REPORT (HONG KONG) – July 2009 to June 2010

1. Economic and financial background

2009

The Hong Kong economy exhibited much resilience in countering the global financial tsunami and the ensuing global recession. Although the economy contracted severely in the first quarter of 2009, it quickly rebounded in the second quarter and continued to improve in the rest of the year. In the fourth quarter, Gross Domestic Product ("GDP") returned to positive year-on-year growth at 2.6%. For 2009 as a whole, GDP decreased by 2.7%, the first annual recession since 1998.

On the trade front, Hong Kong's merchandise exports were the most severely hit segment and the key drag on the economy for most of the year. For the year as a whole, total exports of goods (comprising re-exports and domestic exports) fell by 12.6% in real terms, following an increase of 1.9% in 2008.

Private consumption demand had strengthened notably since the second quarter, in contrast to the more notable contraction in the first quarter. For 2009 as a whole, Private Consumption Expenditure ("PCE") fell modestly by 0.3% in real terms, after the 2.3% growth in 2008.

The labour market showed much resilience during the global crisis. After a marked rise in the early part of 2009, the seasonally adjusted unemployment rate stabilized by around mid-year and came down significantlyto 4.9% in the fourth quarter. The total number of job loss was 43,000 at the worst time of the crisis. Towards the end of the year, there were signs that companies had turned more positive in hiring workers. Likewise, the downward pressure on labour earnings abated in the latter part of the year.

Consumer price inflation quickly subsided over the course of 2009 as the global recession led to spare capacity around the world. Underlying consumer price inflation, in terms of the year-on-year rate of change of the underlying Composite Consumer Price Index ("CPI"), came down steadily during the first half, turning slightly negative from July to November. Yet, with economic recovery gathering pace, inflation reverted back to a slight positive at 0.3% in December. For 2009 as a whole, CPI rose by an average of 1.0%, down markedly from 5.6% in 2008.

1st half of 2010

The Hong Kong economy continued to show a broadly-based recovery in the second quarter of 2010, benefited mainly from the robust growth momentum in the Mainland and other Asian economies. Real GDP leaped distinctly further by 6.5% over a year earlier, after a growth of 8.0% in the first quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP expanded by 1.4%.

Hong Kong's total exports of goods surged by 20.1% in real terms in the second quarter over a year earlier, further to the 21.6% growth in the first quarter. The Asian markets still outperformed the other markets by a wide margin. Total exports to the Mainland continued to show a double-digit year-on-year growth even against a higher base of comparison in the second quarter, and those to Taiwan, Japan, Korea and Singapore all recorded double-digit growth in the region of 15-30%.

Labour market performance was somewhat mixed. Underemployment situation improved, while job vacancies continued to rise along with a further pick-up in wages and earnings. Yet the seasonally adjusted unemployment rate rose slightly to 4.6% in the second quarter, conceivably partly due to frictional factors as more workers were in search of employment opportunities with better terms and conditions.

The domestic sector held firm in the second quarter on the back of rising incomes and generally upbeat economic sentiment. Private consumption expenditure grew solidly by 4.6% year-on-year in real terms over a year earlier, further to the 7.1% growth in the first quarter. Despite the correction in the stock market and concerns about the European sovereign debt problem, local consumer confidence remained rather sanguine, as evidenced by sustained increase in spending on big-ticket items, including motor vehicles and other consumer durables. Meanwhile, government consumption expenditure grew further in the second quarter.

Headline consumer price inflation, as measured by the year-on-year rise in the headline Composite Consumer Price Index (Composite CPI), notched up further from 1.9% in the first quarter to 2.6% in the second quarter. Netting out the effects of the Government's one-off relief measures to give a more accurate indicator of the inflation trend, underlying consumer price inflation, as measured by the year-on-year increase in the underlying Composite CPI, notched up from 0.8% in the first quarter to 1.5% in the second quarter. The effect of the electricity charge subsidy, which faded out progressively, largely accounted for the difference between the headline and underlying inflation rates. The higher inflationary pressure in the second quarter took place under the backdrop of the increasingly entrenched recovery of the local economy and a vibrant consumption market. Moreover, the robust performance of Asian economies also contributed to somewhat stronger price pressure in the region.

2. Data on funds under management

Number and asset size of SFC-authorized funds

Details on unit trusts and mutual funds authorized by the Hong Kong Securities and Futures Commission ("SFC"):

	Number of funds		Net Asset Value ("NAV") (US$ Million)	
	31-Mar-2010	**31-Mar-2009**	**31-Dec-2009**	**31-Dec-2008**
Bond	329	348	249,376	175,584
Equity	1,100	1,114	470,019	291,700
Diversified	89	113	40,846	32,695
Money Market	41	44	74,640	71,103
Fund of Funds	82	105	6,635	5,387
Index	84	59	74,279	42,969
Guaranteed	61	123	1,616	3,309
Hedge	11	14	676	770
Other Specialized*	7	11	8,789	4,785
Total	**1,804**	**1,931**	**926,876**	**628,302**
Umbrella Structure	164	162		
Grand total	**1,968**	**2,093**		

* Includes futures & options funds and leveraged funds.
Source: SFC (The data are published once a year)

The total number of SFC-authorized funds was 1,968 at the end of March 2010, down by 6.0% from end of March 2009. Only index funds saw an increase in the number of funds (up by 42.4%). All other categories saw a drop – guaranteed funds (down by 50.4%); other specialized funds (down by 36.4%); fund of funds (down by 21.9%); hedge funds (down by 21.4%); diversified funds (down by 21.2%); money market funds (down by 6.8%); bond funds (down by 5.5%) and equity funds (down by 1.3%).

In terms of NAV, at the end of December 2009, the industry saw an increase of 47.5% over December 2008. Most fund categories witnessed an increase in NAV, including other specialized funds (up by 83.7%); index funds (up by 72.9%); equity funds (up by 61.1%); bond funds (up by 42.0%); diversified funds (up by 24.9%); fund of funds (up by 23.2%); money market funds (up by 5.0%). However, two categories registered a drop in NAV – guaranteed funds (down by 51.2%) and hedge funds (down by 12.2%).

Origin of SFC-authorized funds

Offshore funds can be marketed in Hong Kong as long as they obtain SFC's authorization. At the end of March 2010, about 9% of SFC-authorized funds were domiciled in Hong Kong. They accounted for 3.5% of total NAV of all SFC-authorized funds at the end of December 2009.

	Number of funds 31-March-2010	**%**	**NAV** (US$ Million) 31-December-2009	**%**
Hong Kong	170	8.64	31,892	3.44
Luxembourg	1,195	60.72	597,705	64.49
Ireland	280	14.23	196,093	21.16
Guernsey	3	0.15	1	0.00
United Kingdom	56	2.85	40,041	4.32
Other Europe	15	0.76	682	0.07
Bermuda	23	1.17	4,951	0.53
British Virgin Island	6	0.30	25	0.00
Cayman Islands	213	10.82	9,371	1.01
Others	7	0.36	46,115	4.98
Total	**1,968**	**100.00**	**926,876**	**100.00**

Source: SFC

3. Key trends in flows

Gross and net sales by HK investors (Note 1)

(i) 2009 (Appendix 1)

In 2009, the fund industry registered gross and net sales of US$14,967.87 million and US$2,549.17 million respectively. Compared with 2008, gross sales were down by 16.7%, but the industry managed to be back to net inflows.

Equity funds continued to account for the lion's share of the industry sales in 2009. However, compared with 2008, gross sales were down by 23.3% to US$8,883.01 million, accounting for 59.4% of the industry gross total. On a net basis, equity funds witnessed an inflow of US$1,866.29 million, compared with net outflows of US$2,722.28 million in 2008.

More than half of the equity funds sectors registered net inflows in 2009. Of which, Greater China equity funds witnessed the highest net inflows, at US$954.77 million, compared with net outflows of US$778.41 million in 2008. It was followed by emerging markets equity funds, with inflows at US$483.77 million in 2009, compared with net outflows of US$443.57 million in 2008.

In percentage terms, European single market equity funds witnessed the largest increase in gross sales, up by 81.7%, to US$118.76 million in 2009. In dollar terms, Greater China equity funds recorded the largest increase: from US$2,319.51 million in 2008 to US$3,244.05 million – an increase of US$924.54 million.

Gross sales of bond funds increased by 38.8% to US$4,067.05 million in 2009. Global bond funds recorded gross sales of US$1,587.35 million, 24.1% up from 2008 and represented 39.0% of the total gross inflows into bond funds. It was followed by Asia bond funds, with inflows at US$1,052.79 million, compared with US$450.1 million in 2008. In aggregate terms, bond funds attracted net inflows of US$2,020.83 million, compared with US$370.74 million in 2008 – an increase of 4.5 times.

(ii) 1st half of 2010 (Appendix 2)

In the first half of 2010, the fund industry attracted robust inflows. Gross inflows reached US$12,664.17 million, up by nearly 1.5 times over the corresponding period of last year. Net inflows of US$4,468.45 million were registered, representing a turnaround from last year, when the industry saw net outflows of US$7 million.

In the first half of the year, aggregate gross sales of equity funds totaled US$6,341.13 million, accounting for 50.1% of the industry total – 96.6% over the same period of 2009. But the increase paled when compared with bond funds. Gross sales of bond funds increased by nearly 4 times, reaching US$5,152.83 million, and they took up 40.7% of the industry total. Furthermore, on a net basis, it was the bond sectors that came first. Bond funds registered net inflows of US$2,926.55

Note[1]: Only retail transactions (including switches) are covered and sales attributed to institutional sources are excluded. Data covered HKIFA members only.

million – 8.7 times more than the same period of 2009. Sales of equity funds only went up by 2.4 times, to US$1,681.72 million.

Out of the five bond categories, investors' interest mainly focused on three, namely global, Asia and emerging markets bond funds. In aggregate terms, they pulled in gross inflows of US$4,810.50 million and net inflows of US$2,824.87 million, accounting for 93.4% and 96.5% of the respective total inflows into bond funds.

As for equity funds, Greater China region equity funds, emerging markets equity funds and sector funds took the lead. Gross inflows into these 3 sectors totaled US$4,376.23 million, accounting for 69.0% of the aggregate inflows into equity funds. In terms of net inflows, their share was even higher, at 83.9%.

4. Legal and regulatory developments

(a) Enhanced protection for the investing public

- In September 2009, the SFC issued a consultation paper on proposals to enhance protection for the investing public. This included proposals to fine-tune existing regulations governing the sale of unlisted securities and futures products to the public. Some of the key proposals are listed below:
  - Standardizing documentation in communicating key features and risks of the investment product to investors;
  - Including a product Key Facts Statement ("KFS") in all offer documents;
  - Disclosing the monetary and non-monetary benefits received by intermediaries;
  - Providing a cooling off period for products where the investment is long-term, and where there is no ready (and realistic) secondary market.

  Also, the consultation paper introduced various proposals to revise the Code on Unit Trusts and Mutual Funds (e.g. the introduction of new fund categories, KFS, etc.)

  The SFC published the consultation conclusions in May 2010.

(b) SFC and Taiwan FSC signed MOU to facilitate cross listing of Exchange Traded Funds ("ETF")

- In May 2009, the SFC and the Taiwan Financial Supervisory Commission ("FSC") signed and exchanged a Side Letter to a bilateral Memorandum of Understanding ("MOU") which facilitates crossing listing of ETF in the two markets. Under the terms of the Side Letter, ETFs listed on the Hong Kong or Taiwan stock exchange and managed by asset managers licensed respectively by the SFC or the FSC will be mutually recognized in each other's jurisdiction for the purpose of cross listings and offerings. The Side Letter strengthens regulatory co-operation between the SFC and the FSC, in particular arrangements relating to information sharing and confidentiality regarding management of ETFs.
- The industry in Hong Kong and Taiwan have capitalized on the cross-listing opportunities facilitated by the Side Letter, e.g.
  - The first Hong Kong ETF was cross-listed in Taiwan in August 2009. Another one was listed in Taiwan by way of feeder fund in the same month.
  - The SFC granted authorization to the first Taiwan ETF for offering in Hong Kong. And it was listed in HK in August 2009.

(c) Enhanced Anti-Money Laundering regulatory regime

- In July 2009, the Financial Services and the Treasury Bureau ("FSTB") launched a public consultation to gauge views on the conceptual framework of the legislative proposal to enhance the Anti-Money Laundering ("AML") regulatory regime in respect of the financial sectors. The proposal aims at addressing a number of following major deficiencies of the existing regime.
- In December 2009, the FSTB published a further round of consultation listing out detailed legislative proposals for the New Legislation on the Customer Due Diligence and Record-keeping Requirements for Financial Institutions and the Regulation of Remittance Agents and Money Changers.

(d) Proposed establishment of an Investor Education Council and a Financial Dispute Resolution Centre

- In February 2010, the FSTB published a consultation paper entitled "Proposed Establishment of an Investor Education Council ("IEC") and a Financial Dispute Resolution Centre ("FDRC")". The proposal aims at protecting and educating investors. Details are as follows:
  - The proposed IEC will holistically oversee the needs of investor education and delivery of related initiatives. It aims to improve the financial literacy and capability of the general public by influencing their fundamental financial attitude and behavior, with a view to

assisting them to make better financial decisions.
  - The proposed FDRC is to provide a one-stop, independent and affordable avenue for consumers to resolve monetary disputes with the financial service providers. This offers an alternative to litigation, which may be disproportionately costly and protracted for customers.
  - Under the proposed scheme, financial institutions, such as banks or brokers, that are licensees or regulatees of the SFC and the Hong Kong Monetary Authority ("HKMA") should join as members of the scheme. They would be required to follow an individual customer's wish and the scheme's procedures to enter into mediation and arbitration if it had established business connection with customer and fails to settle internally a dispute that has come up.
  - The maximum claimable amount was proposed to be set at HK$500,000, which would cover more than 80% of the monetary disputes current handled by HKMA.
  - Under the proposal, the mediation fees of the majority of the cases are within a few hundred HK dollars. But for financial institutions, they have to pay a higher level of the case fees.

(e) Proposed disclosure of inside information
- In March 2010, the FSTB published a consultation paper entitled "Proposed Statutory Codification of Certain Requirements to Disclose Price Sensitive Information by Listed Corporations". The proposal aims at enforcing listed corporations to make timely disclosure of "price-sensitive information". Key proposals are as follows:
  - To include in the Securities and Futures Ordinance ("SFO") a statutory requirement for a listed corporation to disclose to the public as soon as practicable "price-sensitive information" that has come to its knowledge.
  - In defining "price-sensitive information," the proposed definition will replicate the definition of "relevant information" in section 245 of the SFO, which a person is prohibited from using when dealing in the securities of a listed corporation. It is proposed that the SFO will use the term "inside information" to refer to the "price-sensitive information" that a listed corporation needs to disclose.
  - The SFC in parallel proposed a drafted guidance on what constitutes "inside information".

(f) Proposed regulatory regime for credit rating agencies
- In July 2010, the SFC published a consultation paper concerning the "Regulatory Oversight of Credit Rating Agencies". The proposal aims to set up a regulatory regime to license and supervise the activities of credit rating agencies (CRAs) in Hong Kong. Details are as follows:
  - The proposal designates "providing credit rating services" as a new type of regulated activity under the SFO, whereby both CRAs and their individual analysts will be subject to licensing requirements and ongoing supervision in a similar manner to existing SFC licensees.
  - It is intended that the new regime for the regulation of CRAs in Hong Kong will come into effect by the end of January 2011 and that the process of licensing CRAs and their rating analysts will commence almost immediately.
  - For the purpose of facilitating the relatively short transition period from an unregulated environment for CRAs in Hong Kong to a regulated one, the SFC proposed "grandfathering" arrangements for existing rating analysts, subject to their being required to take a post-licensing refresher course on local regulation instead of passing regulatory examinations prior to being licensed.

The Hong Kong Investment Funds Association ("HKIFA") had made submissions to all of the above consultations.

(g) Latest survey on the fund management industry
- In July 2010, the SFC released the findings of its Fund Management Activities Survey ("FMAS") 2009. The FMAS has been conducted on an annual basis since 1999 to collect information and data on the general state of affairs of the fund management industry in Hong Kong. The survey covers the fund management activities of three types of firms in Hong Kong, namely:
  - corporations which are licensed by SFC and engage in asset management and fund advisory businesses (collectively "licensed corporations");
  - banks which engage in asset management and other private banking activities (collectively "registered institutions"), and are subject to the same regulatory regime (i.e. the SFO) as the licensed corporations in respect of their fund management activities; and
  - insurance companies registered under the Insurance Companies Ordinance ("ICO") but not licensed with the SFC, which provide services constituting classes of long term business as defined in Part 2 of First Schedule of the ICO and have had gross operating income derived from asset management.

- Key findings of this survey included:
  - Combined fund management business (Note 2) of licensed corporations, registered institutions and insurance companies amounted to HK$8,507 billion at the end of 2009, up from HK$5,850 billion in 2008 (45.4% year-on-year increase in value);
  - Of the total non-REIT fund management business (HK$8,433 billion), 63.9% of the assets, or HK$5,389 billion, were sourced from non-Hong Kong investors; Of the total non-REIT assets under management by licensed corporations, registered institutions and insurance companies (HK$5,824 billion), 61.4% or HK$3,577 billion was managed in Hong Kong; and
  - Of the total non-REIT assets managed in Hong Kong (HK$3,577 billion), 81.3% (HK$2,908 billion) was invested in Asia. Among this investment, HK$1,860 billion was invested in Hong Kong and the Mainland.

5. Product development

- **Launch of Renminbi ("RMB") bond fund:** In August 2010, the first SFC-approved RMB bond fund was launched in Hong Kong.

6. Other major issues and development

Recent development of RMB related initiatives

- **Expansion of the RMB trade settlement scheme:** The People's Bank of China ("PBoC") and the Hong Kong Monetary Authority ("HKMA") signed a Supplementary Memorandum of Co-operation in July 2010 on the expansion of the RMB trade settlement scheme. This relaxes a few policies on the Rmb business in Hong Kong. Amongst others, financial institutions and corporations are now able to open Rmb accounts and Rmb can be transferred between bank accounts under different names.

- **Trading in the Mainland's interbank bond market:** PBoC promulgated a notice in August 2010 regarding a pilot scheme, which allows the Clearing Bank and participating banks of RMB business in Hong Kong to conduct trading in the Mainland's interbank bond market upon approval by the PBoC. Furthermore, under the scheme, central banks and monetary authorities outside the Mainland can also invest in the Mainland's interbank bond market.

Recent development of Mandatory Provident Fund ("MPF")

- **Move to "employee choice" regime:** The MPF Schemes (Amendment) Bill 2009, which seeks to increase employees' control over their MPF investments, was approved by the Legislative Council in July 2009. The amendment allows employees to transfer accrued benefits derived from their employees' mandatory contributions from a contribution account under a registered scheme on a lump-sum basis to another MPF scheme of their own choice at least once per calendar year. It will be implemented upon completion of all necessary preparatory work (such as the enhancement of computer and administrative systems) by the Mandatory Provident Fund Schemes Authority ("MPFA") and the trustees. It is expected that "employee choice" will be implemented in 2011.
- **Data on MPF (Appendix 3):** Aggregate NAV of all schemes increased from HK$259,709 million as at Jun 2009, by 18.5% to HK$307,652 million as at Jun 2010.

Note[2]: "Combined fund management business" comprises fund management business and SFC-authorized real estate investment trusts ("REITs") management business. Due to the alternative investment nature of REITs, they have been excluded from the detailed analysis in the report.

"Fund management business" comprises asset management, fund advisory business and other private banking business.

"Asset management" refers to (i) the provision of services which constitute type 9 regulated activity as defined in Schedule 5 of the SFO carried out by licensed corporations and registered institutions (excluding assets from clients who are also licensed by or registered with the SFC); and (ii) the management of financial assets arising from the provision of services which constitutes classes of long term business as defined in Part 2 of the First Schedule of the Insurance Companies Ordinance (Chapter 41) (excluding assets sub-contracted or delegated to other licensed corporations/registered institutions in Hong Kong for management), but excludes REIT management, fund advisory business and other private banking business, and "assets managed" shall be construed in the same manner.

Appendix 1 – Retail Sales & Redemptions by Hong Kong Investors 2009

TYPE OF FUND	(US$ MILLION)		
	SALES	REDEMPTIONS	NET SALES/ (NET REDEMPTIONS)
A. Equity Funds			
Asia Regional (excl. Japan)	680.17	786.29	-106.12
Asia Regional (incl. Japan)	81.14	121.98	-40.84
Greater China Region	3,244.05	2,289.28	954.77
Japan	42.70	79.88	-37.18
Hong Kong	238.90	170.03	68.87
Asian Single Market (non Japan/non HK)	996.36	860.93	135.43
International	262.24	291.90	-29.66
European Regional Market	98.42	162.20	-63.78
European Single Market	118.76	79.67	39.09
North American	58.07	44.82	13.25
Emerging Markets	1,529.71	1,045.94	483.77
Sector Funds	1,472.45	1,002.26	470.19
REITs-related Funds	60.04	81.54	-21.50
Sub-total	*8,883.01*	*7,016.72*	*1,866.29*
B. Balanced/Managed Funds	320.06	323.91	-3.85
C. Bond Funds			
Global Bond	1,587.35	827.68	759.67
US	334.49	357.04	-22.55
Europe	102.37	51.87	50.50
Asia	1,052.79	373.92	678.87
Emerging Markets	990.05	435.71	554.34
Sub-total	*4,067.05*	*2,046.22*	*2,020.83*
D. Money Market Funds/liquidity Funds	913.77	1,146.28	-232.51
E. Guaranteed Funds	11.04	1,193.09	-1,182.05
F. Equity Index Funds	234.17	186.90	47.27
G. Fund of Funds (Traditional Long-only)	57.62	103.42	-45.80
H. Hedge Funds	22.07	8.38	13.69
I. Warrants, Futures and Options Funds	250.61	217.02	33.59
J. Other Funds	208.47	176.76	31.71
Grand total	***14,967.87***	***12,418.70***	***2,549.17***

Source: HKIFA (The sales and redemptions data only cover funds managed by HKIFA members.)

Appendix 2 - Retail Sales & Redemptions by Hong Kong Investors 2010 (from Jan to Jun)

TYPE OF FUND	(US$ MILLION)		
	SALES	REDEMPTIONS	NET SALES/ NET REDEMPTIONS
A. Equity Funds			
Asia Regional (excl. Japan)	665.94	527.96	137.98
Asia Regional (incl. Japan)	49.59	73.62	-24.03
Greater China Region	2,233.45	1,411.84	821.61
Japan	24.33	42.92	-18.59
Hong Kong	204.02	104.26	99.76
Asian Single Market (non Japan/ non HK)	674.81	564.90	109.91
International	120.82	140.33	-19.51
European Regional Market	37.78	89.64	-51.86
European Single Market	116.65	83.95	32.70
North American	52.24	30.81	21.43
Emerging Markets	1,248.66	804.67	443.99
Sector Funds	894.12	748.02	146.10
REITs-related Funds	18.72	36.49	-17.77
Sub-total	*6,341.13*	*4,659.41*	*1,681.72*
B. Balanced/Managed Funds	290.88	250.95	39.93
C. Bond Funds			
Global Bond	2,884.15	994.47	1,889.68
US	243.23	187.87	55.36
Europe	99.10	52.78	46.32
Asia	1,037.09	423.07	614.02
Emerging Markets	889.26	568.09	321.17
Sub-total	*5,152.83*	*2,226.28*	*2,926.55*
D. Money Market Funds/liquidity Funds	365.08	501.72	-136.64
E. Guaranteed Funds	11.66	103.78	-92.12
F. Equity Index Funds	192.86	128.31	64.55
G. Fund of Funds (Traditional Long-only)	20.25	71.13	-50.88
H. Hedge Funds	40.81	15.27	25.54
I. Warrants, Futures and Options Funds	46.71	96.94	-50.23
J. Other Funds	201.96	141.93	60.03
Grand total	***12,664.17***	***8,195.72***	***4,468.45***

Source: HKIFA (The sales and redemptions data only cover funds managed by HKIFA members. At the end of June 2010, HKIFA members managed about 1,140 SFC-authorized funds with asset size of about US$682 billion.)

Appendix 3 - Data on MPF

	30-Jun-2010	30-Jun-2009
MPF Schemes	Number	Number
Registered Schemes	39	38
Approved Constituent Funds	376	354
Approved Pooled Investment Funds	287	306
Approved Index-tracking Collective Investment Schemes	97	95
MPF Enrollment Rate*		
Employers	98%	100%
Employees	99%	97%
Self-employed persons	74%	75%
Aggregate Net Asset Values of All Schemes (including assets transferred from ORSO schemes [Note3])	HK$307,652 million	HK$259,709 million

* Estimated figures.
Source: MPFA

***** End *****

(Prepared: September 2010)

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Note[3] ORSO schemes are voluntary private occupational retirement schemes registered under the Occupational Retirement Schemes Ordinance ("ORSO"), which has been in operation since 1993. With the introduction of MPF, legislation has been introduced to set out arrangements for the interface of the existing voluntary ORSO schemes with the new MPF System. The arrangement is intended to minimize the interference with existing schemes and avoid upsetting the contractual relationship between employers and employees. An ORSO registered scheme may be MPF-exempted if it meets certain criteria.