

## **Press release**

### **LCQ2: Management of assets accumulated under the Mandatory Provident Fund Schemes**

Wednesday, June 22, 2011

Following is a question by the Hon Tam Yiu-chung and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (June 22):

Question:

The Mandatory Provident Fund Schemes Authority (MPFA) has recently announced that the total net asset value of all Mandatory Provident Fund (MPF) Schemes in Hong Kong as at the end of December 2010 was \$365.4 billion, and since the MPF System came into effect in December 2000, the annualised internal rate of return was 5.5%; among the five types of investment products, the annualised rate of return for MPF Conservative Fund, Guaranteed Fund and Money Market Fund were only 1.2%, 1.6% and 0.8% respectively. Besides, according to the relevant disclosure code of MPFA, an annual benefit statement (ABS) issued by a MPF trustee to scheme members in respect of a financial period ending after September 1, 2009 should clearly set out the amount of fees charged for each contribution, transfer of benefits and transaction (ie bid/offer spread) of constituent funds during the year, but quite a number of members of the public have recently relayed to me that there is no such information in the ABS they received. In this connection, will the Government inform this Council:

(a) given that the annual return of the "investment portfolio" of the Government's Exchange Fund reached 7.1% on average in the past five years, whether the Government has any plan to set up a centrally operated MPF fund, and adopts the investment management approach of the Exchange Fund of a relatively low risk operation to yield higher investment returns for contributors; if it has, of the details; if not, the reasons for that;

(b) whether the Government will consider introducing legislation to stipulate ceilings for the fees and charges of different types of MPF investment funds, so that contributors' assets are less eroded by management fees; if it will, of the details; if not, the reasons for that; and

(c) whether it knows if MPFA has scrutinised the compliance by MPF trustees with the requirements on fee disclosure; if it has, of the results and which trustees have been penalised for failing to disclose the fees and charges in accordance with the requirements; if not, the reasons for that?

Reply:

President,

My reply to the three parts of the question is as follows:

(a) Based on the Hong Kong Monetary Authority Annual Report 2010, the average investment return of the Exchange Fund is 4.9%. The 7.1% referred to in the question may probably be related to the average interest on the placements by Fiscal Reserves in the Exchange Fund. In any case, the investment objectives of the Exchange Fund and the calculation of its return are different from those of the Mandatory Provident Fund (MPF). Thus, they are not quite comparable. The assets of the Exchange Fund mainly include bonds and equity. Currently, under the MPF System, there are 41 MPF Schemes providing 422 constituent funds or an average of around 10 constituent funds per Scheme, which already include Equity Funds, Bond Funds, Mixed Assets Funds (mainly include equity and bond), Guaranteed Funds, MPF Conservative Funds and Money Market Funds. Scheme members may choose appropriate funds in accordance with their investment targets and risk appetite. Since 2007, the Mandatory Provident Fund Schemes Authority (MPFA) has provided the Fees Comparative Platform on its website to assist scheme members to make choices. I will set out in greater detail the relevant measures in part (b) of my reply.

In terms of return, the annual average return rate of the MPF System from December 2000 to March 2011 is, net of fees and charges, 5.4% calculated by way of the dollar-weighted return. The return rates of certain fund types are significantly higher than the overall average. In the past five years, net of fees and charges, the annualised return of Equity Funds was 7.4% and that of Bond Funds and Mixed Asset Funds was 4.5%. Since the implementation of the MPF System in 2000, the overall return of the MPF System has been higher than the annualised inflation rate of 0.8% and the average return of any single fund type has not been lower than the inflation rate.

Overall speaking, the MPF System has played considerable role in strengthening the retirement protection for the public since its implementation in 2000. The existing arrangement is consistent with the mandatory, privately managed retirement contribution scheme advocated by the World Bank. We will continue to work together with MPFA to improve the existing MPF System.

(b) At present, there are 19 approved MPF trustee companies in the MPF market. Through enhancement of market transparency and increase in market competition, the Government and MPFA have been working to bringing about MPF fees adjustment by market forces. Since 2007, MPFA has provided the Fees Comparative Platform on its website to provide major fees information of MPF funds for reference of scheme members. Through the Platform, scheme members can have access to information on the fees charged by the funds they have chosen and compare their Fund Expense Ratios with those of other funds, which will assist them in the making of choices that suit their needs.

On enhancing market competition, the Government and MPFA are proactively following up the implementation of the Employee Choice Arrangement (ECA). Under the ECA, scheme members will be allowed to transfer accrued benefits derived from their mandatory contribution during current employment to a scheme of their own choice at least once a year. It is expected that the portable MPF assets will increase to 60%. Through issuing letters to employers, MPFA has encouraged them to provide more than one MPF schemes for selection by their employees. MPFA will also step up education and publicity work.

In addition, MPFA will discuss with trustees measures to streamline procedures and improve the overall operation of the MPF System, with a view to reducing compliance cost and creating room for fees reduction.

The above measures have been instrumental to bring about fees reduction. The average Fund Expense Ratio for the funds with financial period ending between July 2009 and June 2010 was 1.82%. Compared with the ratio of 2.1% for the funds with financial period ending between April 2006 and March 2007, it was more than 10% lower. In the past three years, all MPF trustees have reduced fees or introduced new MPF funds of low fees. We also notice that some trustees have reduced the fees of existing funds/schemes or introduced new MPF funds/schemes with lower fees in recent months.

On the overall management fees of the MPF System, I believe there is still room for reduction. The industry and MPFA are expected to continue to work for reduced fee levels, for instance, subject to that enforcement actions will not be affected, to lower compliance cost as much as practicable, and considering the provision of appropriate index tracking funds with lower fees. The Government and MPFA will continue to make use of market forces to encourage MPF trustees to adjust their fees levels.

(c) According to the Code of Disclosure for MPF Investment Funds (the Code) issued by MPFA in 2004, trustees are required to provide Offering Document to potential scheme members as well as existing scheme members. The Offering Document must contain a Fee Table, which lists out information on all fees and charges, and uses a standard format and easy-to-understand language to facilitate understanding and comparison on MPF fees.

Section 56 of the Mandatory Provident Fund Schemes (General) Regulation (the Regulation) also requires trustees to provide an annual benefit statement to scheme members within three months after the end of each financial period. Section 56 of the Regulation and the Code further require that annual benefit statements issued in respect of financial periods ending after September 1, 2009 have to set out the detailed fees charged to scheme members accounts for each contribution, transfer of benefits, withdrawal and redemption of units, etc. As to other fees paid for members' investment in constituent funds (including investment management fees, custodian fees and administration fees), scheme members may refer to the Fund Fact Sheet. The Code requires trustees to issue at least two Fund Fact Sheets per financial period for the reference of scheme members, including the most recent Fund Expense Ratio for each class of units of each constituent fund.

Any amendments to the Offering Document, including amendments to the Fee Table for new funds and existing funds, can only be issued after MPFA's written approval to the trustees concerned. As to the Fund Fact Sheet which discloses the Fund Expense Ratio, trustees are required to provide a copy to MPFA within five working days after their issue. MPFA will also scrutinise these documents periodically. According to MPFA, trustees' compliance record on fees disclosure have been satisfactory and no trustee has been penalised for failing to disclose the fees and charges in accordance with the requirements since the commencement of the above-measures.

Ends