Press Release

Ordinance for fee-controlled Default Investment Strategy gazetted

Friday, June 3, 2016

The Government gazetted today (June 3) the Mandatory Provident Fund (MPF) Schemes (Amendment) Ordinance 2016 (the Amendment Ordinance) to reform the default investment arrangements in the MPF System.

The Amendment Ordinance mandates each MPF trustee to provide a highly standardised and fee-controlled Default Investment Strategy (DIS) in each MPF scheme.

"Introducing the fee-controlled DIS is a significant reform to the MPF System. It helps address the concerns of "high fees" and "difficulty in making investment choices" in some MPF schemes. We trust that the DIS will be well accepted by the public, and that the fee control will have a benchmarking effect to bring about further MPF fee reduction across the board and further consolidation of MPF Constituent Funds (CFs) and schemes to achieve cost efficiency," the Secretary for Financial Services and the Treasury, Professor K C Chan, said.

Based on the recommendations of the Organisation of Economic Co-operation and Development, the DIS will adopt globally diversified and age-based de-risking investment principles. There are two CFs under the DIS, namely the Core Accumulation Fund with 60 per cent relatively higher risk assets and 40 per cent relatively lower risk assets, and the Age 65 Plus Fund with 20 per cent relatively higher risk assets and 80 per cent relatively lower risk assets. The de-risking mechanism will start reducing exposure to higher risk assets gradually by transferring assets from the Core Accumulation Fund to the Age 65 Plus Fund annually when a DIS member reaches the age of 50.

The fee control mechanism consists of two caps, namely a fee cap of 0.75 per cent and an out-of-pocket expenses cap of 0.2 per cent, both calculated as a percentage of the net asset value of the CFs under the DIS. The fee cap covers fees paid to trustees, promotors or sponsors, investment managers, custodians and other service providers. The out-of-pocket expenses cap covers a range of expenses, such as audit fees, incurred on a recurrent basis. The initial fee cap level of 0.75 per cent is a starting point. The Government will review the fee cap level within three years after the launch of the DIS with a view to lowering the cap level further.

Professor Chan stressed, "I trust that the Mandatory Provident Fund Schemes Authority (MPFA) and the industry will sort out all the implementation details soon. Successful implementation of the DIS will enhance public confidence in the MPF System. While our target is to launch the DIS in the first half of 2017, I hope the industry can launch the DIS as soon as possible for the benefits of scheme members."

The Legislative Council passed the Mandatory Provident Fund Schemes (Amendment) Bill 2015 on May 26, 2016.

Upon commencement of the Amendment Ordinance, the MPF accrued benefits and contributions of new scheme members who have not made any investment choices will be invested according to the DIS directly. Accrued benefits and contributions of existing scheme members who have not made any investment choices will also be invested according to the DIS unless they opt out within 42 days after being notified by their trustees. Other scheme members may also choose to invest in the DIS.

The Mandatory Provident Fund Schemes (Amendment) Ordinance 2016 has been uploaded to the website of the Financial Services and the Treasury Bureau (www.fstb.gov.hk/fsb/topical/dis.htm) for public viewing. Upon the completion of preparatory work by the MPFA and the industry, the Government will appoint a specific date by notice published in the Gazette for the DIS implementation. The Commencement Notice will be subject to negative vetting by the Legislative Council.

Ends