



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

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BY EMAIL ONLY

26 June 2015

Circular Letter: SU/CTR/2015/003

To All Approved Trustees

Dear Sirs,

**Review of Adjustment Mechanism for
Minimum and Maximum Relevant Income Levels
and Default Investment Strategy**

We write to update trustees on the progress of the review of the adjustment mechanism for the minimum and maximum relevant income levels (“Min and Max RI Levels”) and the introduction of the Default Investment Strategy. The Government and the Mandatory Provident Fund Schemes Authority (“MPFA”) will report to the Panel on Financial Affairs of the Legislative Council (“Panel”) on these two subjects during the Panel meeting to be held on 6 July 2015.

Review of Adjustment Mechanism for Min and Max RI Levels

MPFA conducted a public consultation on a proposed automatic adjustment mechanism for the Min and Max RI Levels (“Proposal”) which was set out in the Consultation Paper “Introducing an Automatic Mechanism for Adjustment of Minimum and Maximum Levels of Relevant Income”. The consultation period ran from 23 January to 5 March 2015.

At the close of the consultation, MPFA received a total of 35 062

submissions from members of the public and 13 submissions from key stakeholder groups including employer associations, labour unions and MPF industry bodies. MPFA also gauged the views of the Panel and the Labour Advisory Board on the Proposal on 2 March and 1 April 2015 respectively. An overwhelming majority (99%) of the members of the public did not support the Proposal while the views of the key stakeholder groups and other bodies are polarized with some supporting the Proposal and some against it. Views are also divided on individual features of the Proposal.

In view of the above, MPFA has recently recommended to the Government that it will not pursue the Proposal for the time being and the Government agreed with the recommendation. MPFA shall continue to review the Min and Max RI Levels in accordance with section 10A of the Mandatory Provident Fund Schemes Ordinance (“MPFSO”).

MPF Core Fund (now tentatively renamed as Default Investment Strategy (“DIS”))

As regards the DIS, the Government and MPFA will consult the Panel on the amendments to the MPFSO to make it a statutory requirement that, for each MPF scheme, the trustee of the scheme must provide a standardized DIS for the investment of benefits of scheme members who have not given any investment instructions. It is proposed that the law would set out general requirements on de-risking, fee control and transitional arrangements, as well as the consequences of non-compliance. Operational details would be set out in guidelines. The relevant amendment bill is targeted to be introduced by the end of 2015 and DIS introduced in 2016.

The proposed legislative requirements are highlighted below:

- A trustee must provide a DIS in the governing rules of its scheme.
- Two constituent funds (“CFs”) (tentatively named “Core Accumulation Fund” (“CAF”) and “Age 65+ Fund”) are used for DIS investments.
- CAF targets to invest 60% of net asset value (“NAV”) of fund in higher risk investments, with variation of +/- 5% allowed.
- Age 65+ Fund targets to invest 20% of fund NAV in higher risk investments, with variation of +/- 5% allowed.
- For a DIS scheme member aged between 18 and 50, his benefits are invested in CAF.
- Once the DIS scheme member reaches the age of 50, the trustee adjusts the benefits of the scheme members annually in a manner

that progressively reduces, at a constant rate, the allocation of account value to CAF, while progressively increasing, at a constant rate also, the allocation of account value to the Age 65+ Fund.

- When the DIS scheme member reaches age 65, his benefits are invested in Age 65+ Fund.
- A new scheme member may have his benefits invested in accordance with DIS by either (1) not choosing any CFs; or (2) specifically instructing the trustee to invest in accordance with DIS.
- Existing scheme members will be notified on introduction of DIS and may choose to have their benefits invested in accordance with DIS by so instructing their trustees.
- Existing scheme members who have not given any investment instructions prior to DIS implementation will have their benefits invested in accordance with DIS after due notification and adequate time for providing contrary instructions (“transitional arrangement”).
- Subject to further discussion with industry, transitional arrangement does not apply to –
 - ♦ benefits of existing scheme members of age 60 or above on DIS implementation; or
 - ♦ benefits in guaranteed funds with market value below guaranteed value and where the guarantee will not apply when switching out under the transitional arrangement

Benefits in personal account with balance of \$5,000 or below are also under consideration.

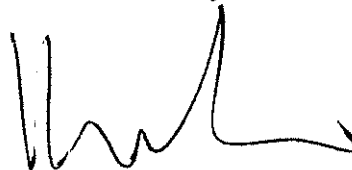
- Total management fees (fees paid or payable to trustees, administrators, investment managers and sponsors/promoters) of CAF and Age 65+ Fund and those paid in underlying investment funds should not exceed 0.75% of fund assets under management.
- Annual fees, contribution charges and withdrawal charges will be banned for benefits invested in the DIS.
- Scope of regular financial statement audits, ongoing reporting requirements, control objectives and internal control procedures of trustees will be expanded to cover DIS requirements.
- MPFA may request a trustee to provide an auditor’s report in case of suspected contravention of DIS requirements.
- Failure of a trustee to provide a DIS that complies with statutory principles for its scheme or to make available the DIS as a strategy for scheme members to invest their benefits may lead to revocation of approval of trusteeship, or suspension and termination of administration of the scheme.
- Failure to invest the benefits of a scheme member who has not

given investment instructions in accordance with DIS, failure to invest the benefits of a scheme member in accordance with the investment instructions given, and failure to meet the fee control requirements will attract financial penalties.

The discussion papers for the Panel meeting are available on the LegCo website www.legco.gov.hk and you may wish to refer to those papers for more details.

Should you have any queries on the above, please do not hesitate to contact the undersigned or Ms. Wynnie Yeung on 2292-1690.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'Joseph Lee', written in a cursive style.

(Joseph Lee)
Head (Trustees Supervision)