

## Press release

### LCQ14: Employee Choice Arrangement of MPF

Wednesday, March 28, 2012

Following is a question by the Hon James To and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (March 28):

Question:

The authorities expect that the Mandatory Provident Fund Schemes (Amendment) (No. 2) Bill 2011 will be passed in this legislative session to enable the Mandatory Provident Fund Schemes Authority (MPFA) to implement the Employee Choice Arrangement (also known as MPF Semi-portability) under the MPF System in November this year. The authorities have pointed out that upon the formal implementation of MPF Semi-portability, the trade would conduct more proactive sales and marketing activities targeting at MPF scheme members. In this connection, will the Government inform this Council:

- (a) whether it knows the current progress of the implementation of MPF Semi-portability;
- (b) whether it knows, in response to the implementation of MPF Semi-portability, what measures MPFA, being the registration authority for intermediaries, has in place to monitor MPF sales activities;
- (c) given that upon the implementation of MPF Semi-portability, the intermediaries' sales targets will be extended from employers to employees, whether it knows how MPFA ensures that intermediaries will provide employees with services which meet their needs; whether targeted requirements will be stipulated in the licensing or other conditions for intermediaries;
- (d) given that MPF intermediaries are not required under the existing regulations to make public their commission rates, whether it knows if MPFA will, upon the implementation of MPF Semi-portability, require corporate intermediaries to make public their commission rates;

(e) whether the authorities have in place the timetable for implementing MPF Full Portability; if so, of the timetable;

(f) given that recently there are again comments that the management fees for MPF schemes are too high and their rates of return are lower than that of the Tracker Fund of Hong Kong, whether the Government has other measures to lower the management fees and improve the return performance of MPF schemes, apart from lowering the management fees by implementing MPF Portability; and

(g) regarding the suggestion that MPFA or the Hong Kong Monetary Authority may provide a choice of index funds (e.g. the Tracker Fund of Hong Kong) at low charges for MPF scheme members in order to reduce the overall management fees of MPF schemes by means of market forces, whether the Government will consider similar suggestions?

Reply:

President,

(a) The Government introduced the Mandatory Provident Fund Schemes (Amendment) (No.2) Bill 2011 (the Bill) into the Legislative Council (LegCo) on December 14, 2011. The Bill aims to set up a statutory regulatory regime for Mandatory Provident Fund (MPF) intermediaries. We are working closely with the Bills Committee to facilitate its scrutiny of the Bill, with a view to securing its passage within the current term of LegCo so that the Employee Choice Arrangement (ECA) can be implemented on November 1, 2012.

In parallel, the Mandatory Provident Fund Schemes Authority (MPFA) is pressing ahead with the various supporting measures for the implementation of ECA, including development of operational policies and guidelines for trustees, conducting testing and trial run of the electronic system for transfer of accrued benefits, offering train-the-trainer workshops to ensure availability of training courses for MPF intermediaries, drafting Guidelines for intermediaries, and investor education, etc.

(b) and (c) The Bill provides for a statutory regulatory regime to regulate MPF sales and marketing activities upon commencement of ECA. Broadly speaking, the key elements are:

(i) a statutory registration system will be in place to ensure that only qualified persons are allowed to conduct MPF sales and marketing activities (registered intermediaries);

(ii) MPFA will promulgate Guidelines, setting out its expectations on how registered intermediaries should conduct MPF sales and marketing activities to meet the statutory conduct requirements;

(iii) individual registered intermediaries are required to fulfill the continuing training requirements specified by MPFA to ensure their continuing competence;

(iv) a full range of inspection and investigation powers will be provided to the frontline regulators (viz. Insurance Authority, Hong Kong Monetary Authority, Securities and Futures Commission) to ensure compliance by the registered intermediaries;

(v) a full range of disciplinary powers, including powers to impose reprimand, fines, revocation and suspension of registration and disqualification from being registered for a specified period of time, will be vested with MPFA against non-compliance with the conduct requirements by registered intermediaries; and

(vi) it will be a criminal offence to conduct MPF sales and marketing activities without registration.

(d) MPFA is now preparing draft Guidelines to facilitate registered intermediaries' compliance with the statutory conduct requirements. It is the intention of MPFA to require disclosure of benefits receivable by an individual registered intermediary in a manner that will enable the client to consider whether the individual registered intermediary will have the incentive to promote a particular scheme / constituent fund, or a particular scheme / constituent fund over the others. MPFA will consult the industry on the draft Guidelines shortly, and will brief the Bills Committee thereafter.

(e) MPFA is studying the feasibility of establishing a central database capturing information on the distribution of employees' accrued benefits. MPFA expects that preliminary results of the study will be ready within the 2012-13 financial year. The experience in implementing ECA and the outcome of this feasibility study will provide a useful basis for MPFA to consider the implementation of full portability arrangement for MPF in future.

(f) Since September 2007, all MPF trustees have reduced fees or introduced new MPF funds at lower fees. In addition, the average fund expense ratio of MPF funds has lowered from 2.1% in January 2008 to 1.77% in February 2012, representing a drop of nearly 16%.

This notwithstanding, with the increase in the amount of MPF assets and growing maturity of the MPF System, both the Government and MPFA consider there should be room for further reduction in the fees charged. In addition to ECA which will promote more market competition to drive down fees, other measures being pursued include:

(i) MPFA has commissioned a consultancy study on the administrative costs of MPF trustees with a view to identifying ways to simplify administrative processes and facilitate cost reduction and ultimately fee reduction by the trustees. The consultant is expected to submit a report to MPFA in around mid-2012;

(ii) With general support by LegCo Panel on Financial Affairs, we plan to introduce an automatic levy adjustment mechanism for the MPF Compensation Fund with a view to enabling MPFA to suspend collection of annual levy from MPF trustees (currently set at 0.03% of the net asset value of MPF assets). We believe this would be reflected as a reduction of trustees' fund expenses, thus benefiting scheme members. We aim to introduce the amendments to the relevant MPF subsidiary legislation in Q2 2012 for approval within the current LegCo term; and

(iii) MPFA will continue with its efforts to improve the arrangements for disclosure of fees and charges to ensure that scheme members are provided with fee information that is easy to understand, timely and comparable; and MPFA will further step up public education and publicity on the relevant messages.

(g) MPFA encourages trustees to consider the inclusion of low cost index funds in their MPF schemes. It is an existing requirement that when applying for approval of new funds, trustees must provide information as to whether an index option has been considered and, where relevant, the reasons for using non-index investment management arrangements. As of today, the number of index tracking constituent funds in the MPF System has increased to 18. MPFA will keep under view the development and availability of index funds.

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