

## Press release

### LCQ1: Investments of the Mandatory Provident Fund

Wednesday, November 19, 2008

Following is a question by the Hon Li Fung-ying and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (November 19):

Question:

Many investors who purchased the Lehman Brothers-related structured notes under the misconception that such products were of low risks have suffered heavy losses after Lehman Brothers' announcement of filing for bankruptcy protection in the United States. In the light of this incident, will the Government inform this Council whether it has adopted measures to prevent the employees' accrued benefits in their Mandatory Provident Fund accounts from suffering huge losses in the same manner as a result of investment in similar products; if it has, of the specific measures; if not, the reasons for that?

Reply:

President,

The Mandatory Provident Fund (MPF) legislation has prescribed stringent requirements on the permissibility of investments into which the MPF constituent funds may invest in order to reduce risk as far as possible for the protection of MPF scheme members' interests. According to the Mandatory Provident Fund Schemes Authority (MPFA), the Lehman Brothers-related structured notes do not fall under the permissible investments prescribed under the law, and the MPF constituent funds have not invested in such products.

The conditions that need to be fulfilled by permissible investments are clearly set out in Schedule 1 to the Mandatory Provident Fund Schemes (General) Regulation (General Regulation). For example, debt securities are permissible only if they meet certain criteria, such as when they are issued or guaranteed by a government with the highest credit rating. For corporate debt securities, they must satisfy a minimum credit rating or be listed on a stock exchange approved by the MPFA.

In addition, the General Regulation also imposes an investment spread requirement to reduce risk. One of the requirements is that an MPF fund can invest no more than 10% of its total funds in the securities and other permissible investments issued by the same institution. The relevant legislation also restricts MPF funds from carrying out relatively high-risk activities such as those relating to borrowing and leveraging.

The MPFA ensures compliance with the investment regulations by the approved trustees of MPF schemes through different means, including examining the statutory returns and reports, conducting on-site inspections and investigating into complaints received, etc. The investment of all the constituent funds is managed by investment managers who are authorised by the Securities and Futures Commission.

In respect of disclosure of information, there are already codes which prescribe that trustees must disclose the investment objective, the portfolio allocation and the risk level of the relevant constituent funds in the offering documents and fund fact sheets distributed to scheme members. This serves to ensure that the scheme members have sufficient information to choose the constituent funds that are suitable for them in accordance with their individual investment preference and risk tolerance level.

In the light of the current market situation, the MPFA has further stepped up its market surveillance work. For example, it has imposed additional requirements on trustees to submit information on investment holdings of the constituent funds and other relevant information. This will help ensure that the operation of MPF schemes is in compliance with all the relevant requirements.

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