



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

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By Email

15 November 2018

Circular Letter: SU/CTR/2018/004

To: All Approved Trustees

Dear Sir/ Madam,

Governance Principles for MPF Trustees

Good governance plays an important role in the functioning of an effective pension system helping to build confidence amongst all stakeholders, deliver enhance investment performance and provide better protection of members' saving. Over the past few years, the Authority has been making efforts to promulgate the importance of a sound governance framework. In October 2017, the Authority hosted the Workshop on Governance of MPF Trustees for the trustees to gain a better understanding of the Authority's views and expectations for achieving good governance.

In May 2018, all MPF trustees signed a Governance Charter, pledging to put in place a sound governance framework and uphold the core values set out in the Governance Charter at all times. Today the Authority launches the Governance Principles for MPF Trustees (Governance Principles) (**Annex**). The Governance Principles, which have been developed following the consultation with MPF trustees, act as a compass to steer the MPF trustees in implementing a good governance framework with a view to discharging their duties and acting in the best interests of scheme members.

The launch of Governance Principles aims to provide recommendations and practical examples to MPF trustees in enhancing their governance standards. MPF trustees are expected to consider their own circumstances and formulate measures for implementation of the Governance Principles.

Following the issuance of this circular letter, MPF trustees are expected to have a plan to review and assess whether their existing governance framework and arrangements are in adherence to the Governance Principles in a period of 6 months. In areas where gaps are identified, MPF trustees are expected to put forward an action plan. The Authority will follow up with the trustees on the implementation of the Governance Principles.

The Authority will continue to work closely with the MPF trustees and provide further recommendations and training for MPF trustees in driving the adoption of a high standard of pension governance in the MPF industry.

If you have any questions, please do not hesitate to contact your supervisory manager in the Authority.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Ginni Wong". The signature is fluid and cursive, with the first name "Ginni" and the last name "Wong" clearly distinguishable.

Ginni Wong
Head (Supervision)
Supervision Division

Encl.

Introduction

1. The MPF System was designed to form the “second pillar” of the multi-pillar retirement protection framework recommended by the World Bank. It operates, together with and complemented by other pillars of this framework, in providing support for total retirement savings protection for the population of Hong Kong.

2. MPF trustees are entrusted with the management of MPF accounts of millions of scheme members. As part of MPF trustees’ duties, MPF trustees are required to exercise a level of care, skill, diligence and prudence in operating MPF schemes. More importantly, MPF trustees have to act in the best interests of scheme members and not in the trustee’s own interest. Mere compliance with rules and regulations is not enough for providing good services and discharging an MPF trustee’s duties in a responsible manner.

3. Good governance plays an important role in the functioning of an effective pension system helping to build confidence amongst all stakeholders, deliver enhanced investment performance and provide better protection of members’ savings. The Mandatory Provident Fund Schemes Authority (**Authority**) has developed a set of core governance principles (**Principles**) with a view to providing recommendations and practical examples to assist MPF trustees in performing their duties and making decisions with respect to the administration of MPF schemes. The Principles draw reference from good practices locally and overseas as well as from the OECD Core Principles of Private Pension Regulation and International Organization of Pension Supervisors (**IOPS**) Principles of Private Pension Supervision. They are designed to complement, not change, current law or regulations. They should not be interpreted in a way that would override the provision of any law.¹

4. The Principles serve to assist MPF trustees in adhering to the core values set out in the Governance Charter for MPF Trustees (**Appendix 1**) endorsed by MPF trustees in May 2018. The Principles are good references to MPF trustees in implementing sound governance framework with a view to discharging their duties effectively and efficiently. The implementation of the Principles would also strengthen the regulatory framework of the MPF System and thereby protect members’ interests.

¹ For the avoidance of doubt, the Principles are not intended to be guidelines issued under section 6H of the Mandatory Provident Fund Schemes Ordinance (MPFSO). Adoption of the Principles is highly encouraged but would not be tantamount to compliance with the MPFSO or Mandatory Provident Fund Schemes (General) Regulation.

5. Brief explanations and examples are set out under each Principle to illustrate how the Principles may be implemented. They are not intended to be exhaustive. MPF trustees should consider their own circumstances when formulating measures for implementation of the Principles bearing in mind that those measures should be proportionate to the risks associated with their MPF operations and commensurate with the nature, scale and complexity of their business model and mode of operation. Furthermore, MPF trustees are expected to have a plan to determine how and to what extent their current governance structure, competence, capabilities and conduct are in adherence to the Principles. MPF trustees are expected to provide clear explanation to the Authority, when requested, for any gaps or deficiencies identified.

6. The Authority may from time to time provide additional recommendations or training for MPF trustees on the expected standards underpinning each of the Principles.

7. The Principles provide that an MPF trustee, in order to fulfil its duties and cultivate a culture of good governance in managing MPF schemes for the best interest of scheme members, should:

- *thoroughly understand its duties and at all times act in the best interest of scheme members;*
- *establish and maintain a comprehensive and robust governance framework for the oversight and management of its MPF business and operations;*
- *ensure that its Board of Directors (Board) is properly composed and that its role and any delegated authorities are properly defined, documented and monitored;*
- *ensure all members of its Board are fit and proper and suitably qualified to perform their duties;*
- *deliver value-for-money MPF schemes and services to its scheme members;*
- *ensure proper policies and procedures are in place to effectively identify, manage and address conflicts of interest;*
- *properly monitor the performance of its appointed service providers;*
- *ensure effective monitoring of the investment performance of constituent funds under its MPF schemes;*
- *establish and maintain an effective risk management framework for its MPF business and operations; and*
- *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.*

The Principles

Principle 1

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

8. *An MPF trustee is bound to, amongst other things, exercise a level of care, skill, diligence and prudence in operating MPF schemes and act in the best interest of scheme members. It is important that an MPF trustee understands thoroughly all its duties as an MPF trustee. An MPF trustee should also exercise effective oversight over all delegates, service providers and other third parties providing services to the MPF trustee or MPF schemes under its management so as to discharge its duties.*

9. *An MPF trustee should recognize that mere compliance with the rules and regulations is not sufficient to drive themselves or their service providers to deliver good services and discharge its duties in a responsible manner. The Board and senior executives of an MPF trustee should cultivate strong governance culture to support and promote the importance of fulfilling trustee's obligations. An MPF trustee should ensure that the obligations to discharge its duty is reflected in governance framework and procedures in order to facilitate good decision making 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

10. *The Board and senior executives of an MPF trustee should ensure that a robust governance framework is in place and operates to fulfil its duties and deliver outcomes in the best interest of scheme members. There should be a clear identification and appropriate division of operational and oversight responsibilities among the Board, management, committees and service providers of MPF schemes.*

11. *The Board should review and approve, at regular intervals (e.g. annually), the business plans, strategies and all material policies of its MPF business and operations. An MPF trustee should have appropriate controls, communication and procedures that facilitate good decision-making. An MPF trustee should seek ways to gauge views and feedback of scheme participants, where appropriate, in finalizing its decisions relating to the relevant MPF schemes or constituent funds.*

12. *Where an MPF trustee is part of a larger group of companies, the MPF trustee should not simply replicate group level policies. Management or other key project specialists should ensure that group policies are reviewed, tailored for suitability to its MPF business and operations, where appropriate, before implementation.*

13. *An MPF trustee should establish policies and procedures for regular review of its governance framework and processes.*

Principle 3

An MPF trustee should ensure that its Board is properly composed and that its role and any delegated authorities are properly defined, documented and monitored

14. *An MPF trustee should structure the Board in such a way that it is able to effectively review and challenge the performance of management and exercise critical and balanced judgement. For instance, the separation of the role of the chair of the Board, preferably a non-executive director or an independent non-executive director (INED), and that of the Chief Executive Officer can help to achieve an appropriate degree of checks and balances and improve the Board's ability for decision-making independent of the management team.*

15. *When considering the composition of the Board, it is a best practice to have more than one INED on the Board. The appointment of INEDs with appropriate expertise can bring in outside experience and provide objective independent judgement. INEDs also play an important role in providing necessary checks and balances to ensure that any decision made by the Board is in the best interest of scheme members.*

16. *While the Board may consider establishing and delegating authorities to relevant committees, for example, audit committee, investment committee, risk committee and remuneration committee, it should ensure that all delegations are, properly defined, documented and monitored through regular reporting and review and given to competent and reliable people. It is also a best practice for INEDs to sit on or chair committees.*

17. *The Board should develop a charter or a similar document to the same effect that clearly defines its roles and responsibilities as well as how it will operate.*

Principle 4

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

18. *The Board should develop a “fit and proper” policy which applies to all Board members and senior executives to ensure that they possess appropriate qualities and attributes such that they can perform their duties to a high standard.*

19. *The policy should be well documented and reviewed by the Board on a regular basis. In particular, it should include procedures governing the nomination, appointment and removal of Board members and senior executives.*

20. *It is a best practice for the Board to develop and implement performance evaluation procedures for evaluating and monitoring the performance of (a) the Board as a whole, (b) individual members of the Board, and (c) its committees on an on-going basis so that areas for improvement are identified and addressed.*

Principle 5

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

21. *In acting in the best interest of scheme members, an MPF trustee should develop and implement plans setting out how good value-for-money is provided to members of its MPF schemes.*

22. *An MPF trustee should determine the parameters and criteria for assessing and measuring what represents good value-for-money to scheme members taking into account the performance of the constituent funds, fees and costs, and quality of services provided to scheme members, etc.*

23. *Given that MPF schemes are designed for retirement savings, an MPF trustee and those involved in measuring the benefits for scheme members should regularly review their MPF schemes and ensure the MPF schemes can deliver reasonable outcomes. For example, it is a best practice for an MPF trustee to review regularly the fee level, services offered, the range of MPF funds and suitability of MPF products as part of the retirement solutions offered to scheme members.*

24. *An MPF trustee should deploy and promote the use of appropriate technology in delivering its services with an aim of lowering its operational costs and achieving efficiency. An MPF trustee should encourage use of digital communications to enhance efficiency, transparency and accuracy.*

25. *An MPF trustee should enhance engagement with scheme members to understand their needs and increase the value of its offerings to 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

26. *An MPF trustee should formulate and document its conflict of interest policy and procedures for identifying, assessing and effectively managing actual and potential conflicts of interest.*

27. *An MPF trustee should ensure that any actual and potential conflict of interest can be properly managed and disclosed, where appropriate. For instance, if an MPF trustee has appointed a service provider which is within the same group of companies, the MPF trustee should exercise no less rigour and professional scepticism when supervising the services being offered by its in-house service provider than in the case of an external service provider.*

28. *An MPF trustee should be fully empowered to act independently and not be unduly influenced by the MPF scheme sponsor or other parties. The Board should ensure that senior executives have put in place robust mechanisms and clear policies to deal with situations where the roles of MPF trustee and any officer of MPF trustee, MPF scheme sponsor and other service providers may conflict thereby impeding the MPF trustee's decision-making discretion.*

Principle 7

An MPF trustee should properly monitor the performance of its appointed service providers²

29. *An MPF trustee is responsible for implementing robust policies, practices and procedures to effectively supervise and exercise proper control over the service quality and standards of its appointed service providers, which are appointed as required by law or otherwise.*

30. *Before engaging any service providers, an MPF trustee should ensure that appropriate due diligence is conducted in order to assess their suitability. It is a best practice that an MPF trustee carries out on-site reviews and in-person meetings as part of its due diligence.*

31. *An MPF trustee should set out clearly the standards of services and quality of performance that service providers are expected to observe. An MPF trustee should ensure that effective monitoring processes and mechanisms are in place to manage the outsourcing of business activities, as appropriate for the nature and materiality of the arrangement, and to detect gaps or deficiencies in the service providers' level of performance.*

32. *An MPF trustee should ensure that the terms of appointment of service providers do not hinder the MPF trustee from properly performing its duties and properly addressing issues where the conducts of service providers falls short of the required standards.*

Principle 8

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

33. *An MPF trustee should carefully monitor the performance of constituent funds within its MPF schemes and ensure that its processes and mechanisms for monitoring of the investment performance of constituent funds are effective.*

² As defined in the 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.

34. *An MPF trustee should use appropriate pre-determined parameters (e.g. benchmark /performance target) and criteria to regularly evaluate the performance of constituent funds and communicate clearly to the appointed investment managers about such parameters and criteria. The appropriateness of these parameters and criteria should be reviewed regularly to ensure consistency with the investment policy and objectives of the constituent funds within its MPF schemes.*

35. *Where persistent underperformance of constituent funds is identified, the MPF trustee should promptly take appropriate action, for example, replacement of appointed investment managers or, in the case where a constituent fund takes the form of a feeder fund structure, change of underlying investment funds.*

Principle 9

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

36. *A robust and comprehensive risk management framework should enable an MPF trustee to develop and implement strategies, policies, procedures and controls to appropriately manage different types of risk, for example, operational risk, governance risk and data risk, having regard to the size, business mix and complexity of its operations.*

37. *The risk management framework should be tailored and commensurate to the MPF trustee's business strategy and operating model of its MPF business and designed to be capable of addressing risks arising from a dynamic operational environment, including for example, cyber-security risks.*

38. *The Board should be responsible for cultivating a strong risk culture. In addition, it should ensure that there is an adequate, designated and independent risk management function directly reporting to a Risk Committee overseen by the Board.*

39. *An MPF trustee should put in place systematic and formalized data risk management framework with objectives to ensure accuracy of information, in particular, members' unit balances. The data risk management policies should be designed in alignment with the MPF trustee's overarching risk management framework.*

40. *An MPF trustee should have effective mechanism to ensure adequate controls over data capture, including manual entry of data as well as automated data feeds from internal and external sources.*

41. *In addition, an MPF trustee should ensure that robust and effective data validation controls and processes are put in place. For example, it is a best practice that reconciliation on unit balances at the individual member level is conducted on a daily basis.*

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

42. *An MPF trustee should ensure that all communications are subject to proper due diligence and free from false or misleading statements. Communications should use clear, plain language and be available through appropriate channels to enable easy access to information by scheme members.*

43. *An MPF trustee should ensure that key information provided to existing or prospective scheme members is written in a clear and simple manner to facilitate informed decision-making. For instance, it is a best practice for an MPF trustee to clearly communicate with members on all costs and charges borne by them at the point of selection to enable them to make comparisons as well as assessment of the costs and charges to scheme members.*

44. *It is a best practice for an MPF trustee to put the spirit of financial inclusion into practice and assist existing and prospective scheme members to develop the knowledge, skills and confidence to make informed decisions and assist them in long term financial planning for retirement needs. An MPF trustee may consider providing financial education programmes to promote consumers' awareness on MPF Systems.*

Governance Charter for MPF Trustees (the “Charter”)

We acknowledge that, as Mandatory Provident Fund (MPF) trustees, we have important fiduciary responsibilities in protecting the members’ retirement savings invested into our schemes. It is in the members’ interests that we operate MPF schemes efficiently and effectively. We understand that having a sound governance framework is fundamental in fulfilling these responsibilities.

By signing this Charter, we recognize the importance of good governance and confirm our commitment to uphold and abide by the following core values at all times –

- *Value-for-money MPF schemes and services;*
- *Act in the best interests of members;*
- *Lift governance standards;*
- *Understand and respond to members’ needs;*
- *Engage members through transparency and communications; and*
- *Serve with honesty and integrity.*