Progress Report on the Motion on
"Lowering the Mandatory Provident Fund management fees"
carried at the Legislative Council meeting on 27 June 2007

Purpose

At the Legislative Council meeting on 27 June 2007, the motion moved by Hon Miriam Lau Kin-yee, as amended by Hon Sin Chung-kai and Hon Andrew Leung Kwan-yuen, was carried as follows:

> "That, in view of the current relatively high management fees charged under the Mandatory Provident Fund ("MPF") schemes and their less than satisfactory investment returns, this Council urges the Government to immediately adopt relevant measures and create favorable conditions, including changing the practice of employers selecting the MPF trustees to allowing employees to choose their own MPF trustees for their own contributions, and adding new provisions to the Code on Disclosure for MPF Investment Funds to require MPF trustees to further disclose the levels of fees and charges for various constituent funds, so as to promote competition in the MPF management market and facilitate comparison by employees participating in the MPF schemes, thereby effectively lowering the management fees of the MPF schemes, and appropriately increase the variety and flexibility of their investments as well as strengthen the monitoring of their investment performance, with a view to preventing the erosion of the hard-earned money contributed to the MPF by both employees and employers, and enhancing the effectiveness of the MPF in providing protection to employees' retirement life."

2. This progress report serves to inform Members of the follow-up actions taken with regard to the motion.

Adopting relevant measures and creating favourable conditions for competition

(a) Changing the practice of employers selecting the MPF trustees to allowing employees to choose their own MPF trustees for their own contributions

3. The Mandatory Provident Fund Schemes Authority ("MPFA") is currently consulting the industry and relevant stakeholders on the development of a practicable proposal to increase employees' control over their MPF

investments by allowing them to transfer accrued benefits derived from their own contributions (i.e. the employees' portion of MPF contributions) to a MPF scheme of their choice once a year. In developing the associated arrangements, MPFA has taken note of the need to minimize increases in administration costs that may possibly arise. The proposal, if successfully implemented, would result in around 60% of MPF benefits being portable between trustees and would encourage employees to take a more active interest in their MPF investments, thereby helping to promote competition in the MPF market.

4. Upon considering stakeholders' views, the MPFA plans to submit the proposal to the Administration by the end of this year.

(b) Adding new provisions to the Code on Disclosure for MPF Investment Funds to require MPF trustees to further disclose the levels of fees and charges for various constituent funds

5. In June 2004, the MPFA took a major step to improve information transparency of MPF funds by issuing the Code of Disclosure on MPF ("the Code"). Refinements to the Code were made in the light of operational experience leading to the publication of the 2nd edition of the Code in February 2007.

6. The MPFA has now started another phase in the review of the Code which covers requirements relating to annual benefit statements ("ABS") and the On-going Cost Illustration ("OCI")[1]. 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 would take effect once the legislative proposal to empower the MPFA to add content requirements to the ABS was endorsed by LegCo as part of the Mandatory Provident Schemes (Amendment) Bill 2007 and was enacted as law. Regarding the OCI, the MPFA is now gathering views from stakeholders on possible improvements.

(c) To promote competition in the MPF management market, and facilitate comparison by employees participating in the MPF schemes

7. To promote competition and facilitate comparison of MPF fees and charges, the MPFA launched Phase I of the Fee Comparative Platform on 13 July 2007. Phase I of the platform provides scheme members with information

[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 a MPF fund over a certain period of time.

about the highest, average and lowest Fund Expense Ratio ("FER") by fund types. Phase II of the platform will provide detailed information about fees and charges of individual funds. It would be launched once the Mandatory Provident Fund Schemes (Amendment) Bill 2007 containing the requisite legislative amendments for implementing Phase II was passed by LegCo and enacted as law.

8. The MPFA will continue to keep in close liaison with the trustees and other industry members to consider possible ways in lowering fees and charges. The MPFA has also invited the industry to propose further legislative refinements which may contribute to reducing operating costs through streamlining the administration of the MPF system.

9. Educating scheme members about the importance of fees and charges in investment decisions is also part of MPFA's on-going efforts. The MPFA is now promoting understanding of MPF investment funds through Phase Two of the Campaign on MPF Investment Education 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.

Investment of MPF funds

10. In respect of improving the flexibility and variety of MPF investments, a number of legislative amendments and modifications to the MPFA's Guideline on Investment have been made since the inception of the MPF system in 2000 to ensure that unnecessary investment restrictions are removed and that wider investment flexibility is achieved. The MPFA has been in regular dialogue with the industry over the years in the development of the investment regulations and has responded to the proposals raised. The MPFA remains open to further suggestions from the industry or other stakeholders as to how the investment regulations can be further improved.

11. On investment performance, according to the MPFA, MPF funds achieved on average a net annualised investment return of 8.21% for the period from 1 April 2001 to 31 March 2007. Over the same period, the annualised rate of inflation in Hong Kong was –0.3%[2] and the annualised return on bank

2 Annualised composite CPI compiled by the Census and Statistics Department reflecting the expenditure pattern of all households.

savings was in the order of 0.91%[3].

12. The return of the MPF system is largely driven by the fund choices made by scheme members. In addition, the generally favourable global market environment has contributed to the positive investment return enjoyed by MPF funds in recent years.

13. Since the motion was carried, the MPFA has updated the performance of MPF funds and notes that the trend of positive investment performance has continued. The net annualised investment return for the period from 1 April 2001 to 30 June 2007 has risen to 9.12%. The annualised rate of inflation for the same period was –0.3% and the annualised return on bank savings rate was 0.96%.

Financial Services Branch
Financial Services and the Treasury Bureau
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[3] Based on the MPFA Prescribed Savings Rate as a proxy for bank savings rates.