Name of respondent / 回應者名稱: The Hongkong and Shanghai Banking Corporation Limited

Q1: Yes / 支持

Q1 Comment / 意見: However, while HSBC supports the introduction of a default arrangement which offers good value to members, with an investment approach designed so as to be suitable for retirement savings, we do not believe such an arrangement should be called a “core fund”. Since the idea is to give defaulters across different schemes in the MPF system a similar experience of investment, the name should then reflect the reality – a default arrangement for those who do not make any investment choice and hence “default arrangement” or “default fund”.

We believe an investment option made possible by administratively combining underlying building blocks would also be able to fulfil a more consistent outcome for defaulters. Therefore, default arrangement is a better name for this purpose.

Q2: -

Q2 Comment / 意見: The risk profile of the default investment option should in principle be the same in all MPF schemes (e.g. Lifecycle or Target Date Funds approach). Moreover, there should also be an alignment in the glide path, if any, or the number of CFs required in the case for target date funds approach. However, as mentioned above in Q1, the new default arrangement does not have to be “a fund” or a “CF”. For instance, currently, in the Simple Choice scheme, we de-risk our members’ risk exposure by automatically re-balancing a member’s portfolio, made of several underlying APIF2. A more detailed description of the Simple Choice Asset Allocation mechanism will be given in Q4.

We would support a reasonable degree of consistency. We suggest MPFA issue a guideline on the default arrangement (perhaps a “central glide path”) and allow scheme sponsors and their administrators flexibility in the implementation of the changes to the handling of defaulters in their respective schemes using the most cost effective measures.

Q3: -

Q3 Comment / 意見: As responded in Q2, we agree that there should be a good degree of standardization with aligned principles for the design of the product, while some flexibility should be allowed, particularly with respect to the underlying building blocks or investment vehicles, so long as they adhere to the stated principles. However, since there are multiple ways to achieve the same objective, we cannot agree that a “standardized default fund” or a “core fund” would be the only appropriate policy response.

Q4: Yes / 同意

Q4 Comment / 意見: HSBC supports the general view to reduce risk over time when members approach their retirement age. In order to achieve consistency for defaulters, we suggest that MPFA adopts a single glide path with target allocations for different age cohorts.

Currently, HSBC's Simple Choice scheme adopts an administrative re-balance mechanism to help defaulters de-risk their investment over time by automatically rebalancing their underlying funds (in this case, Conservative, Global Bond and Global Equity) so as to achieve pre-determined asset allocations in line with the member's age. A detailed description of the Simple Choice – Asset Allocation can be found in the Simple Choice Principle Brochure. We believe similar re-balancing administrative mechanism which de-risks over time can be adopted across different MPF schemes. They would be cost effective for members, since they would not require any new fund launch.
Besides, since the life expectancy is getting longer and longer and the concept of retirement at a particular age is also changing, it is important to provide low risk investment options that deliver reasonable returns to members beyond the age of 65 following the implementation of the "Staged Withdrawal" in 2015. With this implementation, it is hoped that members' assets can last longer after retirement.

Q5 Comment / 意見: HSBC is of the view that a life cycle approach is preferred over a target date approach. There are a number of limitations with target date funds such as 1) proliferation of funds, 2) age as the only risk determinant factor of members' risk profile, 3) redundancy with series of target date funds potentially very similar to each other for most of their life, 4) need for an ultimate default fund for members who don't redeem after the target date, 5) duplication as both lifecycle and target date funds are actually global mixed asset funds with the only difference being the de-risking features in the target date funds, 6) target date funds having little proven popularity in Hong Kong and Asia, and 7) high administration cost as recurring openings, fund closures, and changes of documentation (prospectus, switch forms) will cost more than other approaches. Altogether we see target date funds as undesirable, as they do not offer a simple, cost-effective solution and their specific benefits remain unclear.
Provided that the general principle (and perhaps the Central Glide Path)of the default arrangement are agreed upon by stakeholders (regulatory bodies, trustees, sponsors, fund managers and the public) after the public consultation, HSBC believes that implementation (i.e. the use of underlying building blocks or investment vehicles) should be left to the decision of individual providers. Each individual providers will use the most cost effective way to implement the agreed upon default arrangement.

Q6: -
Q6 Comment / 意見: At this stage, it is still not certain what default approach (e.g. single fund/life-cycle/target date) will be adopted, and there is also uncertainty about how much global equity and bonds in this default arrangement. Therefore it is difficult to comment whether the proposed fee of 0.75% is a reasonable initial approach. Yet, HSBC agrees that the management fee be should be reasonable subject to the complexity of the default arrangement. In order to come up with an acceptable management fee, the government can take a look at the median management of the existing MPF mixed asset funds as a gauge on what the future management of the default fund should be. This approach could provide more background and

support to substantiate the proposed management fee. For the purpose of better communication, it would be beneficial for the MPFA to share further insights to substantiate the proposed 0.75% fee.

Q7: -
Q7 Comment / 意見: As responded in Q6, HSBC agrees in principle that the management fee level to be kept at a reasonable level, subject to the complexity of the design and the administrative arrangement. However, it is difficult to comment whether 1% FER is reasonable or not given there is uncertainty over the structure of the standardized default fund or arrangement currently.
Furthermore, since FER refers to extra costs (i.e. transaction costs, audit, publication and printing) which are not charged by the providers and to some degree, not entirely under the control of the providers, imposing a cap on FERs presents technical difficulties.

Q8: No / 不同意
Q8 Comment / 意見: Flexibility should be given to the product sponsor to decide what the most appropriate underlying investment approach should be. A common principle of the default fund will be agreed, and the product providers will conform to that common standard. HSBC would therefore suggest to leave room for flexibility in determining the investment approach in the building blocks of the fund. For instance, it is highly unlikely that passive investment approaches are appropriate for bond investments. In addition, there aren't enough ITCIS for fund managers to choose. We strongly recommend that the implementation part of the default arrangement should be left to each provider who will decide on active/passive investment vehicles as well as lifecycle approach vs the target date approach.

Q9 Comment / 意見: HSBC proposes direct investment into the Bond Market or into existing APIFs to be allowed as long as it fulfils the MPF investment regulations. We strongly recommend that the implementation part of the default arrangement should be left to each provider who will decide on active/passive investment vehicles.

Q10: Yes / 同意
Q10 Comment / 意見: MPF Default Option.
Q10 Preference / 較可取的名稱: -

Q11: -
Q11 Comment / 意見: HSBC understands the rationale behind the general principle for dealing with the implementation and transitional issues, however, we do not agree with the entirety of this arrangement, whereby members who are the existing default fund investors would need to switch into the new default arrangement. This would:

1. cause unexpected fluctuation of existing default funds or arrangement where numerous subscription and redemption transactions have to be switched into new default arrangement within a single day.
2. create potential complaints in changing members' investment portfolio without their consent.
3. create complications for existing members who have multiple accounts with various fund choices.
4. run contrary to the will of members who deliberately chose an existing default fund

We highly recommend that the new core fund arrangement should be applied to new MPF scheme members only, while the existing members can voluntarily switch into the default arrangement. In addition, we recommend that the Authority could further improve the arrangement by taking into account of the following:-
- The transitional arrangement shall be set out in the legislation and regulations' amendment, especially. where it involves switching of members' accrued benefits from existing default to the new default arrangement. It should cover (but not be limited to) situations whereby there will be an aligned switching dealing date, handling of unreachable members and how the members are classified as investing in existing default arrangement, etc.
- Due to the potential effect of the arrangement, we recommend that the government or the Authority carry out promotional and educational program, with extensive coverage, to the public, on the transitional arrangement prior to the launch of the default arrangement.
- The Authority must provide trustees with guidance in relation to the submission of applications for the default arrangement (e.g. standard wordings, restrictions, risk disclosures, timetable, etc.)

Q12: -
Q12 Comment / 意見: In relation to existing MPF scheme members in which the trustee or administrator of the MPF scheme cannot readily identified as those who have made an investment choice, we respectfully disagree with the Authority that their invested contributions should be switched from their existing default fund to the new core fund even if they have failed to make another investment choice. In addition to the concerns mentioned in Q11, the transitional arrangement should be standardized and one standard rule to be applied to all MPF schemes in order to be efficiently communicated with all MPF scheme members.