# Mandatory Provident Fund Schemes Examination/ MPF Intermediaries Examination

# Study Notes

Ninth Edition
March 2016

# ADDENDUM

**(Effective Date: 1 April 2017)**

Changes to the Study Notes (Ninth Edition) in relation to the Default Investment Strategy are set out below. **Please note that for examination sessions to be conducted from 1 July 2017 onwards, the examination questions will be based on the updated version of the Study Notes.**

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## 5.4 Default Investment Strategy ("DIS") *(Add to Chapter 5, after 5.3 Constituent Funds)*

Before 1 April 2017, each MPF scheme already has a **default investment arrangement** ("**DIA**") about how MPF benefits are invested where a member has not made any choice of constituent funds. With effect from 1 April 2017, the MPF legislation is being changed to introduce an important feature called the **Default Investment Strategy** ("**DIS**") in every MPF scheme to replace the pre-existing DIA.

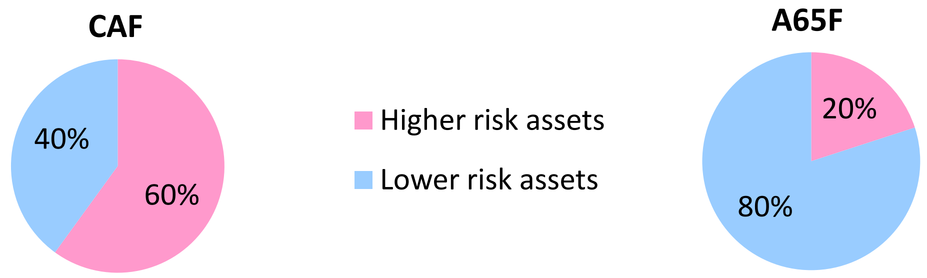
### 5.4.1 What is the DIS?

The DIS is a ready-made investment arrangement mainly designed for scheme members who are not interested or do not wish to make a fund choice. It is also available as an investment choice for members who find it suitable for their own circumstances. Effective 1 April 2017, the DIS will be implemented and is required by law to be offered in every MPF scheme. For members who do not make a fund choice for their MPF benefits in their MPF accounts, all those benefits[1] must be invested in accordance with the DIS.

#### Two Constituent Funds

The DIS aims to balance the long term effects of risk and return through investing in two constituent funds, namely the **Core Accumulation Fund** ("**CAF**") and the **Age 65 Plus Fund** ("**A65F**") (collectively the "**DIS Constituent Funds**"), according to the pre-set allocation percentages at different ages. Both the CAF and the A65F are mixed asset funds. The CAF will invest around 60% of its net asset value ("NAV") in higher risk assets (generally mean equities or similar investments) and 40% of its NAV in lower risk assets (generally mean bonds or similar investments) whereas the A65F will invest around 20% in higher risk assets and 80% in lower risk assets (see **Diagram 1** below).

**Diagram 1: Asset Allocation of CAF and A65F**

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[1] Subject to some specific exceptions in the law, such as MPF benefits transferred in from another account under the same scheme.

## Three Key Features

(a) **Automatic Reduction of Investment Risk According to Member's Age**

The MPF benefits of a member invested according to the DIS will be invested in a way that adjusts investment risk according to a member's age. The risk reduction process of the DIS ("de-risking") will manage investment risk exposure by automatically reducing a member's exposure to higher risk assets and correspondingly increasing the exposure to lower risk assets as the member gets older. Such de-risking is to be achieved by way of reducing the investment holding in the CAF and increasing the holding in the A65F over time. The asset allocation of the DIS remains unchanged below age 50 (100% in CAF). Then the percentage holding in the CAF reduces steadily from age 50 until age 64 and after which the member's MPF benefits will be fully invested in the A65F.

In summary, under the DIS:

(1) When a member is below the age of 50, all MPF benefits (i.e. accrued benefits and future investments) will be invested in the CAF (i.e. 100% allocate to the CAF).

(2) When a member is between the ages of 50 and 64, all MPF benefits will be invested according to the allocation percentages between the CAF and the A65F as shown in the DIS De-risking Table (see **Diagram 2** below). The de-risking will be automatically carried out (i.e. no action is required by member) as described above.

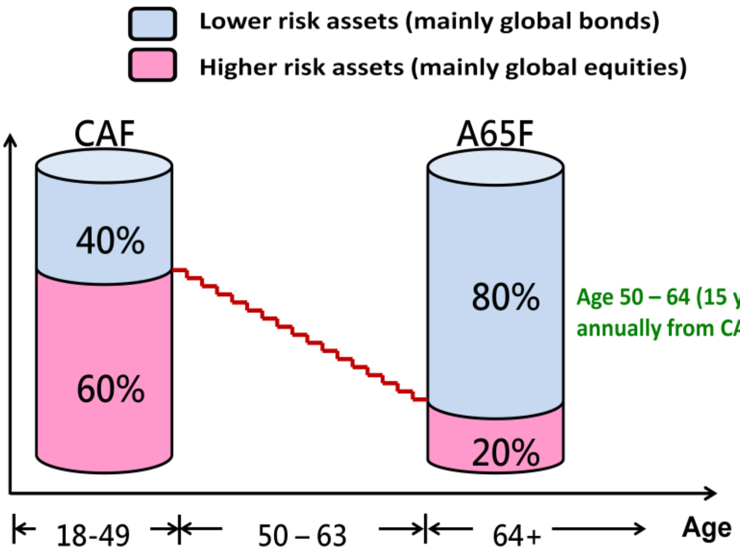
**Diagram 2: DIS De-risking Table***

| Age | CAF | A65F |
|---|---|---|
| Below 50 | 100.0% | 0% |
| 50 | 93.3% | 6.7% |
| 51 | 86.7% | 13.3% |
| 52 | 80.0% | 20.0% |
| 53 | 73.3% | 26.7% |
| 54 | 66.7% | 33.3% |
| 55 | 60.0% | 40.0% |
| 56 | 53.3% | 46.7% |
| 57 | 46.7% | 53.3% |
| 58 | 40.0% | 60.0% |
| 59 | 33.3% | 66.7% |
| 60 | 26.7% | 73.3% |
| 61 | 20.0% | 80.0% |
| 62 | 13.3% | 86.7% |
| 63 | 6.7% | 93.3% |
| 64 and above | 0.0% | 100.0% |

*The above asset allocation between the CAF and the A65F is made at the point of reaching the specified age (i.e. annual de-risking) and the proportion of the CAF and the A65F under the DIS portfolio may vary during the year due to market fluctuations.

Diagram 3 below presents graphically the target proportion of investment (between the CAF and the A65F) in the DIS over time.

**Diagram 3: Asset allocation between the DIS Constituent Funds in the DIS**




(3) When a member reaches the age of 64 (or if a member's age is unknown to the MPF trustee), all MPF benefits will be invested in the A65F (i.e. 100% allocate to the A65F).

**Note: It should be noted that the above de-risking arrangement will not apply where the member chooses the CAF and the A65F as standalone constituent funds (rather than as part of the DIS).**

(b) **Fee Caps of the CAF and the A65F**

The CAF and the A65F are subject to fee and expense caps as imposed by law.

(i) **Management Fees: Not More Than 0.75% of the NAV of the Fund Per Annum**

The aggregate of the payments for services in relation to the CAF and the A65F must not, in a single day, exceed a daily rate of 0.75% per annum of the NAV of each of the DIS Constituent Funds divided by the number of days in the year. It generally includes the fees paid or payable for the services provided in relation to the DIS Constituent Funds by the MPF trustee, scheme administrator, investment manager(s), custodian and sponsor and/or promoter of the MPF scheme, any delegates of the scheme administrator, investment manager or custodian, and the relevant fees in relation to underlying investments of the respective DIS Constituent Funds.

(ii) **Recurrent Out-of-pocket Expenses: Not More Than 0.2% of the NAV of the Fund Per Annum**

The total amount of all payments that are charged to or imposed on the DIS Constituent Funds or members who invest in the DIS Constituent Funds, for out-of-pocket expenses incurred by the MPF trustee on a recurrent basis in the discharge of the trustee's duties to provide services in relation to the DIS Constituent Funds, shall not in a single year exceed 0.2% of the NAV of each of the DIS Constituent Funds.

For this purpose, out-of-pocket expenses would include, e.g. annual audit expenses, printing or postage expenses relating to recurrent activities (such as issuing annual benefit statements), recurrent legal and professional expenses, transaction costs incurred by a DIS Constituent Fund in connection with recurrent acquisition of investments for the DIS Constituent Fund (including, e.g. costs incurred in acquiring underlying investments) and annual statutory expenses (such as compensation fund levy where relevant).

(c) **Globally Diversified Investment**

As mentioned above, the DIS is an investment solution that uses two mixed asset constituent funds to diversify and reduce investment risk. The DIS Constituent Funds adopt globally diversified investment principles by investing in different markets and in different classes of assets, including global equities, fixed income, money market instruments and cash, and other types of assets allowed under the MPF legislation.

### 5.4.2 Rules and Procedures Applicable to Investment through the DIS

(a) **Fund Choice Combination**

With effect from 1 April 2017, members may choose to invest their MPF benefits in:

(i) the DIS*; or

(ii) one or more constituent funds (including the two DIS Constituent Funds as standalone constituent funds) of their own choice under their MPF scheme and according to their assigned allocation percentage(s) to relevant fund(s) of their choice.

* **Some MPF schemes allow partial investment in the DIS (i.e. a combination of the DIS and other constituent funds). Members should refer to offering documents for the rules of their MPF schemes or contact their MPF trustees for more information.**

It should be noted that, if members choose the CAF and/or the A65F as standalone constituent funds, those investments will **not** be subject to the automatic de-risking process. If a member's MPF benefits are invested in the DIS (whether by default or by member's specific investment instruction), the MPF benefits will be subject to the automatic de-risking process. If a member's MPF benefits are invested in any combination of the CAF and/or the A65F as standalone constituent funds (rather than as part of the DIS), the MPF benefits will **not** be subject to the de-risking process.

MPF members can give investment instruction for their MPF benefits when they set up a new MPF account. If members fail to or do not want to submit to the trustee of the scheme an investment instruction, the trustee must invest their MPF benefits in accordance with the DIS.

Apart from giving investment instruction at enrolment, MPF members can give or change their investment instructions anytime in accordance with the rules of their MPF schemes. As such, members can also switch into or out of the DIS at any time subject to scheme rules and there is no lock-in period for investment through the DIS.

Again, it should be noted that some MPF schemes allow partial investment when switching / transferring in and out of the DIS. Members should refer to offering documents for the rules of their MPF schemes or contact their MPF trustees for more information.

(b) **Annual De-risking**

The annual de-risking will be carried out automatically when a member is between the ages of 50 and 64 by gradually redeeming units in the CAF and then subscribing units of the A65F to achieve the pre-set allocation percentages between the CAF and the A65F at different ages (as per **Diagram 2** and **Diagram 3** above) in order to reduce the proportion of investment in higher risk assets when the member approaches retirement age.

The annual de-risking will normally take place on the member's birthday, and if such date is not a dealing day, it will be done on the next available dealing day.

MPF trustees will disclose clearly the handling procedures where one or more instructions (including but not limited to subscription, redemption, switching or transfer) are received immediately prior to or on the date of de-risking. Members may refer to the rules of their MPF schemes or contact their trustees for more information.

Again, it should be noted that the automatic de-risking process will not apply where a member chooses the two DIS Constituent Funds as standalone constituent funds (rather than as part of the DIS).

### 5.4.3 Key Risks Relating to the DIS

The DIS and the two DIS Constituent Funds do not provide any guarantee on the capital and returns.

The CAF and the A65F must follow the asset allocation between higher risk assets and lower risk assets as set out in the MPF legislation and the investment manager has limited discretion to adjust the portfolio of investments to a more defensive or aggressive approach in response to market fluctuations.

The de-risking process of the DIS will not take into account factors other than age. The reduction of investment in higher risk assets through switching between the CAF and A65F will be carried out automatically solely based on the member's age regardless of the market conditions or the member's personal circumstances.

Members should refer to the offering document for further information about the investment policies of the CAF and A65F and the risks associated with investing through the DIS and in the DIS Constituent Funds under their MPF scheme(s).

For ease of reference, other changes to the Study Notes are set out below.

| Chapter / Section | Updated Version (for examination to be held on or after 1 July 2017) |
|---|---|
| 5 MPF SCHEMES AND INVESTMENT | ~~5.4~~5.5 APPROVED POOLED INVESTMENT FUNDS ("APIFs")<br>~~5.4.1~~5.5.1 Approval of Pooled Investment Funds<br>~~5.4.2~~5.5.2 Types of Pooled Investment Funds<br><br>~~5.5~~5.6 STATEMENT OF INVESTMENT POLICY<br><br>~~5.6~~5.7 INVESTMENT STANDARDS AND RESTRICTIONS<br>~~5.6.1~~5.7.1 Investment Management<br>~~5.6.2~~5.7.2 Permissible Investments<br>~~5.6.3~~5.7.3 Other Investment Restrictions<br>~~5.6.4~~5.7.4 Hong Kong Dollar Currency Exposure<br><br>~~5.7~~5.8 FEES AND CHARGES<br><br>~~5.8~~5.9 SWITCHING BETWEEN MPF SCHEMES / CONSTITUENT FUNDS<br><br>~~5.9~~5.10 CODE ON DISCLOSURE FOR MPF INVESTMENT FUNDS<br><br>~~5.10~~5.11 ON-GOING MONITORING OF MPF INVESTMENT FUNDS |
| Appendix VII Glossary Page AVII/1 | **Age 65 Plus Fund** ("**A65F**") One of the two DIS Constituent Funds used in the Default Investment Strategy of a registered scheme. It is a mixed assets fund which invests in a globally diversified manner that targets to invest 20% of its net asset value in higher risk assets (such as global equities) and the rest in lower risk assets (such as global bonds). The investment in those assets may vary from 15% to 25% of the net asset value of the fund at any point in time. **5.4** |
| Appendix VII Glossary Page AVII/2 | **Core Accumulation Fund** ("**CAF**") One of the two DIS Constituent Funds used in the Default Investment Strategy of a registered scheme. It is a mixed assets fund which invests in a globally diversified manner that targets to invest 60% of its net asset value in higher risk assets (such as global equities) and the rest in lower risk assets (such as global bonds). The investment in those assets may vary from 55% to 65% of the net asset value of the fund at any point in time. **5.4** |

| Chapter / Section | Updated Version<br>(for examination to be held on or after 1 July 2017) |
|---|---|
| **Appendix VII Glossary Page AVII/2** | **Default Investment Arrangement** (“**DIA**”) A default arrangement provided before the commencement of the Default Investment Strategy (i.e. 1 April 2017) in the governing rules of a registered scheme under which the accrued benefits in an account of a scheme member who has not given any specific investment instructions for those benefits are invested. **5.4** |
| **Appendix VII Glossary Page AVII/2** | **Default Investment Strategy** (“**DIS**”) A ready-made investment solution with fee control designed for MPF scheme members who are not interested or do not wish to make a selection of funds. DIS is a strategy that uses two constituent funds, i.e. the Core Accumulation Fund and the Age 65 Plus Fund, and automatically reduces risk exposure as a member approaches retirement age. DIS is required by law to be offered in each registered scheme. DIS is also available as an investment choice to scheme members who find it suitable for their own circumstances. **5.4** |
| **Appendix VII Glossary Page AVII/2** | **DIS Constituent Funds** A constituent fund used in the Default Investment Strategy ("DIS"). The two DIS constituent funds are called the Core Accumulation Fund and the Age 65 Plus Fund. **5.4** |
| **Index** | **Age 65 Plus Fund** (“**A65F**”) **5.4**<br><br>**Core Accumulation Fund** (“**CAF**”) **5.4**<br><br>**Default Investment Arrangement** (“**DIA**”) **5.4**<br><br>**Default Investment Strategy** (“**DIS**”) **5.4**<br><br>**DIS Constituent Funds** **5.4** |

March 2017

# *PREFACE*

# *to the*

# *STUDY NOTES*

*These Study Notes have been prepared to correspond with the various Chapters in the Syllabus for the Mandatory Provident Fund Schemes Examination. The Examination will be based upon these Study Notes. A few representative examination questions are included at the end of each Chapter, for your further guidance.*

*The Study Notes are published for candidates preparing for the Mandatory Provident Fund Schemes Examination conducted by the Vocational Training Council and the MPF Intermediaries Examination conducted by the Hong Kong Securities and Investment Institute. Both examinations are based on the same syllabus and are the qualifying examinations specified by the Mandatory Provident Fund Schemes Authority for the purpose of enabling candidates to meet the examination requirement for registration as an MPF subsidiary intermediary.*

*We hope that these Study Notes serve as useful reference materials for candidates preparing for the Examination. Whilst every care has been taken in the preparation of the Study Notes, there may still be errors or omissions. You should therefore also refer to the relevant legislation and consult your own professional advisers. As further editions may be published from time to time to update and improve the contents of these Study Notes, we would appreciate your feedback, which will be taken into consideration when we prepare subsequent versions of the Study Notes.*

*First Edition: June 1999*
*Second Edition: June 2000*
*Third Edition: October 2001*
*Fourth Edition: November 2002*
*Fifth Edition: December 2005*
*Sixth Edition: January 2007*
*Seventh Edition: October 2009*
*Eighth Edition: January 2013*
*Ninth Edition: March 2016*

# TABLE OF CONTENTS

# ***NOTE***

*For study purposes, it is important to be aware of the relative "weight" of the various Chapters in relation to the Examination. All Chapters should be studied carefully, but the following table indicates areas of particular importance:*

| **Chapter** | **Relative Weight** |
|---|---|
| 1. Introduction to the Mandatory Provident Fund ("MPF") System | 1 % |
| 2. Regulatory Framework | 6 % |
| 3. Key Features of the MPF System (including Appendices III, IV, V) | 45 % |
| 4. MPF Trustees | 5 % |
| 5. MPF Schemes and Investment (including Appendix VI) | 19 % |
| 6. Interface Arrangements between ORSO Schemes and the MPF System | 4 % |
| 7. MPF Intermediaries (including the Guidelines on Conduct Requirements for Registered Intermediaries) | 20 % |
| **Total** | **100%** |

# 1 INTRODUCTION TO THE MANDATORY PROVIDENT FUND (“MPF”) SYSTEM

## 1.1 Need for Retirement Protection

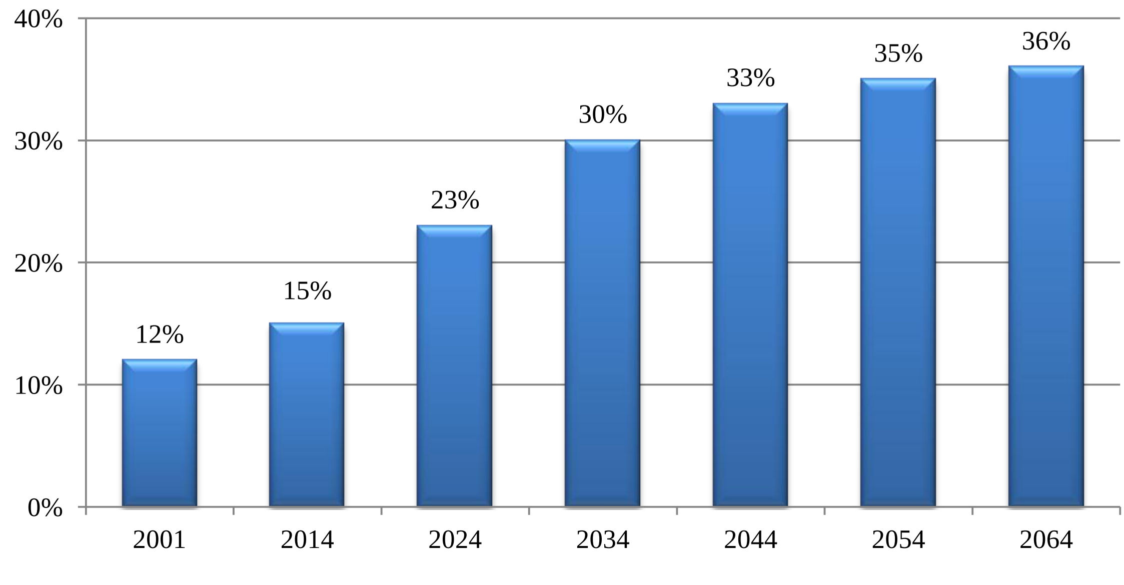
Most people are able to make both ends meet during their working life. Their income will nonetheless decrease when they retire. Some of them may not have sufficient financial resources to support their expenses in retirement. To safeguard their financial future, individuals may prepare for their old age by making sufficient retirement savings if they can afford to do so.

However, not everyone has the awareness and ability of making sufficient savings for retirement. In traditional societies, families play an important role of taking care of members who reach old age and children provide support to their aged parents. Family support as a source of retirement income has shortcomings. While some old people may not have children to take care of them, some families may not have the required resources to provide adequate care for the aged. Against this background, some elderly people may face the risk of old age poverty. To address this risk, properly designed retirement protection systems are needed to be put in place.

## 1.2 Demographic Challenges

Like many other societies in the world, Hong Kong has been facing the challenge of an ageing population. According to the Census and Statistics Department, the proportion of the population aged 65 and over is projected to rise markedly, from 12% in 2001 to 36% in 2064. An ageing population means that the working population will have a larger number of retirees to support for a longer period of time.

**Percentage of the Population Aged 65 and above in Hong Kong**

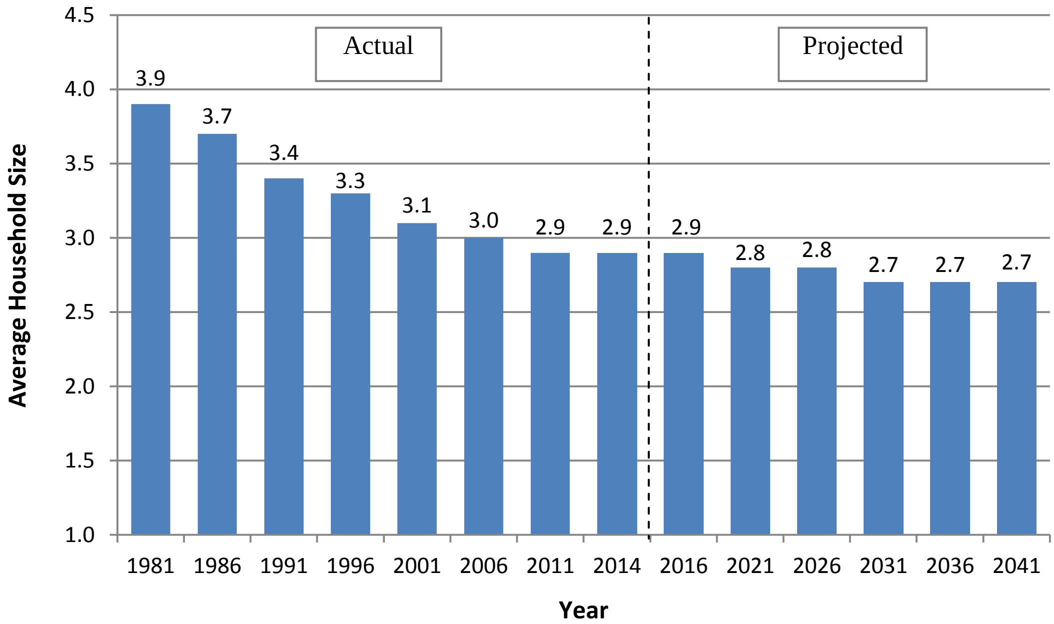



Note: Figures exclude foreign domestic helpers.
Sources: Census and Statistics Department

Hong Kong's ageing population is attributed to the combined effect of an increase in life expectancy and lower fertility rate. The life expectancy at birth was 72.3 years for male and 78.5 years for female in 1981. In 2014, it rose to 81.2 years for male and 86.9 years for female. It is predicted that, by 2064, the male and female life expectancy at birth will become 87.0 and 92.5 years respectively. However, the fertility rate (number of live births per 1 000 women) in Hong Kong shows a downward trend. The fertility rate was 1 933 in 1981. It fell to 1 234 in 2014 and is predicted to edge down to 1 182 in 2064.

On the back of a low fertility rate, the size of Hong Kong's families also tends to shrink. In 1981, the average household size comprised 3.9 members. In 2014, the average size dropped to 2.9 members. It is predicted that by 2041, the average household size will further decrease to 2.7 members. Family support used to be an important source of retirement income in traditional societies. The shrinking family size will inevitably undermine the availability of this source of support.

**Average Household Size in Hong Kong**




Source: Census and Statistics Department

These demographic changes have heightened the need for strengthening retirement protection in Hong Kong.

## 1.3 Birth of the MPF System

Over many years, there had been intensive debate about the best way to provide income security for the elderly. Proposals for different types of retirement protection systems were widely discussed by different stakeholders. Overseas retirement protection systems had been studied in order to devise a system which could best suit Hong Kong's needs. In the mid-1990s, the Government decided that some of these discussions should be put into action. After widespread consultations, the MPF System found support within the community and was seen to be a good means to provide basic retirement protection for the employed population of Hong Kong.

In July 1995, the Mandatory Provident Fund Schemes Ordinance was passed by the Legislative Council and supplemented by detailed subsidiary legislation in March 1998. The Mandatory Provident Fund Schemes Authority ("MPFA"), the statutory body charged with regulating and supervising MPF schemes, was set up in September 1998. The MPF System commenced operations in December 2000.

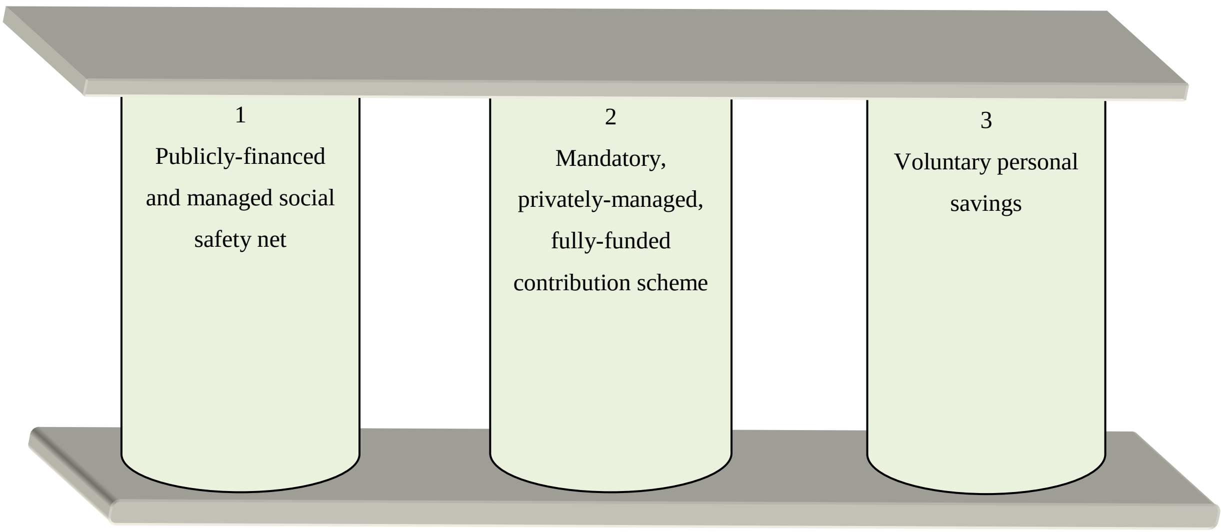
## 1.4 Role of the MPF System in Hong Kong's Overall Retirement Protection Framework

Providing income security in retirement to an ageing population is an issue of paramount importance faced by many societies. Policy makers, academics and pension experts continuously explore the best ways to enhance retirement income security for the aged on the one hand, and avoid excessive financial burden on society on the other. In this regard, there is no "one-size-fits-all" solution to retirement protection, but the multi-pillar system recommended by the World Bank provides a sensible policy framework.

With reference to the retirement protection systems in many countries, the World Bank recommended a three-pillar approach in 1994 to address the issue of old-age protection. The three pillars, as proposed at that time, comprised:

Pillar One: a publicly-financed and managed social safety net;
Pillar Two: a mandatory, privately-managed, fully-funded contribution scheme; and
Pillar Three: voluntary personal savings.

**World Bank's Three-pillar Framework**



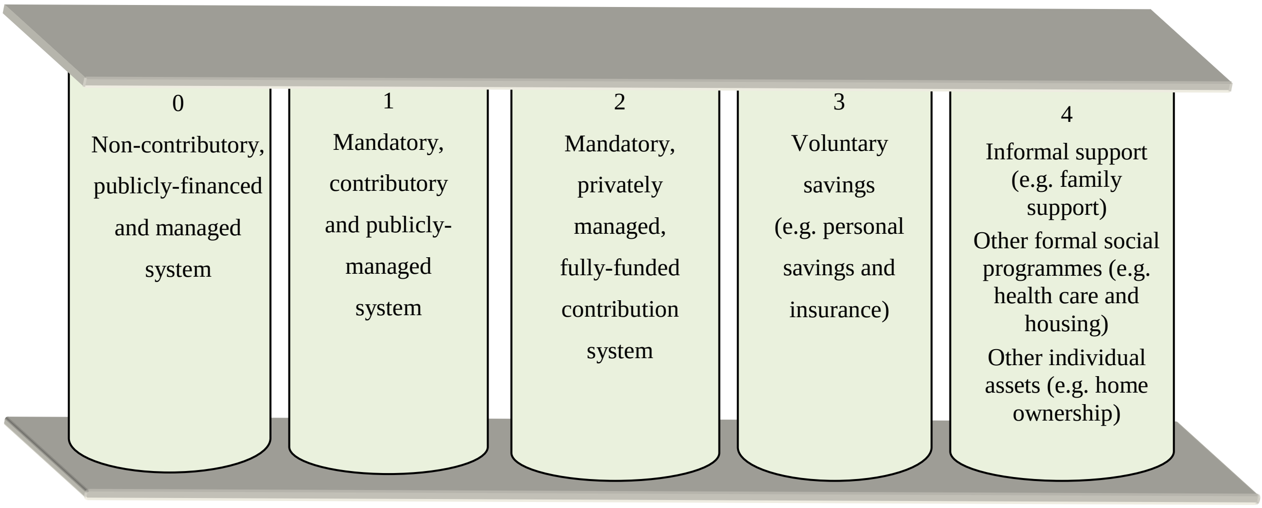

Based on this framework, the MPF System is designed as a second pillar system, i.e., a mandatory, privately-managed, employment-based, fully-funded contribution system.

In 2005, in the light of operational experience, the World Bank expanded the three-pillar framework into a five-pillar framework. The five pillars are:

Pillar Zero: a non-contributory, publicly-financed and managed system that provides a minimal level of protection for retirement;

Pillar One: a mandatory, contributory and publicly-managed system;
Pillar Two: a mandatory, privately-managed, fully-funded contribution system;
Pillar Three: voluntary savings (e.g. personal savings and insurance); and
Pillar Four: informal support (e.g. family support), other formal social programmes (e.g. health care and housing), and other individual assets (e.g. home ownership).

**World Bank's Five-pillar Framework**




Under the five-pillar framework, the MPF System remains as the second pillar of the overall retirement protection system in Hong Kong.

It is primarily designed for the working population, assisting them in accumulating wealth for retirement. It should be noted that MPF alone will not be sufficient to cover all retirement needs of the population of Hong Kong. According to the World Bank, no single pillar can be an effective solution to the issue of retirement protection on its own, and each pillar should complement the others. Subject to the unique circumstances of each society, the income security of the aged will be better served if relevant pillars could be put in place properly.

## 1.5 Salient Characteristics of the MPF System

As a second pillar system, the MPF System is a mandatory, employment-based, defined contribution, privately-managed, and fully-funded system. The key characteristics of the MPF System are as follows:

### (a) Mandatory participation

The MPF System is a mandatory system. Except for exempt persons, all relevant employers, relevant employees and self-employed persons are required to join MPF. This regulatory requirement ensures a high coverage of the MPF System, so that retirement protection could be extended to all relevant employees and self-employed persons in Hong Kong.

Before MPF was implemented, it is estimated that only about one-third of Hong Kong's employed population (about 1.1 million) were covered by any sort of occupational retirement protection schemes. As at 31 December 2015, 85% of Hong Kong's employed population (about 3.2 million) were covered by the MPF System or some other forms of retirement schemes. Most of the remaining workers were not legally required to join any local retirement scheme, such as workers with overseas retirement schemes, employees aged below 18 or 65 and above, and domestic helpers.

### (b) Employment-based

The MPF System is employment-based. Under the MPF System, employers select MPF trustee(s), join one or more schemes, and then enrol their relevant employees in the chosen scheme(s). Relevant employees then choose among the funds offered by the scheme(s) chosen by their employers. Relevant employees and their employers are required to make regular mandatory contributions. Relevant employees earning less than the minimum relevant income level (i.e. $7,100 per month) do not need to contribute but their employers are still required to contribute 5% of the employees' relevant income.

Self-employed persons enrol in a scheme of their own choice, regardless of their level of income, unless they are exempt persons. They are required to make contributions if they are earning $7,100 or more a month or $85,200 or more a year.

### (c) Defined contribution

Under the MPF System, mandatory contributions are made to a scheme member's account with reference to his income level. Contributions will be used to purchase units of MPF funds and accumulated in the scheme member's own account as are the returns generated by these MPF funds. As such, the amount of accrued benefits accumulated in the scheme member's account depends on the amount contributed to the scheme and the investment return thereon.

Between December 2000 and December 2015, net contributions (i.e. contributions received, less the amount of benefits paid) received by the MPF System stood at a total of $479 billion. As at 31 December 2015, the aggregate accrued benefits (i.e. contributions plus investment return thereon) in the MPF System amounted to $591 billion.

### (d) Privately-managed

MPF schemes are managed by private entities and are operated through market mechanism. Competition among private entities tends to increase efficiency, which works to the benefit of scheme members.

As at 31 December 2015, a total of 19 approved trustees, 38 schemes and 459 constituent funds were available in the MPF market.

### (e) Fully-funded

Under the MPF System, any mandatory contributions paid for or in respect of a scheme member are fully and immediately vested in the scheme member once they are paid into an MPF scheme. Any investment return derived from the investment of the mandatory contributions is also fully and immediately vested in the scheme member. Therefore, the MPF System is fully-funded, meaning that the System possesses adequate assets to cover all future payments arising from withdrawal of benefits by scheme members.

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## *Representative Examination Questions*

*The examination will consist of 80 multiple-choice questions. The majority of the questions will be straightforward, involving a simple choice from four alternatives. These we call **Type "A" Questions**. A selection of the questions will be slightly more complex, but again involving a choice between four alternatives. These we call **Type "B" Questions.** Candidates should choose the most appropriate answer for each question. Examples of each are shown below.*

### Type "A" Questions

1 In 2064, the projected percentage of the population of Hong Kong aged 65 or above is?

(a) 36%; .....
(b) 26%; .....
(c) 19%; .....
(d) 13%. .....

[Answer is in **1.2**]

2 It is predicted that, by 2064, the male and female life expectancy at birth will become?

(a) 72.3 years for male and 78.5 years for female; .....
(b) 81.2 years for male and 86.9 years for female; .....
(c) 84.4 years for male and 90.8 years for female; .....
(d) 87.0 years for male and 92.5 years for female. .....

[Answer is in **1.2**]

### Type "B" Questions

3 MPF belongs to which pillar of the three-pillar approach to retirement protection suggested by the World Bank report in 1994?

(i) pillar zero;
(ii) pillar one;
(iii) pillar two;
(iv) pillar three.

(a) (ii); .....
(b) (iii); .....
(c) (i) and (ii); .....
(d) (iii) and (iv). .....

[Answer is in **1.4**]

4 Which three of the following are the key characteristics of the MPF System?

(i) employment-based
(ii) fully-funded
(iii) privately-managed
(iv) defined benefit

(a) (i), (ii) and (iii); .....
(b) (i), (ii) and (iv); .....
(c) (i), (iii) and (iv); .....
(d) (ii), (iii) and (iv). .....

[Answer is in **1.5**]

***Note :*** *The answers can be found by reference to Chapter 1 of the Study Notes. If required, you can also find them at the end of the Study Notes.*

# 2 REGULATORY FRAMEWORK

In August 1995, Hong Kong took a major step in enacting the Mandatory Provident Fund Schemes Ordinance ("MPFSO") (Cap.485) to provide a formal system of retirement protection. In 1998, amendments to the MPFSO, together with two major pieces of subsidiary legislation, namely the Mandatory Provident Fund Schemes (General) Regulation (Cap.485A) and the Mandatory Provident Fund Schemes (Exemption) Regulation (Cap.485B) were enacted. In 1999, the Mandatory Provident Fund Schemes (Fees) Regulation (Cap.485C) was enacted. The other pieces of MPF subsidiary legislation were enacted in the following years.

## 2.1 MANDATORY PROVIDENT FUND SCHEMES AUTHORITY ("MPFA")

Pursuant to the MPFSO, the MPFA was established in September 1998 to ensure compliance with the MPFSO and to regulate, supervise and monitor the operation of the MPF System. The mission of the MPFA is:

(a) to regulate and supervise privately managed provident fund schemes;

(b) to educate the working population about saving for retirement and the role of the MPF System as one of the pillars supporting retirement living; and

(c) to lead improvements to provident fund systems to make them more efficient and user-friendly, and better meet the needs of the working population.

With the amendment to the Occupational Retirement Schemes Ordinance ("ORSO") (Cap.426) in 1998, the MPFA was designated as the Registrar of Occupational Retirement Schemes. On 10 January 2000, the MPFA formally took over the functions of the Registrar of Occupational Retirement Schemes from the Office of the Registrar of Occupational Retirement Schemes.

### 2.1.1 Functions of the MPFA

As provided under the MPFSO, the functions of the MPFA include:

(a) ensuring compliance with MPF legislation;

(b) registering provident fund schemes as MPF schemes;

(c) approving qualified persons as approved trustees;

(d) regulating the affairs and activities of approved trustees;

(e) regulating sales and marketing activities, and the giving of advice in relation to MPF schemes;

(f) overseeing the administration and management of MPF schemes by approved trustees;

(g) making rules or guidelines for the payment of mandatory contributions and for the administration of MPF schemes with respect to those contributions;

(h) proposing legislative reforms relating to occupational retirement schemes or provident fund schemes; and

(i) promoting the development of the retirement scheme industry in Hong Kong.

Note: The above list is not exhaustive and the functions of the MPFA are not limited to those stated above. Interested candidates may refer to section 6E of the MPFSO for details.

## 2.2 OTHER REGULATORS

Other than the MPFA, the Securities and Futures Commission, the Insurance Authority and the Monetary Authority also have key roles to play in the regulation of MPF products, service providers and registered intermediaries.

### 2.2.1 Securities and Futures Commission ("SFC")

The main functions of the SFC, in respect of MPF, are to:

(a) authorize MPF schemes (including their constituents funds) and pooled investment funds through vetting/authorizing the disclosure of information in the offering documents and marketing materials relating to MPF products;

(b) license certain service providers, including investment managers responsible for the management of investment portfolios and custodians engaging in securities lending; and

(c) be responsible for supervision and investigation of relevant registered MPF intermediaries whose core business is in securities.

### 2.2.2 Insurance Authority ("IA")

The main functions of the IA, in respect of MPF, are to:

(a) ensure that insurance companies engaging in MPF services operate properly, with sufficient assets to meet their liabilities as stipulated under the Insurance Ordinance (Cap.41); and

(b) be responsible for supervision and investigation of relevant registered MPF intermediaries whose core business is in insurance.

### 2.2.3 Monetary Authority ("MA")

The main functions of the MA, in respect of MPF, are to:

(a) regulate authorized institutions (including banks) in Hong Kong which are involved in the MPF System, whether as custodians, guarantors for MPF investment products or providers of continuous financial support to trustees or custodians, and ensure that they maintain financial soundness; and

(b) be responsible for supervision and investigation of relevant registered MPF intermediaries whose core business is in banking.

**Note:** The Monetary Authority is the Chief Executive of the Hong Kong Monetary Authority.

The MPFA has signed a Memorandum of Understanding Concerning the Regulation of Mandatory Provident Fund Products with the SFC concerning the two regulatory bodies' respective roles in the regulation of MPF products. The MPFA has also signed a Memorandum of Understanding with the IA to strengthen cooperation in respect of supervision of MPF funds, entities or intermediaries. In addition, the MPFA has also signed a Memorandum of Understanding Concerning the Regulation of Regulated Persons with respect to Registered Schemes under the Mandatory Provident Fund Schemes Ordinance with the MA, the IA and the SFC.

## 2.3 MPF LEGISLATION, CODES, GUIDELINES AND STANDARDS

The **MPF legislation** includes the MPFSO and the three major pieces of subsidiary legislation, namely, the Mandatory Provident Fund Schemes (General) Regulation, the Mandatory Provident Fund Schemes (Exemption) Regulation (both enacted in April 1998), and the Mandatory Provident Fund Schemes (Fees) Regulation (enacted in May 1999).

### 2.3.1 Mandatory Provident Fund Schemes Ordinance ("MPFSO")

This is the primary statute and its intentions are to:

(a) provide for the establishment of non-governmental mandatory provident fund schemes for the purpose of funding benefits on retirement;

(b) provide for contributions to such schemes;

(c) provide for the registration of such schemes;

(d) provide for a regulatory regime in respect thereof;

(e) provide for the creation of an authority (MPFA) to oversee the administration and management of MPF schemes;

(f) exempt certain classes of persons from contributing to MPF schemes;

(g) provide for the approval of persons as trustees of MPF schemes;

(h) provide for the control and regulation of approved trustees;

(i) regulate sales and marketing activities and the giving of advice, in relation to MPF schemes; and

(j) make consequential amendments to other Ordinances including pension related Ordinances, and for connected purposes.

The practical details of many of the above objectives are considered in greater detail in these Study Notes.

### 2.3.2 MPF Regulations

The following Regulations have been enacted for the detailed operation of the primary statute:

(a) **Mandatory Provident Fund Schemes (General) Regulation ("General Regulation")**

The General Regulation sets out detailed requirements on the operation of MPF schemes, including requirements on:

(i) trustees and other service providers;

(ii) schemes and investment products;

(iii) enrolment;

(iv) contribution;

(v) portability and withdrawal of accrued benefits arrangements;

(vi) compensation fund; and

(vii) investment of MPF funds.

(b) **Mandatory Provident Fund Schemes (Exemption) Regulation ("Exemption Regulation")**

The Exemption Regulation sets out detailed requirements with regard to:

(i) applications for exemption from MPF requirements in respect of ORSO schemes;

(ii) effect of exemption certificate and mandatory conditions; and

(iii) withdrawal of exemption certificate.

(c) **Mandatory Provident Fund Schemes (Fees) Regulation ("Fees Regulation")**

The Fees Regulation prescribes the types and amount of fees imposed by the MPFA, such as fees payable on:

(i) application for approval of trustees;

(ii) registration of provident fund schemes, approval of constituent funds and pooled investment funds;

(iii) application for winding up or restructuring of MPF schemes;

(iv) application for registration as principal and subsidiary intermediaries, approval of attachment of subsidiary intermediaries to a principal intermediary, and approval of responsible officers;

(v) annual registration by registered intermediaries;

(vi) application for exemption certificates in respect of ORSO exempted / registered schemes; and

(vii) annual renewal of registration of MPF schemes.

Note: The above list is not exhaustive and fees payable to the MPFA are not limited to those stated above. Interested candidates may refer to the Fees Regulation for details.

### 2.3.3 MPF Codes, Guidelines and Standards

To supplement the MPF legislation, the MPFA has issued a number of codes and guidelines to facilitate compliance with the legislation by service providers and scheme participants, including those relating to the interface arrangements between the MPF System and ORSO schemes. In addition, the MPFA has developed some standards such as the set of Compliance Standards for the guidance of MPF approved trustees in establishing a structured framework for monitoring their compliance with statutory duties and responsibilities.

(a) **MPF Codes**

Two codes have been issued by the MPFA:

(i) Code on MPF Investment Funds;

(ii) Code on Disclosure for MPF Investment Funds.

(b) **MPF Guidelines**

The six parts of the MPF Guidelines issued by the MPFA deal with various matters:

(i) Part I - Guidelines on Licensing;

(ii) Part II - Guidelines on Reporting Requirements;

(iii) Part III - Guidelines on Investment;

(iv) Part IV - Guidelines on Scheme Operations;

(v) Part V - Guidelines on ORSO Interface;

(vi) Part VI - Guidelines on Intermediaries.

(c) **Standards**

(i) Compliance Standards for MPF Approved Trustees issued by the MPFA

(ii) Performance Presentation Standards developed jointly by the Hong Kong Trustees Association and the Hong Kong Investment Funds Association

Lists of the legislation, codes, guidelines and standards are set out in **Appendix II**.

### 2.3.4 Legislation on the Regulation of MPF Intermediaries

A statutory regulatory regime for MPF intermediaries was set up on 1 November 2012.

The establishment of the statutory regime for MPF intermediaries will enhance the regulation of sales and marketing activities of MPF schemes, thereby further strengthening protection of scheme members' interests.

***Details of regulation of MPF intermediaries are discussed in Chapter 7.***

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# *Representative Examination Questions*

**Type "A" Questions**

1 The centralized body with special responsibility for the regulation of banks in Hong Kong which are involved in the MPF System is the:

(a) Securities and Futures Commission (SFC); .....
(b) Insurance Authority (IA); .....
(c) Monetary Authority (MA); .....
(d) Mandatory Provident Fund Schemes Authority (MPFA). .....

[Answer is in **2.2.3**]

**Type "B" Questions**

2 Which three of the following areas are covered by the guidelines issued by the MPFA?

(i) ORSO Interface
(ii) MPF Schemes Operation
(iii) Intermediaries
(iv) Tax deductions allowable for MPF contributions

(a) (i), (ii) and (iii); .....
(b) (i), (ii) and (iv); .....
(c) (i), (iii) and (iv); .....
(d) (ii), (iii) and (iv). .....

[Answer is in **2.3.3**]

*[If required, the answers may be found at the end of the Study Notes.]*

# 3 KEY FEATURES OF THE MPF SYSTEM

The MPF System has a number of key features. This chapter explains the key features of the MPF System.

## 3.1 SECURITY OF SCHEME ASSETS

All MPF schemes must be governed by the law of Hong Kong. With even the "safest" investments, there will always be an element of risk. Because of the importance of the MPF System to so many people's lives, however, every effort has been made to ensure the security of the scheme's assets. This is achieved through various levels of protection, sometimes collectively termed as the "safety net".

### 3.1.1 Stringent Authorization Requirements

Trustees and other service providers, as well as MPF schemes, are subject to careful scrutiny as follows:

(a) **Trustees and Other Service Providers**

(i) All trustees must be approved by the MPFA before they can act as trustees for MPF schemes.

(ii) Trustees must meet stringent requirements, including having paid-up share capital and net assets of at least $150 million each (see **4.4**) in order to be approved.

(iii) The application for trustee approval is carefully examined by the MPFA in relation to the trustee, investment manager, custodian and other service providers engaged for the purpose of the scheme.

(iv) The purpose of the scrutiny in (iii) above is to ensure that the persons concerned have the knowledge, qualifications, experience, financial capability and control to administer the scheme, invest the funds and safeguard members' benefits.

(b) **MPF Schemes**

(i) Provident fund schemes must be registered by the MPFA in order to become MPF schemes.

(ii) The schemes must meet stringent requirements (see **Chapter 5**) in order to be registered.

(iii) The MPFA examines the governing rules to ensure that they comply with the legislative requirements.

### 3.1.2 Professional Indemnity Insurance

Professional indemnity insurance must be arranged to cover losses that MPF schemes might sustain from a number of prescribed risks. These include fraud and negligence on the part of the MPF trustee or other service providers to whom the MPF trustee have delegated their duties, as well as other risks, e.g. loss of scheme assets in transit. This insurance is in fact wider than normal professional indemnity coverage. However, the insurance does not cover losses attributable to investing the scheme's funds in the ordinary course of business.

### 3.1.3 Compensation Fund

The compensation fund:

(a) is established to compensate scheme members and other persons who have beneficial interests in those schemes for losses of accrued benefits due to misfeasance or illegal conduct of MPF trustees and other service providers concerned with the administration of those schemes;

(b) consists of an initial injection of $600 million from the government, supplemented by a levy on MPF schemes at a rate of 0.03% of the net asset value of the scheme assets; and

(c) is a fund of "last resort", intended to be used after utilizing the professional indemnity insurance and upon application to the MPFA.

An automatic levy triggering mechanism was introduced in September 2012, under which the resumption and suspension of the compensation fund levy will be triggered at the reserve levels of $1 billion and $1.4 billion respectively.

## 3.2 FUNCTIONS OF APPOINTED SERVICE PROVIDERS

The trustee of an MPF scheme is the central party responsible for all scheme administration and management functions. It may delegate its scheme administration and custodial duties to other service providers (e.g. scheme administrator and custodian) and, subject to exceptions, it must appoint an investment manager for the MPF scheme. The marketing of the scheme is conducted by MPF intermediaries. The duties and functions of an MPF trustee are covered in Chapter 4 (see **4.3**). Those of the appointed service providers are summarized below:

(a) **Investment Managers**

They must:

(i) be a company incorporated in Hong Kong;

(ii) be licensed by or registered with the SFC to carry on a business of Type 9 (asset management) regulated activity under Part V of the Securities and Futures Ordinance;

(iii) comply with their investment contracts and all applicable Guidelines issued by the MPFA and regulatory restrictions imposed upon them; and

(iv) continue to meet all financial and other requirements imposed upon them.

(b) **Custodians**

The word means a "guardian" or someone having the care, i.e. "custody", of something or someone, and in this context refers to the institution to which the trustee has delegated care of the trust assets. The trustee can act as a custodian of scheme assets if it satisfies the specified criteria. The custodian physically holds the assets and is likely to be an authorized institution as defined by section 2(1) of the Banking Ordinance (e.g. bank) or a trust company registered under Part VIII of the Trustee Ordinance incorporated in Hong Kong.

If it is a registered trust company, it must have paid-up share capital and net assets of at least $150 million each. A registered trust company may satisfy the financial requirements if it has a paid up share capital and net assets of not less than $50 million each if it complies with other requirements under the MPFSO. Interested candidates may refer to section 68 of the Mandatory Provident Fund Schemes (General) Regulation for details.

Where appointed, they must:

(i) take proper care of all scheme assets;

(ii) comply with all requirements in their contract (which is known as the custodial agreement) and all applicable Guidelines issued by the MPFA and regulatory restrictions imposed upon them; and

(iii) continue to meet all financial and other requirements imposed upon them.

(c) **MPF Intermediaries**

Details of the role of MPF intermediaries are discussed in **Chapter 7**.

## 3.3 TYPES OF MPF SCHEMES

There are three types of MPF scheme:

(a) **Employer Sponsored Scheme**

(i) Membership is only open to the relevant employees of a single employer and its associated companies.

(ii) Because of the limited membership, it is only cost effective to run such a scheme if the number of relevant employees is large. It is therefore likely that only large companies will consider setting up their own employer sponsored schemes.

(b) **Master Trust Scheme**

(i) Membership is open to the relevant employees of different employers, self-employed persons, former self-employed persons and persons who, having benefits in another MPF scheme, an ORSO exempted scheme, or an ORSO registered scheme, wish to have those benefits transferred to this scheme.

(ii) By pooling the contributions of employers together for administration and investment, such schemes can enjoy a high degree of efficiency resulting from economies of scale.

(c) **Industry Scheme**

(i) Such a scheme is specially designed for relevant employees and self-employed persons of industries with high labour mobility and daily wage practice.

(ii) At present, the two designated industries are the catering and construction industries.

(iii) It is optional, not compulsory, for employers in these industries to enrol their relevant employees in such a scheme.

(iv) A relevant employee who is a member of an industry scheme does not need to change scheme if the previous and new employers are participating in the same industry scheme. This minimizes the administrative cost to employers and casual employees entailed by the transfer of accrued benefits from one scheme to another.

## 3.4 COVERAGE

(a) With certain exceptions (see **3.5** below) a relevant employee or a self-employed person, aged 18 to aged below 65 is required to be enrolled in an MPF scheme.

(b) Those covered by the MPF System (subject to exemptions) are:

(i) Relevant employees (other than casual employees), including full-time and part-time employees, who have been employed for a continuous period of 60 days or more under an employment contract. The location of work and number of hours worked are irrelevant.

Basically, an employee is a person engaged by an employer under an employment contract (which may be in writing or oral and includes express or implied terms).

The 60-day employment rule, however, does not apply to "casual employees" in the catering and construction industries as mentioned below.

(ii) Casual employees in designated industries are covered by the MPF System regardless of their duration of employment. At present, only the catering and construction industries have been designated.

"Casual employee" refers to any person employed in the catering industry or the construction industry by an employer on a day-to-day basis or for a fixed period of less than 60 days.

The coverage of these two industries is as follows:

*Coverage for the Catering Industry*

For the purpose of the industry schemes, the catering industry covers holders of food business licences or permits under the Food Business Regulation (Cap. 132X), canteens at schools and workplaces and catering establishments inside clubs. The following are examples of catering establishments:

1. Food factories, milk factories, frozen confection factories & bakeries;
2. Restaurants;
3. Factory canteens;
4. Siu mei or lo mei shops;
5. Cold stores;
6. Fresh provision shops;
7. Cooked food stalls operating in a public markets;
8. Cooked food stalls which are granted hawker licences; and
9. Chinese herb tea shops.

*Coverage for the Construction Industry*

The construction industry covers the following eight major categories:

1. Foundation and associated works;
2. Civil engineering and associated works;
3. Demolition and structural alteration works;
4. Refurbishment and maintenance works;
5. General building construction works;
6. Fire services, mechanical, electrical and associated works;
7. Gas, plumbing, drainage and associated works; and
8. Interior fitting out works.

The following are examples of establishments and units engaged in construction work:

*Registered with the Buildings Department:*
1. General building contractors;
2. Specialist contractors in the ventilation category;

*Registered with the Electrical and Mechanical Services Department:*
3. Electrical contractors;
4. Lift contractors and escalator contractors;

5. Builders' lift contractors;
6. Gas contractors;

*Others:*

7. Fire service installation contractors registered with the Fire Services Department;
8. Holders of a plumber's licence issued by the Water Supplies Department;
9. Public works contractors with an approval letter from the Development Bureau; and
10. All sub-contractors to which projects or works are delegated directly or indirectly from any of the 9 contractors specified above.

(iii) Self-employed person refers to any person whose relevant income (other than in the capacity as an employee) derives from the person's production (in whole or in part) of goods or services in Hong Kong, or trade in goods or services in or from Hong Kong.

In simple words, a self-employed person is one who works for himself/herself and is not employed as an employee. For example, if a person is a sole proprietor (such as a taxi driver) or a partner of a partnership, that person is regarded as a self-employed person under the MPF System.

**Note:** Please refer to **Appendix III** for explanations as to why persons of certain types of jobs are included in or excluded from, the MPF System.

## 3.5 EXEMPT PERSONS

There are certain categories of persons in Hong Kong who are not required to join an MPF scheme. Employers of these exempt persons will also be exempted as far as the employment is concerned. In certain cases, if these exempt persons cease to be exempted, the enrolment and contribution requirements apply as if the employment or self-employment has begun on the first day they ceased to be exempted.

Such persons include:

(a) employees and self-employed persons who are under 18 or have reached 65;

(b) domestic employees;

(c) self-employed licensed hawkers;

(d) people covered by statutory pension and provident fund schemes (such as civil servants and subsidized or grant school teachers);

(e) people from overseas who enter Hong Kong for employment for 13 months or less;

(f) people from overseas who enter Hong Kong for employment and are covered by overseas retirement schemes;

(g) employees of the European Union Office of the European Commission in Hong Kong; and

(h) members of occupational retirement schemes which are exempted from MPF requirements ("MPF exempted ORSO schemes").

**Note**: A person under categories (b) to (d) and (g) to (h) above who have income from other employment or self-employment may not be exempted from the relevant provisions of MPFSO in respect of that other income.

## 3.6 ENROLMENT

### 3.6.1 Duties of Employers

(a) Relevant employees (other than casual employees) who have been employed for a continuous period of 60 days or more are covered by the MPF System, unless they are exempt persons. Employers are required to enrol their relevant employees (other than casual employees) into MPF schemes in which the employers participate before the end of the permitted period, i.e. the first 60 days of employment.

(b) However, if the relevant employees are casual employees, their employers are required to enrol such employees in MPF schemes participated in by the employers within the permitted period regardless of the duration of employment. The permitted period in respect of casual employees is the first 10 days of employment.

(c) Employers can change their MPF trustee(s) and scheme(s) at any time as they consider appropriate

**Note**: An employer means any person who has entered into a contract of employment to employ another person as his/her employee.

### 3.6.2 Duties of Self-employed Persons

(a) A self-employed person has to become a member of MPF schemes within 60 days from the day he/she becomes self-employed ("permitted period").

(b) Self-employed persons are required to enrol themselves in an MPF schemes regardless of their level of income, unless they are exempt persons. However, they are only required to contribute if they are earning $7,100 or more a month or $85,200 or more a year.

(c) Self-employed persons have an obligation to enrol themselves in an MPF scheme and make contributions regardless of whether they have filed tax returns or obtained business registration certificates.

### 3.6.3 Duties of Trustees

(a) Requirements for application for membership of, or participation in, an MPF scheme, the governing rules of the scheme and fees and charges payable under the scheme must be disclosed to a person who is considering becoming a scheme member or participating employer.

(b) A notice of participation should be issued to the scheme applicant for membership of or participation in the scheme within 30 days after the date on which the applicant submits all the information required for the application, or after the date on which the applicant agrees to comply with the governing rules of the scheme, whichever is the later.

**Note:** Except for exempt persons, all persons covered by the MPF System must join an MPF scheme. To allay any fears that some persons may have difficulty in joining a scheme, the MPF legislation includes a **"non-refusal of scheme applicants"** provision. Under this provision, an application must not be refused, provided that the applicant complies with all application requirements and agrees in writing that he/she will comply with the governing rules of the scheme.

## 3.7 CONTRIBUTIONS

The MPFSO spells out the provisions for mandatory contributions, which are set out as follows.

### 3.7.1 Mandatory Contributions

(a) **In Respect of Relevant Employees**

(i) Who must pay?

An employer is required to make employer's mandatory contributions in respect of a relevant employee from the employer's own funds. The employer must deduct the relevant employee's mandatory contribution from the relevant employee's relevant income for each contribution period.

Mandatory contributions are required to be paid on or before the contribution day (refer to (vii) below), but there are different implications for:

- an employer: it is required to make mandatory contributions for its relevant employee from the first day of employment of the employee;
- a relevant employee (other than a casual employee): the employee is not required to contribute for the first 30 days of employment and

  a) any incomplete wage period that immediately follows the 30-day period *(if the employee's wage period is monthly or* *shorter than monthly)*; or

b) the calendar month in which the 30th day of employment falls *(if the employee's wage period is longer than monthly).*

That is, contributions should start from the first complete wage period/calendar month commencing on or after 31st day of employment

The first 30 days of employment and any incomplete contribution period (depending on the remuneration cycle of the relevant employee concerned) that immediately follows, during which the relevant employee is not required to make mandatory contributions is commonly known as the "contribution holiday". Please also refer to the meaning of "contribution period" in (vi) below.

- a casual employee: the casual employee is required to make mandatory contributions from the first day of employment (i.e. no contribution holiday).

(ii) The amount

- Relevant Employees

  For relevant employees (other than casual employees), both the employees and the employers are required to contribute 5% of the employees' relevant income as the employees' and the employers' mandatory contributions respectively for the benefits of the relevant employees, subject to the minimum and maximum relevant income levels.

  Contributions are generally made on a monthly basis for monthly-paid relevant employees. The monthly minimum and maximum relevant income levels are:

  - Minimum relevant income level : $7,100 per month
  - Maximum relevant income level : $30,000 per month

Relevant employees (other than casual employees) earning less than the minimum relevant income level (i.e. $7,100 per month) do not need to contribute but their employers are still required to contribute 5% of the employees' relevant income. If employees elect to make contributions, these are regarded as voluntary contributions.

For relevant employees (other than casual employees) earning between the minimum and maximum relevant income levels (i.e. between $7,100 and $30,000 per month), employers' and employees' mandatory contributions are each payable at 5% of the employee's relevant income.

For relevant employees (other than casual employees) earning more than the maximum relevant income level (i.e. $30,000 per month), the employees' mandatory contributions and the employers' mandatory contributions are each capped at $1,500 per month. With any amount of relevant income, however, both the employer and the relevant employee can opt to make voluntary contributions. However, the amount of the employer's voluntary contributions does not have to match the relevant employee's amount.

- Casual Employees of Industry Schemes

  In the case of casual employees, both employers' mandatory contributions and employees' mandatory contributions shall be payable from the first day of employment.

  The minimum and maximum relevant income levels are:

  - Minimum relevant income level : $280 per day
  - Maximum relevant income level : $1,000 per day

  Mandatory contributions of casual employees and their employers under industry schemes are made in accordance with the scale of contribution as follows:

| **Daily relevant income** | **Employer's mandatory contributions** | **Employee's mandatory contributions** |
|---|---|---|
| Less than $280 | $10 | Not required |
| $280 to less than $350 | $15 | $15 |
| $350 to less than $450 | $20 | $20 |
| $450 to less than $550 | $25 | $25 |
| $550 to less than $650 | $30 | $30 |
| $650 to less than $750 | $35 | $35 |
| $750 to less than $850 | $40 | $40 |
| $850 to less than $950 | $45 | $45 |
| $950 or more | $50 | $50 |

**Note**: The contribution scale above does not apply to relevant employees (other than casual employees) and their employers.

(iii) Relevant income

This means, in the case of a relevant employee, any wages, salary, leave pay, fee, commission, bonus, gratuity, perquisite or allowance, expressed in monetary terms, paid or payable by an employer (directly or indirectly) to an employee in consideration of his/her employment. However, it does not include any severance or long service payments under the Employment Ordinance (Cap.57).

**Note:** Please refer to **Appendix IV** for explanations as to why certain types of income are regarded or not regarded as relevant income under the MPF System.

(iv) Permitted period

The permitted period is the period within which an employer must enrol his/her employees into an MPF scheme. For a relevant employee (other than a casual employee), the permitted period is the first 60 days of his/her employment. However, in respect of a casual employee, the permitted period is the first 10 days of his/her employment regardless of the type of scheme into which the employee is enrolled.

When enrolling employees into an MPF scheme, if the last day of the permitted period is a Saturday, a public holiday, or a gale warning day or black rainstorm warning day as defined under section 71(2) of the Interpretation and General Clauses Ordinance (Cap.1), the permitted period is extended to end on the next following day which is not a Saturday, a public holiday, or a gale warning day or black rainstorm warning day.

(v) Wage period

A wage period means each period for which the employer pays or should pay relevant income to the employee.

(vi) Contribution period

- In relation to an employer:

  A contribution period means each period for which the employer pays or should pay relevant income to the employee.

- In relation to a relevant employee (other than a casual employee):
  a) where the wage period is not more than 1 month (e.g. weekly or monthly), a contribution period means each period for which the employer pays or should pay relevant income to the employee, but does not include any wage period commencing on or before the 30th day of employment;
  b) where the wage period is more than 1 month (e.g. quarterly), a

## PRINCIPAL INTERMEDIARY CONTROLS AND PROCEDURES FOR COMPLIANCE

**Section 34ZL(3)**

**A principal intermediary—**

**(a) must establish and maintain proper controls and procedures for securing compliance by the principal intermediary, and by each subsidiary intermediary attached to the principal intermediary, with this Part;**

**(b) must use the principal intermediary's best endeavours to secure observance by subsidiary intermediaries attached to the principal intermediary of the controls and procedures established under paragraph (a);**

**(c) must ensure that the responsible officer has sufficient authority within the principal intermediary for carrying out specified responsibilities in relation to the principal intermediary; and**

**(d) must provide the responsible officer with sufficient resources and support for carrying out specified responsibilities in relation to the principal intermediary.**

**Section 34ZL(4)**

**In this section, a reference to a client of a principal intermediary, or a subsidiary intermediary attached to a principal intermediary, when carrying on a regulated activity, is a reference to—**

**(a) a person whom the principal or subsidiary intermediary invites or induces, or attempts to invite or induce, to make a material decision; or**

**(b) a person to whom the principal or subsidiary intermediary gives regulated advice.**

### Minimum Procedures and Controls to Ensure Compliance

III.59 At a minimum, a principal intermediary should have in place a rigorous framework that can:

(a) identify those matters that require compliance by itself and its subsidiary intermediaries; and

(b) put in place controls, procedures and other arrangements that are designed to ensure that compliance.

III.60 The controls and procedures that are appropriate for any given principal intermediary would depend on a range of factors including the scale of its operations, the number of attached subsidiary intermediaries and the range and type of regulated activities undertaken. At a minimum, however, a principal intermediary should:

(a) have adequate resources and satisfactory internal control procedures at all times for compliance with relevant legal and regulatory requirements by itself and by its subsidiary intermediaries;

(b) supervise adequately and monitor subsidiary intermediaries' compliance with any manuals, guidelines and checklists for the conduct of the regulated activities;

(c) have in place arrangements, procedures and controls to ensure that only registered intermediaries are used in undertaking regulated activities on its behalf;

(d) have in place arrangements, procedures and controls to ensure that it maintains an up-to-date list of subsidiary intermediaries acting on its behalf and notifies the MPFA as soon as practicable if it intends to withdraw the consent for a subsidiary intermediary to act on its behalf in accordance with section 34ZG of the MPFSO;

(e) have in place arrangements, procedures and controls to ensure that the MPFA is notified of changes relating to the registered intermediaries in accordance with sections 34ZE and 34ZI of the MPFSO;

(f) have in place arrangements, procedures and controls to ensure that it notifies the MPFA if it becomes aware of any circumstances where the responsible officer no longer satisfies the requirements of section 34W(4)(b) of the MPFSO;

(g) have in place arrangements, procedures and controls to ensure that the offering documents and marketing materials used by itself or its subsidiary intermediaries to promote any registered schemes/constituent funds have been authorized by the SFC or are otherwise exempted from authorization;

(h) have in place procedures and controls for handling client complaints;

(i) have in place arrangements, procedures and controls that require a subsidiary intermediary to report to the principal intermediary all complaints against himself;

(j) have in place arrangements to assess whether its subsidiary intermediaries possess the relevant qualification for giving regulated advice;

(k) provide sufficient training to its subsidiary intermediaries to ensure that they keep abreast of developments in the MPF System and upgrade their professional knowledge on a continuing basis, and maintain a record of training undertaken by its subsidiary intermediaries. Such records and the documentary evidence sufficient to support their attendance or completion of the continuing training activities mentioned in (l) such as certificates of attendance issued by the course providers and examination results should be kept for a minimum period of three years;

(l) have in place procedures and controls to ensure their subsidiary intermediaries comply with the continuing training requirement specified by the MPFA;

(m) have in place procedures and controls to ensure annual returns are lodged by itself and its subsidiary intermediaries with the MPFA within the stipulated timeframe;

(n) where telephone marketing campaigns are to be undertaken, provide compliance guidelines before embarking on such campaigns and maintain a call log for monitoring purposes;

(o) have in place risk matching procedures and controls for determining whether a constituent fund matches a client's risk profile;

(p) have in place procedures and controls to ensure that all audio and written records required under the Guidelines are kept for a minimum period of seven years;

(q) have in place procedures and controls to ensure that its subsidiary intermediaries are aware of the requirements relating to disclosure of conflict of interest and that if any of its subsidiary intermediaries acts for more than one principal intermediary, the subsidiary intermediary should make clear to the client for which one of the principal intermediaries he is acting;

(r) have in place procedures and controls to ensure that client assets are promptly and properly accounted for. To minimize the scope for any fraud or defalcation, a principal intermediary should have in place arrangements to prevent a subsidiary intermediary from receiving cash payments or receiving cheques that are not crossed and not made payable to the approved trustee of the registered scheme or to the registered scheme;

(s) have in place arrangements, procedures and controls to identify any failure of the principal intermediary or its subsidiary intermediaries to comply with the provisions in relation to regulated activities in the MPFSO or any subsidiary legislation under the MPFSO, the Guidelines, and other guidelines relating to regulated activities and to report such failure to the frontline regulator and also the industry regulator (where the industry regulator is not the frontline regulator) within 14 working days of the principal intermediary identifying the failure;

(t) have in place arrangements, procedures and controls to ensure that sufficient information is recorded and retained about its business relating to the conduct of regulated activities concerning registered schemes and constituent funds. Such records should be kept for a minimum period of seven years;

(u) provide senior management (including the responsible officer) with management information system reports and access to all relevant information about its business on a timely basis. The reports and relevant information must also be available to the frontline regulators upon request; and

(v) have in place compliance review and internal audit procedures as an integral part of the control procedures to regularly review and assess the effectiveness and efficiency of the principal intermediary's controls and procedures.

**Complaint Handling**

III.61 One of the key aspects of proper controls and procedures relates to having in place adequate procedures for dealing with complaints from a client. The procedures that should be put in place by a principal intermediary depend on the scale and nature of the regulated activities undertaken. At a minimum, a principal intermediary should maintain procedures and controls to ensure:

(a) any complaint from a client is handled in a timely and appropriate manner and that remedial action is taken as soon as possible;

(b) steps are taken to investigate and respond promptly to the complaint;

(c) if the complaint is not satisfactorily resolved, that steps are taken to investigate and handle the complaint by the senior officer of the subsidiary intermediary, or by the principal intermediary's designated compliance officer in a timely and reasonable manner;

(d) if a complaint is not resolved promptly to the client's satisfaction, the client is advised of any further steps which may be available to the client under the regulatory system;

(e) the frontline regulator as well as its respective industry regulator (if the industry regulator is not the frontline regulator) are informed immediately of any complaints of a criminal nature (such as misappropriation of client funds or forgery of client documents) or other serious nature (such as unauthorized transfer of client's accrued benefits);

(f) all complaints are fully documented (including resolution if any) and that a summary of the complaint cases be provided to the MPFA on a quarterly basis; and

(g) a register of complaints, containing information including but not limited to the name of the complainant, the target of the complaint, the date of submission of the complaint, the nature of the complaint and the date the complaint is remedied/addressed, whether the complaint is substantiated, a summary of the investigation results and action taken and whether there is any breach of legislation, guidelines or regulations administered by the MPFA is maintained. The register should be made available as soon as practicable to the MPFA and frontline regulators upon their request.

## ROLE OF RESPONSIBLE OFFICER

### Section 34ZM

**A responsible officer of a principal intermediary must use his or her best endeavours to carry out specified responsibilities in relation to the principal intermediary.**

*Note: Under section 34I(3) of the MPFSO, a reference to specified responsibilities in relation to a principal intermediary, is a reference to—*

*(a) the responsibility to ensure that the principal intermediary has established and maintains proper controls and procedures for securing compliance by the principal intermediary, and by each subsidiary intermediary attached to the principal intermediary, with this Part; and*

*(b) the responsibility to ensure that the principal intermediary uses the principal intermediary's best endeavours to secure observance by subsidiary intermediaries attached to the principal intermediary of the controls and procedures mentioned in paragraph (a).*

## Responsible Officer

III.62 One of the specified responsibilities of a responsible officer is to ensure that the principal intermediary has established and maintains proper controls and procedures for securing compliance by the principal intermediary and its subsidiary intermediaries with the requirements of Part IVA of the MPFSO. Items III.60 and III.61 are relevant to the question of what those proper controls and procedures are.

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# APPENDIX I

## ABBREVIATIONS

| | |
|---|---|
| APIF | Approved Pooled Investment Fund |
| ABS | Annual Benefit Statement |
| Conduct Guidelines | Guidelines on Conduct Requirements for Registered Intermediaries |
| Disclosure Code | Code on Disclosure for MPF Investment Funds |
| ECA | Employee Choice Arrangement |
| Exemption Regulation | Mandatory Provident Fund Schemes (Exemption) Regulation |
| Fees Regulation | Mandatory Provident Fund Schemes (Fees) Regulation |
| FER | Fund Expense Ratio |
| FR | Frontline Regulator |
| General Regulation | Mandatory Provident Fund Schemes (General) Regulation |
| IA | Insurance Authority |
| MA | Monetary Authority |
| MPF | Mandatory Provident Fund |
| MPFA | Mandatory Provident Fund Schemes Authority |
| MPFSO | Mandatory Provident Fund Schemes Ordinance |
| MPF legislation | MPFSO and its subsidiary legislation |
| NAV | Net Asset Value |
| NCEOR | Non-Compliant Employer and Officer Records |
| ORSO | Occupational Retirement Schemes Ordinance |
| OCI | On-going Cost Illustration |
| RTC | Registered trust company in Hong Kong |
| SEP | Self-employed person |
| SFC | Securities and Futures Commission |

# APPENDIX II

## MPF LEGISLATION, CODES, GUIDELINES AND STANDARDS

**(As at 29 February 2016)**

### A. MPF Legislation

Mandatory Provident Fund Schemes Ordinance (Cap.485)

Mandatory Provident Fund Schemes (General) Regulation (Cap.485A)

Mandatory Provident Fund Schemes (Exemption) Regulation (Cap.485B)

Mandatory Provident Fund Schemes (Fees) Regulation (Cap.485C)

Mandatory Provident Fund Schemes (Exemption) Regulation (Specification of Date Under Sections 5 and 16) Notice (Cap.485D)

Mandatory Provident Fund Schemes (Contributions for Casual Employees) Order (Cap.485E)

Mandatory Provident Fund Schemes (Specification of Permitted Periods) Notice (Cap.485F)

Mandatory Provident Fund Schemes Rules (Cap.485G)

Mandatory Provident Fund Schemes (Compensation Claims) Rules (Cap.485H)

Mandatory Provident Fund Schemes (Winding Up) Rules (Cap.485I)

### B. MPF Codes

Code on MPF Investment Funds

Erratum to the Code on MPF Investment Funds

Code on Disclosure for MPF Investment Funds

### C. MPF Guidelines

**Part I Guidelines on Licensing**

| | |
|---|---|
| I.1 | Guidelines on Application for Approval as Trustees and Application for Approval as Controllers of Approved Trustees |
| I.2 | Guidelines on Application for Registration of Provident Fund Schemes |
| I.3 | Guidelines on Custodians |
| I.4 | Guidelines on Eligible Insurers |
| I.5 | Guidelines on Application for Approval of Constituent Funds |

| | |
|---|---|
| III.13 | Guidelines on Requirements for Securities to be Considered as "to be Listed" |

| | |
|---|---|
| **Part IV** | **Guidelines on Scheme Operations** |
| IV.1 | Guidelines on Disclosure of Annual Fees (Repealed with effect from June 2004) |
| IV.2 | Guidelines on Reports Relating to Payment of Mandatory Contributions |
| IV.3 | Guidelines on Election for Transfer of Accrued Benefits |
| IV.4 | Guidelines on Payment of Accrued Benefits – Documents to be Submitted to Approved Trustees |
| IV.5 | Guidelines on Payment of Accrued Benefits – Permanent Departure from Hong Kong |
| IV.6 | Guidelines on Notice for Unclaimed Benefits (Repealed with effect from November 2008) |
| IV.7 | Guidelines on Fees and Charges for Transfer of Accrued Benefits |
| IV.8 | Guidelines on Enrolment and Contribution Arrangements for Relevant Employees Other Than Casual Employees |
| IV.9 | Guidelines on Enrolment and Contribution Arrangements for Casual Employees |
| IV.10 | Guidelines on Enrolment and Contribution Arrangements for Self-employed Persons |
| IV.11 | Guidelines on Contribution Period in Respect of a Relevant Employee |
| IV.12 | Guidelines on Relevant Income in Respect of a Relevant Employee |
| IV.13 | Guidelines on Compensation Fund |
| IV.14 | Guidelines on Remittance Statement |
| IV.15 | Guidelines on Person Exempt under Section 4(3) of the Mandatory Provident Fund Schemes Ordinance |
| IV.16 | Guidelines on MPF Coverage on Employees Working Outside Hong Kong |
| IV.17 | Guidelines on Contribution Arrangement of a Self-employed Person |
| IV.18 | Guidelines on Contribution Arrangement of a Self-employed Person Who Sustains a Loss |
| IV.19 | Guidelines on Minimum and Maximum Levels of Relevant Income of a Self-employed Person |
| IV.20 | Guidelines on Prepayment of Contributions |
| IV.21 | Guidelines on Unclaimed Benefits |
| IV.22 | Guidelines on Statement Required under Section 7AB of the Mandatory Provident Fund Schemes Ordinance |

IV.23 Guidelines on Transfer Statement and Confirmation

IV.24 Guidelines on Transfer Process under Sections 148A and 148B of the Mandatory Provident Fund Schemes (General) Regulation

IV.25 Guidelines on Electronic System for Transmission of Data on Transfer of Accrued Benefits

**Part V Guidelines on ORSO Interface**

V.1 Guidelines on MPF Exempted ORSO Schemes – Application for Exemption of ORSO Exempted Schemes

V.2 Guidelines on MPF Exempted ORSO Schemes – Application for Exemption of ORSO Registered Schemes

V.3 Guidelines on MPF Exempted ORSO Schemes – Treatment of Accrued Rights of Existing Members who Join MPF Schemes

V.4 Guidelines on MPF Exempted ORSO Schemes – Preservation of Benefits

V.5 Guidelines on MPF Exempted ORSO Schemes – Illustrative Examples

V.6 Guidelines on MPF Exempted ORSO Schemes – Application for Approval of Appointment of Trustees

V.7 Guidelines on MPF Exempted ORSO Schemes – Application for Approval of Appointment of Directors of Trustees

V.8 Guidelines on MPF Exempted ORSO Schemes – Application for Withdrawal of Exemption Certificate of an ORSO Exempted Scheme

V.9 Guidelines on MPF Exempted ORSO Schemes – Application for Withdrawal of Exemption Certificate of an ORSO Registered Scheme

V.10 Guidelines on MPF Exempted ORSO Schemes – Filing of Annual Report

V.11 Guidelines on MPF Exempted ORSO Schemes – Withdrawal of Minimum MPF Benefits

V.12 Guidelines on MPF Exempted ORSO Schemes – Investment Managers

**Part VI Guidelines on Intermediaries**

VI.1 Guidelines on MPF Intermediary Registration and Notification of Changes

VI.2 Guidelines on Conduct Requirements for Registered Intermediaries

VI.3 Guidelines on Annual Returns to be Delivered by Registered Intermediaries

VI.4 Guidelines on Continuing Training for Subsidiary Intermediaries

## D. Standards

Compliance Standards for MPF Approved Trustees

Performance Presentation Standards for MPF Investment Funds

# APPENDIX III

## COVERAGE

The following is a list showing examples of different types of jobs with explanations as to why the persons engaged in these jobs are generally included in or excluded from the MPF System.

| Job Characteristics | Covered by MPF(Y/N)? | Remarks |
|---|---|---|
| **1. Domestic Employees**[1] | | |
| Baby sitters, domestic servants and gardeners who render their services at the employer's household | N | Services rendered in a residential premises |
| Baby sitters, domestic servants and gardeners whose services are not rendered at the employer's household | Y | Services not rendered in a residential premises |
| Chauffeurs, bodyguards and boatboys employed by an individual | Y | Services not rendered in a residential premises |
| Licensed caretakers employed by Owners Incorporation | Y | Services not rendered in a residential premises |
| Security guards employed by an individual to provide security services for his/her residential premises | N | Services are substantially rendered in the residential premises of the employer |
| **2. Short-term Employees** | | |
| Employees, part-time workers and summer job workers whose employment is terminated within 60 days but are re-employed by the same employer. The employment is considered a continuous contract (as defined in the Employment Ordinance) with employment period not less than 60 days | Y | Please seek advice from the Labour Department if you are in doubt of what constitutes a continuous contract |

[1] "Domestic employee" is defined as an employee whose contract of employment is wholly or substantially for the provision of domestic services in the residential premises of the employer. "Domestic" means "of or relating to the home or family affairs or relations". Whether services are domestic in nature is a matter of fact.

| Job Characteristics | Covered by MPF(Y/N)? | Remarks |
|---|---|---|
| **3. Overseas Employees** | | |
| Employees entering Hong Kong under an employment visa with permission to stay for a period not exceeding 13 months which is extended such that the total period of stay exceeds 13 months | N – for the first 13 months in Hong Kong | --- |
| | Y - After the first 13 months in Hong Kong | --- |
| Employees employed in or from Hong Kong by companies engaging in business in Hong Kong, working in Hong Kong but are residing outside Hong Kong | Y | For example, employees living in Shenzhen but commute to Hong Kong on a daily basis |
| Employees employed outside Hong Kong by foreign companies and are working outside Hong Kong | N | Whether the employees are residents of Hong Kong is irrelevant |
| **4. Self-employed Persons** | | |
| Overseas partners of a partnership engaging in business in Hong Kong | N | --- |
| Farmers, fishermen | Y | Usually they are self-employed persons unless employed by another farmer or fisherman |
| Hawkers who are not self-employed | Y | --- |
| Drivers of taxis, public light buses and vans who are not owners of the vehicles | Y | Usually they are self-employed persons |
| Owners of taxis, public light buses and vans whose income is derived from both driving the vehicles and renting the vehicles to other drivers | Y | Usually they are self-employed persons |
| A taxi owner who derives his/her income from renting his/her taxi | Y | Usually they are self-employed persons |
| Private tutors and piano teachers giving private lessons | Y | Usually they are self-employed persons |
| **5. Industry Schemes** | | |
| Recruiters in the catering industry | Y | Usually they are self-employed agents responsible for recruiting casual workers for banquets |

| Job Characteristics | Covered by MPF(Y/N)? | Remarks |
|---|---|---|
| | | in large catering establishments such as hotels |
| Recruiters in the construction industry | Y | Usually they are employees of the specialist contractors (bar-bending & electrical works) responsible for recruiting workers on site |
| Substitute workers in the catering and construction industries | Y | Usually they are casual workers doing another person's job for a few days and are paid by that person in cash for their services |
| Summer job workers in the catering or construction industries | Y | --- |
| **6. Others** | | |
| Civil servants who are not entitled to pension benefits | Y | --- |
| Local staff of Consulate General | Y | --- |
| Teachers and other staff members of a private school | Y | --- |
| Shareholders whose only source of income is the dividend received | N | Neither an employee nor a self-employed person |
| Landlords whose only source of income is the rent of their properties but they are not carrying on a business of renting out properties. | N | Neither an employee nor a self-employed person |

# APPENDIX IV

## RELEVANT INCOME

The following is a list of examples of different types of "incomes" with explanations as to why these incomes are generally regarded or not regarded as "relevant income" under the MPF System.

| Income Types | "Relevant income" (Y/N) | Remarks |
|---|---|---|
| **1. Wages and Salaries** | | |
| 13th month pay | Y | --- |
| Bonus<br>- at employer's discretion<br>- performance linked | Y | --- |
| End-of-contract gratuity | Y | --- |
| **2. Reimbursement/Allowance** | | |
| Payment of reimbursement nature<br>- self-improvement education expenses<br>- uniform laundry expenses<br>- meals provided or obtained during office hours<br>- mobile phone service charges<br>- professional organization membership fee<br>- entertainment expenses<br>- mileage duty expenses | N | Reimbursement of expenses incurred by the employee for employment related goods and services which are necessary in the performance of an employment duty |
| Cash allowances | Y | Allowance provided by the employer in cash which the employee may spend as he/she sees fit |
| Internship allowance | Y | Allowances provided by the employer in cash, in connection with a vocational training programme |
| Leave allowance<br>- annual leave<br>- compassionate leave<br>- examination leave<br>- marriage leave<br>- sick leave | Y | --- |

| Income Types | "Relevant income" (Y/N) | Remarks |
|---|---|---|
| **3. Transportation and Car Subsidy** | | |
| Transportation subsidy<br>- free ticket / pass for use of public transport<br>- parking coupons | N | Non-monetary benefits |
| Car subsidy<br>- free use of car | N | Non-monetary benefits |
| - fuel and oil<br>- maintenance expenses<br>- payment of car registration and licence fees for car owned by an employee | Y | Employer provides cash payment for the benefit of employee |
| **4. Commission** | | |
| - based on amount of transaction<br>- based on number of transaction<br>- on project basis irrespective of the amount or the number of transactions | Y | --- |
| **5. Tips** | | |
| Tips collected by the employer | Y | Tips collected via the employer and service charges included in the bill (including amounts inserted by customers on credit card bills) which are subsequently distributed partly or fully to the employees |
| Tips not collected by the employer | N | Money paid by customers directly to an employee, put in tin box or left by the customers on the table, and which is retained by the employee or shared among the employees without any intervention by the employer |
| "Pickle charges" (peanuts, snacks, pickle provided on table) shared by employees | Y | Restaurant owners usually give the pickle charges collected to employees. An implied term of the contract of employment |

| Income Types | "Relevant income" (Y/N) | Remarks |
|---|---|---|
| **6. Employees' Benefits** | | |
| Marriage gifts | N | Payment made to an employee on a significant personal event |
| Holiday tour package | N | Non-monetary benefits. Expenses paid by the employer in respect of a completed holiday to cover expenses included in the package, such as transportation, accommodation, food, etc |
| Meals consumed on the spot | N | Non-monetary benefits |
| Meals provided in the form of vouchers | N | Non-monetary benefits |
| **7. Court award / termination payment** | | |
| Award determined by a court or tribunal representing "wages, salary, leave pay, fee, commission, bonus, gratuity, perquisite or allowance" | Y | --- |
| Payment in lieu of notice | N | Payment does not fall within any of the nine heads (i.e. wages, salary, leave pay, fee, commission, bonus, gratuity, perquisite or allowance) of relevant income |
| Severance payment | N | Specifically excluded from the definition of "relevant income" |
| Long service payment | N | Specifically excluded from the definition of "relevant income" |
| **8. Others** | | |
| Dividend income | N | Return on investment received by shareholders |
| Share options | N | Non-monetary benefits |
| Gains realized from share options | N | --- |
| Medical claims reimbursement | N | Payments that are made by third parties, rather than the employer, to the employee pursuant to an insurance contract purchased by the employer covering that employee |
| Employment-related medical expenses incurred by employee but paid directly by employer | N | --- |

# APPENDIX V

## DATE OF PAYMENT OF CONTRIBUTION

According to the MPFSO, employers must pay contributions for their employees on or before the contribution day. Meanwhile, self-employed persons (SEPs) must pay contributions by the specified day in each month if contributions are paid on a monthly basis or at or before the end of the scheme financial year if contributions are paid on a yearly basis.

Employers and SEPs may choose to pay mandatory contributions through various methods/channels as provided by the trustees. Payment by different methods/channels will have implications on the date on which the contribution is considered paid. Please refer to the table below for details.

| Payment methods/channels | Points to note |
|---|---|
| By post | ➢ Contribution is considered paid on the date the payment cheque would normally be delivered by post. Therefore, sufficient mailing time should be allowed.<br>➢ Employers and SEPs should ensure sufficient funds in their bank account for cheque clearance (if the cheque is bounced, the contribution will be considered as not having been paid). |
| In person (through bank branches/customer service counters) | ➢ Contribution is considered paid on the date payment cheque is deposited at the bank branch/customer service counter.<br>➢ Employers and SEPs should ensure sufficient funds in their bank account for cheque clearance (if the cheque is bounced, the contribution will be considered as not having been paid). |
| Direct debit | ➢ Contribution is considered paid on the date the employer's remittance statement is received by the trustee*.<br>➢ For an SEP who does not need to submit remittance statement, contribution is considered paid on the date on which the trustee issues direct debit instruction. |

| | |
|---|---|
| | ➢ Employers and SEPs should ensure sufficient funds in their bank account for debiting (if the debit is unsuccessful, the contribution will be considered as not having been paid). |
| Direct credit | ➢ Contribution is considered paid on the date the MPF scheme's bank account is credited.<br>➢ Ensure the funds are credited to the MPF scheme's bank account on or before the *contribution day.* |
| Deduction of reserve in the employer's MPF account to settle future contribution (subject to the scheme rules) | ➢ Contribution is considered paid on the date the employer's remittance statement is received by the trustee*.<br>➢ Ensure sufficient funds in the employer's MPF account maintained by the MPF trustee for offsetting; otherwise, the employer should make up the difference in amount on or before the *contribution day*. |

*Please see "Remittance statement" section with respect to when a remittance statement is considered received.

**Remittance statement**

**Employers must also submit to trustees a duly completed remittance statement accompanying the contribution on or before *the contribution day.*** If employers send their payment and the remittance statement to the trustees separately, the receipt date of the remittance statement shall be:

(a) the date the remittance statement would normally be delivered if it is sent by post;
(b) the date the remittance statement is deposited at a bank branch/customer service counter; or
(c) the date the remittance statement is faxed or submitted via other electronic means to the trustee.

Employers are recommended to keep a copy of the payment cheque and remittance statement as record before sending to trustees. If the remittance statement is sent by fax, employers are recommended to print and keep a journal recording the document sent date to support the submission by the employers to the trustees.

**Avoid payment by cash and through intermediaries**

Payment of contributions by cash should be avoided. Moreover, payments through MPF intermediaries, whether by cash or otherwise, should be avoided. Instead, payments should be made directly to the trustees or their designated bank branches/ customer service counters.

**Consequences of late payment**

Employers and SEPs must make mandatory contributions on time. Employers or SEPs who fail to pay mandatory contributions on time will have to pay a contribution surcharge. Offenders may also be liable to a financial penalty or prosecution.

# APPENDIX VI

## BASIC CONCEPTS OF INVESTMENT

### DIFFERENT TYPES OF INVESTMENT INSTRUMENTS

(a) **Money Market Instruments**

Money market instruments refer to interest-bearing financial instruments that usually have short-term maturity periods. Their yields are usually slightly more attractive when compared with deposit rates offered by banks to retail customers. The major types of money market instruments are:

(i) **Treasury Bills**

They are short-term debt securities issued by the government to the public for the purpose of raising money. Investors buy the bills at a discount. At the bill's maturity, the holder receives from the government a lump sum equal to the face value of the bill. The difference between the purchase price and the face value represents the investment return on the bill.

(ii) **Certificates of Deposit**

These are certificates issued by a bank indicating that a depositor has placed a sum of money with it for a period of time at a specified rate of interest. The deposits may not be withdrawn on demand. Interest rates are usually higher than those on government bills of comparable maturity.

(iii) **Commercial Paper**

These are short-term unsecured debt securities issued by large corporations. Interest rates on commercial paper are higher than those on treasury bills of comparable maturity, reflecting its lower liquidity and higher default risk.

(b) **Bonds**

Also known as debt securities, bonds are issued by a wide variety of organizations, such as governments, government agencies, organizations such as the World Bank, and a range of companies. When you buy a bond, you are in effect lending money to the corporation that issues the bond, which promises to pay interests at regular intervals during the life of the bond and to repay you the principal or face value of the bond together with interests (if any) on a specific date. Certain features to note are:

(i) Each bond has a face value (or par value) which is the amount to be repaid when the bond is redeemed.

(ii) A bond usually has a maturity date which is the date the bond is to be redeemed, although some have no maturity dates and are called perpetual bonds.

(iii) A bond usually has an annual interest rate (or a “coupon rate”), as a percentage of the par value, payable to the bondholder at regular intervals until the maturity date. The periodic interest payments made to holders are usually in the form of “coupons”. Some, however, pay no interest and are called zero coupon bonds.

(iv) Bonds of different issuers (organizations) may be awarded different investment ratings by international credit rating agencies e.g. Standard and Poor’s, Moody’s, etc. The credit rating reflects to some extent the level of risk attached to the bond.

(v) The price of a bond moves up and down, but in an opposite direction to interest rates. So if interest rate falls, the higher coupon rate of a bond looks comparatively more attractive and the price of the bond goes up. At times of high inflation, the yield of a bond may lag behind the inflation rate.

(vi) Unlike equities, bonds do not give the bondholder an ownership interest in the issuing corporation. If the issuer goes bankrupt, the stockholder’s money may be lost. But if there is any money left in the company, the bondholder will be paid before stockholders.

(c) **Equities**

Equities, also known as equity shares, are perhaps the widest known type of financial instruments. They are called “shares” because they represent ownership in a corporation. Each share is entitled to a proportion of financial profits of the corporation. Some basic features of equities are:

(i) If a company makes profits, it may pay dividends and the price of its shares is also likely to rise. The investment return comprises both dividend income and capital appreciation.

(ii) If a company is unsuccessful, then the value of its shares is likely to decline and the company may cut or terminate dividend payout.

(iii) Share prices on stock markets can change rapidly depending on the prevailing stock market condition and the financial performance of the company.

(iv) In general, equities are considered riskier than money market instruments and bonds.

(d) **Derivatives**

These are financial instruments which derive their values from their underlying investments such as bonds or equities. They include options, warrants, futures, etc. The features to be noted are:

(i) They may be used to reduce investment risk, i.e. to reduce investment loss when the price or value of the primary/underlying asset falls. They are intended to have an "offset effect", so that profits or losses as a result of price changes in the derivative will offset losses or gains on the primary/underlying asset. The process is very common and is known as **hedging**.

(ii) They may be used for speculation, i.e. buying or selling derivatives on a "**forward**" or "**future**" basis (deal arranged now, to take place at a designated future time at a pre-determined rate).

(iii) They are much more speculative in nature than some of the other types of investment. Due to the risk nature, they are only suitable for sophisticated or professional investors.

(e) **Unit Trusts & Mutual Funds**

(i) A unit trust is an investment vehicle set up under a trust for different investors to pool their monies together for investment.

(ii) A unit trust may invest in a portfolio of investments such as bonds and equities.

(iii) It is managed by professional fund managers and sub-divided into "units" based on the market value of the portfolio.

(iv) Hong Kong law requires that a fund's assets be held by an independent trustee, responsible for ensuring that the terms of the trust deed are complied with.

(v) A mutual fund is set up as a company with the objective of investing in shares of other companies. They are essentially the same as unit trusts from an investment point of view, except for their legal structure.

(f) **Insurance Policies**

(i) Whilst most insurance contracts provide for death, disability or medical benefits with little investment element, certain insurance policies issued to retirement schemes may be linked to investment with little or no insurance element. The latter form of insurance policy may be regarded as an investment vehicle.

(ii) An insurance policy will be underpinned by an insurance fund consisting of an investment portfolio of securities, including bonds, equities, etc.

(iii) The insurance fund is managed either by the insurance company issuing the insurance policy or by a professional investment manager appointed by the insurance company.

(iv) A Class G insurance policy is a policy with guarantees on capital or return. It must be backed up by a guarantor which can be the insurance company itself or a financial institution authorized by the MA as a third party guarantor.

**DIFFERENT TYPES OF INVESTMENT FUND**

There are many types of investment funds, ranging from conservative funds (e.g. money market funds) to high risk funds (e.g. equity funds). Their classification is usually based on the stated investment objectives and underlying investments of the funds. The table on the next page lists the four common types of investment funds.

# Different Types of Investment Fund

<table>
<tr><th>Type / Characteristics</th><th colspan="3">Equity Fund</th><th>Balanced Fund (Mixed Assets Fund)</th><th colspan="3">Bond Fund</th><th>Money Market Fund</th></tr>
<tr><td>Other commonly used names</td><td colspan="3">Aggressive Fund, Growth Fund</td><td>Stable Fund, Conservative Fund, Growth Fund, Long-term Accumulation Fund</td><td colspan="3">Fixed Income Fund</td><td>Cash Fund, Hong Kong Dollar Saving Fund</td></tr>
<tr><td>Primary investment objective</td><td colspan="3">To “beat” market performance with long-term capital gains (i.e. to achieve a relatively high capital growth)</td><td>To “beat” inflation rate with some capital growth (i.e. to achieve modest growth in income and capital)</td><td colspan="3">To earn returns slightly higher than savings/deposit interest income (i.e. to maximize interest income)</td><td>Capital preservation and to earn a relatively high interest that can be generated from large deposits</td></tr>
<tr><td>Major underlying investment vehicles</td><td colspan="3">Shares</td><td>Shares + Bonds</td><td colspan="3">Bonds</td><td>Short-term interest bearing securities, such as certificates of deposits and treasury bills</td></tr>
<tr><td>Geographical region</td><td>Single Country/ Area (e.g. Hong Kong )</td><td>Regional (e.g. Asia, Europe, North America)</td><td>Global</td><td>Usually global</td><td>Single Country/ Area (e.g. Hong Kong, Japan)</td><td>Regional (e.g. Asia, Europe, North America)</td><td>Global</td><td>Usually invests in a single money market only</td></tr>
<tr><td>Frequency of quotation</td><td colspan="3">Usually on every trading day</td><td>Usually on every trading day</td><td colspan="3">Usually on every trading day</td><td>Either at month end or on every trading day</td></tr>
<tr><td>Major risk factors*</td><td colspan="3">Stock market volatility and performance of individual industry</td><td>Stock market volatility, interest rates fluctuations and credit ratings</td><td colspan="3">Interest rates and credit ratings</td><td>Interest rates fluctuations</td></tr>
<tr><td>Volatility</td><td colspan="7">High</td><td>Low</td></tr>
<tr><td>Expected rate of total returns</td><td colspan="7">High</td><td>Low</td></tr>
<tr><td>Management and transaction fees</td><td colspan="7">High</td><td>Low</td></tr>
</table>

* All funds are subject to risks arising from the social, political, economic and currency changes of the country in which investments are made.

**Calculation of the Net Asset Value ("NAV") Per Unit of a Fund**

The NAV per unit of a fund is determined by dividing the aggregate market value and the cash holding of the underlying investments of the fund by the number of units issued. All administrative and management fees payable (accrued to date) are to be deducted before the derivation of the NAV of the fund.

$$\textit{NAV per unit} = \frac{\begin{array}{c}\textit{Total market value}\\ \textit{of underlying}\\ \textit{investments}\end{array} + \textit{Cash} - \begin{array}{c}\textit{Administrative \&}\\ \textit{management expenses}\\ \textit{payable}\end{array}}{\begin{array}{c}\textit{Number of units}\\ \textit{issued}\end{array}}$$

# APPENDIX VII

## GLOSSARY

**60-day employment rule** This does not apply to a casual employee in the construction and catering industries. For any other full-time or part-time employee who has been employed for a continuous period of 60 days or more under an employment contract, coverage under the MPF system applies. **3.4(b)(i)**

**Accrued benefits** The amount of each scheme member's beneficial interest in an MPF scheme at any time, including sums derived from the contributions made by or in respect of that scheme member, together with the income or profits arising from any investments of the contributions, but taking into account any losses in respect of the investments and any amounts paid in respect of the scheme member. **1.5(c)**

**Annual benefit statement (ABS)** General Regulation requires trustees to provide scheme members with ABS. The ABS serves to confirm scheme membership and membership details, the status and the number of accounts held by the member, to check inflows and outflows including contributions, transfer and transactions, and to identify account balances and accruals, the extent to which they are vested, and the gains and losses associated with the accounts over the relevant financial period. The ABS is a historical record of the member's account at a point in time. **5.9(e)**

**Approved Pooled Investment Fund (APIF)** An investment fund approved by the MPFA in accordance with the requirements set out in the General Regulation and the Code on MPF Investment Funds. An APIF may be in the form of an insurance policy or a unit trust, either of which has to be authorized by the SFC. Theoretically, it could also be in the form of an authorized mutual fund, but this is not practical under current Hong Kong law. **5.4**

**Balanced fund** (See **Mixed assets fund**) **5.3.2(c)(iii)**

**Bond fund** A bond fund is a pool of money primarily invested in bonds which are debt instruments issued by governments, public utilities, corporations, banks etc. Generally a bond fund aims to achieve a level of stable income, with capital appreciation being a secondary consideration. The higher the credit ratings of the bonds held by the fund, the lower the risk of the fund. **5.3.2(c)(ii)**

**Casual employee** Under the MPF legislation, a casual employee is a person employed in the selected industries (currently catering and construction) on a day-to-day basis or for a fixed period of less than 60 days. Such an employee is covered by the MPF system. **3.4(b)(ii)**

**Compensation fund** A fund intended to compensate members of MPF schemes (and others with a beneficial interest in those schemes) for loss of accrued benefits attributable to misfeasance or illegal conduct of MPF trustees or other service providers concerned with the administration of those schemes. The fund consists of “seed money” injected by the government and levies collected by the MPFA from trustees. **3.1.3**

**Conduct requirements** Minimum standards of conduct expected of regulated persons (registered intermediaries or responsible officer) as set out in the MPFSO. **7.2.4**

**Constituent fund** An investment fund offered by an MPF scheme into which a scheme member invests his contributions and accrued benefits. All constituent funds must be approved by the MPFA. **5.3**

**Contribution account** An account in an MPF scheme which mainly receives MPF contributions (both employer and employee portions) made by an employer for and in respect of an employee under current employment. Contribution account can also receive MPF contributions made by a self-employed person while self-employed. **3.10**

**Contribution day – Casual employee** Depending on what is agreed by the participating employer and the approved trustee of the scheme concerned, the contribution day could be (i) the next working day (other than Saturday) immediately after the relevant income is paid to the casual employee; or (ii) the $10^{th}$ day after the last day of the relevant contribution period. **3.7.1(a)(vii)**

**Contribution day – (Non-casual) employee** The $10^{th}$ day after the last day of a calendar month within which the relevant contribution period ends, or the month during which the permitted period ends, whichever is the later. **3.7.1(a)(vii)**

**Contribution period – Casual employee** A contribution period means each period for which the employer pays or should pay relevant income to the employee. **3.7.1(a)(vi)**

**Contribution period – (Non-casual) employee** Where the wage period is not more than 1 month (e.g. weekly or monthly), a contribution period means each period for which the employer pays or should pay relevant income to the employee, but does not include any wage period commencing on or before the 30th day of employment. Where the wage period is more than 1 month (e.g. quarterly), a contribution period means each period for which the employer pays or should pay relevant income to the employee, but does not include the period commencing from the date of employment and ending on the last day of the calendar month in which the 30th day of employment falls. **3.7.1(a)(vi)**

**Contribution period - Employer** A contribution period means each period for which the employer pays or should pay relevant income to the employee. **3.7.1(a)(vi)**

**Defined benefit scheme (DBS)** A scheme where the employer's contribution rates are not defined and the benefit to a member is generally based on a formula involving a number of factors, e.g. the member's age, years of service and final average salary. **6.1.1(b)**

**Defined contribution scheme (DCS)** A scheme where both the employer's and employees' contribution rates are defined and the accrued benefits are based upon the accumulated contributions and investment income. **6.1.1(a)**

**Early retirement** One of the permitted grounds for early withdrawal of accrued benefits and the minimum MPF benefits in ORSO schemes. The scheme member concerned must have reached the age of 60 and must declare that he/she has ceased employment and self-employment with no intention of becoming employed or self-employed again. **3.11(a)**

**Employee** Any full-time and part-time employee who is employed under an employment contract. **3.4(b)(i)**

**Employee Choice Arrangement (ECA)** Allows employees to transfer the accrued benefits (i.e. the accumulated contributions and investment returns) arising from their mandatory contributions (not their employer's portion) in their MPF contribution accounts during the period they are working for their current employer. Such benefits can be transferred to a trustee and a scheme of their own choice on a lump sum basis once every calendar year. **3.10.1**

**Employer** Any person who has entered into a contract of employment to employ another person as his employee. **3.6.1**

**Employer sponsored scheme** A registered scheme where membership is only open to the relevant employees of a single employer and its associated companies. **3.3(a)**

**Employment contract** An employment contract is an agreement on the employment conditions made between an employer and an employee. The agreement can be made orally or in writing and it includes both express and implied terms. **3.4(b)(i)**

**Equity fund** A pool of money primarily invested in equities or shares of companies. Some of such funds are characterized by the countries they invest in, and some by the type of stocks invested in e.g. blue chips. Intended to achieve a high rate of return through capital appreciation, equity funds may prove volatile, especially over a short period of time, but diversification across a number of markets will lower the risk level of the fund. **5.3.2(c)(iv)**

**Exempt person** An employed person such as a domestic employee, a self-employed hawker etc who is not required to join an MPF scheme. The employer of such a person is also exempt as far as such employment is concerned. **3.5**

**Existing member** A relevant employee who has become a member of the MPF exempted ORSO schemes on or before the commencement date of the MPF. **6.4**

**Frontline regulator** Under new regulatory regime, MPFA can assign an industry regulator as the frontline regulator for each MPF intermediary. Frontline regulators are responsible for the supervision and investigation of MPF intermediaries according to their core business, specifically (i) MA, for those in banking; (ii) IA, for those in insurance; and (iii) SFC, for those in securities. **7.1**

**Fund expense ratio ("FER")** A ratio that measures the expenses of an MPF fund as a percentage of fund size. Whilst scheme members do not directly pay fund expenses, such expenses do impact directly on the investment returns of the fund. Fees and charges are generally the main component of fund expenses. The FER is calculated for each financial period of a constituent fund based on data from the previous financial period. The published FER will not reflect any increases or decreases in fees, charges or expenses in the current financial period. The FER is provided in the Fund Fact Sheet of a scheme. It is not necessary for funds with less than two years of history to show an FER. **5.9(d)**

**Fund Fact Sheet** The report card of an MPF fund, reporting on how the fund is doing. It provides key summary information on a constituent fund, such as fund size, investment objectives, portfolio allocation, main holdings in the portfolio, fund performance, fund expense ratio, fund risk indicator and future outlook for each constituent fund in a scheme. Fund Fact Sheet is issued on a half-yearly basis. **5.9(c)**

**Guaranteed fund** In the context of the MPF scheme, a guaranteed fund promises the fund holders that they will get back either the net total amount of MPF contributions (capital guarantee) or a specified rate of return on investment (return guarantee). The guarantee may be provided without any qualifying conditions, or when the fund holder meets certain qualifying conditions. The guarantee mechanism must be clearly stated in the marketing documents of such funds. **5.3.2 (b)**

**Guaranteed fund – Hard guarantee** A minimum net return is guaranteed, without imposing any qualifying conditions. **5.3.2(b)**

**Guaranteed fund – Soft guarantee** A minimum return is promised subject to certain qualifying conditions. The minimum return is usually applied to the average rate compounded over the period of employment for which the fund has been held. In such a case the guarantee is said to be based on a "career average". **5.3.2(b)**

**Index-tracking fund** An index-tracking fund is a collective investment scheme which has the sole investment objective of tracking a particular market index. **5.3.2(c)(v)**

**Industry scheme** A registered scheme designed especially for industries with high labour mobility and daily wage practice, at present for catering and construction industries only. **3.3(c)**

**Mandatory contributions** Compulsory contributions of both the employee and employer, as per the current provisions of the MPF system. At present, other than for a casual employee who is a member of an industry scheme (for whom special provisions apply), mandatory contributions amount to 10% of the employee's relevant income, with the employee and employer each paying 5%. The contributions are subject to minimum and maximum relevant income levels. **3.7.1**

**Master trust scheme** A registered scheme where membership is open to the relevant employees of different employers, self-employed persons and personal account holders. **3.3(b)**

**Maximum level of relevant income – Casual employee** The maximum level of relevant income for the purpose of mandatory contributions is, in the case of a casual employee who is a member of an industry scheme, $1,000 per day. **3.7.1(a)(ii)**

**Maximum level of relevant income – (Non-casual) employee** The maximum level of relevant income for the purpose of mandatory contributions is, in the case of a non-casual employee, $30,000 per month or, if the employee is not remunerated on a monthly basis, that amount as prorated. **3.7.1(a)(ii)**

**Maximum level of relevant income – Self-employed person** The maximum level of relevant income for the purpose of mandatory contributions is, in the case of a self-employed person, $30,000 per month or $360,000 per year. **3.7.1(b)(vi)**

**Minimum MPF benefits** A new member of an exempted ORSO registered scheme is subject to the "minimum MPF benefits" rule, whereby certain MPF requirements (e.g. preservation) will apply up to the minimum sum. The "minimum MPF benefits" is defined as the lesser of (a) the member's benefits accrued and held under the scheme during the period when the exemption certificate applied to the scheme; or (b) 1.2 x final average monthly relevant income (capped at $30,000) x years of post-MPF service. **6.5.3**

**Minimum level of relevant income – Casual employee** The minimum level of relevant income for the purpose of mandatory contributions is, in the case of a casual employee who is a member of an industry scheme, $280 per day. **3.7.1(a)(ii)**

**Minimum level of relevant income – (Non-casual) employee** The minimum level of relevant income for the purpose of mandatory contributions is, in the case of a non-casual employee, $7,100 per month or, if the employee is not remunerated on a monthly basis, that amount as prorated. **3.7.1(a)(ii)**

**Minimum level of relevant income – Self-employed person** The minimum level of relevant income for the purpose of mandatory contributions is, in the case of a self-employed person, $7,100 per month or $85,200 per year. **3.7.1(b)(vi)**

**Mixed assets fund** (also known as balanced fund) An investment mix of bonds and equities (shares). The risk level for this type of fund is usually somewhere between those of a bond fund and an equity fund. **5.3.2(c)(iii)**

**Monthly pay-record** Each employee (other than a casual employee in an industry scheme whose contribution is made on the next working day (other than Saturday) immediately after the relevant income is paid) must be provided with a monthly pay-record by the employer. This must be provided within 7 working days after the last contribution payment during the month and is to include the employee's relevant income, the amount of mandatory and voluntary contributions (if any) deducted and the date on which contributions were paid to the trustee. **3.7.1(a)(ix)**

**MPF Conservative Fund** It is a statutory requirement that at least one of the constituent funds of an MPF scheme must be an MPF Conservative Fund. As the name suggests, the purpose of such a fund is to minimize the risk to the capital invested therein. Whilst not guaranteed, there are safeguards to achieve this primary objective. The investments of and deduction of fees from the fund is subject to s.37 of the General Regulation. **5.3.2(a)**

**MPF principal intermediary / principal intermediary** A business entity (Type A regulatee) registered by the MPFA as an intermediary to carry on regulated activities. **7.2.2**

**MPF registered intermediary / registered intermediary** An MPF principal intermediary; or an MPF subsidiary intermediary. The MPFA keeps a Register of registered intermediaries. The Register enables a member of the public to, by inspecting the Register or, upon payment of a fee, by obtaining a copy of an entry in or extract of the Register, ascertain whether he/she is dealing with a registered intermediary in any regulated activity, or to

# *Representative Examination Questions*

## *Correct Answers*

**QUESTIONS**

| **CHAPTER** | **1** | **2** | **3** | **4** | **5** | **6** |
|---|---|---|---|---|---|---|
| 1 | (a) | (d) | (b) | (a) | - | - |
| 2 | (c) | (a) | - | - | - | - |
| 3 | (d) | (d) | (b) | (c) | (c) | (c) |
| 4 | (a) | (d) | (c) | - | - | - |
| 5 | (a) | (c) | (c) | (c) | (d) | - |
| 6 | (c) | (b) | - | - | - | - |
| 7 | (b) | (d) | (d) | (d) | - | - |