



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

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By Email

27 January 2023

Circular Letter: SU/CTR/2023/001

To: All Approved Trustees

Dear Sir/Madam,

Review of the Implementation of Governance Principles by MPF Trustees

Promoting a high standard of governance among MPF trustees has always been a key regulatory objective of the MPFA. In May 2018, all trustees signed a Governance Charter, pledging to put in place sound governance framework and uphold the core values set out in the Governance Charter at all times. In November 2018, the MPFA issued a set of high-level Governance Principles¹ with examples and explanations to serve as guidance for trustees on how they can adhere to the core values and enhance their governance standards. Trustees are required to formulate measures for implementation of governance principles and regularly review the implementation status to strive for betterment of governance standards.

2. In 2022, in response to the MPFA's request, trustees conducted a self-assessment to assess if their existing governance arrangements are in adherence to the Governance Principles. Based on the self-assessment results submitted by trustees, the MPFA observed that all trustees have implemented relevant measures to comply with the Governance Principles and have taken efforts to continuously enhance their governance arrangements. Examples of enhancements made by trustees include the following –

1

https://www.mpfa.org.hk/pdf/eng/legislation_regulations/legulations_ordinance/circulars/mpf/2016_2020/files/CIR-20181115.pdf

- conduct regular review of board composition and board performance;
- segregate the role of chair of board and CEO;
- perform regular assessments on fund performance, fund choice, fee level & service quality; and
- make use of e-channels to enhance communication with members.

3. Notwithstanding the above, the MPFA has three observations which are common across the MPF industry (Common Observations) and trustees are required to implement relevant improvement measures as set out in paragraphs 4 to 6. For trustee's specific issues identified in the self-assessment, the MPFA will issue supervisory letters to individual trustees requiring their prompt actions to address the issues.

Common Observation 1 – long tenure of independent non-executive directors (INEDs)

4. The MPFA observed that around one-third of INEDs in the MPF industry have served the same trustee's board for more than ten years. In addition, we understand that some trustees did not conduct regular review on tenure of board members. Since the INEDs play an important role in bringing in valuable experience, providing impartial advice and exercising independent oversight without undue influence from executives, the long tenure of an INED may affect a person's capacity to exercise independent judgement.

Improvement measures required of trustees

- (a) Trustees are required to establish policies and procedures **by Q3 2023** to –
- (i) conduct regular review on tenure of board members; and
 - (ii) put in place mechanism to review and assess the independence of INED(s) who has(ve) served the board for a long period of time².
- (b) Trustees are required to formulate succession plan for long-serving INEDs **by Q4 2023**.

Common Observation 2 – low scheme members' digital take-up rate

5. The MPFA noted that trustees have introduced various electronic services (e-services), such as, e-enrolment, e-transfer and payment by FPS, and initiated different marketing activities so as to encourage the greater use of e-services by MPF scheme members. However, scheme members' usage of online account and e-statement is still considered low. As at 30 June 2022, scheme members' activation rate for online accounts is around 37% (there were around 3.7 million online MPF accounts out of a total of about 10 million MPF accounts) and only 6% of scheme members are receiving e-statements for their MPF accounts. Since the low digital take-up rate may hinder the digital transformation of the MPF industry as well as the use of the future eMPF Platform, trustees are expected to adopt a proactive approach to motivate scheme members to use the e-services and e-statements that the trustees provide.

² Trustees are required to set criteria, including the maximum tenure of INED, in considering whether an INED can continue to discharge his duties independently and effectively having regard to the trustees' own circumstances.

Improvement measures required of trustees

- (a) Trustees are required to submit promotion plans **by Q1 2023** to encourage scheme members to make use of the e-services and e-statements provided by trustees to manage their MPF; and
- (b) Trustees are required to review and enhance their support services **by Q2 2023**, such as, provide video or infographic demonstration and user guides to facilitate scheme members' use of online services.

Common Observation 3 – room for further fee reduction

6. Driving fee reduction has always been one of the top priorities of the MPFA. Despite the reduction of industry-average fund expense ratio from 2.1% in 2007 to the current 1.33%, the aggregate management fees of MPF funds are still considered high. It is envisaged that the scheme administration fee will be reduced after the launch of the eMPF Platform and scheme members will enjoy fee reduction under the “straight pass-on” arrangements. For other fee components, trustees are required to identify room for fee reduction so as to deliver better value-for-money MPF schemes and funds to scheme members.

Improvement measures required of trustees

- (a) Trustees are required to identify room for further fee reduction on other fee components, such as, trustee fee, sponsor fee and investment management fee, and formulate a 5-year strategic plan on fee reduction **by Q2 2023**.

7. Trustees should be mindful that the Common Observations and improvement measures mentioned above are not meant to be exhaustive. Trustees are required to regularly review and assess the effectiveness of their own governance arrangements and strive for improvements. Furthermore, the MPFA will follow up with trustees on the progress of implementing improvement measures according to the said timelines.

8. If you have any questions, please do not hesitate to contact your supervisory manager at the MPFA.

Yours faithfully,



Ginni Wong
Director (Supervision)
Supervision Division