

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

III.2 Guidelines on Other Securities

INTRODUCTION

Section 8(2) of Schedule 1 to the Mandatory Provident Fund Schemes (General) Regulation (“the Regulation”) provides that not more than 10% of the funds of a constituent fund may be invested in the following:

- (a) shares listed on a stock exchange that is not an approved stock exchange;
- (b) securities of a kind approved by the Authority other than shares listed on an approved stock exchange;
- (c) an authorized unit trust or authorized mutual fund of a kind to which Part IV of Schedule 1 to the Regulation does not apply but which is approved by the Authority.

2. Section 6H of the Mandatory Provident Fund Schemes Ordinance (“the Ordinance”) provides that the Mandatory Provident Fund Schemes Authority (“the Authority”) may issue guidelines for the guidance of approved trustees, service providers and other persons concerned with the Ordinance.

3. The Authority hereby issues guidelines to:
- (a) clarify the limit of investment in other securities as specified in section 8(2)(a) to (c) of Schedule 1 to the Regulation; and
 - (b) specify the kind of securities which the Authority has approved for the purposes of section 8(2)(b) of Schedule 1 to the Regulation; and
 - (c) specify the kind of authorized unit trusts or authorized mutual funds

approved by the Authority for the purposes of section 8(2)(c) of Schedule 1 to the Regulation.

LIMIT OF INVESTMENT IN OTHER SECURITIES

4. Investment in other securities as specified in section 8(2)(a) to (c) of Schedule 1 to the Regulation in aggregate must not exceed 10% of the funds of a constituent fund.

CATEGORIES OF OTHER SECURITIES

Shares listed on a stock exchange that is not an approved stock exchange

5. Guidelines III.4 on approved exchanges set out a list of approved stock exchanges. References should be made to those guidelines for the purposes of section 8(2)(a) of Schedule 1 to the Regulation.

Securities approved by the Authority other than shares listed on an approved stock exchange

6. Pursuant to section 8(2)(b) of Schedule 1 to the Regulation, the Authority has approved the following securities -

- (A) securities which are receipts or certificates entitling the holders (either directly or through another receipt or certificate) to the economic benefits (which may or may not include voting rights) of ownership of the underlying shares of a single company where:
 - (a) the receipts or certificates are listed on an approved stock exchange;
 - (b) the underlying shares of the company are fully-paid up and are listed on a stock exchange; and
 - (c) the receipts or certificates are fully-paid up and do not require any further or future payment.

Receipts or certificates that satisfy these conditions do not require any separate approval and include, by way of illustration:

- (i) American Depositary Receipts (“ADRs”) and Global Depositary Receipts (“GDRs”) which are listed on an approved stock exchange where the respective underlying shares are fully-paid up and are listed on a stock exchange;
 - (ii) CHESSE Depositary Interests (“CDIs”) listed on the Australian Stock Exchange where the respective underlying shares are fully-paid up and are listed on a foreign (i.e. outside Australia) stock exchange;
 - (iii) Non-Voting Depositary Receipts (“NVDRs”) listed on the Stock Exchange of Thailand where the respective underlying shares (but not warrants or transferable subscription rights) are fully-paid up and are listed on the same stock exchange;
- (B) fully-paid up depositary receipts (*certificaten van aandelen*) listed on Euronext Amsterdam;
 - (C) Richemont “A” equity units listed on the SWX Swiss Exchange;
 - (D) non-voting equity securities (“NES”) issued by Roche Holdings Limited listed on SWX Swiss Exchange; and
 - (E) fully-paid up receipts or certificates listed on an approved stock exchange relating to (B) to (D) above.

7. The approval of securities in paragraph 6 above applies only to the extent that the total amount invested in such securities representing underlying securities of a company plus the amount, if any, invested directly in those same

securities and other permissible investments issued by the issuer of those securities does not exceed 10% of the total funds of a constituent fund or an approved pooled investment fund, as the case may be. For example, if a constituent fund held 5% of its total funds in the ADRs of company A, then no more than 5% of its total funds could be invested directly in shares of company A. Note that the relevant fund must also comply with the restriction imposed by section 2(1) of Schedule 1 to the Regulation in relation to securities and other permissible investments issued by the issuer of the securities approved under paragraph 6.

8. Securities other than those set out in paragraph 6 may be considered for approval under section 8(2)(b) of Schedule 1 to the Regulation. Approved trustees and investment managers who wish to submit an application for approval of particular securities should provide the following information to the Authority for its consideration:

- (a) a detailed description of the characteristics of the relevant securities, including information on the issuer, product and legal structure, risks associated with investment in the securities, pricing, valuation, liquidity, etc;
- (b) the suitability of including such securities as permissible investments for MPF purposes having regard to the underlying policy of Schedule 1 to the Regulation and the existing range of permissible investments; and
- (c) any other information that may assist the Authority in considering the application.

Other authorized unit trusts and authorized mutual funds

9. Pursuant to section 8(2)(c) of Schedule 1 to the Regulation, the Authority has approved those authorized unit trusts and authorized mutual funds (not being approved pooled investment funds) that are authorized by the Securities and Futures Commission (“the SFC”) as meeting the requirements of:

- (a) Chapter 7 of the SFC’s Code on Unit Trusts and Mutual Funds (“the Code”); or
- (b) Chapter 8.1 of the Code (Unit Portfolio Management Funds); or
- (c) Chapter 8.2 of the Code (Money Market / Cash Management Funds);
or
- (d) Chapter 8.5 of the Code (Guaranteed Funds) where the underlying investments meet the core investment requirements of Chapter 7 of the Code; or
- (e) the SFC’s Code on Real Estate Investment Trusts.

DEFINITIONS OF TERMS

10. Except where otherwise specified in the Guidelines, the terms common to the Ordinance and the subsidiary legislation of the Ordinance carry the same meanings as defined in the Ordinance and the subsidiary legislation. References should be made to the Ordinance and the subsidiary legislation, where necessary.