



Room 525, 5/F., Prince's Building, Central, Hong Kong
Telephone: 2521 1160, 2521 1169 Facsimile: 2868 5035
Email: info@hkab.org.hk Web: www.hkab.org.hk

香港中環太子大廈5樓525室
電話：2521 1160, 2521 1169 圖文傳真：2868 5035
電郵：info@hkab.org.hk 網址：www.hkab.org.hk

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By post and email: mpfinvest@mpfa.org.hk

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

Dear Sirs

Consultation on “Providing Better Investment Solutions for MPF Members”

Thank you for your letter dated 25 June 2014 regarding the above consultation paper (Consultation Paper) released by the Mandatory Provident Fund Schemes Authority (MPFA) for public comments.

We have studied the proposals in the Consultation Paper to allow all MPF scheme members have access to a standardized, low fee core fund that is designed in a manner consistent with the overall objective of retirement savings. We support the proposals in principle and would like to set out our comments below on some of the questions set out in the consultation 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.

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

Yes.

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

Chairman Bank of China (Hong Kong) Ltd
Vice Chairmen The Hongkong and Shanghai Banking Corporation Ltd
Standard Chartered Bank (Hong Kong) Ltd

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主席 中國銀行（香港）有限公司
副主席 香港上海滙豐銀行有限公司
渣打銀行（香港）有限公司

We agree but would not underestimate the challenges in implementation. However, we trust that the MPFA would work with the industry and provide guidance and support as necessary.

- 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?*

We agree that an appropriate investment approach of the core fund would better protect the interest of MPF scheme members who do not have much investment knowledge.

- Q5. Do you have any preliminary views on the technical issues set out in paragraph 48, in particular whether consistency is required on all aspects of default fund design in all schemes or can some elements be left to the decision of individual product providers?*

Having regard to the current models of the MPF market, we consider that there should be some consistency in asset types and allocation for the core fund while allowing other elements to the decision of individual product providers to promote competition.

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

We agree to keep the total fee impact as low as possible for the core fund and we agree with the analysis of the MPFA that keeping all ongoing fees (for trustees, administration and distribution, investment management and custody) for the core fund at 0.75% of AUM while keeping it at “good value” (see paragraph 50 of the Consultation Paper) to be an ambitious target, which is much lower than the combined fees currently charged by a number of providers at or under 1% (per paragraph 56 of the Consultation Paper).

- 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?*

Since FER of the core funds includes not only fees but all expenses, keeping it under 1.0% would involve challenges as mentioned above.

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

While index funds seek to balance return and fees, we understand that despite promotion and marketing for many years, index funds in total still make up less than 10% of the MPF assets.



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?

In our view, "MPF Core Fund" is easy to understand and remember.

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

We agree with the analysis of the MPFA that implementation and transitional arrangements in moving from the current position to a new position can present many challenges. While we support the general principles in paragraphs 78 and 79, we trust that the MPFA is committed to providing as much support as possible (including community-wide education campaigns) to make implementation and transition as smooth and efficient as possible, ultimately benefiting the members.

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?

We agree.

We hope the above to be useful to the MPFA in considering the matter forward and we would be pleased to provide further comments on any detailed proposals in due course.