



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

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By Email

4 July 2024

Circular Letter: SU/CTR/2024/001

To: All Approved Trustees

Dear Sir/Madam,

**Enhancement of Governance of Trustees' Boards
in Mandatory Provident Fund (MPF) Industry**

The Mandatory Provident Fund Authority (**MPFA**) issued a circular letter to trustees on 27 January 2023 (SU/CTR/2023/001) regarding the review of trustees' implementation of the Governance Principles¹ (**2023 Circular**), which requires trustees to implement a number of improvement measures with a view to enhancing their governance, such as conducting regular reviews on the tenure of independent non-executive directors (**INEDs**), formulating succession plans for long-serving INEDs, and adopting a proactive approach to drive MPF scheme members in, inter alia, using available e-services to increase their digital uptake rate. Given the crucial role which members of trustees' boards play in bolstering trustees' governance and providing diverse and impartial views as part of the boards' decision making process, this circular provides guidance for enhancing the governance of trustees' boards and seeks your responses as per item (IV) below.

¹ <https://www.mpfa.org.hk/-/media/files/information-centre/legislation-and-regulations/circulars/mpf/20230127/cir-20230127.pdf>

(I) Tenure of INEDs

2. Principle 4 of the Governance Principles states that “[a]n MPF trustee should ensure all members of its Board are fit and proper and suitably qualified to perform their duties”. In this connection, the MPFA has observed that certain INEDs of trustees’ boards have served on the same boards for more than 10 years. Trustees should be mindful that an INED serving on their boards for an extended period might potentially undermine his / her objectivity, impartiality and independence. In addition, a prolonged period of working with trustees’ executive management teams could also impede the INEDs’ ability to critically assess the performance of the executives and scrutinize the trustees’ policies and practices.

3. As a matter of good governance, it is important for trustees to critically review factors including but not limited to the tenure of INEDs, which may affect the independence of INEDs. With reference to relevant requirements regarding the tenure of INEDs of financial regulators in different sectors or jurisdictions², trustees are required to (i) establish a policy determining an appropriate limit on the years of service of their INEDs with proper and solid justification; and (ii) take prompt action to identify new candidates to replace INEDs who have reached or exceeded the specified tenure.

(II) Number of INEDs on Trustees’ Boards

4. The role of INEDs is crucial as they bring to their boards independent views and provide objective advice and judgement. They should have no undue or inappropriate influence from executives or external parties. As per the Governance Principle (Principle 3)³, “[w]hen considering the composition of the Board, it is a best practice to have more than one INED on the Board”. In this regard, trustees should make reference to the relevant requirements of other financial regulators⁴, in particular the number of INEDs on trustees’ boards. An appropriate number of INEDs with a diverse range of skills and backgrounds will provide necessary checks and balances on the boards in the best interests of the scheme members. In furtherance of this, trustees are required to critically review the current composition of their boards and set a target

² For reference, the Hong Kong Exchanges and Clearing Limited and the Hong Kong Monetary Authority have set a limit of nine years for INEDs in the boards of listed companies and authorized institutions respectively. The UK’s Financial Reporting Council and the Singapore Exchange have also specified the tenure limits for INEDs of listed companies to nine years.

³ https://www.mpfa.org.hk/pdf/eng/legislation_regulations/legulations_ordinance/circulars/mpf/2016_2020/files/CIR-20181115.pdf

⁴ For reference, the Hong Kong Exchanges and Clearing Limited and the Insurance Authority have required that at least one-third of the boards should be composed of INEDs. The Hong Kong Monetary Authority has also required that either one-third or three of the board members, whichever is higher, should be INEDs.

of attaining an adequate and justified number of INEDs having due regard to above-mentioned considerations so as to facilitate objective and independent deliberations and judgements during the decision-making processes.

(III) Chairperson of Board

5. The chairperson of a trustee's board plays an important role in providing leadership and direction to ensure that the board can operate effectively and efficiently. The Governance Principle (Principle 3) states that the role of the chairperson of the board is preferably a non-executive director or an INED. In this light, the MPFA strongly encourages trustees to appoint INEDs to be the chairpersons of their boards since INEDs are independent of the trustees' executive management teams, which put them in a better position to provide objective, unbiased and impartial views and critically review, inter alia, whether the decisions of the trustees' executive management teams are made in the interests of scheme members.

(IV) Actions Required

6. The MPFA expects trustees to continuously and consistently uphold a high standard of governance by, inter alia, adopting the expected standards as outlined in items (I), (II) and (III) above. Trustees are hereby required to take appropriate actions by the timelines as tabulated below:

	<u>Specific Actions Required</u>	<u>Timelines</u>
(I) Tenure of INEDs	(i) To establish a policy determining an appropriate tenure for INEDs (ii) To take prompt action to identify new candidate(s) to replace the INED(s) who has / have reached or exceeded the tenure determined	By 30 September 2024 By 31 December 2024
(II) Number of INEDs on Trustees' Boards	(i) To review the number of INEDs on trustees' boards and set a target of attaining an appropriate number of INEDs serving on the boards (the target) (ii) To submit a report setting out the latest progress and the action plan to	By 31 December 2024 By 31 March 2025

	<u>Specific Actions Required</u>	<u>Timelines</u>
	attain the target (iii) To enhance the board's composition by appointing an appropriate number of INEDs so as to align with the market practice	By 30 June 2025
(III) Chairperson of Board	To make arrangement for appointing an INED to be the chairperson of the board with effect from 1 January 2026	By 30 June 2025

7. The above improvement measures are by no means exhaustive. Trustees are required to regularly review and assess the effectiveness of their own governance arrangements and strive for further improvement. Should you have any questions, please do not hesitate to contact your supervisory manager at the MPFA.

Yours faithfully,



Ginni Wong
Director (Supervision)
Supervision Division