



STATE STREET

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Investment Regulation Department
Mandatory Provident Fund Schemes Authority
Units 1501A and 1508, Level 15
International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

Via electronic submission to: mpfinvest@mpfa.org.hk

Consultation Paper on Providing Better Investment Solutions for MPF Members

Dear Sir/Madam:

State Street Corporation ("State Street") appreciates the opportunity to comment on the Consultation Paper on *Providing Better Investment Solutions for MPF Members* (the "Paper") jointly published by the Financial Services and the Treasury Bureau and the Mandatory Provident Fund Schemes Authority (MPFSA). The Paper sets out longer term reform proposals for the MPF system to ensure all members have access to a low fee, standardized core fund. State Street has set out in this submission our comments to key questions raised in the Paper.

Headquartered in Boston, Massachusetts, with branches and subsidiaries throughout the APAC region, State Street specializes in providing institutional investors with investment servicing, investment management and investment research and trading. With USD 27.47 trillion in assets under custody administration and USD 2.38 trillion in assets under management, State Street operates in 29 countries and in more than 100 markets worldwide.¹ Since our entry into the Asia-Pacific (APAC) region more than 25 years ago, today we have more than 3,900 employees in ten jurisdictions in Australia, Brunei, China, Hong Kong, India, Japan, Malaysia, Singapore, South Korea, and Taiwan, servicing our clients throughout the region. In 1982, State Street opened its Hong Kong office, which now serves as the regional headquarters.

We applaud the MPFSA for undertaking a thoughtful approach to the long term reform of the MPF system. In our view, enhancing *operational excellence*² is one of the key components to increase economies of scale, lower costs and improve delivery and customer experience of MPF.

¹ As of March 31, 2014.

² "Building a Better Retirement World: Insights for better outcomes in the global pension and retirement market" by EY ©2014.

The Paper proposes the establishment of a core fund to ensure MPF members have “access to a standardized, low-fee investment product that is designed in a manner consistent with the overall objective of retirement savings.” We support this proposal and recommend that the core fund arrangement should remain flexible and the number of default funds should be limited to ensure scalability, increase efficiency and maintain competitive to market forces. Also, we believe the core fund should be standardized and be substantially the same across all MPF schemes so that MPF members who do not make investment choices or choose to invest in the core fund would not be affected by their employers’ choices or employment changes. Overall, we support the continued streamlining and simplification of MPF administration, operations, reporting and customer servicing.

Please find below State Street’s comments in response to specific questions raised in the Paper.

Q1. Do you support the direction of introducing a core fund in the manner set out in paragraph 36 (a) to (d) above?

Yes, we support the direction of introducing a core fund set out in paragraph (a) to (d).

Q2. Do you agree that the CF that is the default fund should be substantially the same in all MPF schemes?

Yes, we believe the CF should be substantially the same in all MPF schemes.

Q3. Do you agree that it is appropriate that the core fund be based on a standardized default fund?

Yes, because standardization would enhance benchmarking and investment performance, lower fees, and strengthen fund structure, among others. A standardized default fund in general does not impact risk and performance return for those members who do not make the investment decision.

Q4. Do you agree that the appropriate investment approach of the core fund is one that automatically reduces risk over time as the member gets closer to age 65? If not, what other option would you propose?

Yes, this will provide a balance between maximizing returns and managing risks to achieve the overall retirement savings at the retirement age for MPF members.

Q6. Do you agree that keeping total fee impact for the core fund at or under 0.75% is a reasonable initial approach?

Yes, we agree the 0.75% is a reasonable starting point and as noted before, the final core fund arrangement should ensure scalability, efficiency, investment design efficiency and standardization, which would allow the product provider to maintain low fees and operational cost across all MPF schemes.

Q7. Do you agree that keeping total expense impact (i.e. FER) for the core fund at or under 1.0% over the medium term is a reasonable approach?

Yes (for similar reasons as Q6).

Q8. Do you agree that passive, index based, investment strategies should be the predominant investment approach in the MPF core fund?

Yes. Given the core fund is designed for MPF members who do not or do not want to make investment choice, we agree that passive investment strategies should be the predominant investment approach to deliver the appropriate balance among fees, long term risks and return for the overall objective of retirement savings.

Q10. Do you agree that the name of the core fund should be standardized across schemes? If so, do you have any preference amongst the possibilities set out in paragraph 77 above?

Yes. We agree the name of the core fund should be standardized across all schemes to minimize confusion. We recommend using the names "MPF Core Fund" or "MPF Default Investment Fund".

Q11. Do you agree with the general principle for dealing with implementation and transitional issues as set out in paragraphs 78 and 79?

Yes, we agree with the general principle in dealing with implementation and transitional issues.

Q12. Do you agree with the proposal in paragraph 81 as to how to deal with the transition for existing MPF members of default funds?

Yes. We recommend robust outreach to existing MPF members on the transitional arrangements. Also, for trustees, further guidelines are needed on dealing with the transition especially on the "transmission" of the accrued benefits of such members from their existing CF default funds into the new core fund.

Thank you again for the opportunity to comment on the important matters raised within this consultation paper. Please feel free to contact Mr. Steven Xavier Chan, Vice President of Regulatory, Industry & Government Affairs for the Asia Pacific region, should you wish to discuss State Street's submission in greater detail.

Sincerely,

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