



Abolition of MPF-LSP Offsetting and Its Accounting Considerations

Financial Webinar Series



Friday, 11 August 2023

The legislative package

The Amendment Ordinance



Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022

- Gazetted on 17 June 2022
- Effective on 1 May 2025 (Transition Date)

Supporting measures



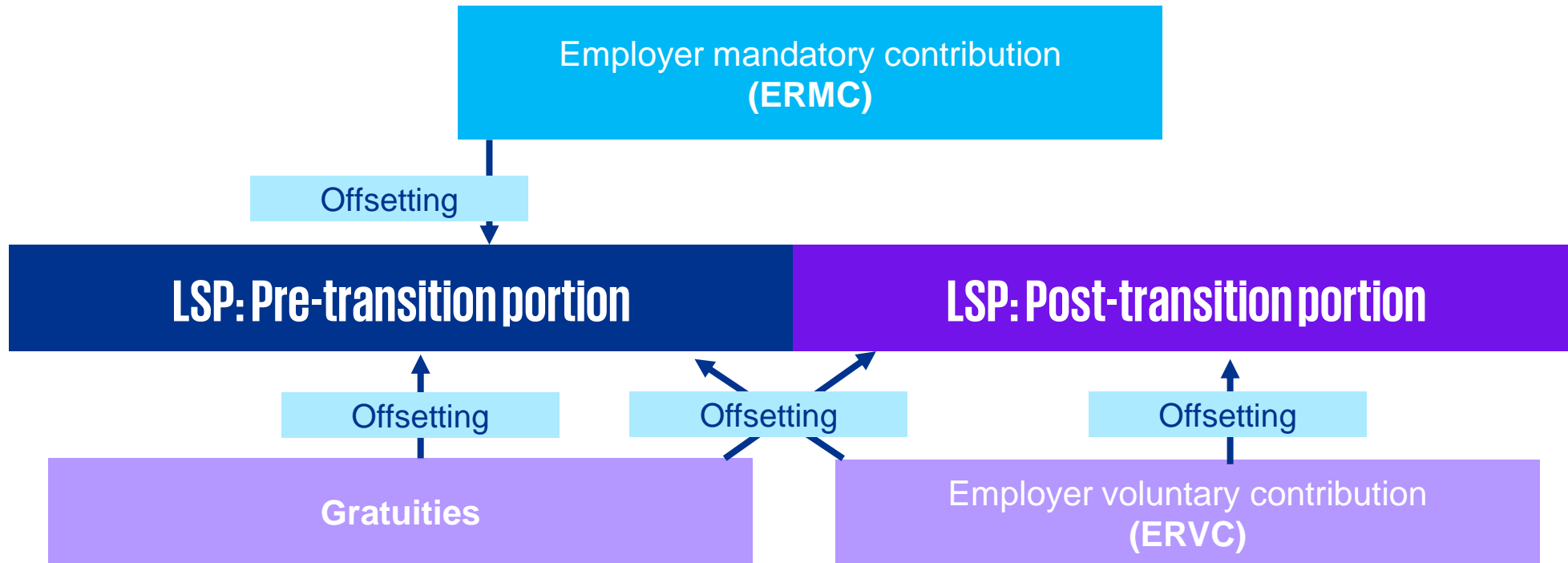
Subsidy for a period of 25 years for post-transition LSP



Designated savings accounts

'Prospective' abolition...

For an employee whose employment commences before the Transition Date



- ERMC for whole employment period can only be used to offset pre-transition portion of LSP
- ERVC and Gratuities for whole employment period can be used to offset both pre/post- transition LSP

... but immediate financial statement impact!



Legal:
May 2025



Accounting:
Immediate impact

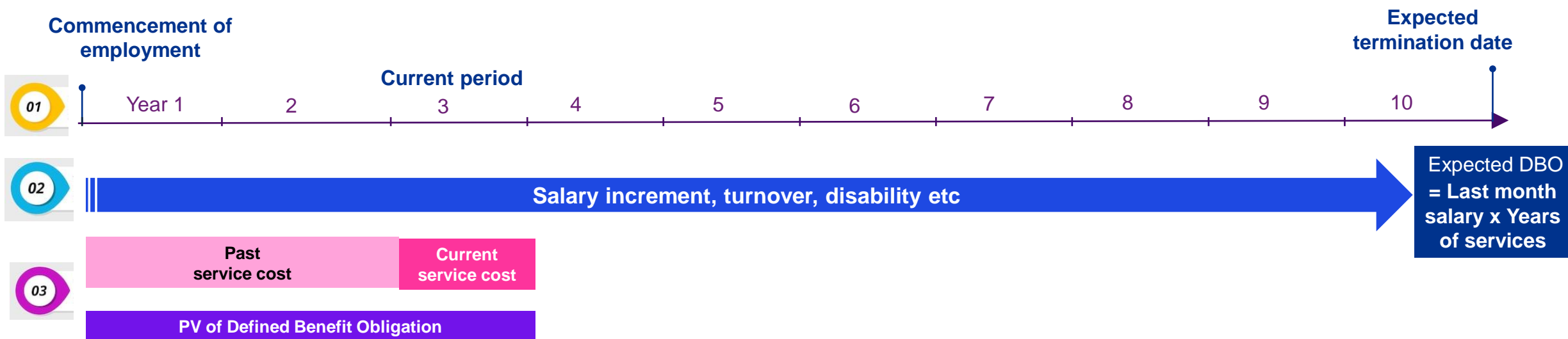
- 'Straight-lining' of expected future cost increase to past service period, *or*
- 'Gross-up' of balance sheet for employer's reimbursement right



Defined benefit accounting: 'projected unit credit method'

Key points

- 01 Each service period is an additional **unit** of benefit eligibility
- 02 **Project** the future obligation considering actuarial assumptions
- 03 **Attribute** expected obligation to service periods, normally on straight-line basis



Does LSP liability increase? Does the abolition mean...

Two key questions:

01

Offsetting mechanism links up MPF (defined contribution) and LSP (defined benefit)

02

Offsettable benefits: Employee's contributions towards LSP or Employer's right to reimbursement on LSP?

View 1: ... an increase in LSP?

- Offsettable benefits are employee contributions in effect
- Abolition means future employee contributions towards LSP will decrease
- LSP liability is **net** of employee contributions (negative benefit)
- Abolition means a higher LSP liability *now*, because of 'straight-lining' under projected unit credit method



View 2: ... an increase in MPF?

- Offsettable benefits mean accrued benefits from ERMC are subject to 'clawback'
- Abolition means employer will have a lesser right of reimbursement from MPF trustee upon LSP payment
- LSP liability and reimbursement asset are presented **gross**
- Abolition means a lower reimbursement asset *in the future*, which is based on actual amount of accrued benefits (i.e. not forecast and 'straight-lined')

HKICPA example



Background

- Financial year end of the entity (employer): 30 April
- Employee joined in 2016 (Year 1); Employee is expected to leave in 2035 (Year 20)
- Annual salary: HK\$120,000 (Year 1); Salary increment: 4% per annum
- MPF contribution by employer (assuming at the end of the financial year): 5% of monthly salary (monthly cap of HK\$1,500, equivalent to an annual cap of HK\$18,000)
- Investment return on MPF contribution: 3% per annum
- Discount rate determined in accordance with HKAS 19.83: 3% per annum
- The employee is entitled to a lump sum benefit at retirement (i.e. LSP) determined as:
 - Last month salary x 2/3 x no. of years of service (with a cap of HK\$390,000)

Source: [gMPFLSP.pdf \(hkiipa.org.hk\)](#)

Comparison of the two approaches: HKICPA example

Components:

- Current service cost (employee's contribution as negative service cost), projected unit credit method
- Interest expense

Increase because effect of reduction in employee contribution outweighs impact of 'last month salary' for pre-transition portion

As at/for year ended 30 April 2023				
	Approach 1: Employee contribution		Approach 2: Reimbursement asset	
	Before law change	After law change	Before law change	After law change
Statement of financial position				
Reimbursement asset	-	-	61,079	61,079
LSP liability	14,001	39,405	78,811	66,026
Statement of comprehensive income				
LSP related expenses	(2,107)	(27,511)	(10,311)	2,474
MPF expenses	(7,896)	(7,896)	-	-

Components:

- Current service cost, projected unit credit method
- Interest income (on reimbursement asset)
- Interest expense

Decrease because of changes to 'last month salary' for pre-transition portion

Note: illustration ignores OCI impact from changes in LSP estimates
 Source: [gMPFLSP.pdf \(hki CPA.org.hk\)](#)

Ultimately, the LSP liability will converge at settlement



Actuarial considerations: overview

- According to Hong Kong Accounting Standard 19 (2011) (HKAS 19), entities are required to employ the professional actuarial valuation institution to evaluate the cost of employee benefits, such as the SP/LSP obligation or other defined benefit plans(DB).
- The key steps of the actuarial valuation solution are in the followings:

Measuring:

1. Obligation of DB plan



✓ **Methodology: Projected Unit Credit Method**

✓ **Key assumptions: Rationality and optimization of assumptions for calculations**

2. Net liability/assets of DB plan



✓ **Present Value of DB plan obligation – Deficit/ Surplus by fair value of DB Plan**

3. Amount in the profit/loss(P&L)



✓ **Cost of service= Current service cost + Past service cost + Settlement (gain)/loss**

✓ **Interest = Net interest on net defined benefit liability/(asset)**

4. Amount in other income(OCI)

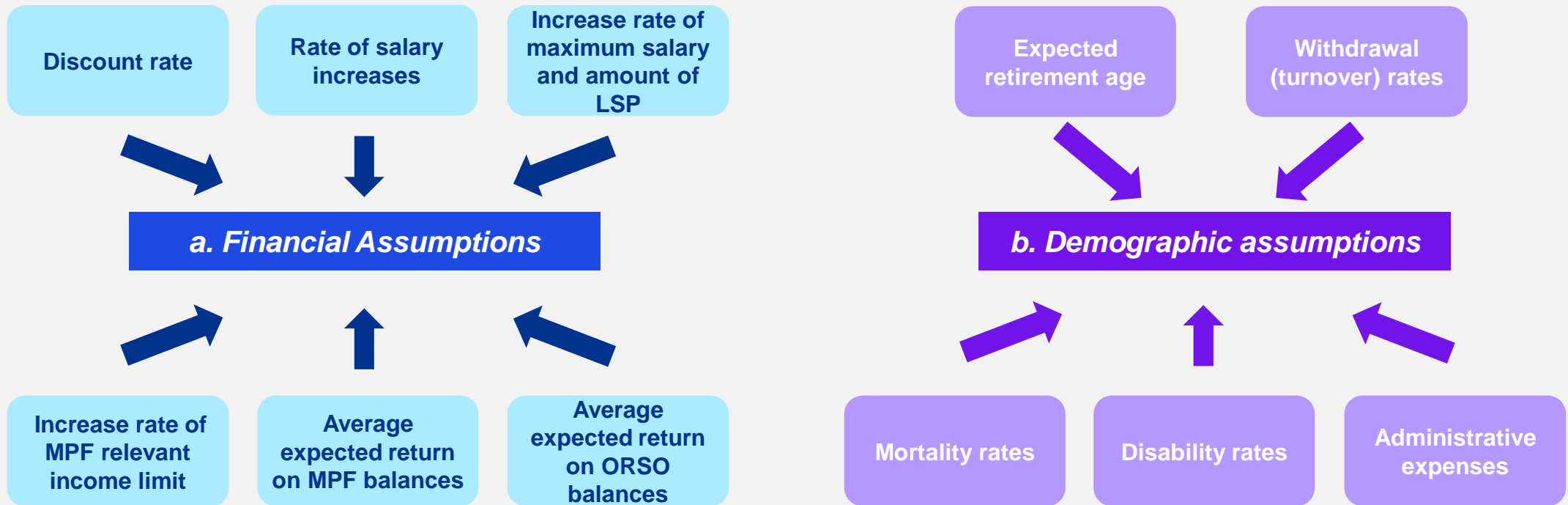


✓ **Actuarial gains or losses: Due to liability experience and assumption changes**

✓ **The difference between actual return and expected return on scheme assets**

Actuarial assumptions

- We will work with client to discuss the rationality and optimization of assumptions, clarify the selection method of key assumptions, and design applicable recommendations at different phases for the valuation of the SP/LSP Obligation.
- A typical example of actuarial assumptions required in this valuation calculation is showed below:



Note: Requirements for the assumptions may be adjusted according to each company's scheme and data quality

How actuarial results flow to the financial statements

- According to HKAS 19:
 - a. The past service cost is the change in the DBO resulting from a scheme amendment (abolition of the offsetting arrangement)
 - b. The impact on the *profit & loss* and the *balance sheet* for LSP should be reflected in a company's financial statements

A typical actuarial result in accounting exhibits:

A. Profit & Loss (P&L)

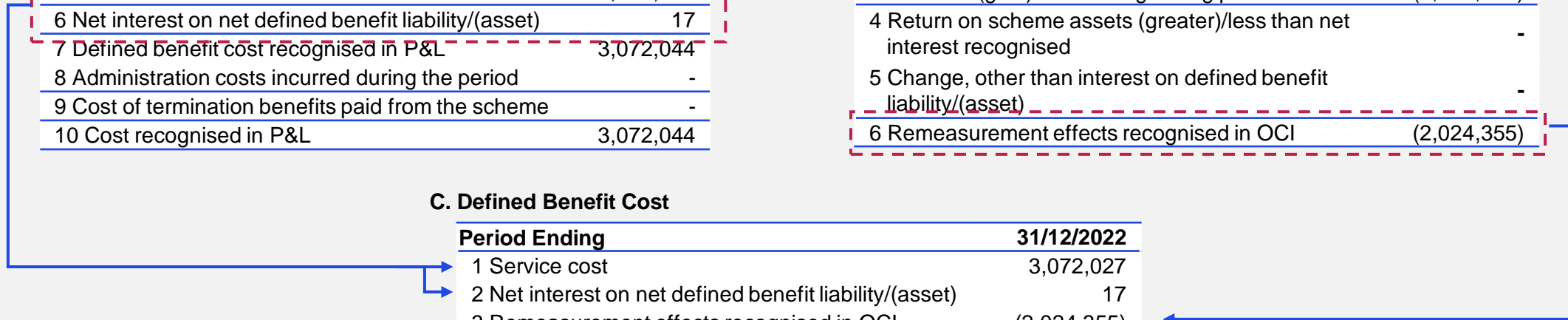
Period Ending	31/12/2022
1 Current service cost	963
2 Past service cost – scheme amendments	3,071,064
3 Past service cost – curtailments	-
4 Non-routine settlement (gain)/loss	-
5 Service cost	3,072,027
6 Net interest on net defined benefit liability/(asset)	17
7 Defined benefit cost recognised in P&L	3,072,044
8 Administration costs incurred during the period	-
9 Cost of termination benefits paid from the scheme	-
10 Cost recognised in P&L	3,072,044

B. Other Comprehensive Income (OCI)

Period Ending	31/12/2022
1 Actuarial (gain)/loss due to liability experience, including routine settlements	21,294
2 Actuarial (gain)/loss due to liability assumption changes	(2,045,649)
3 Actuarial (gain)/loss arising during period	(2,024,355)
4 Return on scheme assets (greater)/less than net interest recognised	-
5 Change, other than interest on defined benefit liability/(asset)	-
6 Remeasurement effects recognised in OCI	(2,024,355)

C. Defined Benefit Cost

Period Ending	31/12/2022
1 Service cost	3,072,027
2 Net interest on net defined benefit liability/(asset)	17
3 Remeasurement effects recognised in OCI	(2,024,355)
4 Defined benefit cost	1,047,689



Webinar dates and topics for 2023

- 22 February – Capital Market and HKEX Listing Rules Update
- 28 April – Sustainability Reporting Developments
- 2 June– Interim Reporting Reminders and IASB Developments
- **11 August – Abolition of MPF-LSP Offsetting and Its Accounting Considerations**
- **15 September – TBC**
- **13 October – ISSB’s climate standard**
- **14 December – Year-end updates**

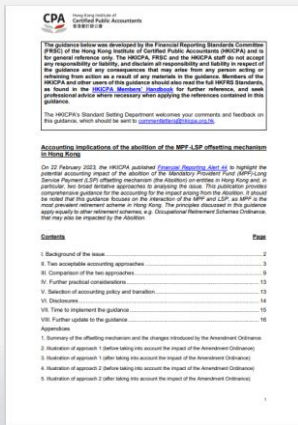


For more details and access to our webinar series:

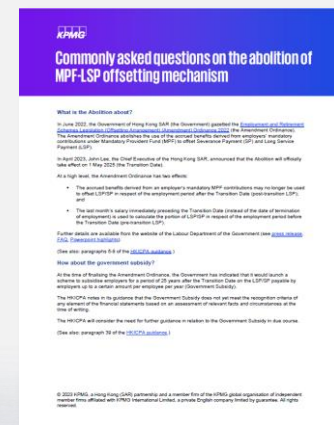
<https://home.kpmg/cn/en/home/services/audit/ifrs-news/financial-reporting-webinar-series.html>

Resources

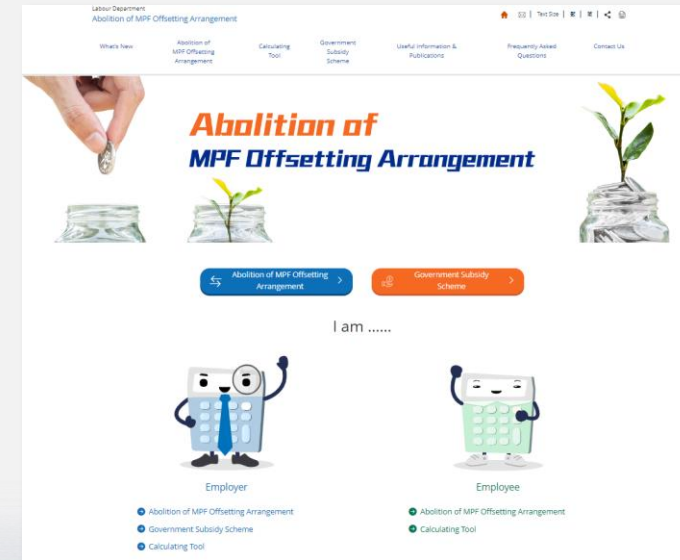
Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong



Commonly asked questions on the abolition of MPF-LSP offsetting mechanism



Labour department website



With you today



Jim Tang

Partner
Audit Quality and Professional Practice
Hong Kong (SAR)
KPMG China
E jim.tang@kpmg.com
T +852 2685 7610



Alex Zhou

Director
Actuarial Service Risk Consulting
Beijing
KPMG China
E at.zhou@kpmg.com
T +86 10 8508 4504



Serene Seah-Tan

Partner
Audit Quality & Professional Practice
Hong Kong (SAR)
KPMG China
E serene.seah-tan@kpmg.com
T +852 2685 7331

Event Survey

Please scan the QR code and complete the feedback survey, your feedback is important to us.





Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.



kpmg.com/socialmedia

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2023 KPMG, a Hong Kong (SAR) partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. Printed in Hong Kong (SAR).

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation..

Document Classification: KPMG Public