

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

III.9 Guidelines on Reserving Standards for Investment Guarantees

INTRODUCTION

Section 18 of Schedule 1 to the Mandatory Provident Fund Schemes (General) Regulation (“the Regulation”) provides that the funds of a constituent fund may be invested in an approved pooled investment fund (“APIF”) which is either an authorized unit trust or authorized mutual fund. If the APIF is a guaranteed fund, it must have a guarantor that is an authorized financial institution which satisfies the capital adequacy or reserve requirements in respect of investment guarantees imposed by the Monetary Authority (“HKMA”).

2. Section 19 of Schedule 1 to the Regulation provides that the funds of a constituent fund may be invested in an APIF which is an insurance policy. If the APIF is a guaranteed fund, it must be within class G insurance business for the purposes of the Insurance Companies Ordinance. An authorized financial institution may act as the guarantor of such policy if it satisfies the capital adequacy or reserve requirements in respect of investment guarantees imposed by the HKMA.

3. D2.12 of the Code on MPF Investment Funds (“MPF Code”) stipulates that the reserving requirements for the liabilities and provisions for an APIF which is a class G insurance policy will be determined in accordance with the Insurance Companies (Determination of Long Term Liabilities)

Regulation. The statutory fund maintained for each series of class G policies must have sufficient assets to meet the required reserves for liabilities and the provisions for such policies. D2.13 of the MPF Code further provides that an authorized financial institution may act as the guarantor for the investment guarantee given and this can be taken into account in the determination of reserving liabilities and provisions requirements.

4. According to B2.25 of the MPF Code, a constituent fund itself can be a guaranteed fund if the fund has a guarantor that is an authorized financial institution. The guarantor is required to satisfy the capital adequacy or reserve requirements in respect of investment guarantees imposed by the HKMA.

5. 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.

6. The Authority hereby issues guidelines to prescribe the framework of reserving for investment guarantees for constituent funds and APIFs offering investment guarantees (collectively referred to as “MPF guaranteed funds”).

RESERVING FRAMEWORK

Capital Adequacy Requirements for Authorized Financial Institutions

7. All locally incorporated authorized financial institutions acting as guarantors for MPF guaranteed funds should maintain adequate capital in accordance with the guidelines issued by the HKMA on “Capital Adequacy Requirements for Investment Guarantees under Mandatory Provident Fund Schemes” as amended from time to time.

Provisioning Requirements for Authorized Financial Institutions

8. All authorized financial institutions, whether incorporated locally or overseas, acting as guarantors for MPF guaranteed funds should set aside adequate provisions according to the guidelines issued by the HKMA on “Provisioning Requirements for Investment Guarantees under Mandatory Provident Fund Schemes” as amended from time to time.

Reserving Requirements for Insurance Policies

9. All authorized insurers issuing APIFs which are class G insurance policies and acting as the guarantors for such policies must observe the requirements set out in the “Guidance Note on Reserving Standards for Investment Guarantees” issued by the Insurance Authority as amended from time to time. On the other hand, where an authorized financial institution acts as the guarantor for an APIF which is a class G insurance policy issued by an authorized insurer, the authorized financial institution must observe the requirements set out in paragraphs 7 and 8.

DEFINITION 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. Appropriate references should be made to the Ordinance and the subsidiary legislation, where necessary.