Press release

LCQ4: Mandatory Provident Fund Schemes

Wednesday, October 24, 2012

Following is a question by the Hon Tang Ka-piu and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (October 24):

Question:

The Employee Choice Arrangement (ECA) under the Mandatory Provident Fund (MPF) Schemes, which is commonly known as "MPF Semi-Portability", will commence in November this year. Upon its commencement, employees may opt for transferring the accrued benefits derived from their MPF contributions to the MPF schemes of their choices. However, some members of the public have pointed out that there are numerous MPF schemes and portfolios in the market, and the MPF trustees' sales targets will increase considerably to about three million upon commencement of ECA; while employees will have more choices under the "MPF Semi-Portability", there may be an increase in malpractices in MPF sales. In this connection, will the Government inform this Council:

(a) apart from putting in place a statutory regulatory regime for MPF intermediaries, what other measures the authorities have formulated to ensure that MPF trustees will conduct sales activities with transparency of information, and will recommend suitable schemes to employees according to their individual needs; if they have, of the details of the measures and the implementation; if not, the reasons for that;

(b) whether the authorities will establish an investigation team to conduct surprise random inspections of the sales practices, promotional materials and contents of MPF schemes of individual MPF trustees, and set up a designated department to directly receive employees' enquiries and complaints; if it will, of the details; if not, the reasons for that; and

(c) concerning the effectiveness of ECA in lowering the fees and charges of MPF schemes, whether the Government will make an estimation before ECA's commencement and conduct a review thereafter; if it will, of the details; if not, the reasons for that?

Reply:

President,

(a) Under the Mandatory Provident Fund Schemes Ordinance and the Securities and Futures Ordinance, only offering documents on products approved by the Securities and Futures Commission as a Collective Investment Scheme and the Mandatory Provident Fund Schemes Authority (MPFA) as a registered MPF scheme or fund may be issued. Marketing materials of MPF products are also subject to regulation of the two regulators.

We anticipate that there will be more proactive sales and marketing activities upon the introduction of the Employee Choice Arrangement (ECA) on November 1, 2012. We have therefore introduced a new statutory regime to regulate MPF intermediaries. Under the new regime, only registered MPF intermediaries are allowed to sell MPF schemes or provide advice on MPF products. They must act in the best interests of clients and comply with a set of statutory conduct requirements. To facilitate compliance, MPFA has issued Guidelines on Conduct Requirements for Registered Intermediaries (Conduct Guidelines) on the standards of conduct expected, which include among others, that an intermediary must conduct a suitability assessment for an employee before extending an invitation or giving regulated advice to the employee that involves choice of a particular MPF fund. An intermediary is also required to make such disclosure of information as is necessary for the employee to make informed decisions. For example, information on the fees and charges of the MPF product concerned, the monetary and non-monetary benefits the intermediary concerned will receive in promoting the product, and the implication for transfer into or out of a guaranteed fund.

In parallel, MPFA will continue an extensive publicity and education campaign to enable employees to have a better understanding of the statutory duties of MPF intermediaries and the conduct requirements with which they must comply, as well as of basic MPF investment knowledge, such that employees will be better equipped to make informed decisions and protect their interests.

(b) Under the new statutory regime, each registered intermediary will be assigned a frontline regulator (FR) entrusted with clear statutory responsibility and power to monitor its compliance with the statutory conduct requirements. The FR will employ a range of regulatory tools at its disposal to monitor a registered intermediary's compliance with the statutory conduct requirements, which may include on-site inspections of their sales and marketing activities and relevant systems and records.

To ensure prompt detection of misconduct and follow-up of complaints, MPFA has set up dedicated teams to handle enquiries and complaints regarding MPF intermediaries. It will maintain a central register of complaints including those received by FRs. In addition, MPFA will monitor the progress of follow-up action taken by FRs on complaints referred, including the progress of investigation. Substantiated cases of non-compliance with the statutory conduct requirements will be subject to disciplinary sanctions imposed by MPFA, ranging from reprimand to suspension or revocation of registration.

(c) Driving down MPF fees has been on the top of the agenda of the Government and MPFA. Various measures to increase market transparency and promote market competition have been pursued. By way of example, back in 2004 MPFA developed a uniform approach for illustrating the total effect of fees and charges impacting on MPF funds, namely, the Fund Expense Ratios (FER). It has made available the information in the Fee Comparative Platform on its website since 2007 to facilitate choices of schemes and funds by members. The Government and MPFA have also been closely monitoring the trend of the average FER and other developments concerning MPF system in devising new initiatives to enhance the system.

We note that the average FER of MPF funds has decreased from 2.1% as of January 2008 to 1.73% in September 2012, representing a reduction of more than 17%. This notwithstanding, we firmly believe that there is room for further fee reduction, especially in view of the growing size of the MPF system. While the effect of ECA on the exact pricing dynamics of MPF market has yet to emerge, it should inevitably reduce the system-wide FER if more scheme members focus on transferring to lower-fee funds. It would also exert pressure on the industry to further reduce fees and charges. We will continue to keep track of market situation, including the change in the FERs of MPF funds, and introduce new measures as necessary.

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