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The MPFA assessed the readiness of the approved trustees for the commencement of MPF on 1 December 2000 and ensured their compliance with the MPF legislation. It reviewed and approved applications for approval of pooled investment funds and monitored the investment compliance of MPF products. It also monitored MPF intermediaries' compliance with the Code of Conduct for MPF Intermediaries and sought to improve their professional standard. Special efforts have also been devoted to the supervision of Industry Schemes.



SUPERVISION OF THE MPF INDUSTRY

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SUPERVISION OF TRUSTEES

The trustee of a MPF scheme is the central party having an overall responsibility for the administration and management of the scheme. A trustee may delegate part of its functions to other service providers but the trustee has the duty to supervise and exercise proper control over these service providers.

FOCUS OF WORK

In year 1999-2000, the MPFA's work in respect of trustees supervision mainly focused on processing of applications for approval as trustees to ensure all the statutory approval requirements were satisfied. In the past year, the focus was shifted to assessing the readiness of the approved trustees for the commencement of MPF on 1 December 2000 and ensuring compliance with the MPF legislation by reviewing and analyzing various trustees' statutory and non-statutory

returns and carrying out on-site inspections to scrutinize the operations of the trustees.

REVIEW OF TRUSTEES' READINESS BEFORE 1 DECEMBER 2000

All approvals as trustees were granted by the MPFA in the year 1999-2000 and the applicants met stringent criteria before being granted approval to become MPF trustees. During the year, one of the approved trustees applied for withdrawal of approval and the number of approved trustee was reduced to 20. A list of the approved trustees and their background is at Appendix VI.

Most of the approved trustees were newly established companies specifically for the purposes of carrying on MPF business while some of them or their group companies were carrying on ORSO business on a much smaller scale and needed to be substantially geared up to prepare for the launch of MPF. As the MPF business is new in Hong Kong and affects over two million members of the workforce, the ability of the approved trustees to run the MPF business successfully is an important factor to be considered by the MPFA. In this respect, apart from the basic stringent approval criteria, the MPFA imposed additional

conditions on the approved trustees upon granting the approval status. Among the key ongoing conditions to be met by the approved trustees prior to 1 December 2000 are the establishment and documentation of appropriate and adequate compliance and operating procedures and controls; availability of data-processing facilities; appropriately-trained human resources and such other resources as are sufficient to enable the trustees to undertake their intended roles and to fulfill their obligations as approved trustees.

To ensure that the approved trustees meet the above conditions prior to 1 December 2000 and that they are ready to process a massive volume of information and undertake other administrative tasks required by the MPF System, the MPFA carried out full-scale on-site inspections of the approved trustees during the third and fourth quarters of 2000. The scope of the inspections covered a wide range of areas including examination of scheme administration systems, review of compliance and operating procedures, and understanding the staff recruitment status and the

training provided. Subsequent to the inspections, weaknesses on internal control measures and scheme administration systems were identified and the approved trustees were required to rectify them in a timely manner. After proper rectification, all approved trustees were able to satisfy the MPFA as to their readiness for the administration and operation of their MPF businesses, and their compliance with the MPF legislation as well as the approval conditions.

MONITORING THE TRUSTEES AFTER 1 DECEMBER 2000

Close to the launch date of 1 December 2000 and during the initial 60-day permitted period ending on 29 January 2001 for scheme enrolment, approved trustees received an influx of membership applications. Shortly afterwards, this was followed by massive volumes of contribution data and payments which required prompt processing and demanded significant staff resources.

To ensure that the approved trustees were able to process the information effectively and efficiently and to enable early detection of processing backlog and bottleneck, detailed progress reports on enrolment and

contributions were obtained from the trustees since December 2000 on a regular basis. Where processing backlog, staffing issues or other issues were identified from the reports and after discussions were held with the approved trustees, the MPFA required immediate rectification actions to be taken by the approved trustees. Such actions included deployment of additional staff, hardware resources or other appropriate corrective measures.

The MPF System was under considerable pressure and there were teething problems during the initial months of MPF contributions. As expected, a significant number of discrepancies and problems on contribution data and payments were encountered by the approved trustees. Such discrepancies and problems were mainly caused by the confusion and errors on contribution calculation, omissions of staff enrolment and termination notifications due to staff changes. These were mainly attributable to the fact that employers and self-employed persons were not yet sufficiently familiar with the MPF System during the initial period.

There were also other technical problems arising from different interpretations of the MPF legislation. In this respect, the MPFA issued various circular letters to the approved trustees to address the practical issues and to clarify the MPF legislation, with a view to eliminating confusion and facilitating smooth operation. The circular letters covered a range of issues including operational details of the MPF System such as enrolment and contribution requirements of self-employed persons and prorating of minimum and maximum levels of relevant income for mandatory contribution purposes. A list of all the circular letters issued in the year is at Appendix V.

ONGOING MONITORING

To ensure that the approved trustees comply with the statutory requirements and to enable early detection of deficiencies, trustees are required to submit returns, audited financial statements and reports, including the schemes under their trusteeship, on monthly, quarterly and annual bases. For the protection of scheme members' interests, necessary follow-up actions and special investigations will be carried out if deficiencies or contravention of the MPF legislation are identified. So far no special investigation has been necessary.



The MPFA is also responsible for processing changes of officers and other information of the approved trustees to ensure they comply with the MPF legislation and the conditions of approval. New appointment of directors or chief executive officers of approved trustees must have the prior consent of the MPFA based on the same

approval requirements as for the initial approval process. During the current financial year, the MPFA gave consent to the appointment of 25 directors or chief executive officers.

WORKSHOPS FOR TRUSTEES AND MPF INTERMEDIARIES

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COMPLAINTS AGAINST TRUSTEES

About 360 complaints received by the MPFA in the year were lodged against trustees. Most of them were related to scheme administration. Compared with the total number of scheme members, the percentage of complaints was small.

FOCUS OF COMING YEAR'S WORK

After several months of accepting contributions since December 2000 and with the substantial efforts put in by both the approved trustees and the MPFA, and the scheme participants becoming more familiarized with the system, the teething problems associated with MPF operations appeared to be transitory. In the coming year, apart from ensuring approved trustees'

ongoing compliance with the MPF legislation, the MPFA will focus its efforts on securing improvements in the approved trustees' standards and quality of services and scheme operations so as to better serve the scheme members and better protect their interests.

SUPERVISION OF MPF SCHEMES AND INVESTMENT FUNDS

FOCUS OF WORK

MPF products include schemes, constituent funds and pooled investment funds. The work in respect of supervision of MPF products in 1999-2000 was mainly focused on reviewing and approving applications for registration of schemes and approval of constituent funds. In the past year, focus was shifted to reviewing and approving applications for approval of pooled investment funds, approval of amendments to constitutive documents of the registered schemes, and monitoring the investment compliance of MPF products.

REGISTRATION OF SCHEMES AND APPROVAL OF CONSTITUENT FUNDS

Following the registration of 45 master trust schemes and the approval of 253 constituent funds in the year of 1999-2000, the MPFA registered eight additional schemes and approved 55 more constituent funds in the past year, including two industry schemes and two employer sponsored schemes comprising an aggregate of 17 corresponding constituent funds. Seven applications for registration of schemes were processed but not approved in the year because of voluntary withdrawal. Another application was still being processed as at the end of March 2001. During the year, because of commercial reasons, two master trust schemes with a total of nine underlying constituent funds were de-registered. The processing statistics are summarized in Table 1. A full list of the registered schemes and their underlying constituent funds is set out in Appendix VII.

APPROVAL OF POOLED INVESTMENT FUNDS

The constituent funds of MPF schemes may invest directly into investments permitted under the MPF legislation or indirectly through pooled investment funds, which operate either in the form of unit trusts or as insurance policies. By July 2000, the MPFA processed a total of 270 applications for approval as approved pooled investment funds. Thirty-seven of the applications were withdrawn before the completion of processing and 233 of them were finally approved. Two of the funds were subsequently de-registered voluntarily due to commercial reasons. As at 31 March 2001, there were 231 approved pooled investment funds of which 167 were in the form of unit trusts and 64 were in the form of insurance policies. Table 2 provides an analysis of the structures of the funds.

Since many constituent funds have set up their investment arrangements by investing through approved pooled investment funds, the completion

Table 1
Processing statistics
at scheme level

	Number as at 31 March 2000	De-registration during the year	Registration during the year	Number as at 31 March 2001
Registered Schemes	45	2	8	51
Master Trust Schemes	45	2	4	47
Industry Schemes	0	0	2	2
Employer Sponsored Schemes	0	0	2	2
Approved Constituent Funds	253	9	55	299

of the approval exercise for pooled investment funds marked a major stride in the development of the MPF System. With the MPF schemes, their constituent funds and the underlying approved pooled investment funds in place, the necessary investment management platform is ready for taking up MPF contributions and transfers from ORSO schemes upon commencement of the MPF System on 1 December 2000.

APPROVAL OF VARIOUS SUBSIDIARY DOCUMENTS

Ahead of the launch of the MPF System in December 2000, service providers finalized the management and administrative details of their schemes, including the execution of investment management contracts and custodial agreements. The requirements of the contents of these documents are stipulated in the MPF legislation, and these documents were reviewed by the MPFA to check if such requirements were fulfilled. A

total of 80 investment management contracts and 48 custodial agreements for both registered schemes and approved pooled investment funds were reviewed by the MPFA during the year.

Applications were also received in the year for approval of certain entities as approved overseas banks for the provision of custodial services under the MPF legislation. A total of 26 such applications were vetted and approved over the year.

APPROVING AMENDMENTS TO THE APPROVED PRODUCTS AND THEIR DOCUMENTATION

Various changes to the scheme structures were made by the service providers in the past year in response to keen market competition. The most salient ones were reduction in fees and charges and adjustments in the operational aspects of the schemes. The former has resulted in competitive rates charged by MPF schemes while the latter has led to

improved services and simplified procedures for employers and scheme members. As these changes involved amendments to the principal brochures / explanatory memoranda or the trust deeds of the schemes, applications had to be made to the MPFA for approval before the changes took effect. For certain schemes, changes to such documents were required to ensure compliance with the legislative amendments enacted in June 2000. During the financial year ended 31 March 2001, the MPFA received 178 applications for approval of amendments. The processing of 161 applications was completed and that of 17 applications was in progress.

Like the MPF schemes, the approved pooled investment funds also incorporated certain changes subsequent to approval by the MPFA, in response to market demand and changes in legislative requirements.

Table 2
Analysis of
approved pooled
investment funds
(as at 31 March 2001)

	Unit Trust	Insurance Policy	Total
By fund valuation bases			
Unitized	167	62	229
Non-unitized	0	2	2
Total	167	64	231
By fund structures			
Umbrella funds	22	4	26
Internal portfolios	113	39	152
Feeder funds	5	12	17
Portfolio management funds	27	9	36
Total	167	64	231

A total of 208 applications for approval to changes to the documentation of the funds were received by 31 March 2001 with the processing of 190 cases completed and 18 cases in progress. The statistics of processing amendments are summarized in Table 3.

INVESTMENT MONITORING

Investment operations of the registered schemes started with the commencement of MPF contributions and transfers from ORSO schemes in December 2000. Monitoring work was initially conducted through review of the regular returns and reports from the service providers. Full-scale regular on-site inspection will commence in the next financial year. Review work performed during the year is summarized in Table 4.

The approved trustees have the statutory duties to report promptly to the MPFA upon the occurrence of significant events, which include breaches of the MPF legislation. Up to 31 March 2001, reports of breaches received were primarily technical breaches, such as violation of diversification limits, that were attributable mainly to the small amount of money collected at the initial stage of the MPF System. These breaches were rectified promptly and the number of breaches rapidly declined as the size of MPF funds accumulated to more sizable amounts. Scheme members were compensated for any losses incurred in the process of rectification of the breaches. The MPFA does not expect these problems to recur in the longer term as the fund size of the registered schemes grows.

FOCUS OF COMING YEAR'S WORK

On-site inspection of investment activities commenced at the close of the past year. In the year to come, the MPFA has planned and scheduled various visits to all trustees, and investment managers in certain cases. The objectives of these inspections are to review the investment compliance of the MPF schemes, to identify any inadequacy in the internal controls of trustees and service providers in respect of investment operations, and to demand remedial actions if necessary. Where rectifications are undertaken by the trustees or investment managers, such actions will also be examined in the on-site inspection process to ensure that the interests of scheme members are well-protected.

Table 3
Statistics of processing amendments to approved products (as at 31 March 2001)

	Completed	In Progress	Total
Registered Schemes	161	17	178
Approved Pooled Investment Funds	190	18	208
Total	351	35	386

Table 4
Statistics of reports and returns from service providers processed (as at 31 March 2001)

	Schemes	Approved Pooled Investment Funds	Total
Monthly returns	597	68	665
Quarterly returns	1 134	Not applicable	1 134
Consolidated reports/ Auditors' reports	19	1	20
Total	1 750	69	1 819

STATISTICS

Statistics on MPF schemes and funds are included in Part B of the Statistics section.

SUPERVISION OF INTERMEDIARIES

The MPFA works closely with the Hong Kong Monetary Authority (HKMA), the Insurance Authority (IA) and the Securities and Futures Commission (SFC) in regulating MPF intermediaries.

FOCUS OF WORK

In year 1999-2000, the work in respect of supervision of intermediaries mainly focused on registering MPF intermediaries, formulating policies and developing procedures relating to the regulation of MPF intermediaries. In the past year, the focus was shifted to

monitoring MPF intermediaries' compliance with the Code of Conduct for MPF Intermediaries, fine-tuning the regulatory framework and improving the professional standard of MPF intermediaries.

REGISTRATION OF MPF INTERMEDIARIES

During the year, the MPFA processed a total of 10 188 new applications for registration as MPF intermediaries. As at 31 March 2001, there was a total of 30 891 registered MPF intermediaries, comprising 479 corporations and 30 412 individuals respectively.

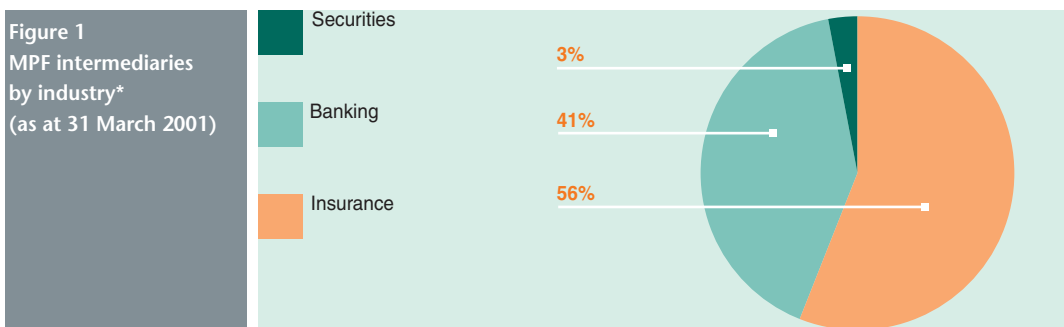
ONGOING MONITORING

Under the existing regulatory framework, the MPFA acts as the lead regulator, coordinating the

regulatory efforts of the other three regulators with a view to ensuring regulatory consistency and minimizing regulatory overlap. Whilst the MPFA is mainly responsible for daily monitoring and handling of complaints, the HKMA, the IA and the SFC are responsible for supervising those MPF intermediaries falling under their regulatory regimes, including conducting inspections and taking enforcement / disciplinary actions where necessary on MPF intermediaries under their respective supervision.

The year was marked with considerable resources devoted to processing of changes of information relating to MPF intermediaries. During the year, the MPFA processed a total number of 10 244 changes.

Table 5 Number of registered MPF intermediaries (as at 31 March 2001)	Total number of registered MPF intermediaries		30 891
	Corporate intermediaries		479
	Individual intermediaries		30 412
	Permitted to advise on insurance policies	14 920	
	Permitted to advise on securities	10 181	
	Permitted to advise on securities & insurance policies	5 311	



* classified by principal's major line of business

Most of the changes were related to change of employment of individual intermediaries and change of name of their sponsoring corporation as a result of corporate mergers and restructuring.

Over the past year, the HKMA, IA and SFC conducted a number of inspections on corporate intermediaries falling under their respective regulatory regimes. So far, no major irregularities or serious breaches of the Code of Conduct for MPF Intermediaries were noted.

All corporate intermediaries were required to complete an Information Summary Questionnaire issued by the MPFA. The information so obtained was used to facilitate the three regulators in conducting inspections.

Earlier in the year, the four regulators agreed on a set of procedures for dealing with alleged misconduct of MPF intermediaries. All complaints against MPF intermediaries are normally dealt with by the MPFA. If further investigation and/or disciplinary actions are required, the complaint would then be referred to the relevant regulator. During the year, there were 45 complaints against MPF intermediaries. This accounted for about 2% of the total

complaints received by the MPFA.

Only two complaint cases were referred to the other regulators for follow-up.

FINE-TUNING OF THE REGULATORY FRAMEWORK

Considerable efforts were devoted to fine-tuning the regulatory framework. The fit and proper criteria was introduced in the past year to assess whether or not applicants/registrants are fit and proper to be registered or to remain registered as MPF intermediaries.

The Code of Conduct for MPF Intermediaries was revised during the year to incorporate the fit and proper criteria and the requirement on disclosure of past investment performance during the marketing process.

The requirement of filing annual returns by corporate intermediaries was also introduced during the year.

This was to ensure that the MPFA maintained an up-to-date database of MPF intermediaries.

IMPROVING QUALITY OF MPF INTERMEDIARIES

A simple and user-friendly leaflet known as “MPF Intermediary & You” was published during the year to educate the public concerning the role of MPF intermediaries as well as an individual’s role as a scheme participant.

Efforts were devoted to improving the standard of MPF intermediaries through expanding the coverage of the MPF Intermediaries Examination Study Notes and enhancing the quality of the MPF intermediaries examination. The series of workshops conducted by the MPFA for MPF intermediaries had helped them to get familiarized with the operational details and better serve their clients.

FOCUS OF COMING YEAR’S WORK

In the coming year, the focus in respect of supervision of intermediaries will be on further refining the regulatory framework and improving the professional standard of MPF intermediaries.

SUPERVISION OF THE INDUSTRY SCHEMES

Industry Schemes are MPF schemes designed for industries with high worker mobility. Currently, they cover the catering and construction industries.

REGISTRATION AND ENROLMENT

On 13 April 2000, the MPFA registered two trustees for the Industry Schemes. They were selected by the Industry Schemes Selection Board after a competitive tendering exercise. The two trustees

Executive Councillor Hon Henry Tang and Legislative Councillor Hon Lee Cheuk-yan helped promoting Industry Schemes.



are the Bank Consortium Trust Company Limited and the Bank of East Asia (Trustees) Limited.

As at the end of March 2001, about 9 990 employers, 136 670 employees and 20 870 SEPs have joined the Industry Schemes. Enrolment was still growing.

MONITORING COMPLIANCE

The MPFA monitored the trustees' compliance with the MPFSO by analyzing their reports, holding regular progress meetings and carrying out on-site inspections to scrutinize the operation of trustees with the aim of protecting the interests of scheme members.

The trustees of the two Industry Schemes took proactive measures in attracting enrolment, and in overcoming teething problems in scheme administration caused by work volume, and employers and casual employees being unfamiliar with the procedures. With these

efforts, the making of mandatory contributions by scheme members under the Industry Schemes was in reasonable order in the early months of operation.

Participation in the Industry Schemes was influenced by the changing operational characteristics of the catering and construction industries in recent years. In the catering sector, more employees were employed on monthly terms, hence they had participated in the master trust schemes instead. In the construction industry, the multiple layers of sub-contracting, the transitory work places and the changing status of the workforce, either as employer, employee or SEP, were materially affecting the rate of participation.

In September 2000, the MPFA made a submission to the Works Bureau's Construction Industry Review

Committee expressing concern over some trade practices which may obstruct MPF implementation. Some of the Construction Industry Review Committee's recommendations made in January 2001, including worker registration and reduction in layers of sub-contracting, should have a positive effect on strengthening enrolment in the Industry Schemes, if implemented.

THE INDUSTRY SCHEMES COMMITTEE

The operation of Industry Schemes has been closely monitored by the statutory Industry Schemes Committee. It met three times during the year and made positive recommendations on enforcement and education which were necessary in enhancing compliance by employers and employees alike. Please refer to pages 18 and 19 for the membership and other information on the Committee.