



# Abolition of MPF long service pay offsetting mechanism in Hong Kong

## Background on this regulation change

The Legislative Council passed the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Bill<sup>1</sup> 2022 on **9 June 2022** to abolish the use of the accrued benefits of employers' **mandatory contributions** under the Mandatory Provident Fund (MPF) System to offset severance payment (SP) and **long service payment** (LSP). The Government has announced that the abolition will take effect on 1 May 2025 (the transition date).

Starting from the transition date, employers can no longer use the accrued benefits derived from their mandatory MPF contributions to offset an employee's SP/LSP. Accrued benefits derived from employers' **voluntary MPF contributions** as well as **gratuities** based on length of service can continue to be used to offset SP/LSP. To reduce the risk of large-scale dismissals before the transition date, a **"grandfathering" arrangement** will be put in place for the pre-transition portion of SP/LSP of employees who are already in employment before the transition date.

In 2023, the Hong Kong Institute of Certified Public Accountants (HKICPA) has published a guidance titled "Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong"<sup>2</sup> as a general reference guide which highlights **two acceptable approaches** that companies could take to account for the impact arising from the abolition.

## What does it mean to you



Most companies **do not currently hold**, or only hold minimal net liabilities for the LSP liability under HKAS 19, based on the assumption that the mandatory MPF contribution amount would fully offset the LSP liability upon payment.



However, going forward, the LSP liability may not be immaterial and companies are expected to have to **start holding a provision**. The new MPF offsetting rules came into effect when the bill was enacted by the Legislative Council on 9 June 2022; as such this provision should be included in financial statements from this date and will be viewed as a plan amendment under HKAS 19.



This amount could potentially be **material** for most, if not all companies in Hong Kong.

1. <https://www.labour.gov.hk/eng/news/aoa.htm>

2. <https://www.hkicpa.org.hk/-/media/HKICPA-Website/New-HKICPA/Standards-and-regulation/SSD/gMPFLSP.pdf>

## What you should do now?

It is essential to **act now** and plan ahead to prevent any last-minute surprises in your balance sheet or income statement.

2. The calculation of the LSP liability requires actuarial specialism to perform the calculation together with an understanding of the accounting treatment of the new rules.

1. Engage with other key stakeholders as you make decisions, work with your auditors along the way to ensure that any approach you take would be considered to be acceptable.

3. Assess if you have the in-house capabilities to determine the liability and if not, consider consulting with an outside actuary or a professional valuer to perform such work.

## How PwC can help?

With more than 200 professional staff, including a large pool of qualified actuaries in Asia, the **PwC Actuarial Services** team has a track record of helping many employers in Hong Kong with their employee benefit liability valuations in accordance with HKAS 19.

Every year, we provide **valuation services** for companies without the in-house capabilities to perform such work, related to employee benefits such as long services pay, pension, and key man risk.



We can help you to determine the appropriate LSP liability to set up, provide support on the key assumptions to use and work with our audit experts to align on the accounting approach to use.



Please reach out to us to discuss how we could help you with this new regulation.

## PwC Actuarial Services contacts



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