



**Employers'  
Federation  
of Hong Kong**  
香港僱主聯合會

Ref.: G2014 – 026

24 September 2014

Investment Regulation Department  
Mandatory Provident Fund Schemes Authority  
Units 1501A and 1508, Level 15  
International Commerce Centre  
1 Austin Road West  
Kowloon, Hong Kong  
(Attn.: Consultation on Providing Better Investment Solutions for MPF Members)

Dear Sir,

### **Consultation on Providing Better Investment Solutions for MPF Members**

As one of the organisations advocating for the introduction of the MPF system to enhance retirement protection for our employees, the Federation supports any initiative for improving the system for the long term benefit of scheme members. We would like to emphasise here that the following principles should not be forgone in determining any direction of reform measures:

- It is more an individual's responsibility to plan for his or her retirement life, with needs different from one to another;
- The MPF system is established as the second pillar for retirement protection of our population, as a mandatory, privately-managed, defined contribution, employment based pension system;
- The MPF system should strike a balance between securing the maximum benefits of scheme members and allowing free and informed choice of investment options offered by different scheme providers.

On the assumption that around 20% of MPF members are in default funds (not making any choice indeed), the Federation shares the view that a better designed framework of default fund, which takes a balance between long-term risks and return, will be more beneficial to the members. We thus support the establishment of a standardised, low-fee core fund.

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Recognising that investment for retirement is a long-term process, the age-dependent, life cycle or target date fund will be more appropriate in reducing equity risk over time. This is particularly essential for scheme members opting for default fund (they do not select any fund indeed) in view of their passiveness in managing their retirement fund.

While two options for the operation of the Core Fund were raised at the meeting between your Authority and our MPF Committee on 9 July, we do not see the need to select either of them at this moment. Numerous issues have to be clarified and deliberated for rational and informed choice. For example,

- How to maintain the current privately-managed model to allow free competition while achieving the benefits of economies of scale?
- If a sole operator is selected for management of the Core Fund, what should be the appropriate measures in avoiding over-domination of the operator in the market?

The Federation considers the introduction of the MPF system in Hong Kong to be a key milestone in enhancing our employee protection. It needs concerted effort to maintain its sustainable and effective operation for this end.

Yours sincerely,

Louis Pong  
CEO

## Form for Responding to Consultation Questions

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

Yes     No

Comments:

Further to the "good value" of Core Fund, the authority may need to have more clear definition of it. As what reasonable return means varies from different people.

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

Yes     No

Comments:

The default fund should be the same in all MPF schemes to achieve the objective of standardisation. And the concern is on the selection of the combination of the CF which should fulfill the conservative investment strategy proposed.

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

Yes     No

Comments:

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     No

Comments:

We agree this investment approach as MPF scheme is served in providing retirement protection to all employees. More conservative investment approach should be adopted to ensure the positive returns.

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?

Comments:

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

Yes     No

Comments:

We understand that the authority concerned need certain period of time to control the fee at or under 0.75%. Yet it should be the target from the very beginning.

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     No

Comments:

As Q6.

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

Yes     No

Comments:

The investment strategy should be as conservative as possible which is the top criteria of the strategy in order to ensure the role of MPF system as a retirement protection.

Q9. Are there particular asset classes which you think would not appropriately be invested on a passive, index based approach?

Comments:

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     No

Your preference:

- "MPF Core Fund" (having regard to its use as a core investment approach for retirement savings)
- "MPF Basic Investment Fund" (emphasizing its design as a basic investment approach for retirement savings)
- "MPF Simple Investment Fund" (emphasizing its design as a simple investment process for retirement savings)
- "MPF Default Investment Fund" (reinforcing that its primary design is built around the default investment strategy for those who do not, or do not want to make an investment choice in saving for retirement)
- "MPF "A" Investment Fund" (or some other term which removes any implications about the nature of the strategy)

Comments:

No other comments.

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

Yes     No

Comments:

The transitional issues should be treated seriously. The promotion should be all-rounded and comprehensive enough to advise all scheme members with Core Fund as it is available to all MPF schemes members to choose.

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     No

Comments:

**Information of Respondent**

(Please refer to the Personal Information Collection Statement on pages 47 and 48 of this Consultation Paper)

**Name (optional):**

**Organization (where applicable, optional):** Employers' Federation of Hong Kong

**Address (optional):**

1230, 12/F, One Island South, 2 Heung Yip Road, Wong Chuk Hang, Hong Kong