

Public Consultation on MPF “Core Fund”

Providing Better Investment Solutions for MPF Members



Comments may be sent through the following means:

MPFA website www.mpfa.org.hk Fax 3183 0502
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Mail 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: Providing Better Investment Solutions for MPF Members

Share Your Views by 30 September 2014



Financial Services and the Treasury Bureau



MANDATORY PROVIDENT FUND
SCHEMES AUTHORITY

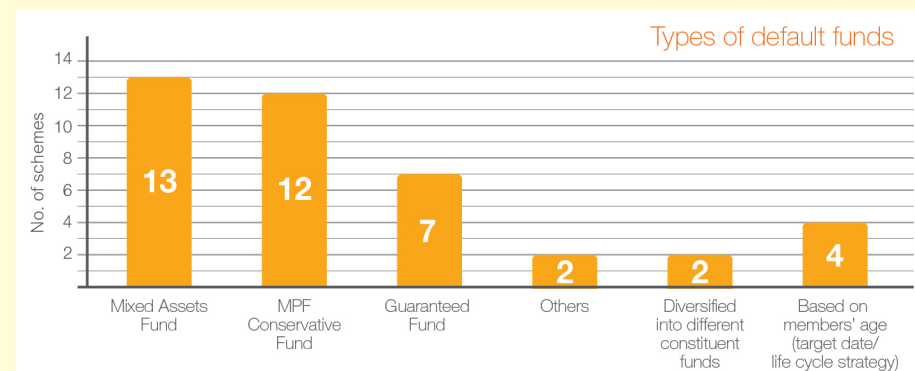
Introduction

The Government and the Mandatory Provident Fund Schemes Authority (“MPFA”) propose to enhance the regulation of default fund arrangements in Mandatory Provident Fund (“MPF”) schemes by introducing a “core fund” as the standardized low fee default fund of all MPF schemes. We are now seeking views from members of the public on the proposal as it will have an impact on the retirement investment of all MPF members.

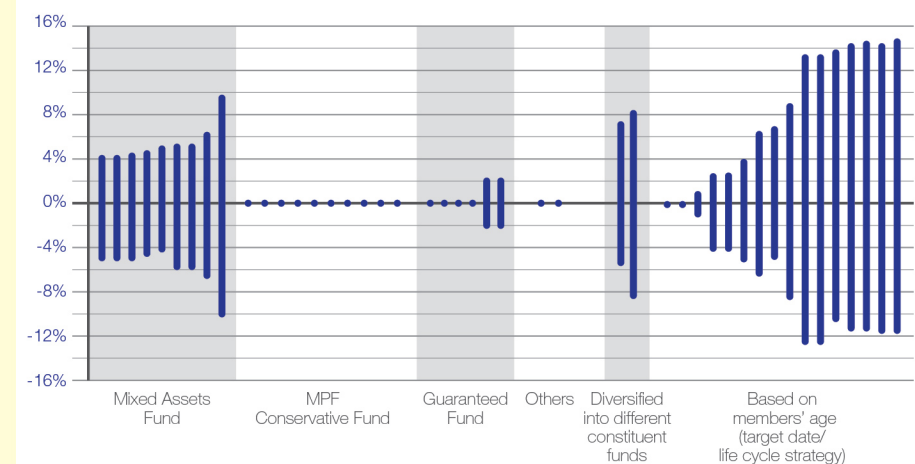
Why regulation of default arrangements needs to be enhanced

Under the MPF System, if scheme members do not make a fund choice, trustees will invest members’ MPF contributions in the default funds specified in the schemes.

There are 40 MPF schemes, each having different default fund. The risk and return profiles of these funds vary significantly.



Highest and lowest monthly returns for default funds (April 2009 - March 2014)



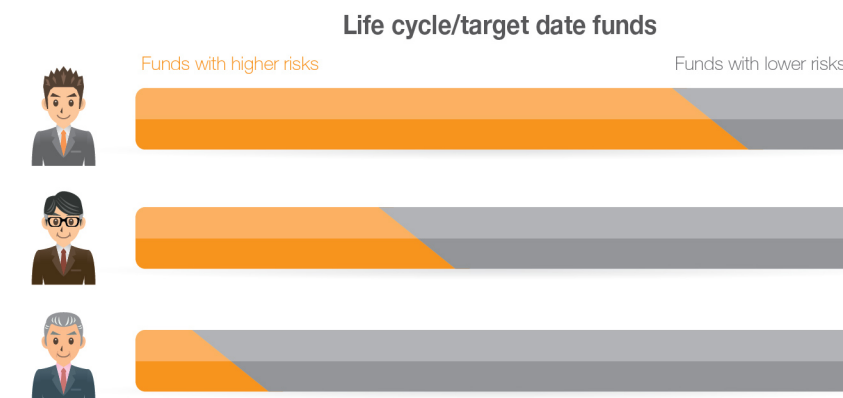
In a survey conducted by the MPFA in 2013, about one in every four MPF members said they had never made a fund choice for their MPF investment.

In recent years, some countries have started to study the importance of regulating default funds and The Organisation for Economic Co-operation and Development (“OECD”) pointed out in 2012 that well-designed default funds are a very important part of pension systems.

Two main features of “core fund”

i Investment risk automatically reduces with members’ age

Saving for retirement is a long-term investment, which normally lasts for over 40 years. According to a study conducted by the MPFA in collaboration with the OECD, a strategy that automatically reduces risk as a person gets closer to retirement (sometimes called “life cycle” or “target date” funds) is the preferred investment approach for retirement savings as its investment strategy can balance long-term investment risks and returns. In the long run, it should best manage the risks associated with long-term retirement savings and bring better returns for MPF members.



ii Subject to fee controls

Its fee should be 0.75% of fund assets or under and should be reduced further in the longer term, and in the medium term its fund expense ratio (“FER”) at 1% or under. The use of passive investment approach will help make low cost and low fee outcomes more achievable.



The “core fund” is expected to become a benchmark for the fees and performance of MPF funds, with a view to increasing market competition and driving fee reduction.

MPF members who do not make an investment choice will have their contributions invested in the “core fund”. Other members may also choose to invest in the “core fund”, if they think its investment strategy and fee level suit their investment objectives. When more and more MPF members invest in the “core fund”, the fund is likely to achieve economies of scale, thus creating room for further reduction of fees.

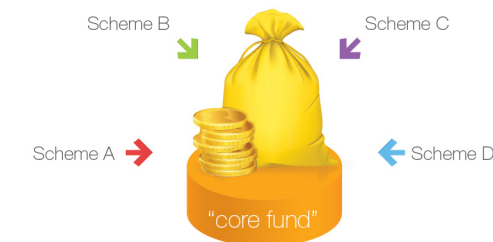
How to introduce “core fund”

The “core fund” will be managed privately. Options include each MPF scheme providing its own “core fund” which meets the set requirements, all MPF schemes using a common “core fund”, etc.

Each MPF scheme provides its own “core fund” with the set requirements



All MPF schemes use a common “core fund”



Regardless of which option is adopted, the goal is to keep the costs and fees as low as possible. The public consultation will end on 30 September 2014. The MPFA will in parallel seek views from relevant sectors on the technical details and the best operational model for the “core fund”. The MPFA targets to submit a concrete implementation proposal to the Government in late 2014 or early 2015. The Government and the MPFA will press ahead with the necessary legislative processes and operational arrangements with a view to launching the “core fund” in 2016.

For enquiries, please call the MPFA hotline at 2918 0102.



August 2014