-paid up receipts or certificates listed on approved stock exchanges (with underlying shares also listed on stock exchanges), including American Depository Receipts (ADR), Global Depository Receipts (GDR), and interest in a real estate investment trust (REIT) listed on certain approved stock exchanges. Acquisition of partly paid-up shares and shares of collective investment schemes are not allowed for MPF investment purposes. However, investments in certain equities and other securities, authorized unit trusts and authorized mutual funds are subject to prescribed limits.

(b) **Bank Deposits**

Bank deposits ("pure" deposit) must be placed with authorized financial institutions or eligible overseas banks and are subject to prescribed percentage limits to avoid an unduly large proportion of the funds deposited with one single financial institution.

(c) **Debt Securities and Convertible Debt Securities**

Debt securities must be issued or guaranteed by a government or an organization of similar standing; or meet the credit rating requirements set by the Authority; or be listed on an approved stock exchange (if the debt securities are issued by, or guaranteed by, companies whose shares are listed on that exchange or another approved stock exchange). Convertible debt securities listed on an approved stock exchange and convertible to shares listed on that exchange or another approved stock exchange; or meet the credit rating requirements, are also permissible investments.

(d) **Financial Derivatives**

Financial derivatives including financial futures and option contracts, warrants and currency forward contracts may be acquired subject to the restrictions as set out in the General Regulation.

5.7.3 Other Investment Restrictions

(a) **Spread of Investment**

Generally, the total amount invested in securities and permissible investments issued by any one person may not exceed 10% of the total assets of an MPF fund.

(b) **Restrictions on Borrowing and Lending of Securities**

(i) No constituent fund of an MPF scheme or APIF may borrow securities.

(ii) Securities held within a constituent fund of an MPF scheme or APIF may be lent provided no more than 10 per cent of the assets of the fund are lent. The lending is also subject to other requirements set out in the relevant MPF legislation and guidelines.

(c) **Restrictions on Borrowing of Money**

Money may be borrowed only if it is borrowed for the purpose of:

(i) enabling accrued benefits to be paid to or in respect of scheme members;

(ii) settling a transaction relating to the acquisition of securities or other investments.

The above is further subject to other requirements set out in the General Regulation.

(d) **Restrictions on Acquiring Securities that Carry an Unlimited Liability**

Securities involving the assumption of potential liabilities that are unlimited must not be acquired.

(e) **Investment Restriction on Employer Sponsored Schemes**

Employer-sponsored schemes may not have more than 10% of their assets in shares or other securities of, or issued by, the participating employer or its associates.

5.7.4 Hong Kong Dollar Currency Exposure

At least 30% of a constituent fund of an MPF scheme must be held in Hong Kong dollar currency investments (i.e. investments that are denominated in Hong Kong dollars and their values are not linked to foreign currencies). Currency forward contracts may be used to meet this requirement.

5.8 FEES AND CHARGES

Broadly speaking, fees charged on MPF schemes can be categorized into three types:

(a) Asset-based fees such as trustee, custodian and investment management fees.

(b) Lump sums charged to scheme members on an annual or one-off basis, such as joining fees or annual membership fees.

(c) Event-based fees such as fees imposed on scheme members for investment directives they submit to the trustees.

The level of fees charged by trustees and service providers are mainly driven by competition and market forces. In general, the MPFA does not regulate the level of fees (with the exception of fees and expenses chargeable to the DIS Constituent Funds which are subject to caps), however, certain requirements have to be observed by trustees and service providers, including:

(a) The current and maximum levels of fees must be clearly communicated to scheme members.

(b) No additional initial charge can be imposed in relation to the management of a constituent fund if the manager of the fund, or an associate of that manager, manages the relevant constituent fund.

(c) For an MPF Conservative Fund, administrative expenses can only be deducted if the returns of the fund exceed the prescribed savings rate declared by the MPFA. Initial fees, redemption charges and bid and offer spreads are not allowed.

MPF Fund Platform

The MPFA launched an MPF Fund Platform (Platform) to further enhance the transparency of MPF funds. The Platform allows scheme members to obtain more information on the management fees of MPF funds whilst further promoting market competition.

The Platform provides a one-stop solution for MPF scheme members to examine information about different MPF funds and compare their management fees and investment performance, etc. The Platform reveals in detail each of the components under the management fees of MPF funds, namely the eMPF Platform fee / trustee fee / custodian fee, the member servicing fee, and the investment management fee, so as to provide scheme members with more relevant information.

5.9 SWITCHING BETWEEN MPF SCHEMES/CONSTITUENT FUNDS

Important features of this include:

(a) Scheme members may choose to invest their contributions in any constituent funds under the MPF scheme in which they participate.

(b) Scheme members are allowed to change the choice of constituent funds at least once a year.

(c) Employers may elect to participate in another MPF scheme by transferring the accrued benefits of their employees to the other scheme.

(d) If there is a change in the ownership of a business, the new employer may elect to participate in another MPF scheme by transferring the accrued benefits of its employees to another scheme if the new employer has agreed to recognize the employees' length of employment with the previous employer and has assumed the liability of the previous employer for long service payment or severance payment in respect of the employees.

(e) Upon termination of employment, an employee may choose to have their accrued benefits remain in the scheme or they may transfer them to an MPF scheme of their own choice, or to the MPF scheme of the new employer.

(f) An employee can also transfer during their current employment, at least once per calendar year, any accrued benefits derived from the employee mandatory contributions from the MPF scheme chosen by their relevant employer to an MPF scheme of their own choice (Employee Choice Arrangement).

(g) Regardless of the frequency and type of transfer of accrued benefits, no fees or financial penalties may be charged to or imposed on a scheme member or deducted from the scheme member account, other than necessary transaction costs incurred or reasonably likely to be incurred in selling and buying investments in order to give effect to the transfer and are payable to a party other than the approved trustee.

5.10 CODE ON DISCLOSURE FOR MPF INVESTMENT FUNDS

To ensure employers and scheme members are provided with adequate information and to enable scheme members to make informed investment decisions, the MPFA has issued a Code on Disclosure for MPF Investment Funds (Disclosure Code) to give guidance to trustees and other service providers about the disclosure of information on MPF schemes and constituent funds and information about fees, charges and performance. In summary, trustees are required to provide the following information to employers and scheme members:

(a) **Fee Table**

In order to facilitate comparison and an "at a glance" understanding of fees and charges, all fees and charges are disclosed in a consistent manner and format in a fee table which includes:

(i) all fees and charges;

(ii) what a particular fee is for;

(iii) the amount of each fee currently charged; and

(iv) by whom each fee is payable.

The Fee Table must be included in the offering documents of the schemes.

(b) **On-going Cost Illustrations (OCI)**

This provides members and potential members with an OCI that shows in dollar terms, the costs that may be incurred by investing in a fund across defined time horizons based on a set of consistent assumptions. The OCI forms part of or is an accompaniment to the scheme offering document, and must be updated annually using the latest fund expense ratio data.

For those constituent funds that are MPF Conservative Funds, certain guaranteed funds and newly launched funds, no OCI is required. However, a separate illustrative example is required for MPF Conservative Funds.

(c) **Fund Fact Sheet**

To ensure that scheme members receive at least a basic level of information about the scheme, an approved trustee is required to prepare a fund fact sheet that contains the following information for each constituent fund:

(i) The net asset value of each fund;

(ii) The launch date of each fund;

(iii) A brief description of the investment objectives of the fund and any change in the statement of investment policy and objectives since the last fund fact sheet;

(iv) The allocations of assets of each fund;

(v) The largest ten asset holdings as a percentage of fund net asset value;

(vi) The periodic rate of return for the fund;

(vii) A comparison of the fund's performance against the benchmark, if any benchmark is used;

(viii) The latest Fund Expense Ratio;

(ix) A general indication about the level of risk of the fund;

(x) A description of the fund type; and

(xi) A discussion of fund performance, market review and market outlook.

At least two fund fact sheets must be issued for each financial year of a scheme. One fund fact sheet should be provided to members with the annual benefit statement and the other should be provided to members within two months after the reporting date (i.e. a date which is six months after the end of the scheme's financial year).

(d) **Fund Expense Ratio (FER)**

The FER provides a measure of the expenses of a fund as a percentage of fund size. If the fund invests in an APIF or a number of APIFs, the FER will need to include fees and charges incurred at the APIF level.

The FER is calculated for all constituent funds and APIFs on an annual basis and is

disclosed in the fund fact sheet, the OCI for constituent funds and the annual return of a scheme and an APIF. It is not necessary for funds with less than two years of history to show an FER.

(e) **Annual Benefit Statement (ABS)**

The ABS serves to confirm scheme membership and membership details, and the status and number of accounts held by the member. It helps check inflows and outflows including contributions, transfer and transactions, and to identify account balances and accruals, the extent to which they are vested, and the gains and losses associated with the accounts over the relevant financial period. The ABS is a historical record of the member's account at a point in time.

The content requirements of the ABS are set out in Part F of the Disclosure Code. The ABS must be issued within three months after the end of the financial period of a scheme.

5.11 ON-GOING MONITORING OF MPF INVESTMENT FUNDS

The MPFA regularly performs various supervisory activities on and off-site, on MPF products. These include the following:

(i) Examine the governance arrangements, compliance framework and detailed control measures put in place by trustees via on and off-site supervision on trustees;

(ii) Conduct compliance checking of MPF investments to identify any control deficiencies in the trustees' monitoring mechanisms;

(iii) Review returns submitted by MPF trustees and follow up on any irregularities identified;

(iv) Perform supervisory activities in relation to MPF custodian arrangements to identify any control deficiencies in the trustees' monitoring mechanisms;

(v) Monitor individual MPF fund performance, and take necessary follow-up action on trustees to ensure that trustees are properly discharging their duties in assessing and improving investment outcome of MPF funds ;

(vi) Assess investment breach cases reported by trustees/identified by the MPFA and ensure that all breach cases are properly rectified, appropriate compensation is made to the affected MPF scheme members and/or MPF funds and effective preventive measures are implemented by trustees/investment managers to prevent recurrence of similar incidents; and

(vii) Maintain communication with trustees to keep them informed and up to date on the MPF legislation.

- o - o - o -

Representative Examination Questions

Type "A" Questions

1 At least one of the constituent funds of an MPF scheme must:

(a) be an MPF Conservative Fund; .....
(b) consist totally of equity holdings; .....
(c) consist only of investment in bonds; .....
(d) be an approved pooled investment fund. .....

[Answer is in **5.3.2**]

2 Which of the following is not a type of approved pooled investment funds?

(a) authorized unit trust; .....
(b) authorized mutual fund; .....
(c) investment fund governed by foreign law; .....
(d) insurance policy. .....

[Answer is in **5.5.2**]

Type "B" Questions

3 Which three of the following statements regarding constituent funds are true?

(i) All constituent funds must be approved by MPFA
(ii) Investment in a constituent fund may be restricted to certain groups of MPF scheme members only
(iii) Each constituent fund has at least one dealing day a month
(iv) Each constituent fund must have its own stated investment policy

(a) (i), (ii) and (iii); .....
(b) (i), (ii) and (iv); .....
(c) (i), (iii) and (iv); .....
(d) (ii), (iii) and (iv). .....

[Answer is in **5.1** and **5.3.1**]

4 In which of the following circumstances will it not be permitted to charge any administrative expenses to an MPF Conservative Fund in a particular month?

(i) Fund's investment earnings $3,000, return calculated based on prescribed savings rate $2,000
(ii) Fund's investment earnings $3,000, return calculated based on prescribed savings rate $3,000
(iii) Fund's investment earnings $3,000, return calculated based on prescribed savings rate $4,000
(iv) Fund's investment earnings $6,000, return calculated based on prescribed savings rate $5,000

(a) (i) and (ii); .....
(b) (i) and (iii); .....
(c) (ii) and (iii); .....
(d) (iii) and (iv). .....

[Answer is in **5.3.2**]

5. Which of the following information must be included in the Fee Table?

(i) all fees and charges
(ii) the amount of each fee currently charged
(iii) what a particular fee is for
(iv) by whom each fee is payable

(a) (i) and (iii); .....
(b) (i), (ii) and (iii); .....
(c) (ii), (iii) and (iv); .....
(d) (i), (ii), (iii) and (iv). .....

[Answer is in **5.10**]

[If required, answers may be found at the end of the Study Notes.]

6 INTERFACE ARRANGEMENTS BETWEEN ORSO SCHEMES AND THE MPF SYSTEM

ORSO schemes refer to occupational retirement schemes regulated by the Occupational Retirement Schemes Ordinance (ORSO) (Cap.426). There are many interactions between ORSO schemes and the MPF System.

Unlike MPF schemes which are established under a compulsory system, an ORSO scheme is a voluntary retirement scheme set up by an employer to provide benefits to employees in the form of pensions, allowances, gratuities or other payments, payable on termination of service, death or retirement. Other than MPF schemes, all retirement schemes operated in and from Hong Kong, with certain exceptions, need to be either registered or exempted under ORSO. Considerable flexibility is allowed in drawing up the rules and provisions of such ORSO schemes.

6.1 TYPES OF ORSO SCHEMES

There are various ways of classifying ORSO schemes, for example: by type of benefits provided, by being ORSO registered or exempted or, by having MPF exemption.

6.1.1 Types of Benefits Provided

According to the types of benefits provided, ORSO schemes can be classified into two categories:

(a) **Defined Contribution Schemes**

Both the employer's and employees' contribution rates are defined, and the amount of benefits accrued is based on the accumulated contributions and investment income.

(b) **Defined Benefit Schemes**

The employer's contribution rates are not defined but are recommended by an actuary from time to time after performing actuarial valuations. The amount of benefits a member is entitled to is generally based on a formula with reference to their age, years of service, final average salary etc.

Hybrid schemes incorporating both defined contribution schemes and defined benefit schemes features are also classified as defined benefit schemes.

6.1.2 ORSO Registered or ORSO Exempted

An ORSO scheme can also be classified as either of the following:

(a) **ORSO Registered Schemes**

As mentioned above, all retirement schemes operated in and from Hong Kong need to be registered under ORSO, except those which fall within one of the following categories:

(i) Schemes contained in or established by any ordinance other than the ORSO (for example, an MPF scheme established under the MPFSO);

(ii) Schemes set up by the government of a country or territory outside Hong Kong or its agency not operating for the purpose of gain;

(iii) Schemes that satisfy the criteria for ORSO exemption.

As (i) and (ii) do not fall within the ambit of ORSO, application for ORSO registration or ORSO exemption is not required. For (iii), application for ORSO exemption instead of ORSO registration is required.

(b) **ORSO Exempted Schemes**

This refers to schemes mentioned in (a)(iii) above. These schemes are exempt from ORSO registration, either because they are offshore schemes satisfying certain requirements, or they have a certain number of members who are Hong Kong permanent identity card holders below the prescribed limit.

6.1.3 MPF Exempt or Not

From the perspective of MPF intermediaries, this should be the most pertinent way of classification of ORSO schemes. This classification came about due to the introduction of the MPF System in Hong Kong at which time, ORSO schemes were faced with various options. One of these options was to apply for MPF exemption, so that the employer and employees covered by the scheme were exempt from MPF requirements.

(a) **MPF Exempted ORSO Schemes**

These schemes satisfy the requirements for applying for MPF exemption certificates. They can be ORSO registered schemes or exempted schemes, and can be either closed or open to new members.

(b) **Non-MPF Exempted ORSO Schemes**

Schemes that were not granted MPF exemption certificates, either because they did not qualify or did not apply, fall into this category.

The criteria for granting an MPF exemption certificate are discussed in **6.3**.

6.2 COMPARISON OF FEATURES

It is useful to compare some MPF features with the corresponding features under ORSO schemes.

MPF	**ORSO**[1]		
	Non-MPF exempted ORSO schemes	*MPF exempted ORSO exempted schemes*	*MPF exempted ORSO registered schemes*
(a) Is always a defined contribution scheme	(a) May be a defined contribution scheme or a defined benefit scheme		
(b) Mandatory	(b) Voluntary		
(c) Governed by the laws of Hong Kong	(c) May be governed by laws of places outside Hong Kong		
(d) Vesting 100% of employer's mandatory contributions immediately	(d) Vesting of employer's contributions is subject to the governing rules of the scheme		
(e) Trustee must be approved	(e) Approval of trustee is not required		(e) Approval for trustee is required
(f) Other features: • All relevant employees being employed for 60 days or more must join unless exempted • Minimum contribution rate • Benefits to be preserved • Benefits portable • Relevant income defined • Minimum relevant income • Maximum relevant income • Eligibility requirements for: - Trustees / Investment Managers / Custodians	(f) No equivalent provisions required		(f) Other features: • "Minimum MPF benefits" to be preserved for new members (see **6.5.3**) • "Minimum MPF benefits" are portable for new members (see **6.5.3**) • Minimum standards for: - Trustees / Investment Managers

[1] For illustration purposes, we have classified ORSO schemes into 3 categories as follows:
- Non-MPF exempted ORSO schemes (i.e. ORSO registered and exempted schemes that have not obtained MPF exemption)
- MPF exempted ORSO exempted schemes (i.e. ORSO exempted schemes that have obtained MPF exemption)
- MPF exempted ORSO registered schemes (i.e. ORSO registered schemes that have obtained MPF exemption)

The above three types of schemes share common features under (a) to (d). Under features (e) to (f), there are disparities between "Non-MPF exempted ORSO schemes and MPF exempted ORSO exempted schemes (which still share common features)" and "MPF exempted ORSO registered schemes".

6.3 EXEMPTION CRITERIA

To qualify for MPF exemption, the scheme must be an "ORSO exempted scheme" or a "relevant ORSO registered scheme" as defined in the Mandatory Provident Fund Schemes (Exemption) Regulation (the Exemption Regulation). Other exemption criteria may also need to be satisfied.

The deadline for submission of an application for MPF exemption in respect of an ORSO exempted scheme or a relevant ORSO registered scheme was 3 May 2000. Hence, no MPF exemption will be granted in respect of those MPF exemption applications made after 3 May 2000, except for successor schemes. For successor schemes, MPF exemption may be granted even if the MPF exemption application is made after 3 May 2000, provided that the scheme is the successor scheme of a relevant ORSO registered scheme and is established as a result of scheme restructuring or bona fide business transactions (including company amalgamation, restructuring and joint ventures). For successor schemes that successfully obtain MPF exemption, the existing members[2] of the MPF exempted ORSO schemes transferred to the successor scheme may retain their "existing member" status (i.e. no need to be bound by the "minimum MPF benefits" provisions) under the successor scheme.

An MPF exempted ORSO scheme is still subject to the ORSO requirements; in addition there are other requirements under the Exemption Regulation. Under the Exemption Regulation, the requirements imposed upon an MPF exempted ORSO registered scheme are more onerous than those imposed upon an MPF exempted ORSO exempted scheme (see **6.6**).

6.4 DIFFERENT FORMS OF ORSO SCHEMES FOLLOWING THE INTRODUCTION OF THE MPF SYSTEM

Due to the introduction of the MPF System, an employer who already operated an ORSO scheme had to decide whether and to what extent, they should continue that scheme. Whatever the decision was, the employer of the ORSO scheme had to follow the scheme terms whenever there was/is a change of the scheme or scheme particulars. Some of the factors that influenced their decision included:

(a) whether the current employment contracts stipulated certain retirement protection arrangements; if so, they would have to continue the existing ORSO scheme for existing employees who wished to do so;

(b) the relevant administration and other costs involved in operating ORSO and MPF schemes;

(c) the feasibility of a total transfer of the existing scheme assets into an MPF scheme.

---

[2] "Existing member" is defined as "a relevant employee who became a member of the scheme before or on 1 December 2000". A "relevant employee" means an employee of 18 years of age or over and below 65.

If the employer decided to continue their ORSO scheme, the scheme would now be in one of the following forms:

(a) **MPF Exempted ORSO Scheme with Open Membership**

The employer offers the MPF exempted ORSO scheme to new eligible employees[3]. When doing so, the employer is obliged to provide these relevant employees with a statement that they have a choice to elect between the ORSO scheme and an MPF scheme. For existing members, the employer should have provided them with a choice to remain a member of the ORSO scheme or to join an MPF scheme in 2000.

(b) **MPF Exempted ORSO Scheme with Closed Membership**

The scheme is an MPF exempted ORSO scheme, but new relevant employees are not permitted to join this ORSO scheme and need to be covered under an MPF scheme. Existing members could continue to accrue benefits under the ORSO scheme. Again, existing members had to be provided with a once only choice to remain a member of the ORSO scheme or join an MPF scheme.

(c) **"Top-up" ORSO Scheme**

This option implies that all employees would be covered under an MPF scheme, but the existing ORSO scheme would be modified to provide extra benefits for existing (and perhaps also new eligible) employees. Effectively this means that contributions to the ORSO scheme would become supplementary contributions, over and above the minimum MPF contribution requirements.

(d) **"Frozen" ORSO Scheme**

There will be no future contributions made to the ORSO scheme with respect to future service. The benefits of members under the ORSO scheme would continue to accrue investment returns until the members are entitled to receive benefits in accordance with the governing rules of the scheme. The employer would have to enrol all existing members and new relevant employees into an MPF scheme and make mandatory contributions.

On the other hand, the employer may have decided to terminate their ORSO scheme when the MPF System began in 2000, or may have continued to operate their ORSO scheme under one of the above mentioned forms for a while but ultimately decided to terminate the scheme.

Upon terminating an ORSO scheme, the employer can, subject to the terms of the scheme:

(a) close the scheme completely and pay out all liabilities thereunder (with the exception of "minimum MPF benefits" that need to be preserved for new members (see **6.5.3**)); or

(b) close the scheme completely and transfer all scheme assets into an MPF scheme / another ORSO scheme, which thereby replaces the ORSO scheme.

---

[3] "New eligible employee" is defined as "a relevant employee who is, or will become, eligible to be a member of the scheme".

Generally, if the employer decides to pay out the liabilities, the portion of accrued benefits attributable to the employer's contributions are taxable to the employees since the benefits have not been received in the prescribed circumstances (i.e. retirement, death, incapacity and termination of service) which enable the benefits to be totally or partially exempt from Hong Kong salaries tax.

Moreover, the employer should be mindful of the charges or losses that may be incurred upon scheme termination, particularly with respect to termination cost and guarantee provisions.

In the event of the winding up of an ORSO scheme, the employer must notify the Registrar of Occupational Retirement Schemes and each scheme member of that fact, within 14 days of the commencement of the winding up.

6.5 IMPLICATIONS FOR EXISTING MEMBERS AND NEW ELIGIBLE EMPLOYEES

Whatever arrangement has been adopted, there are implications for the relevant employees concerned. Where an application has been made for MPF exemption of an ORSO scheme, the following considerations arise:

6.5.1 Existing Members Chosen to Remain in an MPF Exempted ORSO Registered Scheme

If the ORSO registered scheme is granted an MPF exemption, an existing member knows that their existing and future benefits in the scheme will not be subject to the preservation, portability and withdrawal requirements in respect of their "minimum MPF benefits" (see **6.5.3**).

The non-applicability of these requirements could be to the member's advantage if they leave the employer before retirement age, since they would (depending on the governing rules of the scheme or trust deed) then be entitled to receive the relevant termination of service benefit in cash at that time.

Moreover, upon dismissal for cause from employment, the trustee cannot forfeit an existing member's "minimum MPF benefits".

6.5.2 Existing Members Chosen to Join an MPF Scheme

Existing members who choose to join an MPF scheme are required to make the statutory mandatory contributions to the MPF scheme with their employer. Under the Exemption Regulation, all accrued benefits under the ORSO registered scheme should remain in that scheme until the employee becomes entitled to receive them. However, the member's rights may be treated otherwise if the member's consent has been obtained and it is allowed under the governing rules of the ORSO scheme.

6.5.3 New Eligible Employees Chosen to Join an MPF Exempted ORSO Registered Scheme

Unlike existing members, a new eligible employee who chooses to join such a scheme and becomes a new member would be subject to the "preservation, portability and withdrawal" requirements in relation to their "minimum MPF benefits". The essence of these requirements is that the "minimum MPF benefits" cannot be paid out until attainment of age 65, early retirement at age 60, permanent departure from Hong Kong, total incapacity, terminal illness or death of the new member. Moreover, upon change of employment and subject to statutory exceptions, the "minimum MPF benefits" must be transferred to an MPF scheme.

"Minimum MPF benefits" is defined as the lesser of:

(a) the member's benefits accrued and held under the scheme during the period when the exemption certificate applied to the scheme;

(b) 1.2 x final average monthly relevant income (capped at $20,000 on or before 31 May 2012; $25,000 from 1 June 2012 to 31 May 2014 (both days inclusive); or $30,000 on or after 1 June 2014) x years of post-MPF service[4].

Note: A trustee cannot forfeit the member's "minimum MPF benefits" upon dismissal for cause, whether the members are existing members or new members.

6.6 ON-GOING REQUIREMENTS FOR MPF EXEMPTED ORSO SCHEMES

In accordance with the requirements of the Exemption Regulation, the relevant employer of an ORSO exempted scheme to which an MPF exemption certificate relates is required to:

(a) **Exhibition and Provision of MPF Exemption Certificate**

(i) display the MPF exemption certificate at all times in a conspicuous position at:

- the relevant employer's principal office in Hong Kong;
- if there is no such office, each premise where a member of the ORSO scheme is employed by them.

(ii) provide each member with a copy of the MPF exemption certificate.

---

[4] "Years of post-MPF service" is defined as the member's continuous years of service (including part thereof) from the date they joined the scheme, 1 December 2000, or (if the member was previously paid on the ground of terminal illness) the date on which the trustee of the scheme received his claim for which benefits were last paid, whichever is the latest, to the earliest of:

- the termination of his employment;
- in the case of the winding up of the scheme, the date on which he ceases to be a member;
- the date on which the withdrawal of the exemption certificate takes effect; or
- the date on which the trustee of the scheme receives his latest terminal illness claim for which benefits have not been paid.

(b) **Employees' Option**

To provide new eligible employees with a statement that they have a choice to elect between the MPF exempted ORSO scheme and an MPF scheme[5].

For an MPF exempted ORSO registered scheme, in addition to the above requirements, the relevant employer is also required to comply with the following:

(i) **Upon Reduction of Employee's Future Benefits**

To give an opportunity to affected members to become a member of an MPF scheme whenever the relevant employer decides to reduce any member's future benefits or rights under the ORSO registered scheme.

(ii) **Appointment and Retirement of Trustees**

To ensure that the person who has the power to retire or appoint a trustee (be it a corporate trustee or an individual trustee) applies in writing for the MPFA's prior approval before retiring or appointing the trustee of the scheme (prior approval requirements). In the case of a corporate trustee changing its directors, the former must obtain the MPFA's prior approval before retiring and appointing its directors if it is not:

- a registered trust company in Hong Kong (RTC); or
- a trust company incorporated outside Hong Kong, which is comparable to a RTC and has a significant presence and control in Hong Kong.

The MPFA has exercised its power to exempt the person who has the power to retire or appoint a trustee which is a RTC from these prior approval requirements. Instead, the employer of the scheme must notify the MPFA in writing within one month after the date of appointment or retirement of the RTC. However, if the appointee/retiree is not a RTC, the prior approval requirements still apply.

(iii) **Appointment of Investment Managers**

When appointing an investment manager for a scheme on or after 1 December 2000, the Exemption Regulation requires that it must be an investment management company that:

- is a corporation licensed to carry on, or an authorized institution registered for carrying on, a business of Type 9 (asset management) regulated activity under Part V of the SFO or
- is a company authorized by an authority recognized by the MPFA to carry on under the law of a place outside Hong Kong the business in asset management.

---

[5] If the employees are required by an enactment of a place outside Hong Kong to remain as / become a member of the ORSO scheme and make contributions to the scheme, the employer is not required to provide such a choice to these employees.

You are reminded that the above list of on-going requirements imposed under the Exemption Regulation on an MPF exempted ORSO scheme includes the major requirements only and is by no means exhaustive.

- o - o - o -

Representative Examination Questions

Type "A" Questions

1 An MPF scheme in Hong Kong is:

(a) always a defined benefit scheme; ….
(b) never a defined contribution scheme; ….
(c) always a defined contribution scheme; ….
(d) sometimes a defined contribution scheme. ….

[Answer is in **6.2**]

Type "B" Questions

2 Which of the following statements is/are true, if it is decided to wind up an existing ORSO scheme and replace it with an MPF scheme?

(i) the ORSO scheme may be closed and all liabilities paid out
(ii) all assets may be transferred to the MPF scheme
(iii) the ORSO scheme cannot be closed, as liabilities may arise later
(iv) the ORSO scheme may be closed, but members will then lose all their benefits

(a) (i) only; .....
(b) (i) and (ii) only; .....
(c) (ii) and (iii) only; .....
(d) (iii) and (iv) only. .....

[Answer is in **6.4**]

[If required, answers may be found at the end of the Study Notes.]

7 MPF INTERMEDIARIES

This Chapter explains to readers how MPF intermediaries are regulated and what minimum standards of conduct are expected of them. It is therefore important for those who intend to become MPF intermediaries to pay special attention to the notes which follow, especially the part that relates to the Guidelines on Conduct Requirements for Registered Intermediaries.

7.1 REGULATION OF MPF INTERMEDIARIES

With rising public expectation towards investor protection in recent years, the MPFA has reviewed the administrative arrangements for the regulation of intermediaries in place since inception of the MPF System and recommended that this administrative regulatory regime should be strengthened by statute. The Government has agreed that it would be prudent to establish a statutory regulatory framework for MPF intermediaries to better protect scheme members.

As a result, the Mandatory Provident Fund Schemes (Amendment) Ordinance 2012 was enacted by the Legislative Council in June 2012 and came into effect on 1 November 2012. Under the statutory regime, the MPFA is the authority to administer the registration of MPF intermediaries, to issue guidelines on compliance with statutory requirements applicable to registered MPF intermediaries, and to impose disciplinary sanctions. The Monetary Authority (MA), Insurance Authority (IA) and Securities and Futures Commission (SFC) have been given the statutory role as frontline regulators (FRs) responsible for the supervision and investigation of registered MPF intermediaries whose core business is in banking, insurance and securities respectively.

The key elements in the statutory regime for the regulation of MPF intermediaries include following aspects:

(a) prohibition against carrying on regulated activities;
(b) registration requirements for MPF intermediaries;
(c) regulatory scope of FRs;
(d) conduct requirements for registered intermediaries;
(e) other requirements for registered intermediaries;
(f) supervisory and disciplinary powers; and
(g) appeal mechanism for decisions on registration and disciplinary sanctions.

7.2 REGULATORY FRAMEWORK

7.2.1 Prohibition against Carrying on Regulated Activities etc.

(a) Definition of Regulated Activity, Material Decision, Regulated Advice, and Regulated Person

The MPFSO prohibits persons from carrying on (or holding themselves out as carrying on) a "regulated activity" in the course of their business or employment, or for reward, unless an exception applies (see **7.2.1 (b)** for details).

A person carries on a "regulated activity" if that person either:

(i) invites or induces, or attempts to invite or induce, another person to make a "material decision"; or

(ii) gives "regulated advice".

Despite the above, a person does not carry on a regulated activity if:

(i) the person issues an advertisement, invitation or document; and

(ii) the issue is authorized by the SFC under section 105 of the SFO.

A person makes a "material decision" if the person makes a decision in relation to the following matters:

(i) whether, or when, to apply to join or become a member of a particular MPF scheme;

(ii) whether, or when, to apply to participate in a particular MPF scheme as an employer;

(iii) whether, or when, to pay contributions (including voluntary contributions) to a particular MPF scheme, or to invest in a particular constituent fund of an MPF scheme;

(iv) the amount of contributions (including voluntary contributions) to be paid to a particular MPF scheme, or the amount to be invested in a particular constituent fund of an MPF scheme;

(v) whether, or when, to transfer accrued benefits from a particular MPF scheme to another particular MPF scheme, or from a particular constituent fund of an MPF scheme to another particular constituent fund of the MPF scheme;

(vi) the amount of accrued benefits to be transferred from a particular MPF scheme to another particular MPF scheme, or from a particular constituent fund of an MPF scheme to another particular constituent fund of the MPF scheme;

(vii) whether, or when, to transfer benefits from an occupational retirement scheme to a particular MPF scheme;

(viii) the amount of benefits to be transferred from an occupational retirement scheme to a particular MPF scheme;

(ix) whether, or when, to make a claim for the payment of accrued benefits from an MPF scheme; and

(x) the amount of a claim for the payment of accrued benefits from an MPF scheme.

A person gives "regulated advice" if the person gives an opinion in relation to any "material decision".

A "regulated person" means (i) a registered intermediary (i.e., a principal intermediary or a subsidiary intermediary); or (ii) a responsible officer of a principal intermediary.

(b) Prohibitions against Carrying on Regulated Activities, and Exceptions

Prohibitions against carrying on regulated activities

(i) Section 34L(1) of the MPFSO prohibits a person from carrying on regulated activities in the course of the person's business or employment; or for reward.

(ii) Section 34L(2) of the MPFSO prohibits a person from holding themselves out as carrying on regulated activities in the course of the person's business or employment; or as carrying on regulated activities for reward.

(iii) Section 34L(3) of the MPFSO prohibits a person from taking or using the title of "principal intermediary" or "subsidiary intermediary", "主事中介人" or "附屬中介人"; or any other title suggesting that the person carries on the regulated activities in the course of the person's business or employment; or for reward.

Exceptions to Prohibitions

Section 34L of the MPFSO does not prohibit:

(i) (1) a principal intermediary from carrying on regulated activities in the course of the principal intermediary's business or holding themselves out as so carrying on regulated activities; or

(2) a subsidiary intermediary attached to a principal intermediary from carrying on regulated activities in the course of acting as an employee, agent or representative of the principal intermediary or holding themselves out as so carrying on regulated activities;

(ii) a principal intermediary from taking or using the title of "principal intermediary" or "主事中介人" or a subsidiary intermediary from taking or using the title of "subsidiary intermediary" or "附屬中介人"; and

(iii) certain other kinds of persons or corporations from carrying on regulated activities or giving regulated advice or holding themselves out as so doing under certain circumstances which are set out in section 34M(3) to (6) of the MPFSO:

(1) An approved trustee, a participating employer, or a service provider is not prohibited from carrying on regulated activities for the purpose of complying with a requirement under the MPFSO.

(2) The MPFA is not prohibited from carrying on regulated activities for the purpose of performing a function under the MPFSO.

(3) A solicitor, counsel, or a certified public accountant is not prohibited from giving regulated advice wholly incidental to his/her practice.

(4) A trust company registered under the Trustee Ordinance (Cap.29) (other than an approved trustee) is not prohibited from giving regulated advice wholly incidental to the discharge of its duty.

(5) A person is not prohibited from giving regulated advice through (i) a newspaper, magazine, book or other publication that is made generally available to the public (excluding one that is made available on subscription only); or (ii) a television broadcast or radio broadcast for reception by the public.

(6) A company is not prohibited from giving regulated advice to its wholly owned subsidiary, another company that holds all its issued shares, or a wholly owned subsidiary of the company that holds all its issued shares.

(c) Offence and Penalty Relating to Prohibitions

(i) A person who, without reasonable excuse or otherwise being exempted, carries on regulated activities in the course of the person's business or employment or for reward (or holds himself out as doing so), contravenes the prohibitions against carrying on regulated activities, commits an offence and is liable:

(1) on conviction on indictment to a fine of $5,000,000 and to imprisonment for 7 years and, in the case of a continuing offence, to a further fine of $100,000 for each day on which the offence is continued; or

(2) on summary conviction to a fine of $500,000 and to imprisonment for 2 years and, in the case of a continuing offence, to a further fine of $10,000 for each day on which the offence is continued.

(ii) If a person contravenes the prohibitions by carrying on regulated activities for another person in the course of acting as an employee, agent or representative of that other person, or for holding themselves out as so carrying on regulated activities, the person is liable:

(1) on conviction on indictment to a fine of $1,000,000 and to

imprisonment for 2 years and, in the case of a continuing offence, to a further fine of $20,000 for each day on which the offence is continued; or

(2) on summary conviction to a fine at $100,000 and to imprisonment for 6 months and, in the case of a continuing offence, to a further fine of $2,000 for each day on which the offence is continued.

(iii) A person who, without reasonable excuse, contravenes the prohibition by taking/using the title of principal intermediary or subsidiary intermediary or certain related titles, commits an offence and is liable on conviction to a fine at $100,000 and, in the case of a continuing offence, to a further fine of $2,000 for each day on which the offence is continued.

7.2.2 Registration Requirements for MPF Intermediaries

There are two types of registered intermediaries, namely, principal intermediary and subsidiary intermediary.

(i) Principal intermediary refers to a business entity (Type A regulatee) registered by the MPFA as an intermediary to carry on regulated activities.

(ii) Subsidiary intermediary refers to a person (Type B regulatee) registered by the MPFA as an intermediary to carry on regulated activities for a principal intermediary to which the person is attached.

(a) Application for Registration as Principal Intermediary

For application for registration as a principal intermediary for carrying on regulated activities under section 34T(1) of the MPFSO,

(i) the principal applicant[1] must be a Type A regulatee***** of an industry regulator;

(ii) within 1 year immediately before the date of the application, the principal applicant has not had any qualification as a Type A regulatee revoked on disciplinary grounds (section 34J(1) of the MPFSO);

(iii) the principal applicant does not have any qualification as a Type A regulatee suspended (section 34J(2) of the MPFSO);

(iv) within 1 year immediately before the date of the application, the principal applicant has not had a registration as a registered intermediary revoked by the MPFA under section 34ZW(3)(a)(i) of the MPFSO; and

(v) the principal applicant is not disqualified by the MPFA under section

[1] Principal applicant means a person who applies under section 34T(1) for registration as an intermediary to carry on regulated activities.

34ZW(3)(a)(ii) of the MPFSO from being registered as an intermediary for carrying on regulated activities.

According to section 34T(2) of the MPFSO, there must be accompanying applications for application as a principal intermediary at the same time as follows:

EITHER

If the principal applicant wants to apply for an existing subsidiary intermediary to act as the responsible officer for the principal applicant,

(i) (1) an application made by the principal applicant under section 34V(1) of the MPFSO for approval of attachment of a subsidiary intermediary to the principal applicant for the purpose of carrying on regulated activities; and

(2) an application made by the principal applicant under section 34W(1) of the MPFSO for approval of the subsidiary intermediary as a responsible officer in relation to the principal applicant.

OR

If the applicant wants to apply for an individual who is not yet registered as a subsidiary intermediary to act as the responsible officer for the principal applicant,

(ii)(1) an application made by an individual under section 34U(1) of the MPFSO for registration as an intermediary for carrying on regulated activities for a principal intermediary to which the individual is to be attached;

(2) an application made by the principal applicant under section 34V(1) of the MPFSO for approval of attachment of the individual to the principal applicant for the purpose of carrying on regulated activities; and

(3) an application made by the principal applicant under section 34W(1) of the MPFSO for approval of the individual as a responsible officer in relation to the principal applicant.

***Type A regulatee means:**

(i) in relation to the IA, (1) a company that is authorized under the IO to carry on long term business within the meaning of the IO; or (2) a licensed long term insurance broker company.

(ii) in relation to the MA, an authorized financial institution[2] that is registered under the SFO for Type 1 or Type 4 regulated activity, or both, within the meaning of the SFO.

[2] Authorized financial institution means an authorized institution as defined by section 2(1) of the BO. Under the BO, an authorized institution means (a) a bank; (b) a restricted licence bank; or (c) a deposit-taking company.

(iii) in relation to the SFC, a corporation that is licensed under the SFO to carry on Type 1 or Type 4 regulated activity, or both, within the meaning of the SFO.

Please note that the MPFA may only register an applicant as registered principal intermediary if it is satisfied that, in additional to the criteria set out above, the relevant criteria for approval in relation to the accompanying applications are satisfied.

(b) Application for Registration as Subsidiary Intermediary

An applicant may apply to the MPFA for registration as a subsidiary intermediary under section 34U(1) of the MPFSO for carrying on regulated activities for a principal intermediary to which the applicant is to be attached.

For application for registration as a subsidiary intermediary under section 34U(1) of the MPFSO, the MPFA may approve the application if it is satisfied the following:

(i) the principal applicant[3] is a Type B regulatee** of an industry regulator but not a Type A regulatee of any industry regulator;

(ii) within 1 year immediately before the date of the application, the principal applicant has not had any qualification as a Type B regulatee revoked on disciplinary grounds (section 34K(1) of the MPFSO);

(iii) the principal applicant does not have any qualification as a Type B regulatee suspended (section 34K(2) of the MPFSO);

(iv) within 1 year immediately before the date of the application, the principal applicant has not had a registration as a registered intermediary revoked by the MPFA under section 34ZW(3)(a)(i) of the MPFSO;

(v) the principal applicant is not disqualified by the MPFA under section 34ZW(3)(a)(ii) of the MPFSO from being registered as an intermediary for carrying on regulated activities for a principal intermediary to which the principal applicant is to be attached; and

(vi) if the principal applicant is an individual, the principal applicant has, within 1 year immediately before the date of the application, passed a qualifying examination[4] specified by the MPFA. This will not be applicable if within 3 years immediately before the date of the application, the principal applicant has been registered as a subsidiary intermediary and that registration has been revoked, and the revocation, or the last

[3] Principal applicant means a person who applies under section 34U(1) for registration as a subsidiary intermediary to carry on regulated activities for a principal intermediary to which the person is to be attached.

[4] The following examinations are the qualifying examinations specified for section 34U(4)(f) of the MPFSO:
(a) the "Mandatory Provident Fund Schemes Examination" conducted by the Vocational Training Council; and
(b) the "MPF Intermediaries Examination" conducted by the Hong Kong Securities and Investment Institute.

revocation (if there is more than one), is not made due to non-compliance with the continuing training requirement.

According to section 34U(2) of the MPFSO, the application for registration as a subsidiary intermediary must be accompanied by an application made by a principal intermediary under section 34V(1) of the MPFSO for approval of attachment of the principal applicant to the principal intermediary for the purpose of carrying on regulated activities.

****Type B regulatee means:**

(i) in relation to the IA,

(1) a licensed long term individual insurance agent;

(2) a licensed long term insurance agency; or

(3) a licensed long term technical representative.

(ii) in relation to the MA,

(1) a relevant individual who is registered under section 20 of the BO as engaged in Type 1 or Type 4 regulated activity, or both, within the meaning of the SFO; or

(2) a person who, with the consent of the MA under section 71C of the BO, is an executive officer of a registered institution appointed under section 71D of the BO to be responsible for directly supervising the conduct of each business conducted by the registered institution that constitutes Type 1 or Type 4 regulated activity, or both, within the meaning of the SFO.

(iii) in relation to the SFC, a person who is licensed under section 120 of the SFO to carry on Type 1 or Type 4 regulated activity, or both, within the meaning of the SFO.

(c) Application for Approval of Attachment of a Subsidiary Intermediary to a Principal Intermediary

A principal intermediary or a person who applies for registration as a principal intermediary (the applicant) may apply to the MPFA for approval of attachment of another person to the applicant for the purposes of carrying on regulated activities for the applicant.

For application for approval of attachment of a subsidiary intermediary to the applicant for the purposes of carrying on regulated activities under section 34V(1) of the MPFSO, the MPFA may approve the application if it is satisfied the following:

(i) the applicant consents to the subsidiary intermediary being an intermediary for carrying on regulated activities for the applicant;

(ii) the subsidiary intermediary is employed by, or acts as an agent or representative for, the applicant; and

(iii) the subsidiary intermediary is a Type B regulatee of an industry regulator that is the frontline regulator of the applicant.

(d) Application for Approval of an Individual as Responsible Officer

An applicant who applies for registration as a principal intermediary or a principal intermediary may apply to the MPFA for approval of an individual as an officer with specified responsibilities in relation to the applicant.

For application by a principal intermediary or a corporation applying to be a principal intermediary for approval of an individual as its responsible officer under section 34W(1) of the MPFSO, the MPFA may approve the application if it is satisfied the following:

(i) the individual is a subsidiary intermediary attached to the applicant;

(ii) the individual has sufficient authority within the applicant, and will be provided with sufficient resources and support, for carrying out specified responsibilities in relation to the applicant;

(iii) within 1 year immediately before the date of the application, the individual has not had an approval as a responsible officer revoked by the MPFA under section 34ZW(4)(a)(i) of the MPFSO; and

(iv) the individual is not disqualified by the MPFA under section 34ZW(4)(a)(ii) of the MPFSO from being approved as a responsible officer in relation to a principal intermediary.

(e) Conditions Imposed on Approval of Application

(i) The MPFA may impose any conditions on registration of a principal or subsidiary intermediary, approval of attachment of a subsidiary intermediary to a principal intermediary or approval of an individual as a responsible officer of a principal intermediary (section 34X(1)&(2) of the MPFSO), as it considers appropriate.

(ii) The MPFA may also impose any conditions on registration and/or approval that it considers appropriate after it has registered or approved a person or individual (section 34X(3) of the MPFSO) and even if it has already imposed a condition (section 34X(4) of the MPFSO).

(iii) The MPFA may amend or revoke any conditions imposed (section 34X(5) of the MPFSO).

(iv) The MPFA will notify in writing to the relevant parties where conditions are imposed, amended or revoked (section 34X(6) of the MPFSO).

(v) If there are conditions imposed or amended, the MPFA will include a statement of reasons (section 34X(7) of the MPFSO).

(f) Assignment of Frontline Regulators

(i) For a Principal Intermediary

As soon as practicable after the MPFA registers a person as a principal intermediary, the MPFA shall assign an industry regulator as the frontline regulator of the person (section 34Z(1) of the MPFSO).

(ii) For a Subsidiary Intermediary

As soon as practicable after the MPFA approves the attachment of a subsidiary intermediary to a principal intermediary, the MPFA will assign the frontline regulator of the principal intermediary as the frontline regulator of the subsidiary intermediary in its/his/her capacity as a subsidiary intermediary attached to the principal intermediary (section 34ZA(1) of the MPFSO).

(iii) For a Responsible Officer

As soon as practicable after the MPFA approves an individual as a responsible officer of a principal intermediary, the MPFA will assign the frontline regulator of the principal intermediary as the frontline regulator of the individual in his/her capacity as a responsible officer of the principal intermediary (section 34ZB(1) of the MPFSO).

(g) Public Register of Registered Intermediaries

The MPFA maintains a register of all registered MPF intermediaries which can be accessed by the public through the corporate website of the MPFA (www.mpfa.org.hk). The public may also check an MPF intermediary's registration status by:

(i) calling the MPFA hotline on 2918 0102; or
(ii) visiting the MPFA office.

7.2.3 Regulatory Scope of Frontline Regulators

All registered MPF intermediaries are subject to supervisory oversight by frontline regulators (FRs) in accordance with the following criteria which is set out in the relevant legislation :

(a) MA to be the FR of all principal intermediaries who are its regulatees, including those who have dual capacities and are concurrently also

regulatees in the insurance and/or securities sectors;

(b) IA to be the FR of the other principal intermediaries who are its regulatees, including those who are concurrently also regulatees in the securities sector; and

(c) SFC to be the FR of the remaining principal intermediaries who are regulatees in the securities sector only.

The MPFA will assign all principal intermediaries to the appropriate FR based on the above assignment criteria.

Where the MPFA is satisfied that the principal intermediary carries on a majority of its business activities as a regulatee of another industry regulator, it may assign that other industry regulator to be the FR of the principal intermediary.

As a subsidiary intermediary will carry out regulated activities on behalf of his/her principal intermediary, the same FR will regulate the principal intermediary and their subsidiary intermediaries.

The FR of a regulated person will be guided by the Guidelines on Conduct Requirements for Registered Intermediaries (Conduct Guidelines) (see **7.4** for details) in performing its supervisory and investigatory functions relating to regulated persons under the MPFSO.

Where a FR has information which suggests that a regulated person has not complied with any conduct requirements under the MPFSO, it may conduct an investigation and provide the relevant information obtained to the MPFA for the latter's consideration of taking disciplinary action.

7.2.4 Conduct Requirements for Registered Intermediaries

The MPFSO sets out minimum standards of conduct with which registered intermediaries are obliged to comply. When carrying on a regulated activity, a principal intermediary or a subsidiary intermediary attached to a principal intermediary:

(a) must act honestly, fairly, in the best interests of the client, and with integrity;
(b) must exercise a level of care, skill and diligence that may reasonably be expected of a prudent person who is carrying on the regulated activity;
(c) may advise only on matters for which the principal or subsidiary intermediary is competent to advise;
(d) must have such regard to the client's particular circumstances as is necessary for ensuring that the regulated activity is appropriate to the client;
(e) must make such disclosure of information to the client as is necessary for the client to be sufficiently informed for the purpose of making any material decision;
(f) must use best endeavours to avoid a conflict between the interests of the

principal or subsidiary intermediary and the interests of the client and, in the case of such a conflict, must disclose the conflict to the client;

(g) must ensure that client assets are promptly and properly accounted for; and

(h) must comply with other requirements that are prescribed by the rules.

A principal intermediary must:

(a) keep such records of activities carried out by the principal intermediary, and of those carried out by every subsidiary intermediary attached to the principal intermediary, as may be necessary for enabling the FR of the principal intermediary to ascertain whether or not the principal intermediary and every subsidiary intermediary attached to the principal intermediary have complied with the conduct requirements in relation to the regulated activities;

(b) establish and maintain proper controls and procedures for securing compliance by the principal intermediary, and by each subsidiary intermediary attached to the principal intermediary, with Part 4A of the MPFSO;

(c) use the principal intermediary's best endeavours to secure observance by subsidiary intermediaries attached to the principal intermediary of the controls and procedures established by the principal intermediary;

(d) ensure that the responsible officer has sufficient authority within the principal intermediary for carrying out specified responsibilities in relation to the principal intermediary; and

(e) provide the responsible officer with sufficient resources and support for carrying out specified responsibilities in relation to the principal intermediary.

A responsible officer of a principal intermediary must use his or her best endeavours to carry out specified responsibilities in relation to the principal intermediary.

MPFA has issued Conduct Guidelines (see **7.4** for details) to provide guidance to registered intermediaries on compliance with the above statutory conduct requirements. Non-compliance with the conduct requirements may render an intermediary liable to disciplinary sanction(s).

7.2.5 Other Requirements for Registered Intermediaries

(a) Reporting of Changes in Relation to Principal Intermediaries

A principal intermediary must give the MPFA a notice in writing of the changes mentioned below within 7 working days after they occur:

(i) a principal intermediary ceases to carry on any regulated activity;
(ii) there is a change in the address or any contact details of a principal intermediary;
(iii) a principal intermediary:
    (1) acquires any qualification as a Type A regulatee;
    (2) ceases to be a Type A regulatee of any industry regulator; or
    (3) has any qualification as a Type A regulatee of an industry regulator suspended; or
(iv) a responsible officer of a principal intermediary ceases to be an officer with specified responsibilities in relation to the principal intermediary.

A person who, contravenes the above requirements without reasonable excuse, commits an offence and is liable to a fine at $50,000.

In addition, a principal intermediary is responsible for giving notice to the MPFA if the principal intermediary intends to withdraw the consent to a subsidiary intermediary to be attached to and carry on regulated activities for the principal intermediary.

(b) Reporting of Changes in Relation to Subsidiary Intermediaries

A subsidiary intermediary must give the MPFA a notice in writing of the changes mentioned below within 7 working days after they occur:

(i) there is a change in the name of a subsidiary intermediary;
(ii) there is a change in the address or any contact details of a subsidiary intermediary;
(iii) a subsidiary intermediary:
    (1) acquires any qualification as a Type B regulatee;
    (2) ceases to be a Type B regulatee of any industry regulator; or
    (3) has any qualification as a Type B regulatee of an industry regulator suspended; or
(iv) a subsidiary intermediary ceases to be the responsible officer of a principal intermediary.

A person who, without reasonable excuse, contravenes the above requirements, commits an offence and is liable to a fine at $50,000.

(c) Payment of Annual Fees

A person who is a registered intermediary must pay to the MPFA for every chargeable period (i.e., yearly) an annual fee of the amount prescribed by the regulations. The fee for a chargeable period must be paid within 1 month after the first day of the chargeable period.

If a person fails to pay the annual fee on time, the person must pay to the MPFA an additional fee of an amount equal to 10% of the annual fee that was unpaid.

The MPFA may suspend the registration of a registered intermediary if the person fails to pay to the MPFA the annual fee or any additional fee payable.

Where the MPFA suspends the registration of a person as a registered intermediary for failing to pay an annual fee or additional fee, the MPFA may revoke that registration if the person fails to pay to the MPFA the annual fee or additional fee within 30 days (or any longer period specified by the MPFA) after the suspension takes effect.

(d) Submission of an Annual Return

A person who is a registered intermediary (whether principal intermediary or subsidiary intermediary) must deliver to the MPFA an annual return. The return for a reporting period must be delivered within 1 month after the last day of the reporting period.

The MPFA may suspend the registration of the person for a period determined by the MPFA if the person fails to deliver to the MPFA, the annual return for a reporting period.

Where the MPFA suspends the registration of a registered intermediary for failing to deliver an annual return, the MPFA may revoke that registration if the person has not delivered the annual return within 30 days (or any longer period specified by the MPFA) after the suspension takes effect.

(e) Continuing Training Requirements

The MPFA may specify the training that is to be undertaken and the time within which the training is to be completed by individuals who are subsidiary intermediaries, as it considers necessary for ensuring that those individuals will be able to comply with the performance requirements[5].

If the MPFA is satisfied that an individual subsidiary intermediary has failed to complete the training specified within the time specified by it, it may give the individual a notice in writing requiring the individual to complete the training within 30 days or any longer period specified in the notice.

---

[5] Performance requirement:

- in relation to a registered intermediary, means (i) a requirement under section 34ZL of the MPFSO (i.e., conduct requirements for registered intermediary); or (ii) a condition to which the registration as a principal or subsidiary intermediary, or the approval of the attachment to a principal intermediary, is subject by virtue of section 34X of the MPFSO (i.e., the conditions imposed by the MPFA on registration or approval); or
- in relation to a responsible officer, means (i) a requirement under section 34ZM (i.e., conduct requirements for responsible officer); or (ii) a condition to which the approval as such responsible officer is subject by virtue of section 34X of the MPFSO (i.e., the conditions imposed by the MPFA on approval).

The MPFA may suspend the registration of an individual as a subsidiary intermediary, if it is satisfied that the individual has failed to comply with the notice given by it.

If, within 30 days after the suspension takes effect, the individual has not complied with the requirement set out in the notice given by the MPFA, the MPFA may revoke the registration of the person as a subsidiary intermediary.

7.2.6 Supervisory and Disciplinary Powers of MPFA and FRs

The MPFSO empowers the FRs to supervise and investigate registered intermediaries assigned to them in relation to non-compliance with performance requirements. On the other hand, the MPFA will be the sole authority to impose disciplinary sanctions on registered intermediaries for failure to comply with the performance requirements. When making decisions relating to disciplinary sanctions, the MPFA will take into account information obtained by the FRs during their investigations and any representations submitted by the relevant registered intermediaries.

(a) Inspection by Frontline Regulators for Monitoring Compliance

The FR of a regulated person (or a former regulated person) may direct an inspector to exercise its inspection powers under section 34ZR of the MPFSO for the purpose of ascertaining compliance of the regulated person (or the former regulated person) with performance requirements.

The inspector may:

(i) enter at any reasonable time any place of business of the regulated person;
(ii) inspect any business record of the regulated person;
(iii) make copies or otherwise record details of any business record of the regulated person; and
(iv) make inquiries of the regulated person concerning any business record of the regulated person or any transaction or activity that was undertaken in the course of, or may affect, the business conducted by the regulated person.

(b) Investigation by Frontline Regulators of Suspected Non-compliance

If the FR of a regulated person (or a former regulated person) has reasonable cause to believe that the regulated person (or former regulated person) may have failed to comply with a "performance requirement", the FR may direct an investigator to carry out an investigation.

The investigator may, in writing, require a specified person:

(i) to produce and give explanation or further particulars in respect of any record or document that is or may be relevant to any matter under investigation;
(ii) to attend before the investigator and answer any question relating to any matter under investigation;
(iii) to respond to any written question relating to any matter under investigation; or
(iv) to give the investigator any assistance in connection with the investigation.

The above specified person is:

(i) a person whom the FR has reasonable cause to believe may have failed to comply with a performance requirement; or
(ii) a person whom the investigator has reasonable cause to believe:
    (1) to be in possession of any record or document that contains, or that is like to contain, information relevant to any matter under investigation; or
    (2) to be otherwise in possession of such information.

(c) Consequence of Non-compliance with Inspection or Investigation Requirements

A person commits an offence under the following circumstances:

(i) without reasonable excuse, fails to comply with an inspection or investigation requirement imposed on him/her and is liable:
    (1) on conviction on indictment to a fine of $200,000 and to imprisonment for 1 year; or
    (2) on summary conviction to a fine at $50,000 and to imprisonment for 6 months.

(ii) with intent to defraud, fails to comply with an inspection or investigation requirement imposed on him/her.

(iii) (1) in purported compliance with an inspection or investigation requirement imposed on the person, the person produces any record or document, or gives an answer or response, or gives any explanation or particulars, that are false or misleading in a material respect; and
    (2) the person knows that, or is reckless as to whether, the record or document, or the answer or response, or the explanation or particulars, are false or misleading in a material respect.

(iv) in purported compliance with an inspection or investigation requirement imposed on the person, the person, with intent to defraud, produces any record or document, or gives an answer or response, or gives any explanation or particulars, that are false or misleading in a material respect.

(v) being an officer or employee of a company, the person, with intent to defraud:

(1) causes or allows the company to fail to comply with an inspection or investigation requirement imposed on the company; or
(2) causes or allows the company, in purported compliance with an inspection or investigation requirement imposed on the company, to produce any record or document, or give an answer or response, or give any explanation or particulars, that are false or misleading in a material respect.

A person who commits an offence under item (ii), (iv), (v) above is liable:

(1) on conviction on indictment to a fine of $1,000,000 and to imprisonment for 7 years; or
(2) on summary conviction to a fine at $100,000 and to imprisonment for 6 months.

A person who commits an offence under item (iii) above is liable:

(1) on conviction on indictment to a fine of $1,000,000 and to imprisonment for 2 years; or
(2) on summary conviction to a fine at $100,000 and to imprisonment for 6 months.

(d) Disciplinary Orders for Non-compliance

The MPFA may make any disciplinary order under (i), (ii), (iii) or (iv) below against a regulated person if the MPFA is satisfied that the regulated person has failed to comply with a performance requirement.

The MPFA may make any disciplinary order (i.e., (i) or (ii) below) against a regulated person if the person is convicted of an offence under the MPFSO or any subsidiary legislation under the MPFSO.

(i) If the regulated person is a registered intermediary—

the MPFA may:

(1) order that the registration of the person as an MPF registered intermediary be revoked; and

(2) order that the person be disqualified from being registered as an MPF intermediary for carrying on regulated activities, or as an MPF intermediary for carrying on regulated activities for a principal intermediary to which the person is to be attached, for a period it determines; or

the MPFA may order that the registration of the person as an MPF registered intermediary be suspended for a period it determines.

(ii) If the regulated person is a responsible officer of a principal intermediary—

the MPFA may:

(1) order that the approval of the individual as such responsible officer be revoked; and

(2) order that the person be disqualified from being approved as an officer with specified responsibilities in relation to a principal intermediary for a period it determines; or

the MPFA may order that the approval of the individual as such responsible officer be suspended for a period it determines.

(iii) The MPFA may order that the regulated person—

(1) be publicly reprimanded; or

(2) be privately reprimanded.

(iv) The MPFA may order the regulated person to pay a pecuniary penalty not exceeding whichever is the greater amount of the following—

(1) $10,000,000;

(2) 3 times the amount of the profit gained or loss avoided by the regulated person as a result of the failure.

(e) Procedural Requirements before Making a Disciplinary Order

If the MPFA forms a preliminary view that it should make a disciplinary order against, or take further action in respect of a regulated person, it must:

(i) give the regulated person a notice in writing with the reasons for the preliminary view, particulars of the proposed disciplinary order, the right of and the way for the regulated person to make representations; and

(ii) give the regulated person an opportunity to make oral or written representations on the preliminary view and the reasons for it.

7.2.7 Appeal Mechanism for Decisions on Registration and Disciplinary Sanctions

There is a Mandatory Provident Fund Schemes Appeal Board (Appeal Board) under the MPFSO for dealing with appeals against certain regulatory decisions of MPFA. The Appeal Board is responsible for handling independently all appeals against MPFA's decisions on registration and disciplinary sanctions made pursuant to the powers under the MPFSO. An appeal against MPFA's decision may be submitted to the Appeal Board within 2 months after the date on which the MPFA gives written notice of its decision.

Subject to section 39 of the MPFSO (where the Appeal Board may refer any question of law arising in an appeal to the Court of Appeal for determination by way of case stated), the decision of the Appeal Board is final.

7.2.8 Public Disclosure of Disciplinary Decisions Made against Registered Intermediaries

The MPFA is empowered to disclose to the public details of disciplinary decisions made against registered intermediaries (except for private reprimand), the reasons for which the disciplinary decision was made, and any material facts relating to the case. In practice, the MPFA will disclose information to the public through the issue of a press release. The MPFA is also required to include in the Register of Intermediaries, a record of disciplinary orders it has made against registered MPF intermediaries within the last five years.

7.3 HANDLING OF COMPLAINTS AGAINST MPF INTERMEDIARIES

MPFA will receive complaints in relation to MPF sales and marketing activities.

It will conduct initial processing of the complaints. If the information provided suggests a possible breach of the conduct requirements, it will refer the complaints to the relevant FRs for consideration of initiating investigation.

FRs will be responsible for the investigation of relevant registered MPF intermediaries. In misconduct cases, MPFA will be the sole authority to impose disciplinary sanctions, taking into account the information obtained by FRs in the course of their investigation and the representation of the intermediaries concerned.

7.4 GUIDELINES OF CONDUCT FOR MPF INTERMEDIARIES

Intermediaries must be fully aware of the guidelines issued by the MPFA and other codes of conduct issued by the respective regimes under which they are supervised.

7.4.1 Guidelines on Conduct Requirements for Registered Intermediaries (Conduct Guidelines)

The Conduct Guidelines, issued under the MPFSO, provide guidance in respect of the minimum standards of conduct expected of regulated persons who engage in the conduct of sales and marketing activities and giving advice in relation to registered schemes.

In particular, they provide guidance about the circumstances in which the MPFA will be satisfied that a regulated person has, or has not, complied with a performance requirement under the MPFSO. Whilst the Conduct Guidelines are intended to assist regulated persons in understanding how to comply with the performance requirements, they are not intended to be an exhaustive description of how they should comply. Acts or omissions not mentioned in the Conduct Guidelines may also constitute a breach of the performance requirements.

For the full text of the Conduct Guidelines, please refer to the corporate website of the MPFA (http://www.mpfa.org.hk). The Conduct Guidelines is published under "Information Centre" > "Legislation & Regulations" > "Guidelines". Readers who

intend to become MPF intermediaries are advised to study the Conduct Guidelines carefully and familiarize themselves with the details.

7.5 SANCTIONS AND PENALTIES

Should MPF intermediaries fail in their duties or otherwise be in breach of expected requirements, a number of sanctions and/or penalties may arise. The MPFA may consider them under a number of headings, as follows:

(a) Imposed by their Principals

These will be within the terms of the agency or other contract which exists between the principal and the intermediary, and will be as mutually agreed. Obviously, the range of sanctions and penalties will include internal disciplinary action such as forfeiture of commission and/or reprimands, etc.

(b) Imposed by Statute (Ordinance) other than the MPFSO

A complete summary of all statutory provisions in this area is not required, but some important specific areas should be noted, as follows:

SFO

Section 103 of the SFO makes it an offence to issue to the public any advertisements on MPF schemes and approved pooled investment funds unless they are authorized by the SFC or are exempt under the SFO. A breach of section 103 of the SFO carries a maximum fine of $500,000 and 3 years of imprisonment (plus a further fine for each day the offence continues).

Section 107 of the SFO makes it an offence to induce another person to participate in an MPF scheme or invest in pooled investment funds by making fraudulent or reckless misrepresentations. A breach of section 107 of the SFO carries a maximum fine of $1,000,000 and 7 years of imprisonment.

- o - o - o -

Representative Examination Questions

Type "A" Questions

1 To give some proof of qualification for registered MPF intermediaries, the MPFA will:

(a) provide a special marking on their I.D. card; .....
(b) maintain a public register of all registered MPF intermediaries through the internet; .....
(c) provide an identity card issued by their employer; .....
(d) provide a special licence, similar to a driving licence. .....

[Answer is in **7.2.2**]

2 A registered intermediary should have a good understanding, of any registered scheme and constituent fund which it promotes and/or on which it gives regulated advice, including:

(a) the level of fees and charges relating to the scheme and the various constituent funds in the scheme; .....
(b) the investment policies, types and levels of risks and terms and conditions of the various constituent funds in the scheme; .....
(c) general scheme operational issues such as those relating to transfers and withdrawals; .....
(d) all of the above .....

[Answer is in the **Guidelines on Conduct Requirements for Registered Intermediaries]**

Type "B" Questions

3 Which of the following are among the registration requirements for a subsidiary intermediary?

(i) applicant is a Type A regulatee
(ii) applicant is a Type B regulatee
(iii) applicant is being attached to a principal intermediary
(iv) new applicant passes the qualifying examination within 1 year before the date of the application

(a) (ii) and (iii) only; .....
(b) (ii) and (iv) only; .....
(c) (i), (iii) and (iv) only; .....
(d) (ii), (iii) and (iv) only. .....

[Answer is in **7.2.2**]

4 Which of the following are among the conduct requirements specified under the Guidelines on Conduct Requirements for Registered Intermediaries?

(i) acting honestly and fairly, in the best interests of the client, and with integrity
(ii) disclosure of conflict of interest
(iii) disclosure of necessary information to the client
(iv) care, skill and diligence

(a) (i) only; .....
(b) (i) and (ii) only; .....
(c) (i), (ii) and (iii) only; .....
(d) (i), (ii), (iii) and (iv). .....

[Answer is in the **Guidelines on Conduct Requirements for Registered Intermediaries]**

[If required, answers may be found at the end of the Study Notes.]

8 INTRODUCTION TO THE eMPF PLATFORM

8.1 Objective of the eMPF Platform

Before the launch of eMPF Platform, the administration of MPF schemes had been operating under a decentralized landscape. The MPF schemes were administered by different MPF trustees on different scheme administration platforms with different standards. The diversified business models and system infrastructure and high volume of paper-based transactions made it difficult to achieve standardization and economies of scale.

To address the above issues, the MPFA was tasked by the Government to design, build and operate the eMPF Platform, with an aim to reshape the administrative ecosystem of the MPF System. The eMPF Platform is a one-stop digital platform to standardize, streamline and automate the administration processes of different MPF schemes, thereby making it simpler and more convenient for scheme members and employers to manage their MPF, with a view to enhancing operational efficiency and driving reduction in the administration fees of MPF funds.

8.2 Implementation of the eMPF Platform

The eMPF Platform Company Limited (the eMPF Company), a wholly-owned subsidiary of the MPFA, was established in March 2021 for operating the eMPF Platform as a public utility under not-for-profit and cost-recovery principles. It charges eMPF Platform fee from MPF trustees for the provision of scheme administration services, and the administration fee charged by MPF trustees must not exceed the eMPF Platform fee they pay to the eMPF Company **(see also second paragraph of 8.3)**.

The eMPF Platform has commenced operation in June 2024. All MPF trustees are mandated to use the eMPF Platform to perform scheme administration functions in relation to the MPF schemes they administer. To ensure a smooth and seamless transition, MPF schemes are arranged to get onboard the eMPF Platform in ascending order of size of MPF asset-under-management of each trustee. By 30 April 2026, all MPF schemes are onboarded to the eMPF Platform, and all scheme members, employers and self-employed persons have to submit scheme administration instructions to the eMPF Platform.

Scheme members can view their MPF portfolios at a glance anytime and anywhere via the eMPF Platform, and manage their accounts across different schemes by performing a wide range of functions such as account opening, contribution, fund switching, account consolidation, etc., on a real-time, secure and paperless basis, leading to a more effective management of MPF accounts. For employers and self-employed persons, they can handle their MPF contributions through electronic means, thereby reducing paper work, human errors, and inadvertent delay or default contributions and the resulting default contribution surcharge.

8.3 "Straight Pass-on" of Cost Savings and "Corresponding Fee Reduction"

To achieve and ensure the policy objective that any cost savings derived from the operation of the eMPF Platform would be passed directly to scheme members, the MPFSO

stipulates the requirements of "straight pass-on" of cost savings and "corresponding fee reduction".

The "straight pass-on" requirement provides that the administration fee charged by MPF trustees must not exceed the eMPF Platform fee they pay to the eMPF Company such that the cost savings for scheme administration can be passed on to scheme members.

The "corresponding fee reduction" refers to the requirement that the overall fund expense ratio of constituent funds (CFs) must fully reflect the cost savings to ensure that there is corresponding reduction in the overall fee level. If the fund expense ratio for a CF does not fully reflect the reduction required, the MPF trustees will be required to pay back the difference into the CF.

8.4 Oversight role of the MPFA

The MPFA is empowered under the MPFSO to oversee the operation of the eMPF Platform. In this connection, the MPFA has formulated a Regulatory Oversight Framework to specify the regulatory oversight requirements and provide guidance on the duties and obligations of the eMPF Company. The framework covers the governance of the eMPF Company, system safety, operational efficiency, compliance with the eMPF Platform operating rules as well as the processes and approaches that the MPFA would follow in overseeing the eMPF Platform. The operating rules (made by the eMPF Company and approved by the MPFA) govern the administration, operation and suspension of the eMPF Platform. The MPFA implements oversight activities including on-site inspection and off-site monitoring on operations of the eMPF Platform to ascertain compliance with regulatory oversight requirements and compliance with the operating rules.

- o - o - o -

Representative Examination Questions

Type "A" Questions

1 Which entity/entities operate the eMPF Platform?

(a) MPF approved trustees; .....
(b) The Mandatory Provident Fund Schemes Authority; .....
(c) The eMPF Platform Company Limited; .....
(d) The Mandatory Provident Fund Schemes Authority and the eMPF Platform Company Limited. .....

[Answer is in **8.2**]

Type "B" Questions

2 Under the Regulatory Oversight Framework of the operation of the eMPF Platform formulated by the MPFA, which of the following aspects are covered?

(i) Governance of the eMPF Platform Company Limited
(ii) System safety
(iii) Investment diversity
(iv) Operational efficiency

(a) (i), (ii) and (iii); .....
(b) (i), (ii) and (iv); .....
(c) (i), (iii) and (iv); .....
(d) (ii), (iii) and (iv). .....

[Answer is in **8.4**]

[If required, the answers may be found at the end of the Study Notes.]

9 INTRODUCTION TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

9.1 Environmental, Social and Governance (ESG)

Recent extreme weather conditions around the world underscore climate change's impacts on the environment, posing risks on the fundamental business operations of different industries and their performance over the longer term. In the long run, the returns from investing in enterprises may be affected if the environmental factors are not taken into account. Social factors (e.g. labour rights, gender equality, product safety and community relations) and governance factors (e.g. corporate governance structure, risk management, business ethics and information transparency) are other important factors having substantial impacts on the risks and returns of a company. For instance, government policies such as penalizing and restricting carbon emission would increase the operating costs for high-emitting sectors. As a result, the consideration of ESG factors is becoming an integral part of investment management, and ESG factors are used as indicators by investors to analyze an investee company's prospects by measuring its performance against ESG criteria.

9.2 Relevance of ESG Factors in MPF Investing

The investment horizon of MPF funds stretches over several decades, making them vulnerable to long-term investment risks. ESG risks are among those evolving long-term investment risks that should be taken into account in the investment and risk management processes. If ESG risks are not taken into account in the investment and risk management processes, the interests of scheme members may be adversely affected. It is both a stewardship obligation and a fiduciary duty on the part of MPF trustees and investment managers in the MPF System to be mindful of how material financial risks, including the ESG risks, would impact the interests of MPF scheme members and what would be an appropriate and responsible response to address those risks. Sustainable investing is the consideration of ESG factors in the investment and risk management processes. ESG factors are used as indicators by investment managers to analyze an investee company's prospects by measuring its performance against ESG criteria.

9.3 Policies and Measures Adopted by the MPFA

In 2021, the MPFA, having gathered views from the MPF industry and made reference to relevant local and global requirements on ESG integration and disclosure approach, developed a set of guiding principles, "Principles of Adopting Sustainable Investing in the Investment and Risk Management Processes of MPF Funds", which lay down a high-level framework that serves to assist MPF trustees in integrating ESG factors into the investment and risk management of MPF funds from a financial risk management perspective and making relevant disclosure to MPF scheme members. The guiding principles cover four key elements: governance, strategy, risk management and disclosure.

(a) Governance: MPF trustees should have a governance framework to monitor management of ESG risks by investment managers;
(b) Strategy: MPF trustees should formulate an ESG integration strategy at the MPF

scheme level;

(c) Risk management: MPF trustees should ensure the consideration of ESG factors in the investment and risk management processes of MPF funds; and
(d) Disclosure: MPF trustees should disclose ESG integration strategies and report implementation progress regularly including the metrics and targets adopted.

MPF trustees are required to prepare an annual governance report for each MPF scheme under their trusteeship within six months after the financial year end date of the MPF scheme. The scheme governance report should be posted on the website of the respective trustee and contain disclosure of an MPF scheme's sustainable investing strategy and implementation progress, according to the guidance set out in the "Principles for Adopting Sustainable Investing in the Investment and Risk Management Processes of MPF Funds" issued by the MPFA. MPF trustees are also required to use plain and layman language and easily comprehensible narrative in communication with scheme members and avoid the use of technical jargons in isolation without any explanation, and may consider disclosing metrics (e.g. carbon footprints) that would help scheme members apprehend the ESG assessment, especially if and where ESG risks and opportunities are assessed to be relevant and material to scheme members' interest. To facilitate MPF scheme members to access the scheme governance reports, the latest bilingual governance reports of all MPF schemes are also made available on the MPFA's website.

9.4 ESG Constituent Funds (CFs) within an MPF Scheme

9.4.1 Features

Within an MPF scheme, an ESG constituent fund is a fund which incorporates ESG factors as its key investment focus and reflects such in the investment objectives and/or strategies. The main features of each ESG CF, including the key investment theme and investment strategy, are set out in the MPF scheme brochures of the relevant MPF schemes and also made available on MPFA's website.

9.4.2 ESG Investment Strategies of ESG CFs

The ESG CFs may have different focuses and investment styles, and they may adopt different strategies to achieve their ESG focus. MPF scheme members should review MPF scheme brochures carefully and understand how an ESG CF incorporates ESG factors to attain its ESG focus and assess whether its ESG-related features meet their retirement needs. For example, the three common ESG investment strategies adopted by ESG funds are:

(a) Best-in-class/positive screening: Investment in companies or sectors that have better ESG performance than peers;
(b) Impact investing: Investment in companies or financing for business with a purpose of generating measurable positive ESG impact; and
(c) Thematic: Investment in companies that engage in specific ESG or sustainability themes or economic activities (e.g. sustainable energy, etc.).

9.4.3 Enhanced Disclosure Requirements for ESG CFs

To further enhance MPF scheme members' understanding of ESG CFs available under the MPF schemes they participate in, the MPFA has enhanced the disclosure requirements for ESG CFs with effect from February 2025 as follows:

(a) Name of ESG CF: The name of an ESG CF should not be misleading. The primary investments and/or strategy of an ESG CF should reflect the particular ESG focus which the fund's name represents. The references to ESG or similar/ relevant terms in the fund's name and reference/ marketing materials should accurately and proportionately reflect the ESG features vis-à-vis other features of the ESG CF, and should not overstate, exaggerate or over-emphasize the ESG features. A CF other than an ESG CF should not name, present or market itself as an ESG CF;

(b) Disclosure in MPF scheme brochures: The ESG focus[1] of the CF, ESG investment strategy[2], asset allocation[3], reference benchmark[4] (if any) and the ESG associated risks[5] should be disclosed;

(c) Disclosure of additional information: Descriptions of (i) how the ESG focus is measured and monitored throughout the lifecycle of the ESG CF; (ii) methodologies adopted to measure the ESG focus and the attainment of the ESG focus by the ESG CF; (iii) due diligence carried out in respect of the ESG-related attributes of the ESG CF's underlying assets; (iv) description of the engagement (including proxy voting) policies (if any) and (v) sources and processing of ESG data (or any assumptions made where relevant data is not available) should be disclosed in the MPF scheme brochure or the MPF trustee/ investment manager/ index provider's websites or by other means; and

(d) Periodic assessment and disclosure: MPF trustees should conduct periodic assessments, at least annually, to review how the ESG CF attains its ESG focus and disclose the following information about their assessments in the annual governance reports of the schemes:

    (i) description of how the CF has attained the ESG focus during the assessment period, including, where appropriate:

        ✧ the actual proportion of investments that is commensurate with the CF's ESG focus;

        ✧ the actual proportion of the investment universe selected or eliminated as a result of the CF's ESG-related screening;

---

[1] A description of the CF's ESG focus (e.g. climate change, green, low carbon footprint, and sustainability, etc.) and a list of ESG assessment criteria (e.g. filters, indicators, ratings, third party certificates and/or labels, etc.) used to measure the attainment of the CF's ESG focus

[2] A description of the investment strategy(ies) adopted by the ESG CF, the binding elements and significance of the strategy(ies) in the investment process, and how the strategy(ies) is(are) implemented in the investment process on a continuous basis. A summary of the process of consideration of ESG criteria, which may include the methodologies used in measuring the fulfillment of these ESG criteria, their sequencing relative to the investment strategies, and examples of the most important ESG criteria considered (if any). A description of whether an exclusion policy is adopted by the ESG CF, if any, and the type(s) of exclusion.

[3] The expected or minimum proportion of securities or other investments (e.g. in terms of net asset value of the ESG CF) that are commensurate with the CF's ESG focus

[4] Details of the benchmark being tracked including the characteristics and general composition of the benchmark or an explanation of how a designated reference benchmark is relevant to the ESG focus of the ESG CF if the CF seeks to measure its ESG focus against the designated reference benchmark.

[5] A description of risks or limitations associated with the CF's ESG focus and the associated investment strategies (e.g. limitation of methodologies and data, lack of standardized taxonomy, subjective judgment in investment selection, reliance on third party sources, concentration in investments with the particular ESG focus, etc.)

- ✧ a comparison of the performance of the CF's ESG factors in relation to the designated reference benchmark (if any);
- ✧ actions taken in respect of the CF or its underlying fund(s) in attaining the CF's ESG focus (e.g. shareholder engagement activities, proxy voting records of the ESG CF or its underlying funds with respect to its investee companies, etc.); and
- ✧ any other information, considered necessary or appropriate by the MPF trustee of the ESG CF.

(ii) description of the basis of the assessment performed including any estimations and limitations; and

(iii) comparison between assessment of the ESG CF in the current period and at least that in the immediate preceding period if available.

The MPFA also advises MPF trustees to provide hyperlink(s) to relevant reference/educational materials with a view to assisting scheme members' understanding of the ESG characteristics and associated risks etc. of the relevant ESG CF.

9.5 Green and Sustainable Finance Cross-Agency Steering Group

The MPFA is a member of the Hong Kong Green and Sustainable Finance Cross-Agency Steering Group (CASG). CASG was established in May 2020 and is co-chaired by the Hong Kong Monetary Authority and the Securities and Futures Commission. It co-ordinates the management of climate and environmental risks to the financial sector, accelerates the growth of green and sustainable finance in Hong Kong and supports the Government's climate strategies. Other members include the Accounting and Financial Reporting Council, the Environment and Ecology Bureau, Financial Services and the Treasury Bureau, Hong Kong Exchanges and Clearing Limited and Insurance Authority.

- o - o - o -

Representative Examination Questions

Type "A" Questions

1 What is one of the main features of an ESG constituent fund within an MPF scheme?

(a) Prioritizes investments in sectors with high short-term growth potential; .....
(b) Guarantees fixed returns; .....
(c) Integrates CSR into its investment decisions; .....
(d) Incorporates ESG factors as a key investment focus. .....

[Answer is in **9.4.1**]

Type "B" Questions

2 Which three of the following are common ESG investment strategies?

(i) Thematic
(ii) Best-in-class
(iii) Impact investing
(iv) Value investing

(a) (i), (ii) and (iii); .....
(b) (i), (ii) and (iv); .....
(c) (i), (iii) and (iv); .....
(d) (ii), (iii) and (iv). .....

[Answer is in **9.4.2**]

[If required, the answers may be found at the end of the Study Notes.]

APPENDIX I

ABBREVIATIONS

A65F	Age 65 Plus Fund
ABS	Annual Benefit Statement
APIF	Approved Pooled Investment Fund
BO	Banking Ordinance
CAF	Core Accumulation Fund
CFs	Constituent Funds
Conduct Guidelines	Guidelines on Conduct Requirements for Registered Intermediaries
DIS	Default Investment Strategy
Disclosure Code	Code on Disclosure for MPF Investment Funds
ECA	Employee Choice Arrangement
EEMC	Employee's Mandatory Contribution
eMPF Company	eMPF Platform Company Limited
ERMC	Employer's Mandatory Contribution
ESG	Environmental, Social and Governance
Exemption Regulation	Mandatory Provident Fund Schemes (Exemption) Regulation
Fees Regulation	Mandatory Provident Fund Schemes (Fees) Regulation
FER	Fund Expense Ratio
FR	Frontline Regulator
General Regulation	Mandatory Provident Fund Schemes (General) Regulation
IA	Insurance Authority
IO	Insurance Ordinance
MA	Monetary Authority
MPF	Mandatory Provident Fund

MPFA	Mandatory Provident Fund Schemes Authority
MPFSO	Mandatory Provident Fund Schemes Ordinance
MPF legislation	MPFSO and its subsidiary legislation
NAV	Net Asset Value
NCEOR	Non-Compliant Employer and Officer Records
ORSO	Occupational Retirement Schemes Ordinance
OCI	On-going Cost Illustration
RTC	Registered trust company in Hong Kong
SEP	Self-employed person
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
TVC	Tax Deductible Voluntary Contributions

APPENDIX II

COVERAGE

The following is a list showing examples of different types of jobs with explanations as to why the persons engaged in these jobs are generally included in or excluded from the MPF System.

Job Characteristics	Covered by MPF(Y/N)?	Remarks
1. Domestic Employees[1]		
Baby sitters, domestic servants and gardeners who render their services at the employer's household	N	Services rendered in a residential premises
Baby sitters, domestic servants and gardeners whose services are not rendered at the employer's household	Y	Services not rendered in a residential premises
Chauffeurs, bodyguards and boatboys employed by an individual	Y	Services not rendered in a residential premises
Licensed caretakers employed by Owners Incorporation	Y	Services not rendered in a residential premises
Security guards employed by an individual to provide security services for his/her residential premises	N	Services are substantially rendered in the residential premises of the employer
2. Short-term Employees		
Employees, part-time workers and summer job workers whose employment is terminated within 60 days but are re-employed by the same employer. The employment is considered a continuous contract (as defined in the Employment Ordinance) with employment period not less than 60 days	Y	Please seek advice from the Labour Department if you are in doubt of what constitutes a continuous contract

[1] "Domestic employee" is defined as an employee whose contract of employment is wholly or substantially for the provision of domestic services in the residential premises of the employer. "Domestic" means "of or relating to the home or family affairs or relations". Whether services are domestic in nature is a matter of fact.

Job Characteristics	Covered by MPF(Y/N)?	Remarks
3. Overseas Employees		
Employees entering Hong Kong under an employment visa with permission to stay for a period not exceeding 13 months which is extended such that the total period of stay exceeds 13 months	N – for the first 13 months in Hong Kong	---
	Y - After the first 13 months in Hong Kong	---
Employees employed in or from Hong Kong by companies engaging in business in Hong Kong, working in Hong Kong but are residing outside Hong Kong	Y	For example, employees living in Shenzhen but commute to Hong Kong on a daily basis
Employees employed outside Hong Kong by foreign companies and are working outside Hong Kong	N	Whether the employees are residents of Hong Kong is irrelevant
4. Self-employed Persons		
Overseas partners of a partnership engaging in business in Hong Kong	N	---
Farmers, fishermen	Y	Usually they are self-employed persons unless employed by another farmer or fisherman
Hawkers who are not self-employed	Y	---
Drivers of taxis, public light buses and vans who are not owners of the vehicles	Y	Usually they are self-employed persons
Owners of taxis, public light buses and vans whose income is derived from both driving the vehicles and renting the vehicles to other drivers	Y	Usually they are self-employed persons
A taxi owner who derives his/her income from renting his/her taxi	Y	Usually they are self-employed persons
Private tutors and piano teachers giving private lessons	Y	Usually they are self-employed persons
5. Industry Schemes		
Recruiters in the catering industry	Y	Usually they are self-employed agents responsible for recruiting casual workers for banquets in large catering

Job Characteristics	Covered by MPF(Y/N)?	Remarks
		establishments such as hotels
Recruiters in the construction industry	Y	Usually they are employees of the specialist contractors (bar-bending & electrical works) responsible for recruiting workers on site
Substitute workers in the catering and construction industries	Y	Usually they are casual workers doing another person's job for a few days and are paid by that person in cash for their services
Summer job workers in the catering or construction industries	Y	---
6. Others		
Civil servants who are not entitled to pension benefits	Y	---
Local staff of Consulate General	Y	---
Teachers and other staff members of a private school	Y	---
Shareholders whose only source of income is the dividend received	N	Neither an employee nor a self-employed person
Landlords whose only source of income is the rent of their properties but they are not carrying on a business of renting out properties.	N	Neither an employee nor a self-employed person

APPENDIX III

RELEVANT INCOME

The following is a list of examples of different types of "incomes" with explanations as to why these incomes are generally regarded or not regarded as "relevant income" under the MPF System.

Income Types	"Relevant income" (Y/N)	Remarks
1. Wages and Salaries		
13th month pay	Y	---
Bonus - at employer's discretion - performance linked	Y	---
End-of-contract gratuity	Y	---
2. Reimbursement/Allowance		
Payment of reimbursement nature - self-improvement education expenses - uniform laundry expenses - meals provided or obtained during office hours - mobile phone service charges - professional organization membership fee - entertainment expenses - mileage duty expenses	N	Reimbursement of expenses incurred by the employee for employment related goods and services which are necessary in the performance of an employment duty
Cash allowances	Y	Allowance provided by the employer in cash which the employee may spend as he/she sees fit
Internship allowance	Y	Allowances provided by the employer in cash, in connection with a vocational training programme
Leave allowance - annual leave - compassionate leave - examination leave - marriage leave - sick leave	Y	---

Income Types	"Relevant income" (Y/N)	Remarks
3. Transportation and Car Subsidy		
Transportation subsidy - free ticket / pass for use of public transport - parking coupons	N	Non-monetary benefits
Car subsidy - free use of car	N	Non-monetary benefits
- fuel and oil - maintenance expenses - payment of car registration and licence fees for car owned by an employee	Y	Employer provides cash payment for the benefit of employee
4. Commission		
- based on amount of transaction - based on number of transaction - on project basis irrespective of the amount or the number of transactions	Y	---
5. Tips		
Tips collected by the employer	Y	Tips collected via the employer and service charges included in the bill (including amounts inserted by customers on credit card bills) which are subsequently distributed partly or fully to the employees
Tips not collected by the employer	N	Money paid by customers directly to an employee, put in tin box or left by the customers on the table, and which is retained by the employee or shared among the employees without any intervention by the employer
"Pickle charges" (peanuts, snacks, pickle provided on table) shared by employees	Y	Restaurant owners usually give the pickle charges collected to employees. An implied term of the contract of employment

Income Types	"Relevant income" (Y/N)	Remarks
6. Employees' Benefits		
Marriage gifts	N	Payment made to an employee on a significant personal event
Holiday tour package	N	Non-monetary benefits. Expenses paid by the employer in respect of a completed holiday to cover expenses included in the package, such as transportation, accommodation, food, etc
Meals consumed on the spot	N	Non-monetary benefits
Meals provided in the form of vouchers	N	Non-monetary benefits
7. Court award / termination payment		
Award determined by a court or tribunal representing "wages, salary, leave pay, fee, commission, bonus, gratuity, perquisite or allowance"	Y	---
Payment in lieu of notice	N	Payment does not fall within any of the nine heads (i.e. wages, salary, leave pay, fee, commission, bonus, gratuity, perquisite or allowance) of relevant income
Severance payment	N	Specifically excluded from the definition of "relevant income"
Long service payment	N	Specifically excluded from the definition of "relevant income"
8. Others		
Dividend income	N	Return on investment received by shareholders
Share options	N	Non-monetary benefits
Gains realized from share options	N	---
Medical claims reimbursement	N	Payments that are made by third parties, rather than the employer, to the employee pursuant to an insurance contract purchased by the employer covering that employee
Employment-related medical expenses incurred by employee but paid directly by employer	N	---

APPENDIX IV

DATE OF PAYMENT OF CONTRIBUTION

According to the MPFSO, employers must pay contributions for their employees on or before the contribution day. Meanwhile, self-employed persons (SEPs) must pay contributions by the specified day in each month if contributions are paid on a monthly basis or at or before the end of the scheme financial year if contributions are paid on a yearly basis.

Employers and SEPs may choose to pay mandatory contributions through various payment methods/channels as provided by the trustees via the eMPF Platform. Payment by different methods/channels will have implications on the date on which the contribution is considered paid. Please refer to the table below for details of four main payment methods. The eMPF Platform does not accept any contributions in cash.

Payment methods/channels	Points to note
Cheque There are three ways to submit the cheque: 1. By post: P.O. Box 98929 Tsim Sha Tsui Post Office 2. Drop in box: at any one of the eMPF Services Centres 3. Cheque deposit machine (only applicable to certain trustees): deposit through cheque deposit machine at the bank designated by the trustees	➢ Ensure that the information on the cheque is accurate and there are sufficient funds in the bank account to honour the cheque. If the cheque is bounced, the contribution will be considered as not having been paid. ➢ By post: Must allow sufficient mailing time to ensure delivery of cheque on or before the contribution day. Affix sufficient postage before posting the cheque. Contribution is considered paid on the date when the cheque is received by the eMPF Platform. ➢ Drop-in box: Contribution is considered paid on the date the cheque is submitted via the drop-in box of the eMPF Service Centres. ➢ Cheque via cheque deposit machine: Once the cheque has been cleared, the date of the contribution will be recorded as the date the cheque is deposited. ➢ Post-dated cheque will not be accepted.

Direct debit There are two ways to opt in direct debit payment method: 1. Submission via the eMPF Platform 2. Submission by paper form	➢ If employers and SEPs have already set up Direct Debit Instruction before, the designated bank account provided by the employers and SEPs will be debited on the day previously specified. ➢ Employers and SEPs must be the bank account holder to proceed payment by Direct Debit Authorization (DDA). Payment by a third party is not accepted. ➢ The eMPF Platform will notify the employers and SEPs through their preferred communication channel once the DDA takes effect. ➢ The bank takes around 3 to 6 weeks to set up DDA in general. To avoid late payment for contributions, the employers and SEPs are advised to continue submitting contribution payments by other payment methods until the DDA becomes effective. ➢ A new DDA will supersede the existing DDA (if any). The eMPF Platform will continue to debit the existing Direct Debit account for contributions until the new DDA becomes effective. ➢ Once the DDA is successfully set up, the eMPF Platform will debit the contributions from the designated bank account of the employers and SEPs following the end of the contribution period (if the contribution date is a public holiday, the payment will be processed on the following business day). ➢ Employers and SEPs should ensure contribution data or remittance statement is submitted to the eMPF Platform via portal or offline respectively on or before the contribution day. ➢ Employers and SEPs should ensure sufficient funds in their bank account for debiting. If the debit is unsuccessful, the contribution will be considered as not having been paid.

	➢ If there is a debit limit for the transfer account, ensure the authorized debit limit is sufficient for settling the contribution amount.
Direct credit 1. Make payment directly into the designated bank account (only applicable to certain trustees or selected clients)	➢ Contribution is considered paid on the date the designated MPF scheme bank account is credited, thus please allow sufficient time for the designated bank to process. ➢ Ensure the funds are credited to the designated MPF scheme bank account on or before the contribution day of each month.
e-Cheque There are two ways to pay by e-cheque: 1. Upload the e-cheque to the eMPF Platform 2. Send the e-cheque to the designated email address of the eMPF Platform	➢ Ensure that the information on the e-cheque is accurate and there are sufficient funds in the bank account to honour the e-cheque. If the e-cheque is bounced, the contribution will be considered as not having been paid. ➢ Post-dated e-cheque will not be accepted.

Avoid payment by cash and through intermediaries

Payment of contributions by cash should be avoided. Moreover, payments through MPF intermediaries, whether by cash or otherwise, should be avoided. Instead, payments should be made directly to the trustees.

Consequences of late payment

Employers and SEPs must make mandatory contributions on time. Employers or SEPs who fail to pay mandatory contributions on time will have to pay a contribution surcharge. Offenders may also be liable to a financial penalty or prosecution.

APPENDIX V

BASIC CONCEPTS OF INVESTMENT

DIFFERENT TYPES OF INVESTMENT INSTRUMENTS

(a) **Money Market Instruments**

Money market instruments refer to interest-bearing financial instruments that usually have short-term maturity periods. Their yields are usually slightly more attractive when compared with deposit rates offered by banks to retail customers. The major types of money market instruments are:

(i) **Treasury Bills**

They are short-term debt securities issued by the government to the public for the purpose of raising money. Investors buy the bills at a discount. At the bill's maturity, the holder receives from the government a lump sum equal to the face value of the bill. The difference between the purchase price and the face value represents the investment return on the bill.

(ii) **Certificates of Deposit**

These are certificates issued by a bank indicating that a depositor has placed a sum of money with it for a period of time at a specified rate of interest. The deposits may not be withdrawn on demand. Interest rates are usually higher than those on government bills of comparable maturity.

(iii) **Commercial Paper**

These are short-term unsecured debt securities issued by large corporations. Interest rates on commercial paper are higher than those on treasury bills of comparable maturity, reflecting its lower liquidity and higher default risk.

(b) **Bonds**

Also known as debt securities, bonds are issued by a wide variety of organizations, such as governments, government agencies, organizations such as the World Bank, and a range of companies. When you buy a bond, you are in effect lending money to the corporation that issues the bond, which promises to pay interests at regular intervals during the life of the bond and to repay you the principal or face value of the bond together with interests (if any) on a specific date. Certain features to note are:

(i) Each bond has a face value (or par value) which is the amount to be repaid when the bond is redeemed.

(ii) A bond usually has a maturity date which is the date the bond is to be redeemed,

although some have no maturity dates and are called perpetual bonds.

(iii) A bond usually has an annual interest rate (or a "coupon rate"), as a percentage of the par value, payable to the bondholder at regular intervals until the maturity date. The periodic interest payments made to holders are usually in the form of "coupons". Some, however, pay no interest and are called zero coupon bonds.

(iv) Bonds of different issuers (organizations) may be awarded different investment ratings by international credit rating agencies e.g. Standard and Poor's, Moody's, etc. The credit rating reflects to some extent the level of risk attached to the bond.

(v) The price of a bond moves up and down, but in an opposite direction to interest rates. So if interest rate falls, the higher coupon rate of a bond looks comparatively more attractive and the price of the bond goes up. At times of high inflation, the yield of a bond may lag behind the inflation rate.

(vi) Unlike equities, bonds do not give the bondholder an ownership interest in the issuing corporation. If the issuer goes bankrupt, the stockholder's money may be lost. But if there is any money left in the company, the bondholder will be paid before stockholders.

(c) **Equities**

Equities, also known as equity shares, are perhaps the widest known type of financial instruments. They are called "shares" because they represent ownership in a corporation. Each share is entitled to a proportion of financial profits of the corporation. Some basic features of equities are:

(i) If a company makes profits, it may pay dividends and the price of its shares is also likely to rise. The investment return comprises both dividend income and capital appreciation.

(ii) If a company is unsuccessful, then the value of its shares is likely to decline and the company may cut or terminate dividend payout.

(iii) Share prices on stock markets can change rapidly depending on the prevailing stock market condition and the financial performance of the company.

(iv) In general, equities are considered riskier than money market instruments and bonds.

(d) **Derivatives**

These are financial instruments which derive their values from their underlying investments such as bonds or equities. They include options, warrants, futures, etc. The features to be noted are:

(i) They may be used to reduce investment risk, i.e. to reduce investment loss when the price or value of the primary/underlying asset falls. They are intended to have an "offset effect", so that profits or losses as a result of price changes in the derivative will offset losses or gains on the primary/underlying asset. The process is very common and is known as **hedging**.

(ii) They may be used for speculation, i.e. buying or selling derivatives on a "**forward**" or "**future**" basis (deal arranged now, to take place at a designated future time at a pre-determined rate).

(iii) They are much more speculative in nature than some of the other types of investment. Due to the risk nature, they are only suitable for sophisticated or professional investors.

(e) **Unit Trusts & Mutual Funds**

(i) A unit trust is an investment vehicle set up under a trust for different investors to pool their monies together for investment.

(ii) A unit trust may invest in a portfolio of investments such as bonds and equities.

(iii) It is managed by professional fund managers and sub-divided into "units" based on the market value of the portfolio.

(iv) Hong Kong law requires that a fund's assets be held by an independent trustee, responsible for ensuring that the terms of the trust deed are complied with.

(v) A mutual fund is set up as a company with the objective of investing in shares of other companies. They are essentially the same as unit trusts from an investment point of view, except for their legal structure.

(f) **Insurance Policies**

(i) Whilst most insurance contracts provide for death, disability or medical benefits with little investment element, certain insurance policies issued to retirement schemes may be linked to investment with little or no insurance element. The latter form of insurance policy may be regarded as an investment vehicle.

(ii) An insurance policy will be underpinned by an insurance fund consisting of an investment portfolio of securities, including bonds, equities, etc.

(iii) The insurance fund is managed either by the insurance company issuing the

insurance policy or by a professional investment manager appointed by the insurance company.

(iv) A Class G insurance policy is a policy with guarantees on capital or return. It must be backed up by a guarantor which can be the insurance company itself or a financial institution authorized by the MA as a third party guarantor.

DIFFERENT TYPES OF INVESTMENT FUND

There are many types of investment funds, ranging from conservative funds (e.g. money market funds) to high risk funds (e.g. equity funds). Their classification is usually based on the stated investment objectives and underlying investments of the funds. The table on the next page lists the four common types of investment funds.

Different Types of Investment Fund

Type / Characteristics	Equity Fund			Mixed Assets Fund	Bond Fund			Money Market Fund
Other commonly used names	Aggressive Fund, Growth Fund			Stable Fund, Conservative Fund, Growth Fund, Long-term Accumulation Fund	Fixed Income Fund			Cash Fund, Hong Kong Dollar Saving Fund
Primary investment objective	To "beat" market performance with long-term capital gains (i.e. to achieve a relatively high capital growth)			To "beat" inflation rate with some capital growth (i.e. to achieve modest growth in income and capital)	To earn returns slightly higher than savings/deposit interest income (i.e. to maximize interest income)			Capital preservation and to earn a relatively high interest that can be generated from large deposits
Major underlying investment vehicles	Shares			Shares + Bonds	Bonds			Short-term interest bearing securities, such as certificates of deposits and treasury bills
Geographical region	Single Country/ Area (e.g. Hong Kong)	Regional (e.g. Asia, Europe, North America)	Global	Usually global	Single Country/ Area (e.g. Hong Kong, Japan)	Regional (e.g. Asia, Europe, North America)	Global	Usually invests in a single money market only
Frequency of quotation	Usually on every trading day			Usually on every trading day	Usually on every trading day			Either at month end or on every trading day
Major risk factors*	Stock market volatility and performance of individual industry			Stock market volatility, interest rates fluctuations and credit ratings	Interest rates and credit ratings			Interest rates fluctuations
Volatility	High ⟷ Low							
Expected rate of total returns	High ⟷ Low							
Management and transaction fees	High ⟷ Low							

* All funds are subject to risks arising from the social, political, economic and currency changes of the country in which investments are made.

Calculation of the Net Asset Value (NAV) Per Unit of a Fund

The NAV per unit of a fund is determined by dividing the aggregate market value and the cash holding of the underlying investments of the fund by the number of units issued. All administrative and management fees payable (accrued to date) are to be deducted before the derivation of the NAV of the fund.

$$\textit{NAV per unit} = \frac{\textit{Total market value of underlying investments} + \textit{Cash} - \textit{Administrative \& management expenses payable}}{\textit{Number of units issued}}$$

APPENDIX VI

GLOSSARY

60-day employment rule This does not apply to a casual employee in the construction and catering industries. For any other full-time or part-time employee who has been employed for a continuous period of 60 days or more under an employment contract, coverage under the MPF system applies. **3.4(b)(i)**

Accrued benefits The amount of each scheme member's beneficial interest in an MPF scheme at any time, including sums derived from the contributions made by or in respect of that scheme member, together with the income or profits arising from any investments of the contributions, but taking into account any losses in respect of the investments and any amounts paid in respect of the scheme member. **1.5(c)**

Age 65 Plus Fund (A65F) One of the two DIS Constituent Funds used in the Default Investment Strategy of a registered scheme. It is a mixed assets fund which invests in a globally diversified manner that targets to invest 20% of its net asset value in higher risk assets (such as global equities) and the rest in lower risk assets (such as global bonds). The investment in those assets may vary from 15% to 25% of the net asset value of the fund at any point in time. **5.4**

Annual benefit statement (ABS) General Regulation requires trustees to provide scheme members with ABS. The ABS serves to confirm scheme membership and membership details, the status and the number of accounts held by the member, to check inflows and outflows including contributions, transfer and transactions, and to identify account balances and accruals, the extent to which they are vested, and the gains and losses associated with the accounts over the relevant financial period. The ABS is a historical record of the member's account at a point in time. **5.10(e)**

Approved Pooled Investment Fund (APIF) An investment fund approved by the MPFA in accordance with the requirements set out in the General Regulation and the Code on MPF Investment Funds and authorized by the SFC. An APIF may be in the form of an insurance policy or a unit trust, either of which has to be authorized by the SFC. Theoretically, it could also be in the form of an authorized mutual fund, but this is not practical under current Hong Kong law. **5.5**

Bond fund A bond fund is a pool of money primarily invested in bonds which are debt instruments issued by governments, public organization, banks, commercial organizations etc. Generally, a bond fund aims to achieve a level of stable income, with capital appreciation being a secondary consideration. The higher the credit ratings of the bonds held by the fund, the lower the risk of the fund. **5.3.2(c)(ii)**

Casual employee Under the MPF legislation, a casual employee is a person employed in the selected industries (currently catering and construction) on a day-to-day basis or for a fixed period of less than 60 days. Such an employee is covered by the MPF system. **3.4(b)(ii)**

Compensation fund A fund intended to compensate members of MPF schemes (and others with a beneficial interest in those schemes) for loss of accrued benefits attributable to misfeasance or illegal conduct of MPF trustees or other service providers concerned with the administration of those schemes. The fund consists of "seed money" injected by the Government and levies collected by the MPFA from trustees. **3.1.3**

Conduct requirements Minimum standards of conduct expected of regulated persons (registered intermediaries or responsible officer) as set out in the MPFSO. **7.2.4**

Constituent fund An investment fund offered by an MPF scheme into which a scheme member invests his contributions and accrued benefits. All constituent funds must be approved by the MPFA. **5.3**

Contribution account An account in an MPF scheme which mainly receives MPF contributions (both employer and employee portions) made by an employer for and in respect of an employee under current employment. Contribution account can also receive MPF contributions made by a self-employed person while self-employed. **3.10**

Contribution day – Casual employee Depending on what is agreed by the participating employer and the approved trustee of the scheme concerned, the contribution day could be (i) the next working day (other than a Saturday) immediately after the relevant income is paid to the casual employee; or (ii) the 10th day after the last day of the relevant contribution period. **3.7.1(a)(vii)**

Contribution day – (Non-casual) employee The 10th day after the last day of a calendar month within which the relevant contribution period ends, or the month during which the permitted period ends, whichever is the later. **3.7.1(a)(vii)**

Contribution period – Casual employee A contribution period means each period for which the employer pays or should pay relevant income to the employee. **3.7.1(a)(vi)**

Contribution period – (Non-casual) employee Where the wage period is not more than 1 month (e.g. weekly or monthly), a contribution period means each period for which the employer pays or should pay relevant income to the employee, but does not include any wage period commencing on or before the 30th day of employment. Where the wage period is more than 1 month (e.g. quarterly), a contribution period means each period for which the employer pays or should pay relevant income to the employee, but does not include the period commencing from the date of employment and ending on the last day of the calendar month in which the 30th day of employment falls. **3.7.1(a)(vi)**

Contribution period - Employer A contribution period means each period for which the employer pays or should pay relevant income to the employee. **3.7.1(a)(vi)**

Core Accumulation Fund (CAF) One of the two DIS Constituent Funds used in the Default Investment Strategy of a registered scheme. It is a mixed assets fund which invests in a globally diversified manner that targets to invest 60% of its net asset value in higher risk assets (such as global equities) and the rest in lower risk assets (such as global bonds). The investment in those assets may vary from 55% to 65% of the net asset value of the fund at any point in time. **5.4**

Corresponding Fee Reduction The overall fund expense ratio of constituent funds (CFs) must fully reflect the cost savings to ensure that there is corresponding reduction in the overall fee level. If the fund expense ratio for a CF does not fully reflect the reduction required, the MPF trustees will be required to pay back the difference into the CF. **8.3**

Default Investment Arrangement (DIA) A default arrangement provided before the commencement of the Default Investment Strategy (i.e. 1 April 2017) in the governing rules of a registered scheme under which the accrued benefits in an account of a scheme member who has not given any specific investment instructions for those benefits are invested. **5.4**

Default Investment Strategy (**DIS**) A ready-made investment solution with fee control designed for MPF scheme members who do not know how to choose MPF funds or who have no time to manage their MPF investments. DIS is a strategy that uses two constituent funds, i.e. the Core Accumulation Fund and the Age 65 Plus Fund, and automatically reduces risk exposure as a member approaches retirement age. DIS is required by law to be offered in each registered scheme. DIS is also available as an investment choice to scheme members who find it suitable for their own circumstances. **5.4**

Defined benefit scheme (DBS) A scheme where the employer's contribution rates are not defined and the benefit to a member is generally based on a formula involving a number of factors, e.g. the member's age, years of service and final average salary. **6.1.1(b)**

Defined contribution scheme (DCS) A scheme where both the employer's and employees' contribution rates are defined and the accrued benefits are based upon the accumulated contributions and investment income. **6.1.1(a)**

DIS Constituent Funds A constituent fund used in the Default Investment Strategy (DIS). The two DIS constituent funds are called the Core Accumulation Fund and the Age 65 Plus Fund. **5.4**

Early retirement One of the permitted grounds for early withdrawal of accrued benefits and the minimum MPF benefits in ORSO schemes. The scheme member concerned must have reached the age of 60 and must declare that he/she has ceased employment and self-employment with no intention of becoming employed or self-employed again. **3.11(a)**

eMPF Platform A one-stop digital platform to standardize, streamline and automate the administration processes of different MPF schemes, thereby making it simpler and more convenient for scheme members and employers to manage their MPF, with a view to enhancing operational efficiency and driving reduction in the administration fees of MPF funds. **8.1**

Employee Any full-time and part-time employee who is employed under an employment contract. **3.4(b)(i)**

Employee Choice Arrangement (ECA) Allows employees to transfer the accrued benefits (i.e. the accumulated contributions and investment returns) arising from their mandatory contributions (not their employer's portion) in their MPF contribution accounts during the period they are working for their current employer. Such benefits can be transferred to a trustee

and a scheme of their own choice on a lump sum basis once every calendar year. **3.10.1**

Employer Any person who has entered into a contract of employment to employ another person as his employee. **3.6.1**

Employer sponsored scheme A registered scheme where membership is only open to the relevant employees of a single employer and its associated companies. **3.3(a)**

Employment contract An employment contract is an agreement on the employment conditions made between an employer and an employee. The agreement can be made orally or in writing and it includes both express and implied terms. **3.4(b)(i)**

Equity fund A pool of money primarily invested in equities or shares of companies. Some of such funds are characterized by the countries they invest in, and some by the type of stocks invested in e.g. blue chips. Intended to achieve capital appreciation, equity funds may prove volatile, especially over a short period of time, but diversification across a number of markets will lower the risk level of the fund. **5.3.2(c)(iv)**

ESG Constituent Funds A fund which incorporates ESG factors as its key investment focus and reflects such in the investment objectives and/or strategies. **9.4.1**

Exempt person An employed person such as a domestic employee, a self-employed hawker etc who is not required to join an MPF scheme. The employer of such a person is also exempt as far as such employment is concerned. **3.5**

Existing member A relevant employee who has become a member of the MPF exempted ORSO schemes on or before the commencement date of the MPF. **6.4**

Frontline regulator Under new regulatory regime, MPFA can assign an industry regulator as the frontline regulator for each MPF intermediary. Frontline regulators are responsible for the supervision and investigation of MPF intermediaries according to their core business, specifically (i) MA, for those in banking; (ii) IA, for those in insurance; and (iii) SFC, for those in securities. **7.1**

Fund expense ratio (FER) A ratio that measures the expenses of an MPF fund as a percentage of fund size. Whilst scheme members do not directly pay fund expenses, such expenses do impact directly on the investment returns of the fund. Fees and charges are generally the main component of fund expenses. The FER is calculated for each financial period of a constituent fund based on data from the previous financial period. The published FER will not reflect any increases or decreases in fees, charges or expenses in the current financial period. The FER is provided in the Fund Fact Sheet of a scheme. It is not necessary for funds with less than two years of history to show an FER. **5.10(d)**

Fund Fact Sheet The report card of an MPF fund, reporting on how the fund is doing. It provides key summary information on a constituent fund, such as fund size, investment objectives, portfolio allocation, main holdings in the portfolio, fund performance, fund expense ratio, fund risk indicator and future outlook for each constituent fund in a scheme. Fund Fact Sheet is issued on a half-yearly basis. **5.10(c)**

Guaranteed fund In the context of the MPF scheme, a guaranteed fund promises the fund

holders that they will get back either the net total amount of MPF contributions (capital guarantee) or a specified rate of return on investment (return guarantee). The guarantee may be provided without any qualifying conditions, or when the fund holder meets certain qualifying conditions. The guarantee mechanism must be clearly stated in the marketing documents of such funds. **5.3.2(b)**

Guaranteed fund – Hard guarantee A minimum net return is guaranteed, without imposing any qualifying conditions. **5.3.2(b)**

Guaranteed fund – Soft guarantee A minimum return is promised subject to certain qualifying conditions imposed by the guarantor. **5.3.2(b)**

Index-tracking fund An index-tracking fund is a collective investment scheme which has the sole investment objective of tracking a particular market index. **5.3.2(c)(v)**

Industry scheme A registered scheme designed especially for relevant employees of industries with high labour mobility and employed on a day-to-day basis or for a fixed period of less than 60 days, at present for catering and construction industries only. **3.3(c)**

Mandatory contributions Compulsory contributions of both the employee and employer, as per the current provisions of the MPF system. At present, other than for a casual employee who is a member of an industry scheme (for whom special provisions apply), mandatory contributions amount to 10% of the employee's relevant income, with the employee and employer each paying 5%. The contributions are subject to minimum and maximum relevant income levels. **3.7.1**

Master trust scheme A registered scheme where membership is open to the relevant employees of different employers, self-employed persons, persons planning to open TVC accounts and personal account holders. **3.3(b)**

Maximum level of relevant income – Casual employee The maximum level of relevant income for the purpose of mandatory contributions is, in the case of a casual employee who is a member of an industry scheme, $1,000 per day. **3.7.1(a)(ii)**

Maximum level of relevant income – (Non-casual) employee The maximum level of relevant income for the purpose of mandatory contributions is, in the case of a non-casual employee, $30,000 per month or, if the employee is not remunerated on a monthly basis, that amount as prorated. **3.7.1(a)(ii)**

Maximum level of relevant income – Self-employed person The maximum level of relevant income for the purpose of mandatory contributions is, in the case of a self-employed person, $30,000 per month or $360,000 per year. **3.7.1(b)(vi)**

Minimum MPF benefits A new member of an exempted ORSO registered scheme is subject to the "minimum MPF benefits" rule, whereby certain MPF requirements (e.g. preservation) will apply up to the minimum sum. The "minimum MPF benefits" is defined as the lesser of (a) the member's benefits accrued and held under the scheme during the period when the exemption certificate applied to the scheme; or (b) 1.2 x final average monthly relevant income (capped at $30,000) x years of post-MPF service. **6.5.3**

Minimum level of relevant income – Casual employee The minimum level of relevant income for the purpose of mandatory contributions is, in the case of a casual employee who is a member of an industry scheme, $280 per day. **3.7.1(a)(ii)**

Minimum level of relevant income – (Non-casual) employee The minimum level of relevant income for the purpose of mandatory contributions is, in the case of a non-casual employee, $7,100 per month or, if the employee is not remunerated on a monthly basis, that amount as prorated. **3.7.1(a)(ii)**

Minimum level of relevant income – Self-employed person The minimum level of relevant income for the purpose of mandatory contributions is, in the case of a self-employed person, $7,100 per month or $85,200 per year. **3.7.1(b)(vi)**

Mixed assets fund An investment mix of bonds and equities (shares). The risk level for this type of fund is usually somewhere between those of a bond fund and an equity fund. **5.3.2(c)(iii)**

Monthly pay-record Each employee (other than a casual employee in an industry scheme whose contribution is made on the next working day (other than a Saturday) immediately after the relevant income is paid) must be provided with a monthly pay-record by the employer. This must be provided within 7 working days after the last contribution payment during the month and is to include the employee's relevant income, the amount of mandatory and voluntary contributions (if any) deducted and the date on which contributions were paid to the trustee. **3.7.1(a)(ix)**

MPF Conservative Fund It is a statutory requirement that at least one of the constituent funds of an MPF scheme must be an MPF Conservative Fund. As the name suggests, the purpose of such a fund is to minimize the risk to the capital invested therein. Whilst not guaranteed, there are safeguards to achieve this primary objective. The investments of and deduction of fees from the fund is subject to s.37 of the General Regulation. **5.3.2(a)**

MPF principal intermediary / principal intermediary A business entity (Type A regulatee) registered by the MPFA as an intermediary to carry on regulated activities. **7.2.2**

MPF registered intermediary / registered intermediary An MPF principal intermediary; or an MPF subsidiary intermediary. The MPFA keeps a Register of registered intermediaries. The Register enables a member of the public to, by inspecting the Register or, upon payment of a fee, by obtaining a copy of an entry in or extract of the Register, ascertain whether he/she is dealing with a registered intermediary in any regulated activity, or to ascertain the particulars of the registration of a person as a principal or subsidiary intermediary. **7.2.2**

MPF scheme/registered scheme A provident fund scheme registered with the MPFA as an employer sponsored scheme, a master trust scheme or an industry scheme. **3.3**

MPF subsidiary intermediary / subsidiary intermediary A person (Type B regulatee) registered by the MPFA as an intermediary to carry on regulated activities on behalf of the principal intermediary to which the person is attached. **7.2.2**

Net loss A self-employed person who suffers losses will not be required to make mandatory contributions (since his/her relevant income will be less than the minimum relevant income

level). A written statement should made to the eMPF Platform declaring that his/her business has a sustained a net loss. The net loss should cover the last financial period of his/her self-employed business. **3.7.1(b)(v)**

Non-refusal of scheme applicants provision No MPF application may be refused if the person making it complies with all requirements and agrees in writing that he will comply with the governing rules of the scheme. **3.6.3**

Notice of participation A notice issued by the trustee of an MPF scheme to the applicant for membership of or participation in the MPF scheme within 30 days after whichever is the later of the following dates:

- the date on which all the information required for the application is submitted;
- the date on which the applicant agrees to comply with the governing rules of the scheme.

The notice of participation shall specify:

- the name of the scheme;
- the name and address of the trustee;
- the name of the scheme member or the name of the participating employer; and
- the date of issue of the notice.

3.6.3

Offering document A document inviting participation in the registered scheme by prospective participating employers or prospective members of the scheme and containing information relating to the establishment or administration of the scheme. **3.10.4**

On-going cost illustration (OCI) An illustration of the total effect of fees and charges payable in dollar terms by converting the latest Fund Expense Ratio figure into dollars and adding that to any direct charges that a scheme member might pay, such as a contribution charge or offer spread. It shows the dollar costs of investing HK$1,000 in different funds over periods of one, three and five years under an assumed annual rate of investment return of 5%. **5.10(b)**

ORSO scheme A scheme regulated by the Occupational Retirement Schemes Ordinance, set up by an employer for his employees, providing employee benefits in the form of pensions, allowances, gratuities or other payments, payable on termination of service, death or retirement. **6**

Performance guarantee A requirement upon individual (non-corporate) MPF trustees. It may be in the form of an insurance policy or a bank guarantee, covering losses from the trustee's failure to perform or other breach of duties. It must be for 10% of the net asset value of the scheme, with a maximum of $10 million. **4.4(c)**

Permitted period – Casual employee The period within which an employer must enrol a casual employee in an MPF scheme. The permitted period is 10 days for a casual employee. **3.7.1(a)(iv)**

Permitted period – (Non-casual) employee The period within which an employer must enrol a non-casual employee in an MPF scheme. The permitted period is 60 days for a non-casual employee. **3.7.1(a)(iv)**

Permitted period – Self-employed person The period within which the self-employed person must become a member of an MPF scheme. The permitted period is 60 days for a self-employed person. **3.7.1(b)(vii)**

Personal account An account in an MPF scheme which mainly receives the accrued benefits attributable to a member's former employment or self-employment transferred from other MPF account(s). Personal accounts can also receive accrued benefits attributable to a member's current employment transferred from a contribution account during current employment under ECA. **3.10**

Portability Under the MPF system, an employer or a self-employed person can change his participation from one MPF scheme to another. An employee can transfer his accrued benefits from the original MPF scheme to another when he changes jobs. With ECA, an employee may also transfer the part of the accrued benefits from his mandatory contributions made during his current employment to an MPF scheme of his own choice on a lump sum basis. **3.10**

Preservation Benefits accrued from mandatory contributions must stay within the MPF system until the scheme member attains the age of 65, although provisions exist for earlier withdrawals under certain specified circumstances. **3.9**

Professional indemnity insurance Insurance must be arranged to cover losses that MPF schemes might sustain from certain prescribed risks. This makes the cover wider than the customary professional indemnity insurance, and includes fraud and negligence on the part of the trustee. **3.1.2**

Qualifying examination An examination designed for applicants for MPF intermediaries and specified by MPFA. **7.2.2(b)(vi)**

Relevant income – Employee Any wages, salary, leave pay, fee, commission, bonus, gratuity, perquisite or allowance, expressed in monetary terms, paid or payable by an employer (directly or indirectly) to that relevant employee in consideration of his employment under that contract, but does not include severance payments or long service payments under the Employment Ordinance. **3.7.1(a)(iii)**

Relevant income – Partner A partner within a partnership is considered a self-employed person, who should calculate his relevant income by making proportional adjustments according to his share of profits for the partnership for that period. **3.7.1(b)(ix)**

Relevant income – Self-employed person The calculation of relevant income is basically linked to the assessable profits of the self-employed person that are calculated in accordance with the Inland Revenue Ordinance. **3.7.1(b)(iii)**

Remittance statement A statement prepared by an employer showing the relevant income and amount of contribution per relevant employee (other than a casual employee in an industry scheme whose contribution is made on the next working day (other than a Saturday) immediately after the relevant income is paid). This statement should accompany the payment to the trustee. **3.7.1(a)(viii)**

Retirement age In relation to a relevant employee or self-employed person, means 65 years of age or, if the regulations prescribe an earlier age, that earlier age. **3.11**

Self-employed person A person whose relevant income (other than in the capacity as an employee) derives from the person's production (in whole or in part) of goods or services in Hong Kong, or trade in goods or services in or from Hong Kong. **3.4(b)(iii)**

Service provider A service provider can be an investment manager, a custodian of MPF scheme assets or any other person appointed or engaged by the scheme trustee to provide services for the purpose of the scheme. This includes any person delegated by such a manager, custodian etc but does not include a person appointed or so engaged as an auditor, solicitor, actuary or MPF intermediary. **3.2**

Small balance One of the permitted grounds for early withdrawal of accrued benefits. "Small balance" means the total accrued benefits in an MPF scheme does not exceed $5,000 and the member does not have MPF benefits in any other MPF scheme. Members applying for early withdrawal on this ground shall be subject to certain conditions (e.g. the member does not intend to be employed or self-employed again). **3.11(f)**

Straight pass-on requirement The "straight pass-on" requirement provides that the administration fee charged by MPF trustees must not exceed the eMPF Platform fee they pay to the eMPF Company such that the cost savings for scheme administration can be passed on to scheme members. **8.3**

Sustainable Investing Sustainable investing is the consideration of Environment, Social and Governance (ESG) factors in the investment and risk management processes. **9.2**

Tax Deductible Voluntary Contributions (TVCs) Contributions that are paid into a TVC account under section 11A of the Mandatory Provident Fund Schemes Ordinance. A scheme member who wishes to make TVC should open a TVC account in an MPF scheme. TVC can be made by the member directly to the scheme without going through his/her employer. Only contributions that are made to the TVC accounts are eligible for tax deduction under salaries tax or tax under personal assessment. To meet the purpose of encouraging extra savings for retirement, a TVC account holder can only withdraw the TVC upon reaching age 65 or on other statutory grounds. **3.7.3**

Terminal illness One of the permitted grounds for early withdrawal of accrued benefits and the minimum MPF benefits in ORSO schemes. The scheme member must provide a medical certificate issued by a registered medical practitioner or a registered Chinese medicine practitioner stating that, in the practitioner's opinion, the scheme member has an illness that is likely to reduce his/her life expectancy to 12 months or less. **3.11(e)**

"Top-Up" One of the options available to employers with an existing ORSO scheme. Under this option, the contributions to the existing scheme would become supplementary MPF contributions, over and above MPF requirements, and all employees would be covered under an MPF scheme. **6.4**

Total incapacity One of the permitted grounds for early withdrawal of accrued benefits and the minimum MPF benefits in ORSO schemes. The scheme member must provide a medical

certificate issued by a registered medical practitioner or a registered Chinese medicine practitioner certifying that the scheme member has become permanently unfit to perform the kind of work that the member was last performing before becoming incapacitated. The scheme member is also required to make a declaration that he/she has terminated his/her contract of employment of that particular kind of work. **3.11(d)**

Vesting Vesting means to endow or to give legal rights of possession regarding a particular financial interest. In the context of MPF, this refers to the immediate vesting in the employee of all employee's and employer's mandatory contributions and employee's and self-employed person's voluntary contributions. **3.8**

Voluntary contribution Non-compulsory contribution over and above mandatory contribution. This is perfectly permissible, indeed encouraged, and where made is subject to MPF legislation applicable to mandatory contribution, except for provisions relating to portability, preservation, vesting and withdrawal (which are governed by the governing rules of the relevant MPF scheme). **3.7.2**

Wage period A wage period means each period for which the employer pays or should pay relevant income to the employee. **3.7.1(a)(v)**

Withdrawal of benefits Benefits accrued from mandatory contributions have to be preserved until the scheme member attains the retirement age of 65. Early withdrawal of benefits is permissible, in certain specified circumstances, i.e. early retirement, permanent departure from Hong Kong, total incapacity, terminal illness, small balance and death. Each may be subject to specified requirements or qualifications. **3.11**

INDEX

60-day employment rule **3.4(b)(i)**
Accrued benefits **1.5(c)**
Administrative expenses **5.3.2(a)(vi)**
Age 65 Plus Fund (A65F) **5.4.1**
American Depository Receipts (ADR) **5.7.2(a)**
Annual benefit statement (ABS) **5.10(e)**
Approved pooled investment funds (APIFs) **5.5**
Authorized financial institution **5.7.2(b), 7.2.2(a)**
Automatic levy triggering mechanism **3.1.3**
Bank deposits **5.7.2(b)**
Beneficial owner **4.1.1(e)**
Beneficiaries **4.1.1(a)**
Benefit payment statement **3.11**
Bid and offer spread **5.3.2(a)(vii)**
Bond fund **5.3.2(c)(ii)**
Bonds **AV(b)**
Capital adequacy **4.4(a)(i)**
Casual employees **3.4(b)(ii)**
Catering industry **3.4(b)(ii)**
Certificates of deposit **AV(a)(ii)**
Cessation of self-employment **3.7.1(b)(x)**
Chief executive officer **4.4(a)(ii)**
Class G insurance policy **5.5.2(b)**
Code on Disclosure for MPF Investment Funds **2.4.3(a), 5.10**
Code on MPF Investment Funds **2.4.3(a), 5.1(a)**
Code on Unit Trusts and Mutual Funds **5.5.1**
Collective investment scheme **5.5.2(a)**
Commercial paper **AV(a)(iii)**
Compensation fund **3.1.3**
Compliance Standards for MPF Approved Trustees **2.4.3(c)(i), 4.6**
Core Accumulation Fund (CAF) **5.4.1**
Constituent funds **5.3**
Construction industry **3.4(b)(ii)**
Contribution account **3.10(a)**
Contribution day
- Casual employee **3.7.1(a)(vii)**
- Employee **3.7.1(a)(vii)**
- Employer **3.7.1(a)(vii)**
- Self-employed persons **3.7.1(b)(ii)**

Contribution holiday **3.7.1(a)(i)**
Contribution period
- Casual employees **3.7.1(a)(vi)**
- Employees **3.7.1(a)(vi)**
- Employers **3.7.1(a)(vi)**
- Self-employed persons **3.7.1(b)(ii)**

Contribution surcharge **3.7.5**
Contributions **3.7**
Convertible debt securities **5.7.2(c)**
Corresponding Fee Reduction **8.3**
Coupon rate (= Annual Interest Rate) **AV(b)(iii)**
Coverage **3.4**
Credit ratings **5.3.2(c)(ii)**
Credit risk **5.3.2(c)(ii)**
Currency forward contracts **5.7.2(d)**
Custodians **3.2(b)**
Death **3.11(c)**
Debt securities **5.7.2(c)**
Default contributions **3.7.5**
- Employer **3.7.5(c)(i)**
- Self-employed person **3.7.5(c)(ii)**

Default Investment Arrangement (DIA) **5.4**
Default Investment Strategy (DIS) **5.4**
Default risk of guarantor **5.3.2(b)**
Defined benefit schemes (DBS) **6.1.1(b)**
Defined contribution scheme (DCS) **6.1.1(a)**
Derivatives (Financial) **5.7.2(d), AV(d)**
Dividends **AV(c)**
DIS Constituent Funds **5.4.1**
Disciplinary orders **7.2.6(c)**
Early retirement **3.11(a)**
eMPF Platform **2.1, 3.6, 3.7, 3.10, 8, AIV**
eMPF Platform Company Limited **8.2**
Employees **3.4(b)(i)**
Employee Choice Arrangement (ECA) **3.10.1**
Employees' contribution data **3.7.1(a)(viii)**
Employers (duties) **3.6.1**
Employer sponsored scheme **3.3(a)**
Employers **3.6.1**
Employment contract **3.4(b)(i)**
Environmental, Social and Governance (ESG) **9.1**
Equities **5.7.2(a), AV(c)**
Equity fund **5.3.2(c)(iv)**
ESG Constituent Funds **9.4**
ESG factors **9.1**

European Union Office of the European Commission in Hong Kong **3.5(g)**
Exempt persons **3.5**
Existing members **6.3, 6.4**
Face value (= Par value) **AV(b)(i)**
Fee Table **5.10(a)**
Financial futures & option contracts **5.7.2(d)**
Financial penalty **3.7.5**
Five Pillars for Old Age Protection **1.4**
Forward pricing **3.10.4**
Food Business Regulation (Cap 132 Subsidiary Legislation) **3.4(b)(ii)**
Frontline Regulator **7.1, 7.2.3**
Fund Expense Ratio (FER) **5.10(d)**
Fund Fact Sheet **5.10(c)**
Governance Principles for MPF Trustees **4.7**
Global Depository Receipts (GDR) **5.7.2(a)**
Green and Sustainable Finance Cross-Agency Steering Group **9.5**
Guarantee fee **5.3.2(b)(iv)**
Guaranteed fund
- Capital guarantee **5.3.2(b)**
- Hard **5.3.2(b)**
- Minimum investment period **5.3.2(b)**
- Qualifying events **5.3.2(b)**
- Return guarantee **5.3.2(b)**
- Soft **5.3.2(b)**

Guarantor **5.3.2(b)**
Guidelines on Conduct Requirements for Registered Intermediaries **7.2.3, 7.4.1**
Hong Kong dollar currency exposure **5.7.4**
Independent director **4.4(a)(ii)**
Index-tracking collective investment schemes **5.3.1(c), 5.7.2(a)**
Index-tracking fund **5.3.2(c)(v)**
Industry regulator **7.2.2, 7.2.3**
Industry scheme **3.3(c)**
Initial fees **5.3.2(a)(vii)**
Insurance Authority (IA) **2.3.2**
Insurance policies **5.5.2(b), AV(f)**
Investment manager **5.7.1(a)**
Investment objective(s) **3.10.4, 5.6**
Investment policy **5.3.1(a)**
Long service payments **3.13**
Mandatory contributions **3.7.1**
Mandatory Provident Fund Schemes Authority (MPFA) **2.2**
- Functions **2.2.1**
- Vision **2.2**
- Mission **2.2**

Mandatory Provident Fund Schemes (Exemption) Regulation (Exemption Regulation) **2**
Mandatory Provident Fund Schemes (Fees) Regulation (Fees Regulation) **2**
Mandatory Provident Fund Schemes (General) Regulation (General Regulation) **2**
Mandatory Provident Fund Schemes Ordinance (MPFSO) **2.4.1**
Master trust scheme **3.3(b)**
Material decision **7.2.1(a)**
Maturity date (bond) **AV(b)(ii)**
Maximum relevant income
- Casual employees **3.7.1(a)(ii)**
- Employee **3.7.1(a)(ii)**
- Self-employed person **3.7.1(b)(vi)**

Memorandum of Understanding Concerning the Regulation of MPF Intermediaries **2.3**
Memorandum of Understanding Concerning the Regulation of Mandatory Provident Fund Products **2.3**
“Minimum MPF benefits” **6.5.1**
Minimum relevant income
- Casual employees **3.7.1(a)(ii)**
- Employee **3.7.1(a)(ii)**
- Self-employed persons **3.7.1(b)(vi)**

Mixed Assets fund **5.3.2(c)(iii)**
Monetary Authority (MA) **2.3.3**
Money market fund **5.3.2(c)(i)**
Money market instruments **AV(a)**
Monthly pay-record **3.7.1(a)(ix)**
MPF codes **2.4.3(a)**
MPF Conservative fund **5.3.2(a)**
MPF Exempted ORSO schemes **6.1.3(a)**
MPF exemption certificate **6.6**
MPF Fund Platform **5.8**
MPF guidelines **2.4.3(b)**

MPF intermediary
- Annual fees **7.2.5(c)**
- Annual return **7.2.5(d)**
- Conduct requirements **7.2.4**
- Continuing training requirements **7.2.5(e)**
- Performance requirement **7.2.5(e), 7.2.6(a)**
- Registration requirements **7.2.2**

MPF legislation **2.4**
MPF schemes **3.3, 5.2**
Mutual fund **AV(e)(v)**
Net asset value (NAV) **5.4.1**, **AV**
Net loss **3.7.1(b)(v)**
New scheme **3.10.2(a)**
New trustee **3.10.5**
Non-compliant Employer and Officer Records (NCEOR) **3.15**
Non-MPF exempted ORSO schemes **6.1.3(b)**
Non-refusal of scheme applicants provision **3.6.3**
Notice of participation **3.6.3(b)**
Occupational Retirement Scheme Ordinance (ORSO) **6.1**
Offences **3.7.5(c), 4.8(b)**
Offering documents **2.3.1(a), 5.1(b)**
On-going Cost Illustrations (OCI) **5.10(b)**
Original scheme **3.10.2(a)**
Original trustee **3.10.5**
ORSO exempted schemes **6.1.2(b)**
ORSO registered schemes **6.1.2(a)**
ORSO schemes **6.1, 6.2**
Other securities **5.7.2(a)**
Par value (= Face value) **AV(b)(i)**
Performance guarantee **4.4(c)**
Permanent departure from Hong Kong **3.11(b)**
Permissible investments **5.7.2**
Permitted period
- Casual employee **3.7.1(a)(iv)**
- Employees **3.7.1(a)(iv)**
- Self-employed person **3.7.1(b)(vii)**

Perpetual bonds **AV(b)(ii)**
Personal account **3.10(b)**
Portability **3.10**
Prescribed savings rate **5.3.2(a)(vi)**
Preservation **3.9**
Principal intermediary **7.2.2(i)**
Principles of Adopting Sustainable Investing in the Investment and Risk Management Processes of MPF Funds **9.3**
Professional indemnity insurance **3.1.2**
Public register of registered intermediaries **7.2.2(g)**
Qualifying condition **5.3.2(b)**
Redemption charges **5.3.2(a)(vii)**
Registered owner **4.1.1(a)**
Registered trust company (RTC) **6.6**
Registrar of Occupational Retirement Schemes **2.1, 6.4**
Regulated activity **7.2.1(a)**
Regulated advice **7.2.1(a)**
Regulated person **7.2.1(a)**
Regulatory Oversight Framework **8.4**
Relevant employees **3.7.1(a)(ii)**
Relevant income
- Employee **3.7.1(a)(iii)**
- Partners **3.7.1(b)(ix)**
- Self-employed person **3.7.1(b)(iii)**

Relevant ORSO registered scheme **6.3**
Remittance statement **3.7.1(a)(viii)**
Reserve charge **5.3.2(b)(iv)**
Responsible officer **7.2.2(d)**
Restoration (trust property) **4.1.3(a)**
Retirement age **3.11**
Retirement protection **1.1**
Sanctions and penalties
- Intermediaries **7.2.1(c), 7.5**
- Trustees **4.8**

Scale of contributions **3.7.1(a)(ii)**
Securities and Futures Commission (SFC) **2.3.1, 7.1**
Self-employed person **3.4(b)(iii)**
Self-employed persons (duties) **3.6.2**
Service providers **3.2**
Severance payment **3.13**
SFC Code on MPF Products **5.1(b)**
Shares **AV(c)**
Small balance **3.11(f)**
Straight pass-on requirements **8.3**
Statement of investment policy **5.6**

Subsidiary intermediary **7.2.2(ii)**
Successor schemes **6.3**
Suspend (Trustee) **4.8(a)(iv)**
Sustainable investing **9.2**
Switching (MPF schemes/constituent funds) **5.9**
Tax allowances **3.7.4**
Tax deductible voluntary contributions (TVC) **3.7.3**
Term to maturity **5.3.2(c)(ii)**
Terminal illness **3.11(e)**
Three Pillars for Old Age Protection **1.4**
"Top-Up" ORSO scheme **6.4(c)**
Total incapacity **3.11(d)**
Transferee trustee **3.10.5**
Transferor trustee **3.10.5**
Treasury bills **AV(a)(i)**
Trust (concept) **4.1.1**
Trust deed **4.1.1(g)**
Trustees
- Approval **4.4**
- Categories **4.2**
- Corporate **4.4(a)**
- Duties and functions **3.6.3, 4.3**
- Fiduciary duties **4.1.2**
- Individual **4.4(c)**
- Offshore corporate **4.4(b)**

TVC account **3.10(c)**
Type 9 (asset management) regulated activity **3.2(a)(ii), 5.7.1(a)(ii)**
Type A regulatee **7.2.2(a)**
Type B regulatee **7.2.2(b)**
Unclaimed benefits **3.12**
Unit trust **5.5.2(a), AV(e)**
Vesting **3.8**
Voluntary contributions **3.7.2**
Wage period **3.7.1(a)(v)**
Warrants **5.7.2(d)**
Withdrawal of benefits **3.11**

Representative Examination Questions

Correct Answers

QUESTIONS

CHAPTER	1	2	3	4	5	6
1	(a)	(d)	(b)	(a)	-	-
2	(c)	(a)	-	-	-	-
3	(d)	(d)	(b)	(c)	(c)	(c)
4	(a)	(d)	(c)	-	-	-
5	(a)	(c)	(c)	(c)	(d)	-
6	(c)	(b)	-	-	-	-
7	(b)	(d)	(d)	(d)	-	-
8	(c)	(b)	-	-	-	-
9	(d)	(a)	-	-	-	-