

Press release

LCQ4: "Employees Choice Arrangement" of Mandatory Provident Fund Scheme

Wednesday, June 9, 2010

Following is a question by the Hon Wong Kwok-kin and a reply by the Acting Secretary for Financial Services and the Treasury, Ms Julia Leung, in the Legislative Council meeting today (June 9):

Question:

This Council enacted the Mandatory Provident Fund Schemes (Amendment) Ordinance 2009 last year, which, among other things, allows employees to transfer accrued benefits derived from their personal contributions from an account under a Mandatory Provident Fund (MPF) scheme on a lump-sum basis to another MPF scheme of their own choice once a year. The Amendment Ordinance is scheduled to come into operation in early 2011. In this connection, will the Government inform this Council:

(a) given that financial institutions will introduce various kinds of investment products upon the implementation of the aforesaid Amendment Ordinance, whether the authorities plan to strengthen the regulation of MPF investment products, so as to avoid employees from being misled into choosing high-risk investment products (such as leveraged derivatives); if so, of the details; if not, the reasons for that;

(b) given that with the enactment of the aforesaid Amendment Ordinance, the number of MPF intermediaries (including corporate and individual intermediaries) reached 27,795 on April 30 this year, how the authorities will effectively regulate the selling of products by intermediaries; and

(c) whether the Government will, upon the implementation of the aforesaid Amendment Ordinance, provide appropriate support and complementary measures for employees and, through publicity and education, enable them to transfer their MPF contributions according to their individual risk tolerance level; if it will, of the details; if not, the reasons for that?

Reply:

President,

(a) The Mandatory Provident Fund Schemes Authority (MPFA) adopts a three-pronged approach for protecting the investments of MPF scheme members such that they would not be invested into high-risk investment products with leveraged derivatives after the implementation of the "Employees Choice Arrangement". The measures include -

First, MPFA has imposed restrictions on permissible investments. The Mandatory Provident Fund Schemes (General) Regulation (General Regulation) already contains provisions that regulate the permissible investments of MPF constituent funds, including restrictions for MPF constituent funds to involve in such higher risk activities as borrowing and leveraged investments so as to minimise risks as far as practicable to protect the interests of MPF scheme members. For example, the General Regulation has express provisions to prohibit the use of derivatives which will result in the constituent funds being leveraged. It also restricts that constituent funds can only invest in financial futures contracts and financial option contracts traded in stock exchanges approved by the MPFA and such investments cannot exceed 10% of the assets of the fund. In addition, the General Regulation has imposed requirement on the spread of investments, including the requirement that the total amount invested in securities and other permissible investments issued by any one institution must not exceed 10 per cent of the total funds of a constituent fund.

Second, MPFA monitors that the investment restrictions would be strictly complied. The MPFA will inspect the statutory declaration forms and reports submitted by trustees, conduct on-site inspections and require trustees and fund managers to set up appropriate internal supervision measures, etc. The MPFA will continue to strengthen its efforts in this regard.

Third, MPFA has imposed requirements on disclosure of information. Existing codes already provide that trustees have to set out in the offering document and the fund fact sheet the investment objectives, portfolio allocation and the risk levels etc., of relevant constituent funds to ensure that scheme members have sufficient information to choose the appropriate constituent funds having regard to such relevant factors as individual investment preferences and risk appetite.

The MPFA will continue to closely monitor market developments and will consider further strengthening the regulation of MPF funds if necessary.

(b) Currently, all MPF intermediaries have to be registered with the MPFA and comply with the Code of Conduct for MPF Intermediaries made by the MPFA. In preparation for the forthcoming implementation of "Employees Choice Arrangement" scheduled for next year, the MPFA is drawing up relevant guidelines for intermediaries, which will require them to explain clearly the contents of different schemes and fund types, including fees, investment objectives and risk levels etc., when selling MPF schemes or funds and to assist clients to make informed decision on the appropriate schemes and funds for making the transfer based on their investment objectives and risk appetite after taking into account all the relevant information. Furthermore, the MPFA has made the "Best Practice Note for MPF Trustees" to guide the trustees on how to monitor their MPF Schemes promoters in order to ensure that the MPF intermediaries engaged would market and sell MPF schemes and products properly.

Separately, the MPFA will raise the examination and training requirements to ensure that all existing and new MPF intermediaries will understand the relevant requirements of "Employees Choice Arrangement" as well as their roles and responsibilities as intermediaries.

The Government and MPFA will review the arrangements for regulating the sale of MPF products from time to time to ensure that they can meet the prevailing needs and can facilitate effective regulation. When necessary, we will put forth improvement proposals to consult the public.

(c) The MPFA has always put much emphasis on MPF investment education. In the light of the forthcoming implementation of the "Employees Choice Arrangement" scheduled for next year, the MPFA has kicked start a series of activities this year to educate the general public the relevant factors to be considered when making investment decisions. The MPFA will also publicise the implementation details of the "Employees Choice Arrangement" through different means, including publications, advertisements and news articles. In addition, the MPFA has held over 160 MPF investment education seminars in collaboration with employers' and employees' bodies and other partners in the past six months. Over 20,000 individuals have participated in these seminars. The MPFA will continue to arrange a variety of education and publicity activities so that scheme members can be more familiar with the operational details of the "Employees Choice Arrangement" and the relevant factors for consideration when making transfer of accrued benefits.

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