

For information

**Bills Committee on
Mandatory Provident Fund Schemes (Amendment) Bill 2007**

Measures to lower the fees and charges of MPF funds

Purpose

This note is prepared in response to the request by Members at the meeting of the Bills Committee of the Mandatory Provident Fund Schemes (Amendment) Bill 2007 (“the Bill”) on 6 September 2007 for information about the ongoing and planned measures that aimed at effectively lowering the fees and charges and the timeframe for implementation of the improvement measures.

Measures to Improve Transparency and to Promote Competition

2. The Mandatory Provident Fund (“MPF”) System mainly relies on market forces to set the type and level of fees. The Mandatory Provident Fund Schemes Authority (“MPFA”) is committed to improving the transparency of fees and promoting competition so as to help bring market forces into full play.

Code on Disclosure for MPF Investment Funds

3. In June 2004, the MPFA took a major step to improve information transparency of MPF funds by issuing the Code on Disclosure for MPF Investment Funds (“the Code”). The Code significantly improves the comprehensibility and comparability of fees and charges of MPF funds. After

the implementation of the Code, scheme members are provided with clearer and easier to understand information about fees and charges of MPF funds through the use of a number of tools. The Code requires trustees to prepare Fee Table in standard format and language. The Fee Table also sets out who pays the various fees (e.g. whether it is paid by the member, employer or relevant fund). The Fee Table is contained in the offering documents available to scheme members. Trustees are required to provide the offering document to all prospective scheme members and to existing members upon request.

4. The Code has also introduced two key tools to help members understand and compare fee information: a figure called a Fund Expense Ratio (“FER”) that shows fund expenses as a percentage of fund size and an On-going Cost Illustration (OCI)¹ that shows prospectively the dollar impact of fees and charges over 1, 3 and 5 years. FER is made available to all members at least twice a year as a part of the bi-annual Fund Fact Sheet. An OCI is attached to the offering document of MPF funds. Existing members can also access such information directly from the trustees through hotlines or from their respective websites.

5. In February 2007, in the light of operational experience, refinements were made to the Code regarding the requirements relating to the Fee Table, the Fund Fact Sheet and the FER. In particular the refinements to the FER requirements were designed to improve the consistency and comparability of presentation.

¹ The OCI is a standardised numerical illustration that shows the dollar amount of total fees and charges applied to a specified sum of investment in an MPF fund over a certain period of time.

6. The MPFA has now started another phase of the review of the Code which covers requirements relating to annual benefit statements (“ABS”) and one of the tools, the OCI. With respect to improvements to the ABS, the MPFA has undertaken consultation with relevant stakeholders over the past year and a document setting out the consultation conclusions was published on 31 July 2007. New requirements to enhance disclosure of fees and charges in the ABS, including those incurred by transactional activities undertaken by scheme members, for example, contribution, transfer, transaction etc, would take effect once the legislative proposal contained in the Bill to empower the MPFA to add content requirements to the ABS is approved by the Legislative Council (“LegCo”) and enacted as law. Regarding the OCI, the MPFA is now gathering views from stakeholders on possible improvements.

Fee Comparative Platform

7. To facilitate comparison of MPF fees and charges and promote competition, the MPFA launched Phase I of the Fee Comparative Platform on 13 July 2007. Phase I of the platform provides scheme members with information about the highest, average and lowest FER by fund types.

8. Phase II of the Platform will provide detailed information about fees and charges of individual funds. It will be launched after the Bill which contains the requisite legislative amendments is passed by LegCo.

Increasing Employees' Control over MPF Investments

9. The MPFA is currently consulting the industry and relevant stakeholders on the development of a proposal to increase employees' control over their MPF investments by allowing them to transfer accrued benefits derived from employee mandatory contributions to an MPF scheme of their own choice. In developing the associated arrangements, the MPFA has taken note of the need to minimise any increase in administration costs that may possibly arise. If successfully implemented, the proposal would result in around 60% of MPF benefits being portable between approved trustees and would encourage employees to take a more active interest in their MPF investments, thereby promoting competition in the MPF market.

10. After considering the views of the stakeholders, the MPFA plans to submit its proposal to the Administration before the end of 2007.

Measures to Improve Education of MPF Scheme Members

11. Educating scheme members about the importance of fees and charges in investment decisions is also part of MPFA's on-going efforts. From October 2005 to March 2006, the MPFA launched Phase One of the MPF Investment Education Campaign to raise scheme members' awareness of their MPF investment and encourage them to look after their MPF accounts. The MPFA is now promoting understanding of MPF investment funds through Phase Two of the MPF Investment Education Campaign covering the period from September 2006 to March 2008. The Campaign aims to enhance scheme members' understanding of the characteristics, risk and return profile of various

types of MPF funds, with a view to facilitating informed investment choices and better management of MPF savings. In this connection, the MPFA has staged public educational events to spread the messages and reach out to the community. Other education strategies will be developed from time to time.

Other Measures

12. The MPFA keeps in close liaison with approved trustees and other industry members to consider possible ways to lower fees and charges. The MPFA has, in recent months, had individual meetings with all MPF approved trustees to better understand their approach in setting the levels of fees and charges and their future plans.

13. The MPFA, in consultation with the industry and other stakeholders, also reviews operational arrangements of the existing system and proposes legislative amendments from time to time to streamline existing procedures with a view to reducing operating costs. Certain proposals to enhance cost efficiency of the MPF system are already contained in the Bill. The MPFA has also invited the industry to propose further legislative refinements that may contribute to reducing operating costs through streamlining the administration of the MPF System.

The Way Forward

14. The MPFA will continue to implement and explore measures that could help drive down the fees and charges of the MPF funds. As regards the

proposal to increase the portability of the MPF benefits as set out in paragraphs 9 and 10 above, the MPFA is currently developing the proposal in consultation with relevant stakeholders and the Administration/MPFA would consult LegCo when the proposal is ready in a separate context outside this Bills Committee.

Mandatory Provident Fund Schemes Authority
September 2007