Our Ref : G12/34/7C
B1/15C

21 March 2000

The Chief Executive
All Authorized institutions

Dear Sir/Madam,

Supervision of MPF Intermediaries

This letter informs you of the approach which the Monetary Authority ("MA") will take in supervising the mandatory provident fund ("MPF") related activities of authorized institutions ("AIs") which are registered with the Mandatory Provident Fund Schemes Authority ("MPFA") as MPF intermediaries.

The MPFA has issued a Code of Conduct ("the Code") which sets out the standards of business practices which all MPF intermediaries should follow in the conduct of their MPF related activities. Under the Memorandum of Understanding (MOU) entered into between the HKMA, the MPFA, the Securities and Futures Commission (SFC) and the Insurance Authority, the HKMA is responsible for the supervision of MPF intermediaries that are AIs and their employees involved in MPF business. All such institutions should have already taken steps to ensure compliance with the Code by themselves and their employees. The HKMA expects that such institutions and their employees will conduct their MPF related activities honestly, fairly, in good faith and with integrity at all times. These institutions should also ensure that only those employees with the appropriate degree of professional competence will be allowed to be engaged in the conduct of MPF business. Institutions should have in place adequate internal control systems to ensure that these objectives are met in their selling and marketing activities relating to MPF schemes. Such internal control systems should include, at a minimum, procedure manuals and guidelines for selling and marketing activities, sound procedures and controls for handling clients' assets, adequate supervision and monitoring of the conduct of marketing staff, and well defined procedures for handling customer complaints.

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The HKMA will monitor AIs' involvement in the MPF business, particularly their compliance with the Code, through on-site examination. Specifically, the HKMA will assess whether institutions' systems of controls are sufficient to provide reasonable assurance that their MPF related activities are conducted in accordance with the standards prescribed in the Code. In addition, a return form is being developed to collect information on AIs' MPF related activities on a regular basis.

Some AIs may provide guarantees on the investment return of MPF products or undertake to give capital backing for their associated trustee companies. The HKMA would wish to discuss with these AIs the nature of such guarantees and undertakings and assess the impact of such arrangements on their capital adequacy requirements. Locally incorporated AIs are therefore expected to consult the HKMA before they enter into any agreement to provide such guarantees or undertaking.

Yours faithfully,

D T R Carse
Deputy Chief Executive (Banking)

c.c. Managing Director, MPFA