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1 December 2015

Ms Connie SZETO
Clerk to Panel on Financial Affairs
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong
(Fax No.: 3529 2837)

Dear Ms Szeto,

Panel on Financial Affairs
Follow-up to Work Plan Meeting of the 2015-2016 Session

Thank you for your letter of 9 November 2015, requesting our written response to issues raised by the Hon LEE Cheuk-yan on reduction in the management fees of the Mandatory Provident Fund (“MPF”) System and arrangement for offsetting Severance Payment (“SP”) or Long Service Payment (“LSP”) (“Offsetting Arrangement”) under the MPF System.

Reduction in the management fees of the MPF System

The Government and the Mandatory Provident Fund Schemes Authority (“MPFA”) have been striving to drive down MPF fees. Short and medium-term measures to reduce the fees include :

- (i) urging trustees to make available low-fee funds in all MPF schemes and to consolidate MPF schemes / funds;



- (ii) conducting campaign to encourage scheme members to consolidate their personal accounts;
- (iii) launching an MPF payment settlement system to enable electronic transfer of scheme members' accrued benefits between trustees to reduce transaction costs; and
- (iv) simplifying statutory procedures and requirements to reduce trustees' operational and compliance costs.

Since 2007, the average Fund Expense Ratio has already been reduced by more than 20% to 1.60%. Among all existing approved constituent funds, some 40% are low-fee funds (i.e. with FER \leq 1.3%, or management fees \leq 1.0%).

To address public concerns over "high fees and difficulty in making choice", the Government and MPFA aim to introduce a highly standardised and fee-controlled Default Investment Strategy ("DIS") (previously called the "Core Fund") into the MPF System. The Mandatory Provident Fund Schemes (Amendment) Bill 2015, introduced into the Legislative Council ("LegCo") on 25 November 2015, provides the legislative framework for the DIS which includes the statutory requirement for each MPF approved trustee to provide the DIS in each MPF scheme and a statutory fee cap at the initial level of 0.75% (of the net asset value) which will be adjusted downwards further in future. Subject to the passage of the Bill, our target is to launch the DIS by the end of 2016. In this connection, we will try our best to assist the LegCo in completing the scrutiny of the Bill efficiently so that MPF scheme members can benefit from the fee-controlled DIS as soon as possible.

Offsetting Arrangement

The offsetting arrangement is a very complicated issue which involves the interests of various stakeholders. The Commission on Poverty will launch a six-month public consultation on retirement protection in December this year. The consultation will cover matters related to strengthening the functions of each existing pillar in our retirement protection system. In this context, the offsetting arrangement will be discussed in the consultation document. The Government will maintain an open mind in listening to different views and, on completion of the consultation, analyse and study in detail the views collected and examine this issue holistically.



We should be grateful for your assistance to report the above to Members of the Panel on Financial Affairs.

Yours sincerely,



(Eddie CHEUNG)

for Secretary for Financial Services and the Treasury

c.c.

Policy and Project Co-ordination Unit (Attn.: Ms Doris HO, JP)

Mandatory Provident Fund Schemes Authority (Attn: Mr Darren McSHANE)

