

Press Release

MPF Default Investment Strategy to commence operation on April 1, 2017

Friday, October 14, 2016

The Government gazetted today (October 14) the Mandatory Provident Fund Schemes (Amendment) Ordinance 2016 (Commencement) Notice (the Commencement Notice), to specify April 1, 2017, as the date on which the Mandatory Provident Fund (MPF) Default Investment Strategy (DIS) commences operation. The Commencement Notice is a piece of subsidiary legislation.

"The fee-controlled DIS is a significant step towards improving the MPF System. It directly addresses the concerns of 'high fees' and 'difficulty in making investment choices' in the MPF System. The concerted efforts of the last term of the Legislative Council, the Mandatory Provident Fund Schemes Authority (MPFA) and MPF approved trustees were essential in completing the legislative process and detailed operational implementation work within a short period of time, thus enabling scheme members to enjoy the benefits of the DIS early," the Secretary for Financial Services and the Treasury, Professor K C Chan, said.

"The MPFA has already commenced education and promotion work in phases, facilitating the public to better understand the features of the DIS including its investment arrangements. We expect that the fee control mechanism of the DIS will promote competition among service providers and bring about further MPF fee reduction across the board. In fact, we have already seen reduction in the management fees of 45 constituent funds and consolidation of eight MPF schemes since May this year," he added.

The Commencement Notice, which will be tabled at LegCo next Wednesday (October 19), for negative vetting, specifies April 1, 2017, as the date on which the MPF Schemes (Amendment) Ordinance 2016 (Amendment Ordinance) commences operation. The Commencement Notice has been uploaded to the website of the Financial Services and the Treasury Bureau (www.fstb.gov.hk/fsb/topical/discommencement.htm) for public viewing.

The Legislative Council passed the DIS proposals on May 26, 2016, and the Amendment Ordinance was gazetted on June 3, 2016.

The Amendment Ordinance mandates each MPF approved trustee to provide a highly standardised and fee-controlled DIS in each MPF scheme. The MPF accrued benefits of scheme members who have not made any investment choices will be invested according to the DIS.

The DIS will adopt globally diversified and age-based de-risking investment principles. There are two constituent funds (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 a DIS scheme member's exposure to higher risk assets gradually by transferring the member's investments in the Core Accumulation Fund to the Age 65 Plus Fund annually when the member reaches the age of 50.

The fee control mechanism consists of two caps, namely, a fee cap at a daily rate equivalent to an annualised rate of 0.75 per cent and an annual 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 approved trustees, promoters 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.

Ends