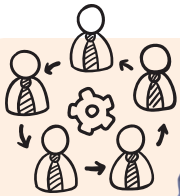


Industry Supervision



Promoting a high standard of governance among MPF trustees has always been our key regulatory objective. Our team closely monitors and assesses trustees' compliance, provides guidance, and takes supervisory actions to enhance governance arrangement of trustees and protect MPF scheme members' interests.

Daniel Ding
(Supervision Division)

MPF Trustees

MPFA takes regulatory measures to supervise MPF trustees in developing good corporate governance, proper risk management and a strong compliance culture within their organizations.

Surveillance and Monitoring

MPFA adopts a proactive and risk-based approach in monitoring and supervising trustees. We assess and oversee trustees' compliance and detect potential weaknesses. In respect of areas of concern, circulars, newsletters and reminders are issued to trustees providing them with guidance, and supervisory and/or enforcement actions are taken as appropriate. In respect of suspected non-compliance cases, we conduct investigation and make regulatory responses having regard to the nature and scope of the cases.



Receive information
of suspected
non-compliance by
MPF trustees



Assess
information



Conduct
investigation



Take supervisory
and/or enforcement
actions against
MPF trustees

Supervisory and Enforcement Actions against Trustees

2023–24

| | |
|--|--------------------|
| Circulars issued in relation to regulatory and operational concerns | 3 |
| Reminders issued in relation to compliance, scheme administration and other MPF issues | 2 |
| Newsletter issued in relation to scheme administration issues | 1 |
| Cases where supervisory letters were issued in relation to: | |
| – Non-compliance related to scheme administration and investment requirements | 52 |
| – Others, including governance, scheme administration, outsourcing requirements, on-site inspections regarding trustees' readiness for onboarding the eMPF Platform, and fee reduction | 19 |
| Notice issued in relation to the preparation of contingency plans and business continuity plans by trustees for onboarding the eMPF Platform | 1 |
| Enquiries handled in relation to scheme administration, investment and fund operation | 208 |
| Complaints about service quality | 315 |
| Complaints about suspected non-compliance | 61 |
| – Total complaints received | 376 |
| Investigation cases initiated | 6 |
| Financial penalty notices issued for non-compliance ¹ related to scheme administration | 14 |
| – Total amount fined | \$8,640,000 |
| – Trustees penalized | 3 |

Governance of MPF Trustees

Good governance is an essential element of an efficient and effective pension system. Promoting a high standard of governance among MPF trustees has always been MPFA's key regulatory objective.

In January 2023, MPFA issued a circular setting out the common observations identified from trustees' implementation of the Governance Principles and requiring them to take prompt improvement measures to address the following issues:

- Long tenure of independent non-executive directors;
- Low digital take-up rate of MPF scheme members; and
- Room for further fee reduction.

All trustees submitted their response and action plans.

Regarding the fee issue of MPF schemes, MPFA required all trustees to submit a 5-year fee reduction plan. In response, some trustees have planned to reduce fee for certain MPF funds. MPFA will continue to discuss with the trustees requiring them to regularly review their MPF fee levels with a view to continuing to drive down the fee for the benefits of scheme members in the long run.

In August 2022, MPFA required trustees to submit an annual governance report for each MPF scheme under their trusteeship for financial years ending on or after 30 November 2022. The governance reports should provide a description of trustees' governance framework, their assessment and resulting actions/changes in relation to value-for-money assessment, sustainable investing strategy and implementation progress, as well as other governance matters assessed by the trustees. This requirement serves to enhance transparency of the governance arrangements of MPF schemes.

¹ The non-compliances concerned: (i) processing of MPF benefits transfer/payment; (ii) provision of information to MPF scheme members; and (iii) allocation of MPF benefits into MPF funds.

By the end of December 2023, the first governance reports, in bilingual version, of all MPF schemes were made available on both the MPFA website and the respective websites of trustees/sponsors for access by scheme members and participating employers. MPFA continues to assess the adequacy of information disclosed in the reports and consider the need to provide further guidance to trustees to enhance transparency of their governance practices. The escalated level of transparency will help scheme members and participating employers understand how trustees have striven to bring scheme members better value.

Thematic Programmes

Trustees' Onboarding to the eMPF Platform

In anticipation of the commencement of onboarding of MPF schemes to the eMPF Platform in June 2024, MPFA had conducted ongoing monitoring to oversee trustees' readiness for onboarding. On-site inspection was carried out on the first five onboarding trustees. All trustees are required to put in place a contingency plan and a business continuity plan to tackle onboarding issues (details of preparation for onboarding are set out on pages 28 and 29).

Audit Arrangement for the Reference Ratio and Fund Expense Ratio

The launch of the eMPF Platform would result in lower scheme administration fees, and any savings should be passed directly to scheme members. For constituent funds (CFs) of MPF schemes which are onboarded to the eMPF Platform, the reference ratio of the relevant CF is a snapshot of fund expense ratio (FER) that serves as a reference to determine whether the reduction in administration fees is reflected in the FER of the CFs. The reference ratio and FER of the CFs are required to be audited by auditors of the MPF schemes. Trustees would have to, from time to time, submit the audited reference ratio to MPFA in accordance with the regulatory requirements and procedures which had previously been agreed among trustees, auditors and MPFA.

MPFA has published the reference ratio on the [MPFA website](#) since January 2023.

We partner with the Police and trustees to offer tips and resources for members of the public on how to prevent and handle MPF-related frauds. We will continue to work closely with enforcement agencies in enhancing the awareness of the public and helping them avoid falling prey to frauds.

Working Group on Anti-MPF Frauds



External Affairs Division

- 1. Sheri Yau
- 2. Christy Wong

Enforcement Division

- 3. Tania Ho
- 4. Diana Lau
- 5. Lisa Tsang

Supervision Division

- 6. Alex Chu
- 7. Ginni Wong
- 8. Alfred Chang
- 9. Clio Wong

Member Protection and Services Division

- 10. Judy Kwan
- 11. Yvonne Lee
- 12. Carman Ng

Measures against Fraudulent Activities

MPFA from time to time issues circulars and guidance to trustees emphasizing the importance of staying vigilant against various fraudulent activities and implementing robust control measures to detect and identify suspicious activities in order to safeguard the interests of MPF scheme members. In December 2023, MPFA issued another circular to provide guidance to trustees on member protection, including the measures on tightening of MPF trustees’ internal controls and procedures, strengthening collaboration with principal intermediaries to monitor any suspicious activities conducted by subsidiary intermediaries, and enhancing education for scheme members against fraudulent activities.

To combat digital frauds, MPFA has encouraged trustees and principal intermediaries to participate in the Short Message Service (SMS) Sender Registration Scheme implemented by the Office of the Communications Authority in December 2023. The scheme can effectively prevent fraudsters from impersonating trustees or principal intermediaries and sending fictitious SMS messages to scheme members.

MPFA has also reminded trustees to stay alert to any suspicious employer and employee account applications and fraudulent activities, and regularly review their administration processes to ensure that robust control measures have been put in place to guard against creation of bogus contribution accounts.

In addition, MPFA reminds scheme members to be vigilant against unsolicited calls, text messages or social media posts from suspected crime syndicates. Common features of scam calls include offering help to scheme members to apply for early withdrawal of MPF and purporting to be a representative of an MPF trustee. A dedicated webpage “Beware of Scams” on the [MPFA website](#) provides to the public alerts about scam calls and smart tips to protect scheme members’ interests. Educational posts, alert messages, videos and media interviews are disseminated via various channels such as the MPFA website, Facebook, LinkedIn, the Anti-Deception Coordination Centre website of the Hong Kong Police Force, newspapers and TV.

Robo-Advisor Services

To enhance MPF services, certain trustees may partner with principal intermediaries to offer their scheme members digital investment advisory programmes that utilize artificial intelligence to give regulated advice² through online environment and/or mobile applications (referred to as “Robo-Advisor”). MPFA in February 2024 issued a circular to remind trustees and principal intermediaries that they should comply with the Guidelines on Conduct Requirements for Registered Intermediaries (Conduct Guidelines) issued by MPFA as well as the relevant regulatory requirements of their frontline regulators when offering Robo-Advisor services. In the circular, MPFA also provided guidance to trustees and principal intermediaries regarding the offering of Robo-Advisor services and set out the key principles regarding:

- Governance and oversight of development of algorithms;
- Transparency and disclosures of necessary information;
- Provision of suitable advice;
- Risk matching;
- Confidentiality of scheme member information; and
- Complaint handling.

Alert on Cybersecurity

MPFA attaches great importance to the cybersecurity of trustees’ information systems. Through circulars and regular communications, trustees have been urged to adopt effective and adequate cybersecurity measures to prevent various cybersecurity threats and protect the sensitive information of scheme members and employers. In view of cybersecurity incidents encountered by some organizations in 2023, MPFA further issued an alert to trustees in September 2023 to remind them of the need to implement adequate security measures to safeguard data security and defend against different types of cyberattacks.

² Pursuant to section 34F of the Mandatory Provident Fund Schemes Ordinance (MPFSO), regulated advice includes giving an opinion in relation to, among others, advice that involves the choice of a particular CF of an MPF scheme.

Communication with Trustees

MPFA maintains regular dialogues with trustees on MPF-related issues and works closely with them to pursue initiatives to enhance the MPF System. Activities during the year are as follows:

| Communication Groups/Channels | Participants | Topics Covered | Number of Meetings Held |
|---|--|--|-------------------------|
| Chairman’s meeting with trustees | Chairman and Managing Director of MPFA, Chairmen of trustees | <ul style="list-style-type: none"> eMPF Platform project and MPFA’s other upcoming initiatives involving trustees | 1 |
| Roundtable discussion | Managing Director of MPFA and CEOs of trustees | <ul style="list-style-type: none"> eMPF Platform project and MPFA’s other upcoming initiatives involving trustees | 2 |
| Trustees Operations Liaison Group | Representatives of MPFA and trustees | <ul style="list-style-type: none"> MPF scheme operation | 1 |
| Education Liaison Group | | <ul style="list-style-type: none"> Publicity of the MPF System and MPF investment education | Ongoing liaison |
| Supervisory meetings | Representatives of MPFA and senior management of individual trustees | <ul style="list-style-type: none"> Assessment of trustees’ preparatory work for onboarding the eMPF Platform, and provide supervisory directives to trustees for resolving any issues identified Discussion on trustees’ initiatives (including offering of Robo-Advisor services to their scheme members) | 17 |
| Frequently asked questions maintained on the MPFA website | MPFA and trustees | <ul style="list-style-type: none"> Common issues encountered by the MPF industry in the investment compliance monitoring process | N/A |



Chairman’s meeting with trustees



Roundtable discussion

MPF Intermediaries

Registration

MPFA processes applications for registration as MPF intermediaries to engage in MPF sales and marketing activities. New applicants are required to take and pass a qualifying examination before they can become MPF intermediaries. Members of the public can check MPF intermediaries' registration through the public register on the [MPFA website](#) or hotline.

Supervision

MPF intermediaries are required to submit annual returns³ to MPFA within one month after the end of a calendar year. An eService system is provided by MPFA for MPF intermediaries to submit annual returns, view their registration details, pay annual fees, notify information changes, and receive statutory notifications and circulars.

MPFA communicates regularly with MPF intermediaries on regulatory requirements and legislative changes relevant to them. In 2023–24, seven circulars were issued in relation to regulatory and training issues, covering conduct issues, a Guidance Note on Conducting Sales by Unsolicited Calls, Robo-Advisor services, and enhanced continuing training requirements.

Training

Subsidiary intermediaries must complete a minimum number of Continuing Professional Development (CPD) hours on MPF each year to maintain professional competencies. Effective from 1 January 2024, the minimum required CPD hours have increased from 10 to 15 (with the minimum number of core CPD hours increased from two to four) for each year. Non-compliance may result in suspension or revocation of registration.

Core CPD training for MPF intermediaries is offered by industry associations and training institutions. MPFA conducts quality assurance checks on these core CPD activities to confirm their standard. In 2023–24, a total of 18 core CPD training activities were delivered by MPFA's representative at CPD training institutions' invitation and 20 train-the-trainers workshops and industry briefings were organized. A new core CPD training course provided by MPFA from April 2024 will cover the new requirements for MPF intermediaries to provide specific disclosure of monetary benefits to clients and to obtain clients' consent for receiving benefits under the revised Conduct Guidelines that have taken effect from 1 March 2024.

To ensure MPF intermediaries have the knowledge to assist employers and scheme members to use the eMPF Platform, training has been arranged for the intermediaries starting from 2024.

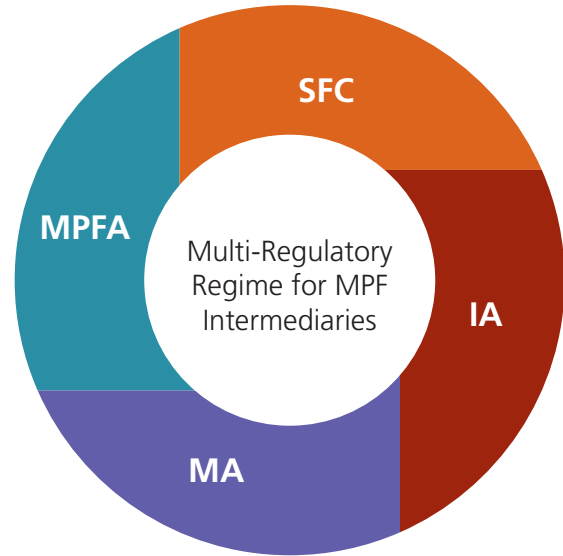
³ Principal intermediaries' annual returns cover business statistics on MPF sales and marketing activities conducted during the year of reporting. Subsidiary intermediaries' annual returns cover the number of hours of core and non-core Continuing Professional Development activities on MPF they attended during the year under report.

Enforcement

Multi-Regulatory Regime

MPFA adopts a multi-regulatory regime for the regulation of MPF intermediaries under which frontline regulators (FRs), namely the Monetary Authority (MA), the Insurance Authority (IA) and the Securities and Futures Commission (SFC) are responsible for the day-to-day supervision and investigation into complaints against MPF intermediaries who are also their regulatees.

MPFA is the sole authority to register MPF intermediaries, provide compliance guidelines, and take disciplinary actions against non-compliant MPF intermediaries. When FRs complete investigation of suspected misconduct of MPF intermediaries, the relevant FRs will pass the investigation findings to MPFA for assessment and decision on taking any disciplinary actions as appropriate.



Enforcement Actions

During the year, MPFA received 21 complaints and referral cases mainly concerning suspected misconduct of MPF intermediaries for non-compliance with the statutory conduct requirements. A total of 16 compliance advice letters were issued to principal or subsidiary intermediaries in 14 cases. Disciplinary orders were imposed on three subsidiary intermediaries for breaching the statutory conduct requirements and the Conduct Guidelines. Among the three cases, two subsidiary intermediaries were disqualified from being registered as an intermediary for one month and 20 months respectively and one subsidiary intermediary was publicly reprimanded as well as disqualified from such registration for 20 months. Meanwhile, the FRs conducted 12 on-site inspections on MPF intermediaries.



Stepping-Up of Disciplinary Actions

To deter recurring serious misconduct and raise industry standards, MPFA further steps up disciplinary actions and imposes heavier disciplinary sanctions as appropriate. A circular letter to all registered intermediaries and a press release were issued in September and October 2023 in this regard.

Enforcement Actions against Intermediaries

| 2023–24 | |
|---|----|
| By MPFA | |
| Complaints and FRs' referral cases received | 21 |
| Compliance advice letters issued | 16 |
| Disciplinary orders imposed | 3 |
| By FRs | |
| On-site inspections conducted | 12 |
| Investigation cases initiated | 4 |

Liaison with Frontline Regulators

In maintaining close communication, MPFA holds liaison meetings with the FRs regularly. During 2023–24, two MPF Intermediaries Regulation Committee meetings were held with the FRs for sharing regulatory issues and experience under the respective regimes.

MPFA further held two meetings with IA for updates of case progress, including cases referred by MPFA to IA and those received by IA. During the meetings, MPFA and IA had constructive discussions on tackling different regulatory issues and enhancing case handling.



The 32nd MPF Intermediaries Regulation Committee Meeting with Frontline Regulators

MPF Schemes and Funds

Product Approval

MPFA issues guidelines relating to the application for registration of MPF schemes and the application for approval of funds. Upon receipt of the applications, MPFA conducts detailed reviews to ensure that the MPF legislation is complied with and that the interests of scheme members are protected.

During the year:

- 8 CFs, 20 APIFs* and 30 ITCISs^ were approved;
- 9 CFs', 41 APIFs' and 9 ITCISs' approval status was cancelled;
- 9 CFs reduced fees; and
- 1 overseas bank's approval status was withdrawn.

* approved pooled investment funds

^ index-tracking collective investment schemes

An eApplication Submission Platform is provided by MPFA to facilitate electronic submission of applications for approval of CFs by MPF trustees. Since the launch of the platform in October 2022, MPFA has been collecting feedback from the industry and commenced the enhancement phase to improve efficiency. The enhanced platform was rolled out in June 2024.

Default Investment Strategy

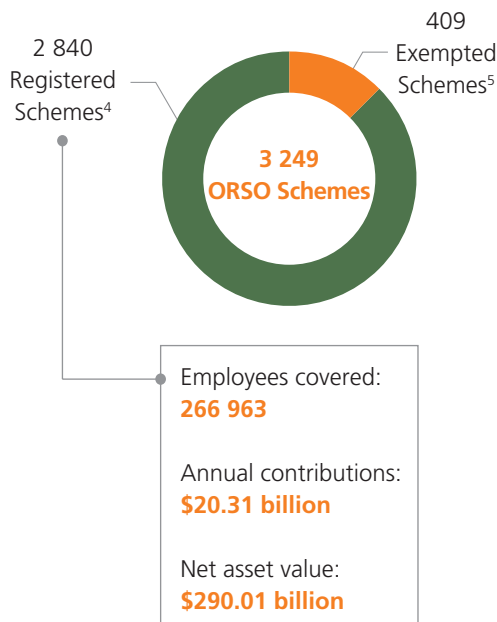
The Default Investment Strategy (DIS) is a highly standardized and fee-controlled MPF investment strategy designed to address the problems of high fees and difficulty in making investment choices for some scheme members. As at 31 March 2024, around 3.3 million MPF accounts (about 29.8% of the total number of 11.1 million MPF accounts) were partly or fully invested according to DIS or were invested in the two CFs of DIS, involving \$117.76 billion of MPF benefits (around 10.0% of the total net asset value of the MPF System).

Since the passage of the legislation on DIS in May 2016 and up to 31 March 2024, 186 MPF funds have reduced their fees (biggest reduction up to 55%).

Occupational Retirement Schemes

Occupational Retirement schemes (ORSO schemes) and MPF schemes are both retirement protection schemes set up for employees in Hong Kong, but their operations are different (details are available on the [MPFA website](#)). Since the launch of the MPF System, MPFA has exempted a number of ORSO schemes that meet certain criteria from following MPF regulations.

Key Figures on ORSO Schemes (31.3.2024)



Work of Registrar of ORSO Schemes

MPFA assumes the role of the Registrar of ORSO schemes. Work in this area includes the following:

- Processing various changes and applications in relation to ORSO schemes;
- Investigating suspected non-compliance cases of exempted schemes and registered schemes;
- Taking supervisory actions to ensure the implementation of remediation and enhancements by employers, administrators and/or trustees to meet regulatory requirements; and
- Liaising with professional and industry bodies to promote compliance and awareness of ORSO regulatory requirements.

Key Activities of the Registrar

During the year, the Registrar has achieved the following:

Approved

- seven applications for registration of ORSO schemes;
- MPF exemption⁶ in respect of five ORSO registered schemes;
- withdrawal of MPF exemption in respect of 119 ORSO registered schemes and six ORSO exempted schemes; and
- 73 applications for change of trustees for MPF exempted ORSO registered schemes.

⁴ An ORSO registered scheme refers to one registered under section 18 of the Occupational Retirement Schemes Ordinance (ORSO).

⁵ An ORSO exempted scheme refers to one in respect of which an exemption certificate has been issued under section 7 of the ORSO and any withdrawal under section 12 of the ORSO has not come into effect; or an ORSO scheme within the meaning of the ORSO where the employer of the scheme is the government of a place outside Hong Kong or an agency or undertaking of or by such a government which is not operated for the purpose of gain.

⁶ MPF exemption refers to an exemption under section 5 of the MPFSO. Members, or a class of members, of an MPF exempted ORSO scheme and their employer are exempt from the operation of all or any specified provisions of the MPFSO. This is an interface arrangement with the MPF System when the System was launched in 2000.

Processed

- 489 notifications of changes in relation to name, administrator, employer and address of ORSO schemes;
- 3 061 annual returns and financial statements of ORSO registered schemes and 382 annual returns of ORSO exempted schemes;
- eight overseas compliance certificates and 321 membership statements of ORSO exempted schemes;
- annual written statements on ongoing compliance with employment based criterion of 3 024 ORSO registered schemes and 352 ORSO exempted schemes; and
- notices of termination given by 139 ORSO registered schemes and 20 ORSO exempted schemes.

Granted Consent to

- one ORSO registered scheme for cessation of application of pooling agreements to the scheme; and
- 91 applications for consent to disclose information in compliance with the Foreign Account Tax Compliance Act of the United States.

Issued

- two supervisory compliance letters in relation to internal controls and scheme administration.

Funding Status of ORSO Registered Schemes

MPFA monitors the funding status of ORSO registered schemes by examining their annual returns and audited financial statements. For defined benefit schemes⁷, actuarial certificates must be supplied by designated persons at least once every three years.

According to the relevant reports received up to 31 March 2024, eight (about 5%) out of 158 defined benefit ORSO schemes were under-funded, covering around 230 scheme members. The total asset size of these under-funded

schemes amounted to \$398 million. The total shortfall of these under-funded schemes was \$132 million (about 33% of their total assets). The shortfall was caused by investment loss and/or salary increase higher than the assumption used by actuaries.

The relevant employers have to make up the shortfall in funding by a lump sum contribution or monthly contributions within three years and submit actuarial certificates annually until the schemes are fully funded. MPFA closely monitors the situation that these additional contributions are being made by the relevant employers to address the funding shortfall.

Relinquishing of MPF Exemption Status of ORSO Schemes

In 2023–24, 125 MPF exempted ORSO schemes covering 1 000 members of ORSO registered schemes relinquished their exemption status. The employers subsequently terminated these schemes and enrolled the employees into MPF schemes or other MPF exempted ORSO schemes.

ORSO Process Overhaul

During the year, MPFA initiated a comprehensive review of its ORSO operational processes with the aim of achieving the following:

- Strengthen the supervision role of the ORSO Team;
- Streamline and re-prioritize the operational processes;
- Digitalize the operational processes; and
- Review the manpower arrangements.

In this connection, a roadmap for digitalizing and enhancing the internal operational processes has been developed, and improvements to the electronic submission channels for both exempted and registered schemes are in the pipeline.

⁷ Defined benefit schemes are schemes under which the retirement benefits of scheme members are determined by taking into account the members' years of service and final salary.