

**Response to Panel on Financial Affairs
regarding a submission from Mr David WEBB**

Thank you for your letter of 23 February 2007 enclosing the submission from Mr David WEBB and inviting our comments thereon.

Part 1 of the submission of Mr WEBB concerns the costs of the MPF System. It has always been one of the objectives of the Mandatory Provident Fund Schemes Authority (“MPFA”) to ensure that fees and charges of MPF funds are kept as low as reasonably possible, so that MPF scheme members will be able to accrue higher amounts of benefits for future retirement needs. To date, the MPFA has approached this by reducing the costs of operating MPF schemes where possible and by improving the disclosure of relevant fees and charges.

The MPFA has, since inception of the MPF System, continuously sought means to keep down the costs of the System. Proposals to amend the legislation to simplify and streamline scheme administration were put forward to the Government over the years. Some of those proposals have been enacted in 2002 and another amendment bill will be put forward to the Legislative Council within the current session.

In respect of disclosure, the MPFA issued the Code on Disclosure for MPF Investment Funds (“Code”) in 2004 with the aim of enhancing the transparency of fees and charges of MPF funds.

The Code set out a number of initiatives for implementation in phases. The initiatives include:

- standardizing the method of dissemination of fee information;
- introducing a fee table to standardize the way that fees and charges are disclosed; and
- introduction of two important tools, the Fund Expense Ratio and the Ongoing Cost Illustration, to help members and other stakeholders understand and compare fee levels.

The MPFA is currently studying improvements to the annual benefit statements of MPF scheme members to better disclose fee information.

An electronic facility for MPF scheme members to compare the fees and charges of different MPF funds is also being developed.

The MPF System is a privately managed retirement protection system. The System principally relies on market forces to set the level of fees and charges of MPF funds. The implementation of various disclosure initiatives by the MPFA seeks to improve transparency of fees and charges so as to allow market forces to work more efficiently. To support the new tools that have been developed, the MPFA is preparing a series of investment education programmes so that scheme members can make good use of these tools when they make their investment decisions. The MPFA welcomes informed debate about the level of fees and charges of MPF funds.

Whilst the MPFA has no power to set fees of MPF funds, it has engaged in active discussion with the industry in an endeavour to reduce fees and charges where possible. The MPFA will continue to explore further possibilities for getting fees and charges of MPF funds as low as reasonably possible.

In Part 2 of his submission, Mr WEBB opines that the maximum level of relevant income should not be increased from \$20,000 to \$30,000. The Administration and the MPFA had attended Panel meetings in January and February on the subject to hear the views of Panel Members and members of the public. The Administration and the MPFA are studying the issue.

In Part 3 of his submission, Mr WEBB comments on the capital grants of \$5 billion provided to the MPFA and \$600 million put into the Compensation Fund established under the MPF System at inception. The grant for setting up the MPFA was approved by the Legislative Council in 1998. In approving the grant, the Legislative Council was advised that the grant was intended to meet both the initial setting up costs and the running expenses of the Authority, and in the longer term, it was expected that the MPFA would operate on a self-financing basis through fees and charges collected and investment returns generated from the initial lump-sum grant.

In respect of the Compensation Fund, the Legislative Council approved a grant of \$600 million as seed money also in 1998 so that the Fund could build up a reasonably large reserve and provide a more sizeable

protection cover on System inception. The Administration and the MPFA had reported to Panel Members on the Compensation Fund in June 2006. The MPFA is currently studying how to set the optimal level of the Fund and the levy rate, and will provide an interim progress report to Panel Members by December 2007.

Mandatory Provident Fund Schemes Authority
March 2007