# Bills Committee on
# Mandatory Provident Fund Schemes (Amendment) Bill 2015

## Responses to Submissions Received and Matters Raised by Deputations and Members at the Meeting on 11 January 2016

## Purpose

This paper sets out the responses from the Government and Mandatory Provident Fund Schemes Authority ("MPFA") to issues raised at the Bills Committee meeting on 11 January 2016.

### (a) Responses to the deputations' written submissions received and views expressed at the meeting

2. Our responses are set out at **Annex A**.

### (b) Further elaboration on the rationale for adopting the opt-out approach in respect of the Default Investment Strategy ("DIS") for the accrued benefits of members to whom proposed Division 2 of Part 4AA would apply

3. The policy intent behind the proposed transitional arrangements of the DIS is to protect the interests of disengaged scheme members who have not made investment decisions actively. The proposed approach, which is consistent with similar international precedents that we can identify, was generally supported by over 70% of respondents during the public consultation conducted in 2014. We have also taken into account the concerns about the opt-out approach as expressed in respondents' submissions to the public consultation when finalising the proposed transitional arrangement (see paragraphs 51 to 55 of the Consultation Conclusions published in March 2015).

4. As set out in paragraphs 1 to 3 of LC Paper No. CB(1)396/15-16(02), approved trustees roughly estimate that around one million, out of a total of 8.8 million accounts, might be subject to the opt-out transitional process. The actual final number is likely to be lower than this when members over 60 years of age and subsequent instructions are taken into account. This means that for around 90% of existing accounts with specific investment instructions already given, the opt out transitional approach will not be applicable to them and they will only be invested in accordance with the DIS if the account holder takes some active step to deliberately choose to do so. Existing choices of members will not be affected by the proposed arrangements. The remainder, around 10% of accounts, relates to disengaged scheme members who have not given investment instructions, who are the focus of the DIS.

5. This is reflected in the notification requirements in the proposed section 34DF which are carefully drafted to balance between protecting the interests of disengaged scheme members and maintaining operational efficiency.

6. Disengaged scheme members have had their contributions invested according to the default investment arrangements ("DIA") determined by scheme rules, which vary from scheme to scheme. With the development of a consistent framework (i.e. the DIS) for investment of the benefits of such members, it is appropriate that previous benefits for which no instructions have been given be invested in accordance with the highly standardised strategy. From the operational perspective, "opt-in" approach may have some benefits that, with express investment instructions from scheme members, disputes could be minimized. This would be a logical approach if the target group were primarily scheme members who are active and will digest the information about the DIS and then make an informed and conscious decision to choose the DIS or otherwise. However, by their nature, it is less likely that disengaged scheme members who we intend to take care of under the proposed DIS, will do so and as a consequence, adopting the opt-in mode will defeat the objective of helping disengaged scheme members.

7. To further minimize the scope for unintended outcomes, the MPFA will mount a large-scale publicity campaign immediately after the enactment of the Bill (i.e. six months prior to the launch of the DIS) to enhance public understanding of the DIS including the impact of the transitional arrangements. In order to facilitate disengaged scheme members to understand the implications for DIS transfers, we have proposed a 42-day opt-out period to give sufficient time for default scheme members to consider their Mandatory Provident Fund ("MPF") investments (i.e. the proposed section 34DH of the Mandatory Provident Fund Schemes Ordinance ("MPFSO") in clause 8 of the Bill). In addition to serving the best interests of disengaged scheme members, the opt-out approach will help facilitate early growth of the relevant funds.

**(c) Further elaboration on the rationale for the use of two constituent funds ("CFs") (i.e. the Core Accumulation Fund and Age 65 Plus Fund) and the de-risking investment principle under the DIS**

8. The de-risking mechanism refers to the allocation of the benefits of a DIS member from investing in a CF comprising more higher risk assets to one comprising more lower risk assets based on the member's age. In considering the optimal number of CFs to be adopted to achieve de-risking, factors such as efficiency of the investment structures and benefits of economies of scale strongly suggest that the fewer CFs used, the more efficient will be the structure. The current proposal, which is developed after consultation with the industry, uses the least possible number of CFs, thus minimising the cost implication for the industry and scheme members.

9. Another element of achieving efficiency is through setting up a DIS under each individual scheme. At present, scheme members' benefits will be invested into one or more CFs set up under each MPF scheme. The current proposal of requiring approved trustees to set up DIS CFs under each MPF scheme will allow the quickest implementation, as compared to using a single set of funds across all schemes. The use of CF across schemes is inconsistent with the trust-based structure of the current MPF System which requires that contributions be invested within the trust-based scheme into which contributions are made. Changing

these basic elements would require a substantial re-design of the legislation and the whole System.

10. As for the proposed allocation of higher risk assets and lower risk assets in the two DIS CFs, we have made references to the recommendations of the Organisation for Economic Cooperation and Development ("OECD"), international practices and local expert consensus. The proposed asset allocation is effectively 60% exposure to higher risk assets until age 50, which is then reduced gradually to 20% by age 65. We note that there is much diversity in approaches internationally in relation to many of the parameters including starting equity exposure, average equity exposure, terminal equity exposure and the age and speed at which risks are reduced. We consider however that the proposed approach represents a good balance of empirical analysis and observed practice to which has been agreed by industry experts.

11. As for the proposed globally-diversified investment principle, we have taken into account the need to balance the investment risks over a 40-year benefits accumulation period, exposing investments to multiple market investment cycles, as well as the need to prevent concentration of investments in one single market or region. Analysis suggests that focusing on single markets will lead to a greater dispersion of outcomes and increase the probability of extremely negative outcomes not in the best interest of scheme members.

**(d) The Fund Expense Ratio ("FER") (after taking into account the discount on fees and charges offered to scheme members) of the existing MPF CFs which were classified as mixed assets funds**

12. As stated in paragraph 6 of our previous paper to the Bills Committee (LC Paper No. CB(1)396/15-16(02)), depending on the maximum equity content of the fund, the FER of existing mixed assets funds range between 1.61% to 1.81%. These FERs have not taken into account the discount on fees and charges offered to scheme members (commonly referred to as "member rebates") by the approved trustees. We consider it not appropriate to focus on adjusted FERs for disclosure or comparative purposes as these rebate discounts are not available to all scheme members.

(e) **An itemized list of the fees and expenses other than the management fees permitted to be charged to the Core Accumulation Fund and Age 65 Plus Fund of the DIS under the proposed section 34DC(3), and whether such fees and expenses were recurrent or one-off in nature**

(f) **Elaboration on the interpretation of the fees and expenses permitted to be charged under the proposed section 34DC(3)(b), including the approximate amount of such fees and expenses currently charged by the approved trustees to the existing mixed assets funds, and to address members' concern on the possibility of the approved trustees circumventing the fee control by alternating fee charging practices**

13. Based on the information disclosed to the MPFA by the industry in relation to existing CFs, these other fees and expenses that could apply to the proposed Core Accumulation Fund and Age 65 Plus Fund of the DIS would primarily be out-of-pocket expenses in relation to discharge of trustees' duties. These expense items are summarized in the table below.

| **Out-of-pocket expense item** | **On-going** | **One-off** | **Remarks** |
|---|---|---|---|
| Auditor's fee | ✓ | ✓ | The fees for the regular annual audit are on-going, whereas the fees for any special audit are one-off and incurred when the need for such an audit arises. |
| Legal and other professional charges | - | ✓ | - |
| Preparation cost and publication expenses | - | ✓ | - |
| Printing and postage, fund price publication expenses, bank | ✓ | - | - |

| Out-of-pocket expense item | On-going | One-off | Remarks |
|---|---|---|---|
| charges | | | |
| Governmental fees and charges (including, without limitation, stamp duty, licence fee and other duties) | ✓ | ✓ | MPFA charges HK$5,000 for each CF application. Securities and Futures Commission charges HK$5,000 for each CF application. Upon the granting of authorization, there is an authorization fee of HK$2,500 and an annual fee of HK$4,500. |
| Other charges and expenses properly incurred and permitted by the MPFSO and its Regulations and the trust deed of the scheme approved by the MPFA | ✓ | - | - |

14. A similar range of items would be applicable for underlying investment funds.

15. According to the MPFA's internal analysis conducted with reference to the fee information available in June 2014, the difference between the average FER and average aggregate management fees (simple average) of mixed asset funds was estimated to be 0.20%.

16. Fee items that approved trustees are allowed to charge under the proposed section 34DC(3)(b) are listed below –

| **Fee item in section 34DC(3)(b)** | **On-going** | **One-off** | **Remarks** |
| --- | --- | --- | --- |
| Services provided by a custodian in connection with holding, maintaining or transacting the investments of the fund; and customarily not calculated as a percentage of the Net Asset Value ("NAV") of the fund | ✓ | - | Some custodian fees are transaction-based out-of-pocket expenses and are charged on an ex-ante basis. They may vary with asset allocation, or are trading fees resulting from re-balancing, etc. which cannot be taken into account under the fee cap. The amount of non-NAV based custodian fees estimated by some approved trustees is generally not more than 0.03% to 0.04%, based on active investment strategies currently adopted by fund managers. The non-NAV based custodian fees vary due to:<br>• investment;<br>• strategies of relevant fund managers;<br>• size of the portfolio;<br>• number of transactions;<br>• transaction |

| Fee item in section 34DC(3)(b) | On-going | One-off | Remarks |
|---|---|---|---|
| | | | processing fees of different investment markets;<br>• processing fees of corporate actions; and<br>• depository charges of specific markets. |
| Services relating to establishment or winding up of the fund | - | ✓ | - |
| Fees charged to the member for obtaining copies of documents not required to be provided under the MPFSO | - | ✓ | - |

**(g) Elaboration on the operation of the transitional transfers of the accrued benefits in pre-existing accounts of scheme members to whom proposed Division 3 of Part 4AA would apply, to and invested in the DIS after commencement of the Bill**

17. The operation of the transitional transfers of the accrued benefits in pre-existing accounts of scheme members to whom proposed Division 3 of Part 4AA would apply are set out at **Annex B**.

**(h) The estimated number of existing default scheme members whose accrued benefits would not be transferred to and invested in the DIS under the proposed section 34DB(2) (i.e. the member had reached 60 years of age before the commencement of the Bill), and the estimated amount of accrued benefits involved**

18. Based on the rough estimate recently provided by the approved trustees to the MPFA, it is roughly estimated that out of about a million MPF accounts investing in existing default funds under MPF schemes as of end December 2014, about 90 000 scheme members are 60 years old and above, involving HK$6.26 billion (based on the NAV of the MPF System as of the end of November 2015).

**(i) Elaboration on the mechanism for reviewing and amending Schedule 10 (in respect of investment principles) and Schedule 11 (the percentage for calculation of the cap on the payment for services relating to the DIS) to the Bill**

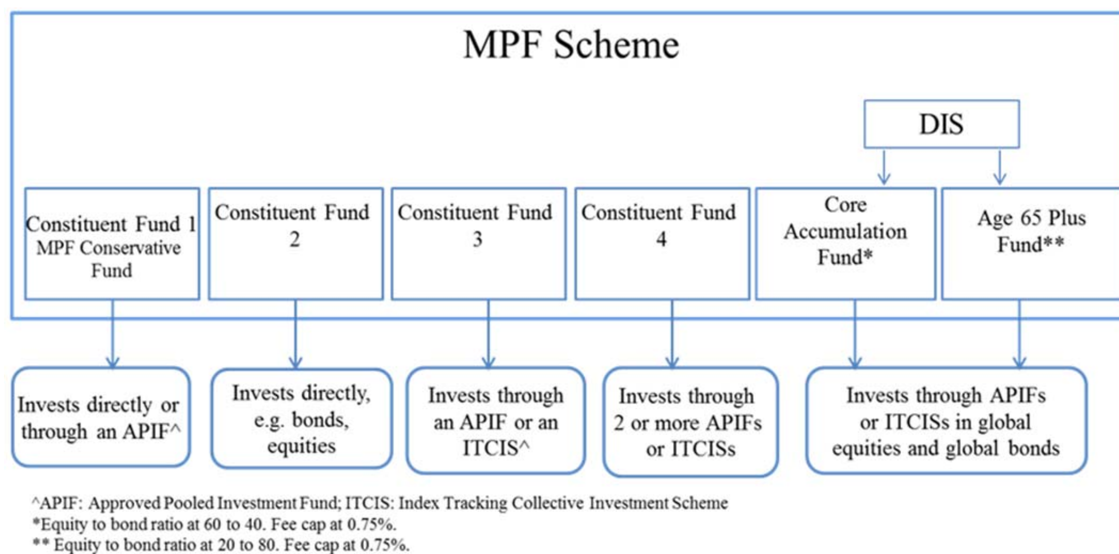
19. Given the need to allow timely changes to the DIS CFs in view of market developments and timely downward adjustment of the fee cap to better protect scheme members' benefits, we propose to include a mechanism in the proposed section 34DD of the MPFSO to empower the Secretary for Financial Services and the Treasury to amend the DIS investment requirements in the proposed Schedule 10 to the MPFSO and the level of the fee cap in the proposed Schedule 11 to the MPFSO. The proposed amendment will be subject to negative vetting by the Legislative Council. Upon the full implementation of DIS, we will evaluate factors such as the effectiveness of the DIS being delivered under the fee cap, the operational efficiency of the DIS CFs, the fee level of other CFs in the MPF System, and the scale of the CFs, etc. before introducing amendments to Schedules 10 and 11 to the MPFSO.

**(j) Elaboration on the interpretation of "underlying investment fund" and "underlying investment fund fee" as set out in the proposed section 34DC(5)**

20. An MPF scheme is a trust structure used for collecting, administering and investing MPF contributions. MPF schemes are divided up into a number of "CFs". The term "MPF funds" is usually a reference to the CFs in MPF schemes. The number of CFs in a scheme will vary from scheme to scheme. Each CF in a scheme will have an investment objective different from other CFs in the same scheme. Most CFs do not directly invest into investment markets. They usually

invest into other investment funds structured as unit trusts (known as approved pooled investment funds ("APIFs")) or sometimes into index tracking funds (known as index-tracking collective investment schemes ("ITCISs")) or insurance policies. APIFs can be managed by an investment manager in the same group as the approved trustee of the CF, or by an external manager.

21. The DIS will be set up in each MPF scheme. The DIS is not a fund; it is a strategy that uses two CFs to achieve a preferred investment approach. Members whose benefits are invested according to the DIS, either because they have not made or do not want to make an investment choice, or they have actively chosen the DIS, will have their contributions and accrued benefits allocated to one or both of the two CFs, namely, the Core Accumulation Fund and the Age 65 Plus Fund, according to their age. Similar to existing CFs, it is expected that the Core Accumulation Fund and the Age 65 Plus Fund will commonly invest through other APIFs and ITCISs. The two CFs under the DIS are also offered as stand-alone investment options under each MPF scheme.




22. The relevant controls for payment for services as set out under the proposed section 34DC will apply to the two DIS CFs as well those underlying investment funds as described in the proposed section 34DC(4). A detailed illustration of the calculation is set out at **Annex C**.

**(k) Elaboration of whether the Administration would consider introducing a performance-based mechanism for charging of management fees by the approved trustee of the DIS CFs**

23. It is difficult to include any investment performance-based elements within the fee control proposed for the DIS. Trustee administrative functions, and hence costs, are not in any material way related to investment performance. There would be no logical basis to connect trustee fees to investment performance. Investment performance based fees are sometimes considered in relation to investment management fees but it is difficult to adopt such a fee model in the DIS context. Firstly, a performance related fee introduces a conditionality which would make the calculation and operation of a daily fee control much more difficult. Secondly, we understand that index-based investment may well be a common feature of DIS CFs. Under such an approach, which is encouraged in terms of cost and consistency, investment outcomes are almost exclusively driven by investment markets, rather than the efforts of individual investment managers. It would appear quite arbitrary to attach the manager's fees to the outcome of a particular index over which it has no control.

**Financial Services and the Treasury Bureau**
**Mandatory Provident Fund Schemes Authority**
**January 2016**

**Annex A**

**Responses to Submissions Received by and Matters Raised by Deputations at the Bills Committee Meeting**

| Views | Responses |
|---|---|
| **(I) Proposed Default Investment Strategy (DIS)** | |
| ▪ Support the introduction of fee-controlled DIS in each MPF scheme for "default" scheme members [CGCC, CMAHK, FHKKLU, HKFI, HKTA, HKSFA, MIMA, MSCI] | ▪ The primary objective of the proposed DIS is to provide default scheme members with a highly standardised and fee-controlled investment strategy which is consistent with the objective of long term retirement savings. Scheme members who consider the proposed DIS suit their investment needs can also proactively choose to invest in the DIS. |
| ▪ Support the provision of flexibility of developing the appropriate asset class by investment managers [MIMA, MSCI] | |
| ▪ Support that DIS should be made available to all scheme members [MIMA] | |
| ▪ Do not wish to raise any comments on the Bill [HKAB] | |
| **(II) De-risking Mechanism** | |
| ▪ Support the use of two CFs in the DIS [HKSFA] | ▪ Please refer to paragraphs 8 to 11 of the main paper for our responses. |
| ▪ Support the globally-diversified investment principle for DIS CFs [CMAHK] | |

| Views | Responses |
| --- | --- |
| ▪ Support that there is no restriction on any investment style (e.g. indexing) [MSCI] | |
| ▪ Support the age-based life-cycle investment strategy in the DIS [HKSFA] | |
| ▪ Consider that the proposed allocation of higher risks assets in the Core Accumulation Fund and Age 65 Plus Fund is too conservative [MIMA] | ▪ Given the complexities of investment choices, the importance of having well-designed default funds in the event that scheme members do not, or do not want to, make a choice of funds has been an important area of international research.<br><br>▪ The Organisation for Economic Co-operation and Development ("OECD"), for example, has issued the "Roadmap for the Good Design of Defined Contribution Pension Plans" which suggests that whether, and how to regulate fund choices and asset allocations during the accumulation phase is an important issue. The OECD suggests that consideration should be given to making the default fund an age-dependent, life cycle/target date fund that reduces equity risk over time. |

| Views | Responses |
|---|---|
| | ▪ The OECD has conducted research for designing the DIS using Hong Kong data, and reached similar conclusions regarding investment principles for the DIS. Specifically, the OECD recommended that the global equity exposure for an account should be between 50-60% on average and that equity risk be reduced quite close to retirement age. |
| ▪ Suggest that there is no need for an agreed industry benchmark index [MSCI] | ▪ After the implementation of the DIS, the industry will need to develop investment products that comply with the standardised investment approach adopted for the DIS as set out in the MPF legislation. Approved trustees will also be required to report the performance outcomes of the funds used in the DIS in each scheme against an agreed industry benchmark to facilitate comparison by scheme members.<br><br>▪ We consider that putting an agreed industry benchmark in place is in the interest of scheme members. |

| Views | Responses |
|---|---|
| **(III) Fee Control Mechanism** | |
| ▪ Support the proposed initial fee cap of 0.75% [CGCC, CMAHK, HKTA]<br><br>▪ Consider that the proposed 0.75% fee cap is too aggressive, given the current asset base in the MPF System and a cap of 1.00% may be more appropriate at this stage given the MPF's FUM scale and years of operation and fee levels in other countries [MIMA]<br><br>▪ Suggest explaining the fee cap review mechanism in detail [HKSFA]<br><br>▪ Review the fee cap regularly [CP, FHKKLU] | ▪ We consider the 0.75% fee cap a suitable starting point.<br><br>▪ When setting the fee cap level for the DIS, we have made reference to the "Report on a study of administrative costs in the Hong Kong Mandatory Provident Fund system" commissioned by the MPFA in 2012. At that time, data collected from approved trustees and administrators indicated that the administration cost is a weighted average of 0.75% of the assets under management ("AUM"), the investment management fees is 0.59% of AUM, and the remaining 0.40% are other costs such as marketing charges.<br><br>▪ Moreover, we have made reference to the fee level of MPF CFs. In fact, there are already 11 CFs in the market out of the total of 459 CFs with a fee level below 0.75%, which illustrates that the fee cap is not unachievable.<br><br>▪ We will consider whether this level can be further reduced in the future after having gained experience on the operation of |

| Views | Responses |
|---|---|
| | the DIS. |
| **(IV) Transitional Arrangements** | |
| ▪ Support the proposed opt-out transitional arrangements for existing "default" scheme members [HKSFA, MIMA]<br><br>▪ Suggest adopting an opt-in approach to obtain an informed transfer decision from scheme members [HKFI, HKTA]<br><br>▪ Consider that educational marketing campaigns should be conducted prior to having individual scheme members committed to the opt-in or opt-out arrangements [HKRSA] | ▪ Please refer to paragraphs 3 to 7 of the main paper for our responses. |
| **(V) Operator of DIS** | |
| ▪ The Government may assign the Hong Kong Monetary Authority, or non-profit-making organisations to manage the DIS in the long run [CGCC, CMAHK, FHKKLU]<br><br>▪ The Government may provide subsidy for management and operation of the DIS [CGCC] | ▪ The MPF System, which forms one of the pillars of Hong Kong's retirement protection system, is eventually introduced in the form of privately managed retirement protection schemes after almost thirty years of deliberation. MPF schemes are administered by professional approved trustees, while the contributions are invested by investment management companies |

| Views | Responses |
| --- | --- |
| | registered with Securities and Futures Commission.<br><br>▪ This design aims to reduce the administrative burden and costs for employers, protect scheme members' interests and consolidate scheme members' contributions for management and investment in order to achieve efficiency.<br><br>▪ Having a public trustee to manage MPF schemes will involve the setting up of a new operation system and repeating the administrative tasks currently undertaken by private trustees. As such, it may not be economically efficient. We are of the view that MPF schemes should continue to be operated by the industry, and will work with the MPFA to continue to enhance the system to facilitate fund competition and fee reduction.<br><br>▪ In addition, the statutory function of the HKMA is to maintain the stability of the monetary, banking and financial systems in Hong Kong. The suggestion of having the HKMA operating MPF funds is not in line with |

| Views | Responses |
|---|---|
| | the former's statutory function. |
| **(VI) Others Comments on the MPF System** | |
| ▪ Offsetting severance payments ("SP") and long service payments ("LSP") [A member of the public, CP] | ▪ The Commission on Poverty is now conducting a public consultation on retirement protection. One of the issues covered in the consultation is offsetting. We welcome views on this issue from the public. |

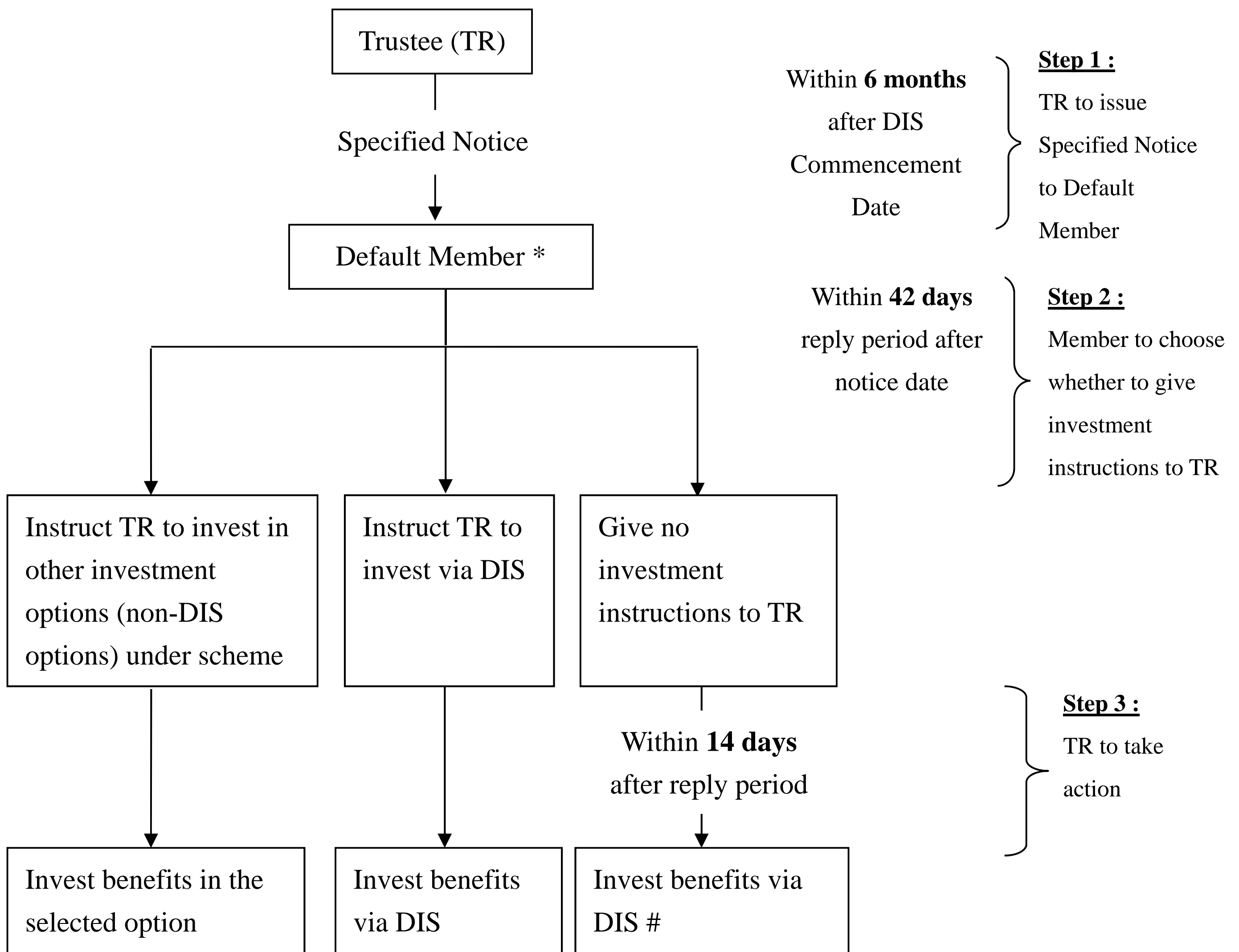
**<u>Legend</u>**

| | |
|---|---|
| CP | Civic Party |
| CGCC | The Chinese General Chamber of Commerce |
| CMAHK | The Chinese Manufacturers' Association of Hong Kong |
| FHKKLU | The Federation of Hong Kong & Kowloon Labour Unions |
| HKAB | The Hong Kong Association of Banks |
| HKFI | The Hong Kong Federation of Insurers |
| HKRSA | The Hong Kong Retirement Schemes Association |
| HKTA | Hong Kong Trustees' Association |
| HKPSEA | Hong Kong Professionals and Senior Executives Association |
| HKSFA | The Hong Kong Society of Financial Analysts |
| MIMA | Morningstar Investment Management Asia Limited |
| MSCI | MSCI Hong Kong Limited |

**Financial Services and the Treasury Bureau**
**Mandatory Provident Fund Schemes Authority**
**January 2016**

**Annex B**

## Application of the Proposed Section 34DF in Clause 8 of the Bill




*A member is a "Default Member" if -
(a) the member is below 60 years of age, or becomes 60 years of age, on the DIS Commencement Date, and
(b) immediately before the Commencement Date, all of the accrued benefits in a pre-existing account of the member have been invested according to a default investment arrangement ("DIA") of the scheme, and
(c) the approved trustee of the scheme reasonably believes that it has not received specific investment instructions from the member for those benefits.

# If the accrued benefits of the "Default Member" have been invested in a guaranteed fund according to DIA, the approved trustee must not invest those benefits via DIS if, on the last day of the 42-day reply period, the market value of those benefits is less than the value guaranteed by the fund to be paid to the member on that day.

**Mandatory Provident Fund Schemes Authority**
**January 2016**

**<u>Annex C</u>**

## Illustrations for Calculating Daily Aggregate Payment for Services for a DIS Constituent Fund

For the purposes of the proposed section 34DC(4) of and Schedule 11 to the Mandatory Provident Fund Schemes Ordinance ("MPFSO"), examples are set out below to illustrate how to calculate the daily aggregate payment for services ("PFS") for a DIS constituent fund ("DIS CF") under four different investment structures and scenarios. They are provided to assist approved trustees in understanding the relevant calculation and in comparing it against the daily percentage rate set out in the proposed Schedule 11 to the MPFSO.

### Formula for calculating Aggregate PFS of a DIS CF for the purposes of section 34DC(4) of and Schedule 11 to the MPFSO

Aggregate PFS (%)
= the total amount of all PFS specified in section 34DC(2) that are charged to or imposed on the fund, or a scheme member who invests in the fund and calculated as a percentage of the net asset value ("NAV") of the fund (%)
+
the total amount of any proportionate underlying investment fund fees chargeable to any underlying investment fund of the fund (%)

where
proportionate underlying investment fund fee = A x B;
and where
A = the underlying investment fund fee ("UIFF") being calculated as a percentage of the NAV of the underlying investment fund;
B = the proportion of the assets of the DIS CF that is invested in the underlying investment fund

**Scenario 1: The DIS CF makes direct investment**

**Assumptions**

1. PFS of the DIS CF = 0.70% p.a. of the CF's NAV

| CF | 0.70% |
|---|---|

**Step 1: Calculate the total PFS at CF level and the total proportionate UIFF at underlying investment fund level:**

(a) Total amount of all PFS at CF level = 0.70%

(b) Total amount of all proportionate UIFF (A x B) = 0%

**Step 2: Calculate the aggregate PFS for the DIS CF:**

Aggregate PFS = (a) + (b) = 0.70% + 0% = 0.70%

**Step 3: Compare daily aggregate PFS with the daily rate specified in Schedule 11 to the MPFSO:**

$$\frac{0.70\%}{N} < \frac{0.75\%}{N}$$

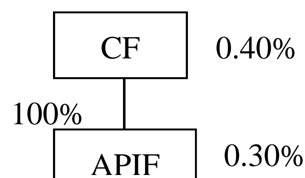
*where N is the number of days in the year*

Since the daily aggregate PFS does not exceed the daily rate specified in Schedule 11 to the MPFSO, it complies with section 34DC(4) of the MPFSO.

**Scenario 2: The DIS CF invests solely in an APIF which makes direct investment.**

**Assumptions**

1. PFS of the DIS CF = 0.40% p. a. of the CF's NAV
2. For the APIF, A= 0.30% p.a. of the APIF's NAV, B =100%




**Step 1: Calculate the total PFS at CF level and the total proportionate UIFF at underlying investment fund level:**

(a) Total amount of all PFS at CF level = 0.40%

(b) Total amount of all proportionate UIFF (A x B) = 0.30% x 100% = 0.30%

**Step 2: Calculate the aggregate PFS for the DIS CF:**

Aggregate PFS = (a) + (b) = 0.40% + 0.30% = 0.70%

**Step 3: Compare daily aggregate PFS with the daily rate specified in Schedule 11 to the MPFSO:**

$$\frac{0.70\%}{N} < \frac{0.75\%}{N}$$

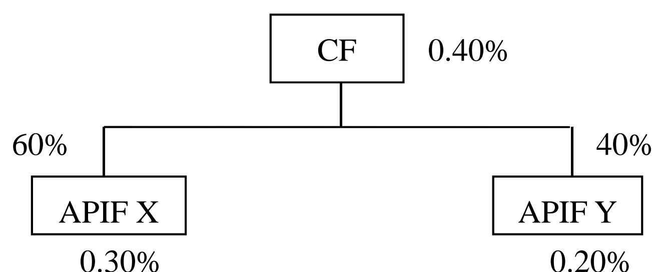
*where N is the number of days in the year*

Since the daily aggregate PFS does not exceed the daily rate specified in Schedule 11 to the MPFSO, it complies with section 34DC(4) of the MPFSO.

**Scenario 3: The DIS CF invests into two APIFs which make direct investment**

**Assumptions:**

1. PFS of the DIS CF = 0.40% p. a. of the CF's NAV
2. APIF X and APIF Y make direct investment.
3. For APIF X, A = 0.30% p. a. of APIF X's NAV, B = 60%
4. For APIF Y, A = 0.20% p. a. of APIF Y's NAV, B = 40%




**Step 1: Calculate the total PFS at CF level and the total proportionate UIFF at underlying investment fund level:**

(a) Total amount of all PFS at CF level = 0.40%

(b) Total amount of all proportionate UIFF (A x B) = 0.30% x 60% + 0.20% x 40% = 0.26%

**Step 2: Calculate the aggregate PFS for the DIS CF:**

Aggregate PFS = (a) + (b) = 0.40% + 0.26% = 0.66%

**Step 3: Compare daily aggregate PFS with the daily rate specified in Schedule 11 to the MPFSO:**

$$\frac{0.66\%}{N} < \frac{0.75\%}{N}$$

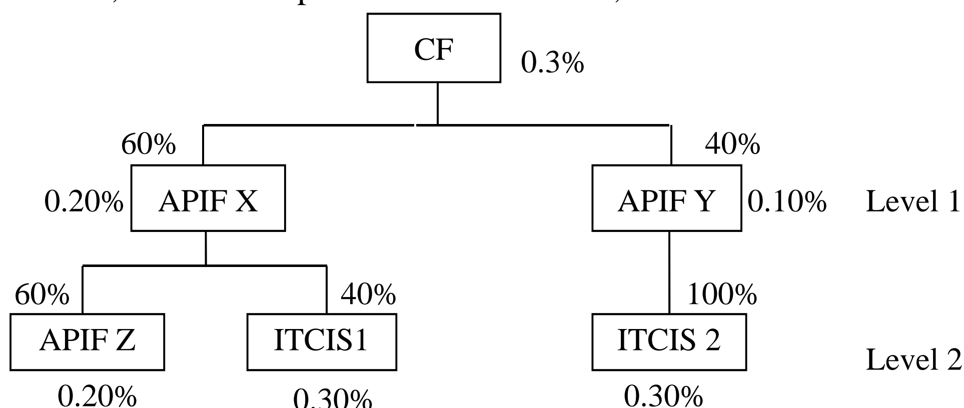
*where N is the number of days in the year*

Since the daily aggregate PFS does not exceed the daily rate specified in Schedule 11 to the MPFSO, it complies with section 34DC(4) of the MPFSO.

**Scenario 4: The DIS CF invests into two APIFs which invest further into ITCIS and/or APIF.**

**Assumptions:**

1. PFS of the DIS CF = 0.30% p. a. of the CF's NAV
2. APIF X invests 60% into APIF Z and 40% into ITCIS 1
3. APIF Y invests solely into ITCIS 2
4. APIF Z, ITCIS 1 and ITCIS 2 make direct investments
5. For APIF X, A = 0.20% p. a. of APIF X's NAV, B = 60%
6. For APIF Y, A = 0.10% p. a. of APIF Y's NAV, B = 40%
7. For APIF Z, A = 0.20% p. a. of APIF Z's NAV, B = 60% x 60%
8. For ITCIS 1, A = 0.30% p. a. of ITCIS 1's NAV, B = 60% x 40%
9. For ITCIS 2, A = 0.30% p. a. of ITCIS 2's NAV, B = 40% x 100%




**Step 1: Calculate the total PFS at CF level and the total proportionate UIFF at underlying investment fund levels:**

(a) Total amount of all PFS at CF level = 0.30%

(b) Total amount of all proportionate UIFF = [(0.20% x 60%) + (0.10% x 40%)] + [(0.20% x 60% x 60%) + (0.30% x 60% x 40%) + (0.30% x 40% x 100%)] = 0.424%

**Step 2: Calculate the aggregate PFS for the DIS CF:**

Aggregate PFS = (a) + (b) = 0.30% + 0.424% = 0.724%

**Step 3: Compare daily aggregate PFS with the daily rate specified in Schedule 11 to the MPFSO:**

$$\frac{0.724\%}{N} < \frac{0.75\%}{N}$$

*where N is the number of days in the year*

Since the daily aggregate PFS does not exceed the daily rate specified in Schedule 11 to the MPFSO, it complies with section 34DC(4) of the MPFSO.

**Mandatory Provident Fund Schemes Authority**
**January 2016**