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來函請寄「香港郵政總局郵箱 132 號稅務局局長收」

ALL CORRESPONDENCE SHOULD BE ADDRESSED TO:—
COMMISSIONER OF INLAND REVENUE,
G.P.O. BOX 132, HONG KONG.

來函編號:

Your Ref.:

來函請敘明本局檔案號碼

IN ANY COMMUNICATION PLEASE QUOTE OUR FILE NO.

檔案號碼: HQ 380/751/3

File No.:

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

電話:

Tel. No.:

傳真:

Fax No.:

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E-mail:

發出日期:

Date of Issue:

29 September 2014

Dear Sirs,

**Re: Consultation Paper on
Providing Better Investment Solutions for MPF Members**

I refer to your letter dated 25 June 2014 inviting for comments to the above Consultation Paper on providing better investment solutions for MPF members.

The MPF System of Hong Kong is an important saving-for-retirement scheme introduced by the Government and launched in December 2000. It is a mandatory, privately-managed, defined contribution, employment-based and fully-funded pension system set up as the second pillar of the multi-pillar retirement protection model recommended by the World Bank. Currently, over 80% of Hong Kong's workforce is covered by the MPF System or other retirement protection schemes, and the amount of money accumulated in the MPF System exceeded \$500 billion.

The Department welcomes the commitment of the Government and the MPFA to continuously improve the MPF System. Improvements in the performance of MPF System can enhance retirement protection and relieve financial burden on other complementary pillars which contribute to the retirement pool of Hong Kong.

Addressing the issues of public concern including fee level of funds and complexity of investment decision-making for scheme members, MPFA proposes in the Consultation Paper setting up of a low-fee, standardized default investment fund that is designed in a manner consistent with the overall objective of retirement savings, i.e. the Core Fund arrangement. In general, we support the proposed Core Fund arrangement and the proposed features so that all scheme members who do not have the time, knowledge and skills to make investment choices may have access to a standardized, low-fee, well-designed default investment fund. Please see Appendix A for the Department's reply to the questions posed in the Consultation Paper.

The Core Fund will be an added constituent fund of choice and a default fund for the MPF schemes. In so far as taxation is concerned, there are provisions in the Inland Revenue Ordinance, Cap.112 ("IRO"), under which tax deduction or exemption is allowed for certain contributions to and benefits from a MPF scheme. Please see Appendix B for a list of some of the sections.

In the event a Core Fund is to be set up and the tax position of the Core Fund and the members joining it is to be considered, you may like to make reference to the relevant provisions and requirements of the IRO, and have arrangements made in a manner to safeguard the tax position of the Core Fund and to preserve the right to claim tax deduction or tax exemption of the employers and employees in respect of contributions to and benefits from the Core Fund.

We appreciate the opportunity to comment on the Consultation Paper and hope that the information supplied will be of use to you.

Yours sincerely,


for Commissioner of Inland Revenue

**Consultation Paper on
Providing Better Investment Solutions for MPF members**

Comments of the Inland Revenue Department

The MPF core fund based on standardized default funds

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

Ans.: Yes.

I support the direction of introducing a core fund in the manner set out in paragraph 36 (a) to (d) of the Consultation Paper.

The core fund will be based on standardized default funds

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

Ans.: Yes.

I agree that the default CF should be substantially the same in all MPF schemes so as to facilitate better benchmarking and comparison of investment performance and fees across and within MPF schemes. Furthermore MPF members who have not made investment choice would then face similar investment return outcomes.

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

Ans.: Yes.

I agree that the core fund should be based on a standardized default fund so as to gain the possible benefits of standardization as mentioned in paragraphs 39 and 40 of the Consultation Paper.

Investment approach of the core fund should balance long-term risks and returns in a manner appropriate for retirement savings

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?

Ans.: Yes.

As members close to retirement have far less opportunity to remedy the damage of bad investment outcomes, I 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.

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?

Ans.: I have no comments on the technical issues set out in paragraph 48. I would leave it for the industry to work out the appropriate approaches for these technical issues.

The core fund should be good value

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

Ans.: Yes.

According to the "Low Fee Fund List" on the MPFA website, a number of providers are able to provide CF at management fee at or below 0.75% of AUM. Together with the operational efficiency of the core fund, I agree that keeping the total fee impact for the core fund at or under 0.75% is a reasonable initial approach.

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?

Ans.: Yes.

According to the "Low Fee Fund List" on the MPFA website, a number of providers are able to keep the FER at or below 1%. Together with the operational efficiency of the core fund, I agree that keeping the total expense impact (i.e. FER) for the core fund at or under 1% over the medium term is a reasonable approach.

Range of services: structural efficiency

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

Ans.: Yes.

Given that passively-managed funds would incur lower costs and fees than actively-managed ones, and according to the study of the Polytechnic University of Hong Kong actively managed MPF funds do not deliver better returns than corresponding passive index tracking funds, I agree that passive, index based, investment strategies should be a predominant investment approach for the MPF core fund to adopt.

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

Ans. No comment on the particular asset classes not to be invested.

The core fund is available to all MPF scheme members to choose

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?

Ans.: Yes.

I agree that the name of the core fund should be standardized across schemes. I would prefer the name "MPF Default Investment Fund" to indicate that it is the default fund for those who do not make an investment choice in saving for retirement.

Implementation and Transitional Arrangements

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

Ans.: Yes.

I agree with the general principle for dealing with implementation and transitional issues as set out in paragraphs 78 and 79.

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?

Ans.: Yes.

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

Taxation –Some IRO sections on deduction and exemption relating to MPF Schemes & Collective Investment Schemes

In section 2, MPF scheme means a provident fund scheme registered under the MPF Schemes Ordinance.

Section 8(2)(cb) exempts from salaries tax accrued benefit received from the approved trustee of a MPF scheme on a person's retirement from employment, death or incapacity or permanent departure from Hong Kong as is attributable to mandatory contributions.

Section 8(2)(cc) exempts from salaries tax accrued benefit received from the approved trustee of a MPF scheme (subject to proportionate benefit rule) on a person's retirement, death, incapacity, termination of service, or taken to have been received from the approved trustee of such a scheme, as is attributable to voluntary contributions paid to the scheme by an employer.

Section 26G allows deduction of the amount of mandatory contribution paid to a MPF scheme (limited to the amount specified in Schedule 3B) by a person as an employee.

Section 16(1) allows deduction of regular contributions to a MPF scheme (limited to 15% of total emoluments of the employee) by an employer to the extent they are incurred in the production of chargeable profits.

Section 16A allows deduction of special contribution paid by employer to MPF scheme, to the extent it is incurred in the production of chargeable profits.

Section 26A(1A) exempts from profits tax any sums received or accrued in respect of a specified investment scheme by or to a person as

- (i) a person chargeable to profits tax in respect of a mutual fund, unit trust or similar investment scheme that is authorized as a collective investment scheme under section 104 of the Securities and Futures Ordinance (Cap 571); or

- (ii) a person chargeable to profits tax in respect of a mutual fund, unit trust or similar investment scheme where the Commissioner is satisfied that the mutual fund, unit trust or investment scheme is a bona fide widely held investment scheme which complies with the requirements of a supervisory authority within an acceptable regulatory regime.