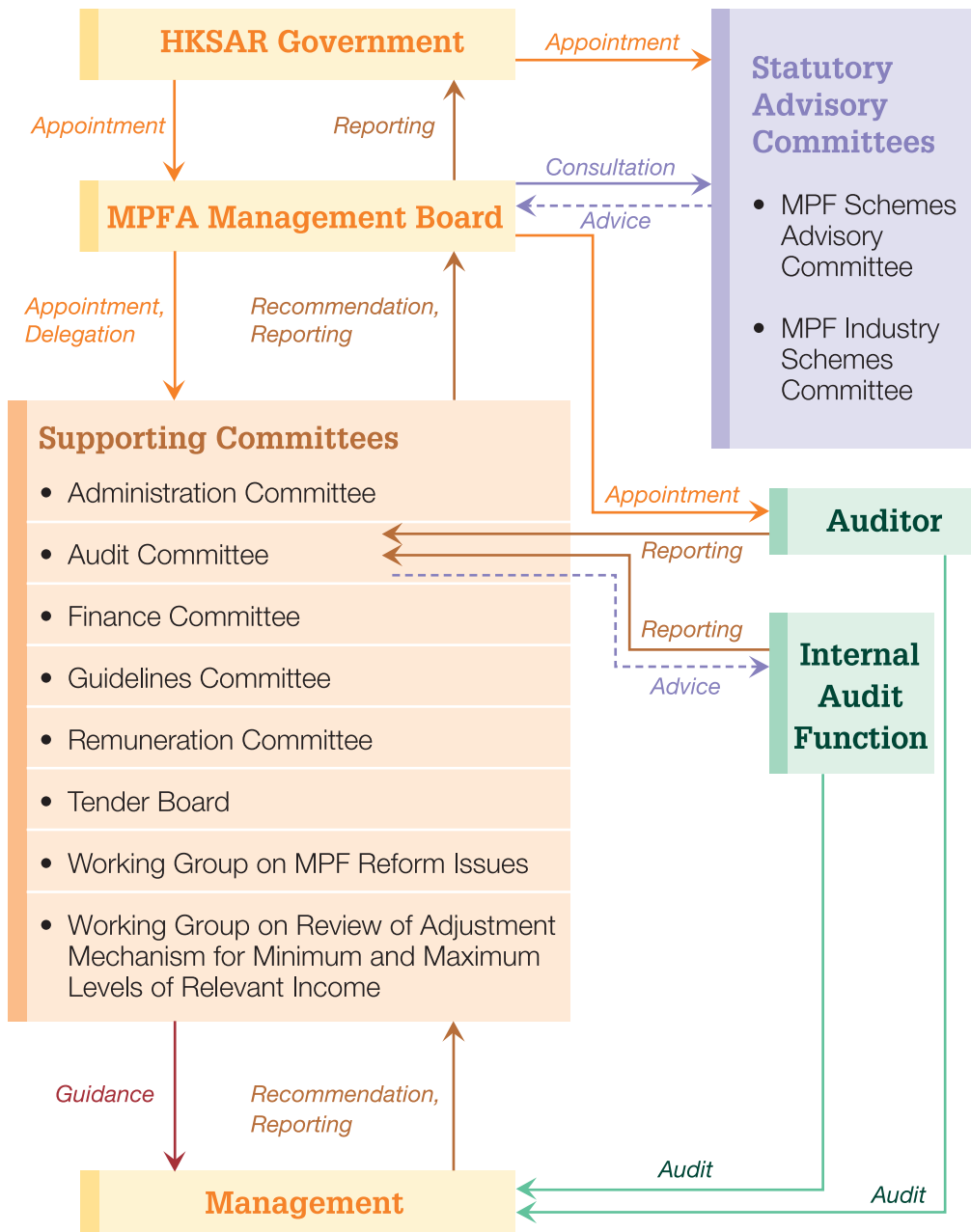


Corporate Governance

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



Corporate Governance

The Management Board

Role

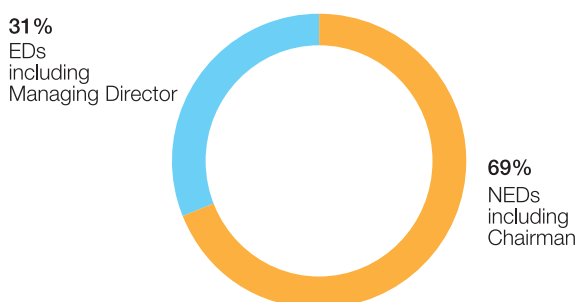
The Management Board performs the functions set out in section 6E of MPFSO. It is responsible for determining key corporate strategies and policies, overseeing the delivery of planned programmes, endorsing the corporate plan and budget of MPFA, and ensuring that MPFA's operations are conducted prudently 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 2016, 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 Management Board, contribute to an independent and objective decision-making process.

Board Composition



Directors' biographies are set out on pages 22 to 27 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 of HKSAR.

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 pages 104 to 105.

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 Management 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 2015–16

The Management Board held seven meetings during the year with an average attendance rate of 94%. In addition, 14 and 24 papers were circulated to directors for decision and information respectively. The attendance rates of individual directors at meetings are provided on page 16.

Corporate Governance

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 16.

Standing committees

Committee	Composition (as at 31 March 2016)	Work done in 2015–16
Audit Committee	4 NEDs	<ul style="list-style-type: none"> • Held two meetings (average attendance rate: 75%); • considered two papers by circulation; • matters considered include: <ul style="list-style-type: none"> – the financial statements of MPFA and the MPF Schemes Compensation Fund for the financial year 2014–15; – the half-yearly financial reports for 2015–16; – the work plan on selection of external auditor; – internal audit reports on the following finance-related subjects: <ul style="list-style-type: none"> – costing of information technology application systems; – payroll operations and staff costs supervision; – transaction, confirmation and settlement procedures; – payment to third parties and reimbursement to staff; and • received four summary reports on the following process control audits: <ul style="list-style-type: none"> – application for approval of constituent funds and re-structuring and cancellation of registration of registered schemes; – handling of statutory returns from trustees relating to annual statements of registered schemes and approved pooled investment funds; – monitoring of implementation of external performance pledges by Member Protection Division and Liaison Unit; and – monitoring of implementation of records management policies and procedures (disposal processes).
Administration Committee	3 NEDs and 2 EDs	<ul style="list-style-type: none"> • Held four meetings (attendance rate: 100%); • considered three papers by circulation; and • matters considered include various human resources and general administration matters, such as the review of the manpower plan for 2016–17, remuneration matters for non-directorate staff and office accommodation arrangements.
Finance Committee	3 NEDs and 2 EDs	<ul style="list-style-type: none"> • Held three meetings (average attendance rate: 93%); • considered six papers and received six papers for information by circulation; and • matters considered include: <ul style="list-style-type: none"> – the results of review of investment guidelines and performance of the Capital Grant and the MPF Schemes Compensation Fund; – the renewal of the external fund managers' contracts; – the arrangements for the administration of the Compensation Fund; – the audited financial statements for 2014–15; – the half-yearly financial reports for 2015–16; – the proposed budget for 2016–17; and – other finance matters.

Corporate Governance

Committee	Composition (as at 31 March 2016)	Work done in 2015–16
Guidelines Committee	1 NED, 1 ED and 6 co-opted members	<ul style="list-style-type: none"> No meeting was held during the year; scrutinized new Guidelines and proposed revisions to Guidelines through circulation of five papers; two sets of new Guidelines, 33 sets of revised Guidelines and one set of revised Code were issued, mainly to: <ul style="list-style-type: none"> support the implementation of legislative amendments, notably those relating to adding terminal illness as an additional ground for withdrawal of accrued benefits and allowing withdrawal of accrued benefits by instalments as an option for scheme members upon attaining the retirement age of 65 or early retirement; provide clearer guidance to trustees on the reporting of events of significant nature; set out the new minimum credit rating requirement for long-term debt securities in which MPF funds may be invested; require trustees to report detailed statistics on consolidation of personal accounts and on MPF contributions; update the list of approved trustees and MPF schemes for scheme members to elect for the purposes of MPF accounts consolidation; update the MPFA office address; and 74 sets of Guidelines and two Codes were in force as at 31 March 2016 to provide guidance to relevant parties on the legislative requirements and operational arrangements of the MPF System.
Remuneration Committee	4 NEDs	<ul style="list-style-type: none"> Held two meetings (average attendance rate: 75%); considered one paper by circulation; and matters considered include various remuneration matters for EDs.
Tender Board	2 NEDs and 1 ED	<ul style="list-style-type: none"> Held two meetings (attendance rate: 100%); and considered the appointment of consultant for consultancy study on standardization, streamlining and automation of MPF scheme administration (“SSA”), and the award of contract for fitting out and modifying MPFA’s offices.

Ad hoc working groups

Working Group	Composition (as at 31 March 2016)	Work done in 2015–16
Working Group on MPF Reform Issues	4 NEDs	<ul style="list-style-type: none"> Held two meetings (average attendance rate: 75%); and discussed the progress of Default Investment Strategy (“DIS”) and preparations for the transitional arrangements, the results of the consultancy study on SSA, and the impact of SSA on further increasing the control of employees over their MPF accounts.
Working Group on Review of Adjustment Mechanism for Minimum and Maximum Levels of Relevant Income	1 NED and 3 co-opted members	<ul style="list-style-type: none"> Held one meeting (attendance rate: 75%); and considered the results of the public consultation on introducing an automatic mechanism for adjustment of minimum and maximum levels of relevant income.

Corporate Governance

Attendance of directors at meetings

The table below sets out the attendance of individual directors at Management Board, Committee and Working Group meetings in 2015–16.

	Management Board	Audit Committee	Administration Committee	Finance Committee	Remuneration Committee	Tender Board	Working Group on MPF Reform Issues	Working Group on Review of Adjustment Mechanism for Minimum and Maximum Levels of Relevant Income ³
Number of meetings held during the year	7	2	4	3	2	2	2	1
Attendance of directors								
Dr David Wong Yau-kar	7/7		4/4	3/3	2/2		2/2	
Hon Ip Kwok-him	5/7	1/2	4/4		2/2		0/2	
Ms Paddy Lui Wai-yu	6/7	2/2			1/2			
Dr John Poon Cho-ming	7/7			3/3		2/2	2/2	
Mr Philip Tsai Wing-chung	6/7	2/2		3/3	1/2		2/2	1/1
Mr Horace Wong Yuk-lun	5/7							
Hon Poon Siu-ping	7/7		4/4					
Hon Abraham Shek Lai-him	6/7					2/2		
Mr Kingsley Wong Kwok	7/7	1/2						
Secretary for Financial Services and the Treasury ¹	7/7							
Secretary for Labour and Welfare ²	7/7							
Mrs Diana Chan Tong Chee-ching	7/7		4/4	2/3				
Mr Cheng Yan-chee	7/7		4/4	3/3		2/2		
Ms Alice Law Shing-mui	7/7							
Mr Darren Mark McShane	7/7							
Ms Cynthia Hui Wai-yee	7/7							

(The Guidelines Committee did not hold any meeting in 2015–16)

Notes:

- 1 Seven meetings attended by alternate director
- 2 Five meetings attended by alternate director
- 3 Co-opted members are not included in this table

Corporate Governance

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 2016 and their background are set out on pages 28 to 29.

Committee business in 2015–16

During the year, MPFSAC held three meetings (average attendance rate: 77%), at which members gave advice on the proposed DIS, proposed amendments to the MPF legislation, and how to take forward the review of adjustment mechanism for minimum and maximum levels of relevant income taking into account the comments received in response to the public consultation conducted. Views were given on the key points to be included in MPFA’s response to the Commission on Poverty’s public consultation on retirement protection. The Committee was also briefed on MPFA’s proposed corporate plan 2016–17 and received progress 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 Schemes¹ 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, including persons representing employees and employers, 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 2016 and their background are set out on pages 30 to 31.

Committee business in 2015–16

During the year, ISC held three meetings (average attendance rate: 83%), at which members advised on the operation of Industry Schemes. It also discussed the DIS proposal, results of the public consultation on introducing an automatic mechanism for adjustment of minimum and maximum levels of relevant income, and the Commission on Poverty’s public consultation on retirement protection. 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 mainly financed by the investment income generated from a one-off Capital Grant of \$5 billion from the HKSAR Government in 1998. Fees and charges collected remain subdued. 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.

Owing to the difficult investment environment under the prevailing market conditions, MPFA suffered an investment loss in the financial year 2015–16. In the absence of a stable income, MPFA has all along exercised stringent self-discipline and made deliberate efforts in controlling its expenditure. Along with

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

Corporate Governance

various cost-saving measures, MPFA has consolidated its offices in early 2016, thereby maximizing the efficient use of office space, and relocated to premises outside the prime commercial district at a lower rent. The investment loss coupled with the one-off expenditure associated with the relocation resulted in a deficit of \$514.17 million for the year. However, it is expected that the office consolidation and relocation will contribute significant reduction in expenditure in the coming years. Going forward, MPFA will continue to explore steady income sources or other funding options so as to achieve a balanced budget in the long run.

As at 31 March 2016, the balance of the Capital Grant was \$3.94 billion. Please see the financial statements of MPFA on pages 80 to 109.

Performance pledges

A system is in place to monitor the achievement of our pledges to the public. The achievement of performance standards in the 2015–16 financial year is set out in the table below.

Service	Service Standard	Performance Achieved
Call Centre Service (Hotline 2918 0102)		
Answering hotline enquiries and messages	• Answer hotline enquiries within 3 minutes under normal circumstances (i.e. not more than 600 incoming calls a day)	99.16%
	• Reply hotline voice mail messages within the next working day	100%
Answering written enquiries	• Acknowledge receipt within 3 working days	99.97%
	• Answer enquiry or provide an interim reply within 10 working days	100%
Complaint acknowledgement	• Acknowledge receipt within 3 working days	100%
Complaints Investigation (Complaints relating to employers' non-compliance)		
Initial contact with complainant for investigation by Case Officer	• Contact complainant for investigation within 7 working days from the date of receiving a complaint	99.85%
Responding to enquiries by complainant/complainees on investigation progress	• Inform complainant/complainees of investigation progress within 3 working days	99.76%
Informing complainants of enforcement actions on cases involving prosecution	• Inform complainant of the plea date in writing within 7 working days upon receipt of Plea Date Notice	100%
	• Notify complainant of prosecution results within 7 working days from the date of receiving court's decision	100%

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 ("HKICPA").

For ten years in a row, our annual report has won awards under the Best Annual Reports Awards of the Hong Kong Management Association. The report for 2014–15 won a Silver Award under the Non-profit Making and Charitable Organizations category. It was also awarded a Special Mention under the Public Sector/Not-for-profit category of the Best Corporate Governance Disclosure Awards 2015 organized by the HKICPA.

Corporate Governance

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 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 one request under MPFA's Code on Access to Information and followed the required procedures set out in the Code in processing the request.

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.

Internal Controls and Risk Management

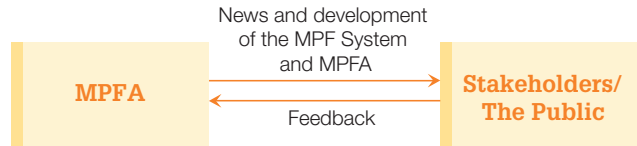
Three Lines of Defence

Through years of development and enhancements, MPFA's internal control and risk management structure meets with a best practice model known as the "The Three Lines of Defence Model". Our three lines of defence are summarized as follows:



Communication

Two-way 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 media events, press releases, publicity and public education activities, and various publications such as the quarterly Statistical Digest and MPFA Newsletter, to enhance transparency and facilitate the public's understanding of the MPF System. Speeches delivered by the Chairman and Directors are posted on MPFA's website to help stakeholders and members of the public understand more about the MPF System and the progress of the work of MPFA. We collect feedback from stakeholders for refinement of the MPF System through meetings, seminars, talks and networking activities. The section on Engagement with Stakeholders on pages 52 to 66 sets out the details of communication with stakeholders and the public during the year.

Corporate Governance

First Line of Defence: Operational Management and Internal Controls

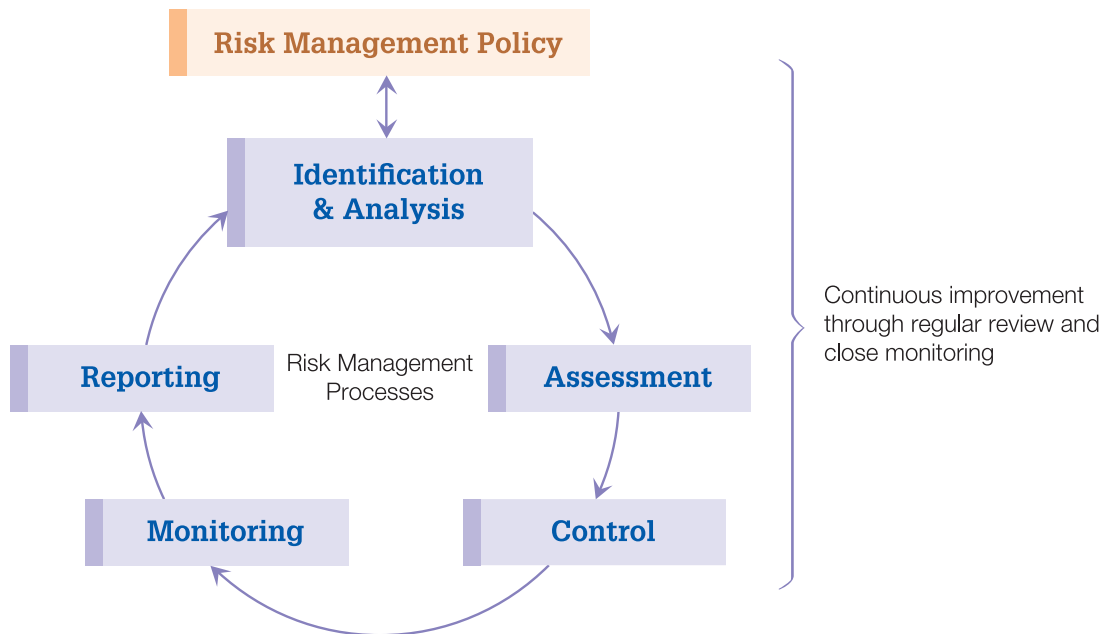
The first line of defence comprises our operational management and internal control system. Operational management is responsible for maintaining effective internal controls and for executing control procedures in day-to-day operations. All divisions and departments identify, assess, and control/mitigate risks, guiding the development and implementation of internal operational policies and procedures and ensuring that activities are consistent with goals and objectives. They are required to assess the internal controls of their key processes by reviewing their operational manuals annually. A team of experienced staff in possession of accounting knowledge and relevant qualifications is responsible for the financial reporting and accounting functions.

Second Line of Defence: Risk Management and Oversight

The second line of defence consists of our risk management practices and oversight by appropriate levels of management according to the levels of different risks. To facilitate the

implementation of effective risk management practices by operational management and the reporting of risk-related information up and down the organization, the Risk Management Unit has developed a risk management framework to assist the risk owners to manage risks in a systematic manner. It also provides tools to facilitate risk identification of known and emerging issues and guidance of risk management processes.

A corporate level risk register and a departmental level 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. Following a review of our risk management framework in 2015, we have adopted a more focused and effective approach in the oversight of risk items. The risk levels of all identified risks were prioritized, and the responsibilities of risk monitoring were assigned to different levels of management according to the levels of different risks.



Corporate Governance

Third Line of Defence: Internal Audit Assurance

The MPFA's internal audit function is performed by the Risk Management Unit which has unrestricted access to operational information for discharging its duties. The Unit, through a risk-based approach to its work, provides assurance on the effectiveness of the first and second lines of defence by reviewing the adequacy of and compliance with operational policies, procedures and controls and identifies areas for improvement. Reporting directly 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 HKICPA. For finance-related audit exercises, the revised approach of the Committee of Sponsoring Organization of the Treadway Commission (COSO) 2013 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 senior 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 by the Audit Committee in 2014. The reviews conducted and reported to the Audit Committee are set out on page 14. The results of these audits showed that control systems in respect of the areas studied were generally adequate and effective, and relevant procedures were complied with.

Personal data privacy

We attach great importance to safeguarding personal data privacy and embrace personal data protection as part of our corporate governance responsibilities. To reinforce a privacy respectful culture, we are planning to review and enhance existing policies and control measures and put them under the framework of a Privacy Management Programme. To raise staff's awareness and understanding of personal data privacy protection issues, we continued to arrange for staff members to attend relevant seminars organized by the Office of the Privacy Commissioner for Personal Data.

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 2015–16.

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 2015–16.

Process Review Panel in relation to the Regulation of Mandatory Provident Fund Intermediaries

The Government has set up an independent, non-statutory Process Review Panel in relation to the Regulation of Mandatory Provident Fund Intermediaries ("PRP"). Specifically, the PRP reviews 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 also reviews and advises MPFA on its co-ordination and follow-up with the frontline regulators in relation to inspection and investigation of registered MPF intermediaries. During the year, the PRP has reviewed the PRP Manual on Disciplinary Proceedings and 40 closed complaint cases in relation to MPF intermediaries presented by MPFA. Nine of these cases were selected for detailed review. As at the end of the financial year, the PRP was preparing its 2016 Annual Report.