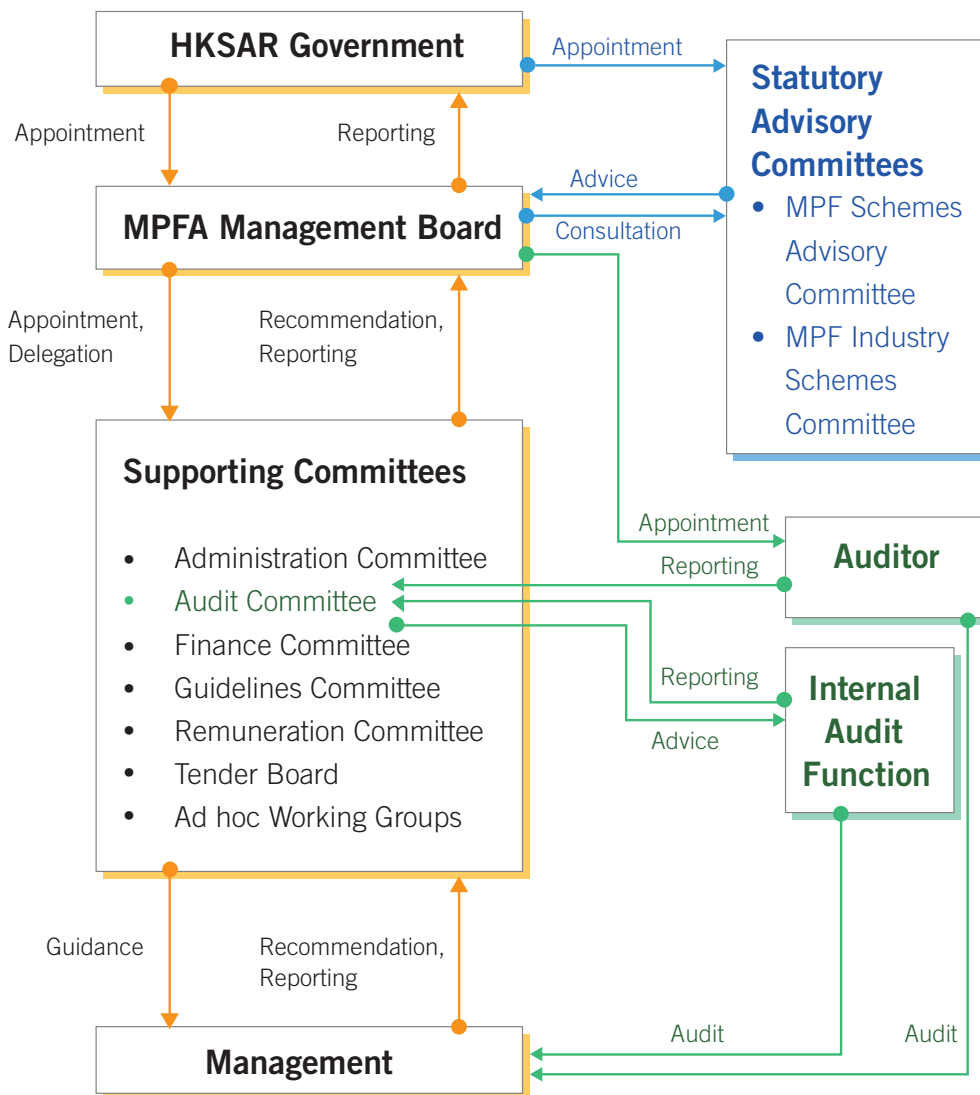


# Corporate Governance

MPFA is committed to upholding fairness, accountability and transparency in fulfilling its regulatory role under the Mandatory Provident Fund Schemes Ordinance (“MPFSO”) in the best interests of its stakeholders. We have put in place a corporate governance framework in line with the requirements of MPFSO and adopted the governance principles and best practices recommended for public bodies.

## Governance structure



## *The Management Board*

### *Role*

The Management Board performs the functions set out in section 6E of MPFSO. It is responsible for determining key corporate strategies and policies, overseeing the delivery of planned results, endorsing the corporate plan and budget of MPFA, and ensuring that MPFA's operations are conducted prudently and within the framework of applicable laws, regulations and policies. It gives directions to the executives of MPFA for the administration of MPFA's affairs and delegates the management of day-to-day operations to the executives.

### *Composition*

MPFSO requires that the MPFA Management Board consist of not fewer than 10 directors appointed by the Chief Executive of HKSAR.

As at 31 March 2015, there were 11 non-executive directors ("NEDs") and five executive directors ("EDs"). With diverse expertise, experience and background, they exercise a reasonable degree of care and diligence to oversee MPFA's performances. NEDs, making up the majority of the board, contribute to an independent and objective decision-making process.

Directors' biographies are set out on pages 21 to 26 of this report and any changes during the year were promptly published on MPFA's website.

### *Terms of appointment*

The terms and conditions of office of MPFA's directors are determined by the Chief Executive of HKSAR. Except for the Managing Director, the authority to determine the terms and conditions of office of EDs has been delegated to the Financial Secretary.

NEDs are not employees of MPFA and are not paid for their service. The remunerations of individual directors of MPFA are disclosed in the notes to the Financial Statements on page 97.

## *Chairman and Managing Director*

The positions of Chairman and Managing Director are held by different persons and their roles are segregated. The Chairman is an NED providing the Management Board and MPFA with the necessary leadership and strategic direction, while the Managing Director is an ED and the administrative head responsible for administering the affairs of MPFA subject to the direction of the Management Board.

### *Management of conflicts of interest*

Directors are required to make a general disclosure of their interests, such as remunerated directorship and employment, on appointment to the Management Board, review the disclosed information on an annual basis, and notify the Secretary to the Board promptly of any changes in the meantime. Directors are also required by legislation to report the nature of a pecuniary interest in a matter placed before the Management Board if the interest appears to raise a conflict with the proper performance of the director's duties in relation to the consideration of the matter. Particulars of the disclosure made at Management Board meetings are recorded in a register available for public inspection.

### *Supply of information*

Newly appointed directors are given briefings and information packages to familiarize them with the MPF System and the work of MPFA. Apart from monthly progress reports on various aspects of work of MPFA, directors are provided with information and briefings on specific issues when necessary to facilitate informed decisions.

### *Management Board business in 2014-15*

The Management Board held seven meetings during the year with an average attendance rate of 80%. In addition, 22 and 16 papers were circulated to directors for decision and information respectively. The attendance rates of individual directors at meetings are provided on page 15.

### Supporting committees

A number of standing committees and ad hoc working groups on specific projects, chaired by NEDs, have been set up to give advice and assistance to the Management Board. The terms of reference and membership lists of the supporting committees are set out in Appendix 1. The attendance rates of individual members are provided on page 15.

### Standing committees

Committee	Composition (as at 31 March 2015)	Work done in 2014-15
Audit Committee	3 NEDs	<ul style="list-style-type: none"> <li>• Held two meetings (average attendance rate: 63%);</li> <li>• further considered two papers and received two summary reports by circulation;</li> <li>• reviewed the financial statements of MPFA and the MPF Schemes Compensation Fund for the financial year 2013-14;</li> <li>• received the half-yearly financial reports for 2014-15;</li> <li>• considered internal audit reports on the controls and procedures relating to receipt process on periodic and related fees of schemes under Occupational Retirement Schemes Ordinance, general ledger and accounting controls, fixed asset recording and financial reporting; and</li> <li>• received summary reports on process control audits on reviewing portfolio holdings of MPF funds and the monitoring of implementation of records management policies and procedures (disposal practices).</li> </ul>
Administration Committee	2 NEDs and 2 EDs	<ul style="list-style-type: none"> <li>• Held one meeting (attendance rate: 100%);</li> <li>• further considered two papers by circulation; and</li> <li>• considered various human resources and general administration matters including the review of leave policy, the manpower plan for 2015-16, remuneration matters for non-directorate staff and office accommodation arrangements.</li> </ul>
Finance Committee	2 NEDs and 2 EDs	<ul style="list-style-type: none"> <li>• Held two meetings (attendance rate: 100%);</li> <li>• further considered three papers and received six papers for information by circulation; and</li> <li>• considered the results of review of investment guidelines and performance of the Capital Grant and the MPF Schemes Compensation Fund, the results of review of investment strategy for the Capital Grant, the audited financial statements for 2013-14, the half-yearly financial reports for 2014-15, the proposed budget for 2015-16 and other finance matters.</li> </ul>

Committee	Composition (as at 31 March 2015)	Work done in 2014-15
Guidelines Committee	1 NED, 1 ED and 6 co-opted members	<p>(No meeting was held during the year)</p> <ul style="list-style-type: none"> <li>• Scrutinized issued Guidelines with proposed revisions through circulation of seven papers;</li> <li>• 10 sets of revised Guidelines were issued, mainly to: <ul style="list-style-type: none"> <li>– clarify the credit rating requirements for debt securities used for MPF investment purpose;</li> <li>– update the relevant lists of approved stock exchanges, overseas regulatory authorities recognized by MPFA, and authorized unit trusts and authorized mutual funds approved by MPFA;</li> <li>– amend relevant benefit claim forms and statutory declaration forms to remind claimants of the requirements on withdrawal of MPF benefits or minimum MPF benefits on grounds of permanent departure from Hong Kong, and the penalty for the offence of making a false statement;</li> <li>– improve clarity of and reflect updated information in the annual return forms to be delivered by MPF intermediaries;</li> <li>– simplify the Employee Choice Arrangement transfer election form and tighten the requirements on timeframes and procedural steps to be followed by approved trustees in processing transfer applications; and</li> </ul> </li> <li>• 72 sets of Guidelines and two Codes were in force as at 31 March 2015 to provide guidance to relevant parties on the legislative requirements and operational arrangements of the MPF System.</li> </ul>

## Corporate Governance (continued)

Committee	Composition (as at 31 March 2015)	Work done in 2014-15
Remuneration Committee (established in 2014)	3 NEDs	<ul style="list-style-type: none"> <li>Held one meeting (average attendance rate: 75%); and</li> <li>considered various remuneration matters for EDs.</li> </ul>
Tender Board	1 NED and 1 ED	<p>(No meeting was held during the year)</p> <ul style="list-style-type: none"> <li>Considered one paper by circulation to assess submissions for the provision of group insurances for MPFA staff.</li> </ul>

### *Ad hoc working groups*

Working Group	Composition (as at 31 March 2015)	Work done in 2014-15
Working Group on MPF Reform Issues	3 NEDs	<ul style="list-style-type: none"> <li>Held four meetings (average attendance rate: 88%); and</li> <li>considered the general direction and approach to key reforms such as the introduction of a standardized, low-fee default investment strategy for all schemes.</li> </ul>
Working Group on Review of Adjustment Mechanism for Minimum and Maximum Levels of Relevant Income	1 NED and 3 co-opted members	<p>(No meeting was held during the year)</p> <ul style="list-style-type: none"> <li>Considered the draft Consultation Paper on Introducing an Automatic Mechanism for Adjustment of Minimum and Maximum Levels of Relevant Income.</li> </ul>

*Attendance of directors at meetings*

The table below sets out the attendance of individual directors at Management Board, Committee and Working Group meetings in 2014-15.

	Management Board	Audit Committee	Administration Committee	Finance Committee	Remuneration Committee	Working Group on MPF Reform Issues
<b>Number of meetings held during the year</b>	7	2	1	2	1	4
<b>Attendance of directors</b>						
Hon Anna Wu Hung-yuk <sup>1</sup>	6/7		1/1	2/2	1/1	4/4
Hon Andrew Leung Kwan-yuen <sup>1</sup>	3/7					
Hon Wong Kwok-kin <sup>1</sup>	5/7	0/2				
Hon Ip Kwok-him	4/7	1/2	1/1		1/1	2/4
Ms Paddy Lui Wai-yu	7/7	2/2			0/1	
Dr John Poon Cho-ming	7/7			2/2		4/4
Mr Philip Tsai Wing-chung	6/7	2/2		2/2	1/1	4/4
Mr Horace Wong Yuk-lun	3/7					
Hon Poon Siu-ping	5/7		1/1			
Secretary for Financial Services and the Treasury <sup>2</sup>	6/7					
Secretary for Labour and Welfare <sup>2</sup>	4/7					
Mrs Diana Chan Tong Chee-ching	7/7		1/1	2/2		
Mr Cheng Yan-chee	7/7		1/1	2/2		
Ms Alice Law Shing-mui	7/7					
Mr Darren Mark McShane <sup>3</sup>	6/7					
Ms Cynthia Hui Wai-yee	7/7					

*(The Guidelines Committee, Tender Board and Working Group on Review of Adjustment Mechanism for Minimum and Maximum Levels of Relevant Income did not hold any meeting in 2014-15)*

## Notes:

- 1 Retired from the Management Board with effect from 17 March 2015
- 2 Attended by alternate director
- 3 Absent from a meeting whilst representing MPFA at an overseas conference

### **Statutory advisory committees**

#### **MPF Schemes Advisory Committee**

##### **Role and composition**

The MPF Schemes Advisory Committee (“MPFSAC”) is established under MPFSO to advise MPFA on the operation of MPFSO and the effectiveness and efficiency of MPFA. MPFSAC comprises an ED designated by MPFA and at least nine (but no more than 11) other members appointed by the Chief Executive of HKSAR. A list of members of MPFSAC as at 31 March 2015 and their background are set out on pages 27 to 28.

##### **Committee business in 2014-15**

During the year, MPFSAC held two meetings (average attendance rate: 82%), at which members gave advice on the strategy of MPF public education programmes for 2014-15, the proposed adjustment mechanism for minimum and maximum levels of relevant income, and the proposal to enhance the regulation of default arrangements in MPF schemes. The Committee was also briefed on MPFA’s proposed corporate plan 2015-16 and received reports on various aspects of MPFA’s work.

#### **MPF Industry Schemes Committee**

##### **Role and composition**

The MPF Industry Schemes Committee (“ISC”) is established under MPFSO to monitor the effectiveness of Industry Schemes<sup>1</sup> and advise on ways to improve their administration and operation. ISC comprises a chairman, representative(s) of the trustee of each Industry Scheme, and at least six other persons representing employees and employers respectively, all appointed by the Financial Secretary of HKSAR. An ED is designated by MPFA to sit on ISC. A list of members of ISC as at 31 March 2015 and their background are set out on pages 29 to 30.

##### **Committee business in 2014-15**

During the year, ISC held four meetings (average attendance rate: 98%), at which members advised on the operation of Industry Schemes. It also discussed the Mandatory Provident Fund Schemes (Amendment) Bill 2014, the proposal to enhance the regulation of default arrangements in MPF schemes, and the proposed adjustment mechanism for minimum and maximum levels of relevant income. ISC also received reports on enrolment, administration, enforcement, and public education and publicity matters.

### **Accountability and transparency**

#### **Corporate planning**

MPFSO requires that before the end of each financial year, MPFA should submit a corporate plan and budget for the next year to the Financial Secretary of HKSAR, specifying the objectives for the year, the nature and scope of the planned activities and the estimated expenditure for achieving the objectives. The progress of implementation of the corporate plan is monitored and reviewed regularly. The results of a full year review of the corporate plan are submitted to the Financial Secretary of HKSAR. The achievement of the initiatives and goals set out in the corporate plan are reported in this annual report.

#### **Financial resources**

The operations of MPFA are financed by the investment returns generated from a one-off Capital Grant of \$5 billion from the HKSAR Government in 1998 and by fees and charges collected. The annual registration fee provided under MPFSO payable by MPF trustees in respect of MPF schemes is intended to be a major source of recurrent income for MPFA, but its collection has been held in abeyance since inception of the MPF System.

As at 31 March 2015, the balance of the Capital Grant was \$4.46 billion. Please see the financial statements of MPFA on pages 77 to 102.

<sup>1</sup> Industry Schemes are MPF schemes set up for employers and employees of the catering and construction industries, which are of high labour mobility.

### Reporting

In accordance with MPFSO requirements, we deliver an annual report, together with audited financial statements and auditor's report, to the Financial Secretary of HKSAR each year. The financial statements comply with the accounting standards, reporting standards and interpretations promulgated by the Hong Kong Institute of Certified Public Accountants or the accounting and reporting standards, if any, notified in writing by the Financial Secretary of HKSAR.

For nine years in a row, our annual report has won awards under the Best Annual Reports Awards of the Hong Kong Management Association.

### Performance pledges

A system is in place to monitor the achievement of our pledges to the public. The achievement of performance standards in the 2014-15 financial year is set out in the table below.

Service	Service Standard	Performance Achieved
<b>Call Centre Service (Hotline 2918 0102)</b>		
(1) Answering hotline enquiries and messages	A. Answer hotline enquiries within 3 minutes under normal circumstances (i.e. not more than 600 incoming calls a day)	98.99%
	B. Reply hotline voice mail messages within the next working day	100%
(2) Answering written enquiries	A. Acknowledge receipt within 3 working days	100%
	B. Answer enquiry or provide an interim reply within 10 working days	100%
(3) Complaint acknowledgement	Acknowledge receipt within 3 working days	100%
<b>Complaints Investigation (Complaints relating to employers' non-compliance)</b>		
(1) Initial contact with complainant for investigation by Case Officer	Contact complainant for investigation within 7 working days from the date of receiving a complaint	99.94%
(2) Responding to enquiries by complainant/complainees on investigation progress	Inform complainant/complainees of investigation progress within 3 working days	100%
(3) Informing complainants of enforcement actions on cases involving prosecution	A. Inform complainant of the plea date in writing within 7 working days upon receipt of Plea Date Notice	100%
	B. Notify complainant of prosecution results within 7 working days from the date of receiving court's decision	100%



### **Code of conduct**

To promote high ethical standards and fair dealings in the conduct of its business, MPFA has adopted a Code of Conduct that must be observed by all of its staff. The Code sets out the expected standards of behaviour, reminds staff of their legal and contractual obligations to MPFA, and provides guidelines on various issues, such as confidentiality of information, offer and acceptance of advantages, avoidance of conflicts of interest and declaration of financial and other interests. Regular reviews are conducted on various aspects of the Code to ensure its currency and appropriateness, and procedures are also in place to facilitate the reporting and handling of suspected improprieties.

### **Access to information**

During the year, MPFA received two requests under MPFA's Code on Access to Information and followed the required procedures set out in the Code in processing the requests.

### **Handling complaints**

The roles and policies of MPFA on handling complaints against employers, MPF trustees, MPF intermediaries, ORSO employers or administrators, and MPFA or MPFA staff are publicized on the website of MPFA.

### **Communication**

The news and development of the MPF System and MPFA are communicated to stakeholders and the public through MPFA's website and various channels including press releases, the quarterly Statistical Digest and MPFA Newsletter, pamphlets and other publications to facilitate understanding of the MPF System. In August 2014, a new section was launched on MPFA's website posting speeches delivered and articles published by the Chairman and senior executives since 2014 to help stakeholders and members of the public understand more about the MPF System and MPFA. The chapter on Engagement

with Stakeholders on pages 53 to 64 sets out the details of communication with stakeholders and the public during the year.

## **Internal controls and risk management**

### **Internal controls**

We have put in place an internal control system to provide assurance regarding the effectiveness and efficiency of operations, reliability of internal and external reporting, and compliance with applicable laws, regulations and internal policies. All divisions and departments are required to assess the internal controls of their key processes by reviewing their operational manuals annually. Independent verification is conducted by the Risk Management Unit from time to time to ensure the effectiveness and robustness of internal controls. A team of experienced staff in possession of accounting knowledge and relevant qualifications is responsible for the financial reporting and accounting functions of MPFA.

### **Internal audit and management review**

The MPFA's internal audit function is performed by the Risk Management Unit which has unrestricted access to operational information for discharging its duties. It reviews the adequacy of and compliance with operational policies, procedures and controls and identifies areas for improvement. Reporting to the Managing Director, the Unit provides an independent assessment of internal controls in line with the guidelines and standards on internal audit promulgated by the Hong Kong Institute of Certified Public Accountants. For finance-related audit exercises, the approach of the Committee of Sponsoring Organization of the Treadway Commission (COSO) is also adopted to assess the five major components of internal controls, namely, control environment, risk assessment, control activities, information and communication, and monitoring activities. Findings of internal audit exercises are reviewed by the management and reported to and considered by the Audit Committee, which reports to the Management Board to ensure objectivity and independence.

Internal audit exercises were conducted during the year according to a three-year internal audit programme endorsed in 2014. The reviews conducted and reported to the Audit Committee are set out on page 12. The results of these audits show that control measures in respect of the areas studied are generally adequate and relevant procedures are complied with. Further enhancement opportunities were identified during the exercises, and the departments audited have committed to the relevant improvement proposals. To ensure internal control problems are improved in a timely manner, a register is used by the Risk Management Unit to monitor the completion status semi-annually.

### ***Risk management***

We have a risk assessment and management programme to identify, assess and manage risks in a timely and systematic manner. A corporate level risk register and a departmental risk register for each department are maintained to keep track of treatments of identified risks, and are reviewed and updated annually during the corporate planning process. All divisions and departments are reminded of the risk management policy through the annual updating exercise. To facilitate more focused and effective monitoring of risk items, a revamp exercise on the risk assessment and management framework commenced in 2014-15. The risk levels of all identified risks were prioritized, and the responsibility of risk monitoring was assigned to different levels of management according to the levels of different risks. The new framework will be implemented from 2015-16 onwards.

We have also put in place a set of policies and procedures to maintain continuity of our critical business functions at times of contingency and disaster. A business continuity plan database has been set up for staff's efficient access to the Guidelines on Crisis Handling and Monitoring and departmental business continuity plans. In April 2014, a staff communication drill was conducted out of office

hours to test the effectiveness of and to familiarize colleagues with the relevant communication channels and the communication flow in case of emergency or crisis. In July and September 2014, exercises were conducted to test the information flow within the organization, the accommodation of core staff and the equipment to be set up at alternate sites under crisis situations which would impact on the accessibility of our office premises as well as the operation of the financial market. During the "Occupy Movement" in September and October 2014, contingency measures were implemented as planned, with all MPF schemes operating as normal and MPFA's business continuity maintained. In February 2015, a disaster recovery drill was conducted in respect of our information technology system to familiarize staff with the recovery procedures for continuing the operation of critical systems in the event of a disaster.

### ***Personal data privacy***

MPFA collects, holds, processes and uses personal data in handling complaints, carrying out inspections and investigations, processing applications, and handling employment-related matters. We attach great importance to safeguarding personal data privacy and observing the requirements of the Personal Data (Privacy) Ordinance.

To enhance staff's knowledge and awareness of personal data privacy protection issues, we invited the Office of the Privacy Commissioner for Personal Data to brief our staff on the personal data privacy protection law in Hong Kong and its latest developments. In addition, arrangements were made for five staff members to attend five seminars and training courses organized by the Office of the Privacy Commissioner for Personal Data. We also drew up a set of internal guidelines on handling data access requests made under the Personal Data (Privacy) Ordinance for reference by staff.

## Independent checks and balances

### *Reviews*

The financial statements of MPFA are subject to audit by an external auditor. PricewaterhouseCoopers continued to be MPFA's external auditor in the financial year 2014-15.

### *Appeal boards*

The MPF Schemes Appeal Board established pursuant to MPFSO hears appeals against any decision of MPFA specified in Schedule 6 of MPFSO. The Occupational Retirement Schemes Appeal Board established pursuant to the Occupational Retirement Schemes Ordinance hears appeals against the ORSO Registrar's decisions as specified in the Ordinance. No appeal was lodged with either appeal board in 2014-15.

### *Process Review Panel in relation to the regulation of MPF intermediaries*

The Government has set up an independent, non-statutory Process Review Panel in relation to the Regulation of MPF Intermediaries ("PRP"). Specifically, the PRP will review 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. It will also review and advise MPFA on its co-ordination and follow-up with the frontline regulators in relation to inspection and investigation of registered MPF intermediaries. A meeting of the PRP was held during 2014-15.