

# Supervising the Industry

## Overview

### Our role

- To approve and supervise MPF trustees
- To register and approve MPF schemes and funds
- To register and supervise MPF intermediaries
- To supervise the operation of ORSO schemes

### In 2013–14, we

- developed measures with the industry to improve the MPF System
- conducted thematic on-site inspections of trustees
- encouraged scheme members to consolidate their MPF personal accounts
- enhanced the Low Fee Fund List on MPFA's website to include interactive features and more information
- registered and supervised MPF intermediaries under the statutory regulatory regime

# Supervising the Industry (cont'd)

## Supervision of MPF Trustees

As at 31 March 2014, there were 19 MPF trustees. A list of the trustees is at Appendix 2.

### MPF Employee Choice Arrangement (“ECA”)<sup>1</sup>

ECA has been in place since 1 November 2012. Around 125 800 ECA transfer requests were received by the trustees up to 31 March 2014. Meanwhile, trustees kept on enhancing products and services to better appeal to scheme members.

In the year, we conducted 15 thematic on-site inspections of trustees to assess their compliance and control in processing ECA transfer requests. We followed up with them on areas that need to be improved for enhanced efficiency as well as better control, risk management and customer services.

### Streamlining and Standardization of Scheme Administration

The MPF System involves scheme administration such as the processing of contributions, the reporting of default contributions, and the processing of fund transfer and withdrawal requests. With a view to reducing the costs of the MPF System, thus facilitating fee reduction of MPF schemes, we continued to pursue ways to streamline and standardize administration of MPF schemes. Legislative amendments have been proposed to abolish or combine certain required documents to streamline administration processes. We will continue to explore ways to further automate and streamline MPF scheme administration.

### Provision of Low-fee Funds

We have been urging the trustees to offer in each scheme at least one low-fee fund (with fee of 1% or below or Fund Expense Ratio<sup>2</sup> (“FER”) of 1.3% or below) investing in equities and/or bonds. As at 31 March 2014, all schemes but one had offered such low-fee fund<sup>3</sup>, and there are altogether 155 low-fee funds of different types in the MPF market with 110 of them investing in equities and/or bonds. We have also enhanced the Low Fee Fund List on MPFA’s website by including interactive features and providing more information to facilitate informed investment decisions.

### Consolidation of MPF Schemes and Funds

We have been encouraging trustees to review existing schemes and funds and consolidate those smaller in scale or less efficient with a view to achieving greater synergy and cost reduction in the MPF System. During the year, two trustees had merged in total four schemes (with total net asset value of around \$25 billion) into two; and three trustees had terminated in total four smaller-size funds (with net asset values ranging from \$1.45 million to \$29.49 million) within their MPF schemes.

<sup>1</sup> An arrangement that allows employees to elect to transfer the MPF accrued benefits derived from employees’ mandatory contributions made during current employment and held in a contribution account under an MPF scheme to an MPF scheme of their own choice on a lump sum basis once every calendar year.

<sup>2</sup> A ratio that measures the expenses of an MPF fund as a percentage of fund size based on data from the most recently ended financial period. It does not reflect any increase or decrease in fees, charges or expenses in the current financial period. The higher the ratio, the higher the percentage of operating expenses to fund size.

<sup>3</sup> The remaining one scheme is preparing to launch this kind of low-fee fund later in 2014.

## Consolidation of Personal Accounts

We encouraged consolidation of MPF personal accounts with a view to facilitating better account management and helping contribute towards overall cost efficiency in the MPF System. Initiatives included mailing of personalized letters from September to December 2013 to about 180 000 scheme members holding four or more personal accounts, and launching of related publicity and education programmes. A simple application form and a handy guide helping scheme members understand the consolidation process and how to fill in the form were introduced to make it convenient to consolidate multiple personal accounts. From 16 September 2013 to 31 March 2014, trustees had received around 37 700 applications for consolidation of personal accounts. Details of the related publicity and education programmes are set out in the chapter "Educating the Public and Reaching out to the Community".

As at 31 March 2014, there were around 4 700 000 personal accounts. We made efforts to decelerate the creation of new personal accounts. We requested trustees to include a note and a flyer produced by MPFA in letters sent to employees leaving their current employment, reminding them to manage their MPF accrued benefits and inviting them to consolidate their personal accounts.

## Ongoing Monitoring

We continued to adopt a proactive and risk-based supervisory approach, and take regard of the risk profile of each trustee as a basis for monitoring and supervising trustees via on-site visits, thematic reviews of specific areas of operation and off-site monitoring. Our off-site monitoring effort encompasses investigation of complaints and breaches, review of regular returns, audited financial statements and reports in respect of trustees and the schemes under their trusteeship. We also continued to review fund governance and investment compliance issues relating to MPF funds.

In 2013-14, we received 382 complaints against trustees, most of which were related to contribution processing, calculation and payment of benefits and unsatisfactory customer services. Actions were taken to resolve these issues with the trustees concerned.

We maintained a regular dialogue with trustees on MPF-related issues and worked closely with them to pursue initiatives to enhance the MPF System. The Trustees Operations Liaison Group, comprising representatives from trustees and MPFA, met twice during the year to discuss the development of information systems, MPF scheme operation issues, and developments in the MPF System. We also had regular meetings with individual trustees to discuss governance, compliance, operational and trustee-specific issues.

## Enforcement Actions

In 2013-14, 49 suspected scheme administration breaches and 17 suspected investment breaches were identified through MPFA's ongoing monitoring, enquiries or complaints received, or trustees' self-reporting. With investigation concluded for some of the cases, 9 financial penalty notices and 13 reminder letters were issued to the trustees concerned in relation to the scheme administration breaches, and 14 reminder letters were issued in relation to the investment breaches.

## New Enforcement Division

In January 2014, we set up a new Enforcement Division to centralize all enforcement functions. The Enforcement Division handles trustee-related complaints and investigates suspected breaches/non-compliance by trustees and their service providers, and handles prosecution or where applicable disciplinary action cases involving non-compliant trustees, employers, scheme members and MPF intermediaries.

## Supervising the Industry (cont'd)

### Supervision of Intermediaries

MPF intermediaries are required to register with MPFA before they can carry out sales and marketing activities or give advice in relation to MPF schemes, and are supervised by the regulator of their respective trade (i.e. Monetary Authority, Insurance Authority or Securities and Futures Commission) (“frontline regulators”). MPF intermediaries with valid registration immediately before the commencement of the statutory regulatory regime on 1 November 2012 must apply for registration under the new regime by 31 October 2014, the end of the transitional period. Notwithstanding the transitional arrangement, these intermediaries are subject to the conduct requirements and sanctions in the same way as any other newly registered MPF intermediaries under the new regime.

**Table 1. Number of Registered MPF Intermediaries** (as at 31 March 2014)

	Principal Intermediary	Subsidiary Intermediary	Total
<b>Registered MPF Intermediaries</b>	<b>381</b>	<b>31 992</b>	<b>32 373</b>
<b>By Frontline Regulator</b>	<b>381</b>	<b>30 840</b>	<b>31 221</b>
Insurance Authority	327	24 177	24 504
Monetary Authority	18	5 477	5 495
Securities and Futures Commission	36	1 186	1 222

Notes:

- \* A principal intermediary is a business entity registered by MPFA as an intermediary for selling, marketing or giving advice on MPF schemes.
- \* A subsidiary intermediary is a person registered by MPFA as an intermediary for selling, marketing or giving advice on MPF schemes on behalf of the principal intermediary to which the person is attached.
- \* A subsidiary intermediary may be attached to more than one principal intermediary or none (normally, for a period not exceeding 90 days). All subsidiary intermediaries are assigned to their principal intermediary's frontline regulator. Therefore, depending on the specific circumstances, a subsidiary intermediary may be assigned to more than one frontline regulator or may not have any frontline regulator.

Members of the public can check MPF intermediaries' registration through a public register on MPFA's website or by calling MPFA's hotline (2918 0102).

MPF intermediaries are required to submit annual returns to MPFA within one month after the end of a calendar year. MPFA has developed “the eService”, a platform for them to submit the returns electronically on MPFA's website:



In May 2013, MPFA signed with the frontline regulators a Memorandum of Understanding concerning the Regulation of Regulated Persons with Respect to Registered Schemes under the Mandatory Provident Fund Schemes Ordinance (“MoU”), which lays down the broad framework of the interaction and cooperation among MPFA and the frontline regulators. Pursuant to the MoU, MPFA hosted two meetings of the MPF Intermediaries Regulation Committee with the frontline regulators for the exchange of views on supervisory and enforcement issues relating to MPF intermediaries. Operationally, we also maintain a close dialogue with the frontline regulators through regular liaison meetings. A total of six such liaison

meetings have been held in 2013-14 for mutual progress updates in relation to complaints handled by MPFA, investigation referred by MPFA to the relevant frontline regulator and supervisory work conducted by the relevant frontline regulator.

In 2013-14, we received a total of 37 cases (including complaint and referral cases) in relation to MPF intermediaries. Most of the complaints concerned failures to comply with the conduct requirements of the MPFSO. A total of 17 cases have been referred to the relevant frontline regulator for investigation. During the same period, investigation of 15 cases had been completed and they were returned to MPFA for consideration of appropriate actions. Statistics on complaints relating to intermediaries received in 2013-14 are in Parts D and E of the Statistics section.

The Government has set up an independent, non-statutory Process Review Panel in relation to the Regulation of MPF Intermediaries. Specifically, the Panel will examine the adequacy and consistency of MPFA's internal procedures and operational guidelines governing decisions taken in a number of areas including registration, disciplinary action and the handling of complaints. The first meeting of the Panel was held in January 2014.

## Training of MPF Intermediaries

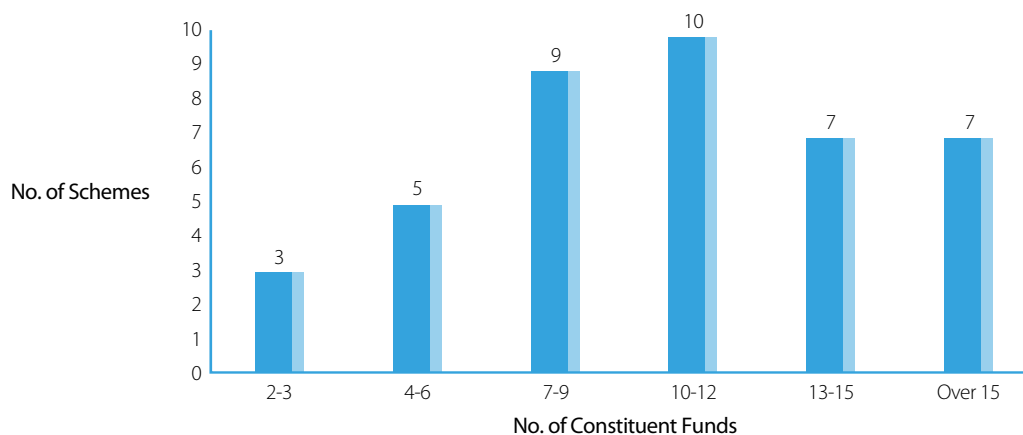
To maintain their professional competencies in MPF business, all subsidiary intermediaries must comply with the Continuing Professional Development ("CPD") requirement by undertaking a minimum of 10 hours of CPD activities in each calendar year, with at least two hours devoted to core subject areas. Non-compliance may result in suspension or revocation of registration. As at 31 March 2014, there were 42 activities, in the form of courses, seminars, lectures or conferences, recognized as MPF core CPD activities. We carried out quality assurance checks on these activities, which included vetting the materials used, visiting classes and reviewing participants' evaluation.

On MPF-specific issues, we conducted two seminars on consolidation of personal accounts and four briefing sessions on annual returns submission and the eService in September and December 2013 respectively for principal intermediaries.

## Registration and Approval of MPF Schemes and Funds

As at 31 March 2014, there were 41 MPF schemes, 477 approved constituent funds and 301 approved pooled investment funds ("APIFs")<sup>4</sup>. The number of constituent funds available under each scheme ranged from 3 to 27 (see Figure 1) and the aggregate net asset value of schemes was \$516.19 billion.

**Figure 1. Number of Constituent Funds per MPF Scheme** (as at 31 March 2014)



<sup>4</sup> An approved pooled investment fund is a type of investment fund that a constituent fund invests into. It can be in the form of an insurance policy or a unit trust.

## Supervising the Industry (cont'd)

Table 2. Registration and Approval of MPF Schemes and Funds

	Number of MPF Schemes and Funds			
	as at 31 March 2013	terminated/ withdrawn during 2013-14	registered/ approved during 2013-14	as at 31 March 2014
<b>Registered Schemes</b>	41	0	0	<b>41</b>
Master Trust Schemes	38	0	0	38
Industry Schemes	2	0	0	2
Employer Sponsored Scheme	1	0	0	1
<b>Approved Constituent Funds</b>	469	4	12	<b>477</b>
<b>APIFs</b>	297	5	9	<b>301</b>
<b>Approved Index-Tracking Collective Investment Schemes<sup>5</sup></b>	120	1	7	<b>126</b>

Table 3. Number of APIFs by Fund Structure

	Unit Trust		Insurance Policy*		Total	
	as at 31 March 2013	as at 31 March 2014	as at 31 March 2013	as at 31 March 2014	as at 31 March 2013	as at 31 March 2014
<b>Umbrella Funds<sup>6</sup></b>	25	26	1	1	26	<b>27</b>
<b>Internal Portfolios<sup>7</sup></b>	178	180	1	1	179	<b>181</b>
<b>Feeder Funds<sup>8</sup></b>	23	22	8	8	31	<b>30</b>
<b>Portfolio Management Funds<sup>9</sup></b>	58	60	3	3	61	<b>63</b>
<b>Total</b>	284	<b>288</b>	13	<b>13</b>	297	<b>301</b>

\* These refer to Class G insurance policy APIFs<sup>10</sup>.

A list of MPF schemes and constituent funds is at Appendix 3. Detailed statistics on MPF schemes and funds are in Part B of the Statistics section.

### Fees and Charges of MPF Funds

Over the years, we noted a steady reduction in the average FER. The average FER of funds as at 31 March 2014 was 1.69%, representing a drop of 20% from the ratio of 2.10% in 2007.

<sup>5</sup> An index-tracking collective investment scheme is a collective investment scheme which has the sole investment objective of tracking a particular market index.

<sup>6</sup> An umbrella fund is a collective investment scheme or mutual fund which primarily invests in other funds.

<sup>7</sup> A fund maintains an internal portfolio by investing in permissible investments in accordance with sections 2 to 5 and 7 to 16 of Schedule 1 to the Mandatory Provident Fund Schemes (General) Regulation.

<sup>8</sup> A feeder fund is a fund which invests its assets in a single APIF.

<sup>9</sup> A portfolio management fund is a fund which invests its assets in more than one APIF.

<sup>10</sup> A class G insurance policy APIF is an APIF in a form of an insurance policy with capital or return guarantees.

## Regulation of ORSO Schemes

MPFA is the Registrar of Occupational Retirement Schemes. As at 31 March 2014, there were 5 042 ORSO schemes (comprising 4 197 ORSO registered schemes and 845 ORSO exempted schemes). Among them, 3 836 were MPF exempted ORSO schemes<sup>11</sup>, covering about 5 600 employers and 350 000 scheme members. A list of the corporate administrators who administer pooling agreements for ORSO schemes is at Appendix 4. Detailed statistics on ORSO schemes are in Part C of the Statistics section. Information on other operations of MPFA as the Registrar of Occupational Retirement Schemes is in Appendix 5.

## Termination or Relinquishing of MPF Exemption Status of ORSO Schemes

During the year, 143 ORSO registered schemes and 57 ORSO exempted schemes were terminated. 61 ORSO registered schemes and 12 ORSO exempted schemes were in the process of termination as at 31 March 2014, pending the transfer of scheme assets and/or provision of the necessary information to MPFA. Based on the information obtained from the termination notices and the latest annual returns of ORSO registered schemes, the asset arrangements on the termination of these ORSO registered schemes are set out in Table 4.

**Table 4. Asset Arrangements on Termination of the ORSO Registered Schemes Effected in the Period from 1 April 2013 to 31 March 2014**

ORSO Asset Arrangements	Number of Schemes*	%	Asset Size (HK\$ million) <sup>^</sup>	%
Transferred to MPF scheme	36	25	274	28
Transferred to another ORSO scheme	9	6	316	32
Paid out to scheme members	101	69	389	40
<b>Total</b>	<b>146</b>	<b>100</b>	<b>980</b>	<b>100</b>

\* There are two terminated schemes with more than one asset arrangement.

<sup>^</sup> Figures may not sum up to the total due to rounding.

115 MPF exempted ORSO schemes (covering about 600 scheme members) had relinquished their exemption status during the year. The employers concerned had subsequently submitted notices of termination of these schemes to MPFA<sup>12</sup> and had to enrol their employees in MPF schemes.

## Funding of ORSO Schemes

MPFA monitors the funding status of ORSO schemes by examining their annual returns and audited financial statements. In the case of defined benefit schemes, actuarial certificates must be supplied to MPFA at least once every three years. According to the reports received up to 31 March 2014, six out of 242 defined benefit schemes were under-funded, covering around 500 scheme members. The asset size of these schemes was \$700 million and the total shortfall was \$50 million, representing about 7% of the total assets of these under-funded schemes. Such shortfalls were caused by investment loss and/or salary increase higher than the assumption used by actuaries. The relevant employers were required to make up the shortfall in funding by making a lump sum contribution or regular monthly contributions within three years and to submit actuarial certificates annually until the schemes were fully funded. We continue to monitor the situation closely to ensure that contributions are made in accordance with the terms and rules of the schemes and, if applicable, the actuarial recommendations.

<sup>11</sup> Before the launch of the MPF System in December 2000, the employers operating these ORSO schemes had applied for and were granted exemption from MPF requirements. The then members of these schemes could choose to remain in the ORSO scheme or join an MPF scheme.

<sup>12</sup> For ORSO schemes which no longer have MPF exemption status, the employers concerned may choose to freeze or terminate the schemes, or to retain them as top-up schemes to provide benefits supplementary to those provided under an MPF scheme.