



強制性公積金計劃管理局
MANDATORY PROVIDENT FUND
SCHEMES AUTHORITY

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By Email

10 March 2017

Circular Letter: SU/CCI/2017/001

To: All Principal Intermediaries

Dear Responsible Officers,

Default Investment Strategy

This circular letter is the fourth in the series which is concerned with the launch of the Default Investment Strategy (“DIS”).

The DIS represents a major reform of the Mandatory Provident Fund (“MPF”) System and the MPF trustees have started to communicate with their scheme members on the DIS since December 2016. Registered Intermediaries (“RIs”) should by now be well prepared for the launch of DIS on 1 April 2017.

Notices to scheme members for launch of DIS

MPF trustees of all 32 MPF schemes have already sent DIS Pre-implementation Notices (“DPNs”) to all MPF scheme members, helping them understand what DIS is and its impact on them. You may wish to note that soft copies of all the DPNs and the relevant revised offering documents incorporating the product features of DIS for all MPF schemes are now available on Mandatory Provident Fund Schemes Authority’s (“MPFA”) website.

Transitional arrangements for members in Default Investment Accounts (commencing 1 April 2017)

From 1 April 2017 onwards, the law requires each MPF trustee to send DIS Re-investment Notices (“DRNs”) to those scheme members who are below 60 years of age or become 60 years of age on 1 April 2017, with all the accrued benefits as at 1 April 2017 invested according to a default investment arrangement (“DIA”) of their MPF schemes, as they have not given any specific investment instructions for their MPF accounts. A sample of DRN is attached for reference. You should also note that MPF trustees will be posting their DRN issuance schedules on their websites.

Upon receipt of the DRN, a DIA member has to consider whether he wishes to have his MPF benefits continued to be invested according to the DIA or he allows his MPF benefits to be transferred from DIA to the DIS. If the scheme member wishes to keep his MPF benefits with DIA, he has to actively respond to the DRN by completing and returning the form attached in the DRN to the trustee and ensuring the DRN is delivered to the trustee on or before the date specified on the DRN, being the 42nd day from the date of DRN.

If no response from the scheme member is received by trustees on or before the specified dates on the DRNs, the trustees are legally obliged to move the scheme members’ MPF benefits from the DIA to the DIS.

RIs should familiarize themselves with the implications of the launch of the DIS and the impacts of the legislative changes to the scheme members’ MPF accounts, in particular, the transitional arrangements.

DIS funds are open for subscription on 1 April 2017

With effect from 1 April 2017, all MPF schemes will open their DIS and the two underlying constituent funds (i.e. Core Accumulation Fund and Age 65 Plus Fund) for subscription by scheme members. Product features, risks and other related information are found in the DPNs, offering documents and on the websites of trustees. RIs who are consulted by scheme members on investing in the DIS or other fund choices should provide advice in a professional manner and in compliance with the relevant regulatory requirements.

Salient points for DIS handling

With the approach of the launch date of DIS, it is expected that there will be growing interest from scheme members to enquire about the DIS and to seek advice from RIs on comparing different fund options.

As part of RIs' ongoing compliance obligation to ensure competence in MPF matters, RIs are required to familiarize themselves with the new features of DIS and their underlying constituent funds, and implications of the legal provisions governing the DIS.

In general, if an RI invites, induces or advises a scheme member to remain in an existing DIA or to switch to other fund choices or another scheme, or gives related advice, this is considered to be a "regulated activity" and RIs have to comply with the relevant regulatory and conduct requirements under section 34ZL of the Mandatory Provident Fund Schemes Ordinance ("MPFSO") and the Guidelines on Conduct Requirements for Registered Intermediaries ("Conduct Guidelines").

The MPFA also takes this opportunity to reiterate to Principal Intermediaries ("PIs") and subsidiary intermediaries ("SIs") some salient points for RIs when dealing with clients on the DIS:

- (1) **Unsolicited calls related to MPF services** (paragraph III.60 of the Conduct Guidelines) - the MPFA has received complaints from scheme members on unsolicited calls and telemarketing activities. As a matter of prudent practice and risk management, RIs should avoid carrying out these activities to minimize causing nuisance and confusion to scheme members of the public during the DIS launch period. PIs' attention is also drawn to the circular letter of 19 January 2015 issued by MPFA relating to such activities.
- (2) **Clear disclosure of association/relationship with PIs by SIs** (paragraphs III.32 to III.34 of the Conduct Guidelines) - When SIs meet with scheme members, SIs should identify themselves and PIs with their business cards and disclose the capacities in which they and their PIs are acting. An SI, who acts for more than one PI, should make clear to his clients which PI he is representing on that occasion. SIs who are acting exclusively for one PI (e.g. tied agents) should clearly say so to their clients before providing any advice or service so that the clients are not confused. This is to avoid any misunderstanding by the client that an SI

is able to handle all MPF schemes.

- (3) **Competence in advising on MPF products and procedures relevant to MPF account management** (paragraphs III.12 to III.14, III.37 to III.39, III.43, III.45 and III.46 of the Conduct Guidelines) - SIs should only advise on matters that they are competent to advise. SIs should be familiar with the operation of MPF schemes and constituent funds they are promoting and be mindful of the following areas in assisting clients in the DIS matters:
- (a) RIs should be aware that there are different processes involved in the transfers of MPF benefits or consolidation of accounts or responding to DRNs. Accordingly, the right forms should be used for processing clients' instructions. Updated versions of the administrative forms can be obtained from the relevant trustees.
 - (b) In explaining to clients the operation of DIS arrangements, RIs should make sure that they fully understand the mechanism of DIS including the strategy adopted for DIS, the two new constituent funds (the Core Accumulation Fund and the Age 65 Plus Fund), annual de-risking, etc.
 - (c) At the same time, given the new DIS regime may bring about different impact to scheme members who have not given specific instructions on how their current benefits or future transfers would be invested, RIs should clearly ascertain from the scheme members the status of the investment instructions before advising on different investment options or on effecting changes to their accounts such as switching between funds within the same scheme and scheme transfer (e.g. employee choice arrangement, consolidation of personal accounts). Your attention is drawn to the applicable rules of the relevant MPF schemes. RIs should not impersonate scheme members and call trustee's hotline to enquire about scheme members' account information.
- (4) **Suitability Assessment** (paragraphs III.25 to III.27 of the Conduct Guidelines) - The DIS is a strategy that has a de-risking mechanism linked with age. RIs should conduct suitability assessment when giving advice to scheme members on investing in a particular constituent fund, including the two DIS funds. The DIS funds may have a very different

risk level from the DIA, some of which have relatively low risks e.g. guaranteed fund or MPF conservative fund.

- (5) **No clients should be asked to sign incomplete form** (paragraph III.3 of the Conduct Guidelines) - RIs should not ask or allow their clients to sign on blank or incomplete forms. RIs should ensure that any form to be signed by a client is duly completed in all material respects before asking or allowing the client to sign on it and any alterations to the completed form must be initialed by the client. A copy of the duly signed and completed form should be provided to the client as soon as practicable and another copy should be kept by the PI.
- (6) **Only authorized marketing materials may be used** (paragraphs III.5 and III.60(g) of the Conduct Guidelines) - An SI should only use advertising and marketing materials approved by his PI in advance. A PI should have in place arrangements, procedures and controls to ensure that those materials used by its SIs have been duly authorized by it and the SFC or are otherwise exempted from SFC's authorization.
- (7) **Internal controls and procedures** (paragraphs III.57 and III.58 of the Conduct Guidelines) - RIs should document the information and/or documents disclosed/provided to the client. PIs should establish and maintain proper internal controls and procedures for ensuring that all regulated activities conducted by their SIs have proper audit trails and all audio and written records required under the Conduct Guidelines are kept for a minimum period of seven years.

The MPFA would work with frontline regulators in ensuring that RIs conduct their MPF business in a compliant manner. The MPFA will refer any suspected non-compliance with the performance requirements under the MPFSO to the relevant frontline regulator for enquiries and investigation. Further, if the MPFA becomes aware of any suspected criminal offences e.g. forged signatures, the MPFA may report the same to the relevant enforcement agency including the Police.

DIS publicity and training for RIs

The MPFA has embarked on a publicity campaign to educate the public about the launch of DIS. In March and April 2017, there will be focused publicity on the implications of the new DIS legislative provisions and its impact on the MPF members.

Pursuant to paragraph III.14 of the Conduct Guidelines, RIs should have a good understanding of any registered scheme and constituent fund which they promote and/or on which they give regulated advice. PIs should arrange their Responsible Officers (“ROs”) and SIs to attend DIS training and the onus is on PIs to ensure that their ROs and SIs are properly trained in all aspects of members servicing. ROs and SIs should attend DIS training and equip themselves with sufficient knowledge about the DIS.

Should you have any questions about the contents of this letter, please contact Ms Clio Wong on 2292 1369.

Thank you for your attention.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Susanna Lee', is placed over a light blue rectangular background.

Susanna Lee
Senior Manager
Intermediaries Registry
Supervision Division

Encl

c.c. Mr Kevin Sham, Senior Manager, Banking Conduct Department, Hong Kong Monetary Authority
Ms Stephentica Lee, Associate Director, Licensing, Intermediaries, Securities and Futures Commission
Ms Shirley To, Acting Senior Insurance Officer (Enforcement), Office of the Commissioner of Insurance

**DIS RE-INVESTMENT NOTICE
MANDATORY PROVIDENT FUND SCHEMES ORDINANCE**

This DIS Re-investment Notice (“the Notice”) is important as it deals with how your Mandatory Provident Fund (“MPF”) benefits may be affected by the Default Investment Strategy as set out in the Mandatory Provident Fund Schemes Ordinance (“the Ordinance”). You should read it carefully, and in particular note the impact explained in paragraph 4 about what happens if no action is taken by you within 42 days. You are also reminded to consider it in conjunction with the [Offering Document]¹ of the MPF Scheme mentioned below.

This Notice is sent to you by us, the approved trustee of your MPF Scheme, in relation to your MPF account listed below, under sections 34DI and 34DJ of the Ordinance because:

- (a) as at 1 April 2017, all of the accrued benefits in your account listed below were invested according to the Default Investment Arrangement of the Scheme and have since remained so invested;**
- (b) we have not received any investment instructions from you to invest the accrued benefits in the account in constituent funds according to your selection as permitted under the governing rules; and**
- (c) you were under 60 years of age or became 60 years of age on 1 April 2017, or your birthday is unknown to us².**

Your MPF Account Details

Name of scheme member: [xxxxxx]

Account number of scheme member: [xxxxxx]

Date of birth (dd/mm/yyyy): [xxxxxx]³

Name of scheme: [xxxxxx] (“the Scheme”)

Name of approved trustee: [xxxxxx]

Default Investment Arrangement details: [Insert brief details about holdings, e.g. “All benefits in the account are held in units of the ABC Fund and the DEF Fund as of [xx-xx-2017]”⁴]

¹ Note for trustees: Substitute other terms as appropriate for the scheme in describing the offering document throughout the Notice.

² Note for trustees: Include only the relevant option.

³ Note for trustees: Insert “Unknown” if the date of birth is unknown.

⁴ Note for trustees: Insert table as necessary if current holdings are split between various prior default funds.

Why you are getting this Notice

1. Amendments to the Ordinance in 2016 provide for the establishment of a new investment arrangement called the Default Investment Strategy (“the DIS”) in all MPF schemes. In essence, the DIS has been designed as a standardized investment arrangement that applies to accrued benefits in accounts where the scheme member has not given any investment instructions.
2. Details of the DIS, including its automatic de-risking characteristics and fee controls, were sent to scheme members in the notice in [relevant months] setting out changes to the governing rules and [offering document] of the Scheme (“Amendment Notice”). If you do not have a copy of the Amendment Notice, a copy of it and the [offering document] is available on our website at [trustees’ website address] or [set out details about how the member could obtain another copy of the Amendment Notice].
3. Under the Ordinance, as the approved trustee of the Scheme, we must, by 3 October 2017 give you this Notice so that you can understand the impact of this change on your account.

The impact on your account

4. **If, by [yy-yy-2017], i.e. 42 days after the date of this Notice, we have not received any specific investment instructions from you for the accrued benefits in your account and all of the accrued benefits in your account continue to be invested according to the Default Investment Arrangement of the Scheme set out under “Your MPF Account Details” above, we must, by [zz-zz-2017], i.e. 14 days after [yy-yy-2017], invest those benefits according to the DIS.** We are required to invest those benefits according to the DIS and any investment instruction received by us after [yy-yy-2017] can only be carried out after the benefits have been first invested according to the DIS, providing that such investment instruction is still a valid instruction. There is potential investment gain or loss since the processes of investing according to the DIS will involve selling units from the existing Default Investment Arrangement fund(s) then purchasing units in the DIS funds at prevailing prices.
5. Further, if accrued benefits referred to in paragraph 4 are invested according to the DIS, this will also affect how future contributions or accrued benefits transferred from another scheme are invested. Contributions received or accrued benefits transferred from another scheme into the account after the date on which the accrued benefits

referred to in paragraph 4 are invested according to the DIS will also be invested according to the DIS unless we receive specific investment instructions from you to invest them in some other way. [You should note that special rules apply in some cases where benefits are transferred between accounts (e.g. between a contribution account and a personal account) within the 42-day period. If this applies to you, we will advise you accordingly.]⁵

6. [Note⁶] The accrued benefits in your account are partly/fully invested in a guaranteed fund. According to the Ordinance, we will not invest those benefits according to the DIS, if, on [yy-yy-2017] the market value of those benefits is less than the value guaranteed by the fund to be paid to you on that day. In that case, those benefits will stay in the guaranteed fund unless or until you give investment instructions to invest them in some other way.

What you need to do – your options

Option 1 – Take no action and be invested in DIS

7. You are not required to do anything, however, if you do not take any action, then as set out in paragraphs 4 and 5 above, the accrued benefits in your account will be automatically re-invested according to the DIS [except for that part invested in a guaranteed fund, if, on [yy-yy-2017] the market value of those benefits is less than the value guaranteed by the fund to be paid to you on that day⁷] and future contributions and transfers will also be invested according to the DIS⁸.

Option 2 – Stay invested in the existing constituent funds

8. If you want the accrued benefits in your account and/or⁹ future contributions and transfers to stay invested in the existing constituent funds, as set out under “Your MPF Account Details” above, then you need to complete and return the attached **Option 2 Form** to us by [yy-yy-2017]. This Form can be returned by post to the address indicated on the form [or by (insert return options, e.g. through our website, other electronic options), if relevant]. This Form can only be acted on by us if it is received by us by [yy-yy-2017]. Accordingly, if you are replying by post, please allow

⁵ Note for trustees: Sentence may be deleted if not applicable to scheme.

⁶ Note for trustees: Paragraph to be included only if relevant to scheme.

⁷ Note for trustees: Text to be included only if relevant to scheme.

⁸ Note for trustees: The words “and future contributions and transfers will also be invested according to the DIS” should be deleted in the rare case where a recipient of the Notice has already given specific investment instructions for such benefits.

⁹ Note for trustees: Whether this is “and” or “and/or” is subject to scheme rules. Select as appropriate and amend Option 2 Form accordingly.

adequate time and affix sufficient postage for postal delivery so that it will be received by us by [yy-yy-2017]. If you want to invest in the existing constituent funds after your accrued benefits and/or contributions and transfers have been invested according to the DIS, you are free to do so at any time by giving us an investment instruction.

9. You are reminded that if you want to re-invest the accrued benefits in your account into some other constituent funds, you are free to give us investment instructions to do so at any time, whether before or after [yy-yy-2017], by [set out brief details about how to do so]. Please note, however, as set out in paragraph 4 above, any investment instructions in relation to existing benefits received by us after [yy-yy-2017] can only be carried out after those benefits have been first invested according to the DIS.
10. As always, when making decisions about how to invest the accrued benefits in your MPF account, you should obtain the necessary information from the [offering document] of the Scheme and consider whether you need to obtain independent advice. Please note that the DIS does not provide any guarantee on the capital or return and investments in the DIS are subject to risks that are different from the risks of other investment strategies and constituent funds (including, for example, the impacts of the de-risking process and a different risk profile from the previous Default Investment Arrangement). These risks are set out more fully in the scheme [offering document] and in paragraph 4 above.
11. If you have any enquiries about what is set out in this Notice, please contact us by [set out details about how/where a member may make enquiries].

[date of Notice “xx-xx-2017”]

DIS Re-investment Notice

Option 2 Form

Note: You only need to complete and send this Form to us if you wish to stay invested in the existing constituent funds, i.e. proceed with Option 2 as described in paragraph 8 of the DIS Re-investment Notice

To : [Name of approved trustee], [Name of scheme]
Address : [Address of trustee]
Email : xxxxx@trustee.com.hk
Fax No. : xxxx xxxx

MPF Account Details

Name of scheme member: [xxxxx]
Account number of scheme member: [xxxxxx]
Date of birth (dd/mm/yyyy): [xxxxx]
Name of scheme: [xxxxx] (“the Scheme”)
Name of approved trustee: [xxxxx]
Default Investment Arrangement details: [Insert brief details about holdings, e.g. “All benefits in the account are held in units of the ABC Fund and the DEF Fund as of [xx-xx-2017]”]

[Note for Trustees: The above box repeats information from the 1st page of the Notice.]

I have read and understood the DIS Re-investment Notice dated [xx-xx-2017].

In respect of the existing accrued benefits in my account, the details of which are set out under “MPF Account Details” above, I hereby instruct you that these benefits are to stay invested in the existing constituent funds of the Default Investment Arrangement as set out above.

I note that this instruction also applies to future contributions and accrued benefits transferred from another scheme into the account. This instruction stays in force unless, or until, I make some other investment instructions in the manner set out in paragraph [9] of the DIS Re-investment Notice¹⁰.

Signature of the Scheme Member

Date

¹⁰ Note for trustees: Include Personal Information Collection Statement of the approved trustee in the Form.