

**Hong Kong Investment Funds Association**

(company incorporated with limited liability 有限責任公司)

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September 23, 2014

Hon Chan Kin-Por, BBS, JP
Chairman of the Bills Committee on Mandatory Provident Fund Schemes
(Amendment) Bill 2014
Legislative Council
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Mr. Chan

**Re: Legco Bills Committee on Mandatory Provident Fund Schemes (Amendment)
Bill 2014 (your letter dated July 28, 2014)**

On behalf of the Hong Kong Investment Funds Association (“HKIFA”), I would like to provide the views of our members on the proposed amendments:

1. Approval process

Clause 7 empowers MPFA to refuse to approve a constituent fund if it is not satisfied that the fund is “in the scheme members’ interests”.

As fiduciaries, investment managers would always act in the scheme members’ interests. However, while managers would always adhere to this principle, we have queries as to whether it is appropriate to introduce this – specifically in the context of fund approval - into the legislation. The MPFA already has the ability to review new few applications and to discuss them with the investment managers or trustees.

To provide clarity and certainty to the industry as well as to allow flexibility to accommodate market developments and cater for the needs of employees, we believe that a balanced and pragmatic approach is to have this requirement enshrined in the relevant code and/or guidelines, rather than the legislation. Moreover, the code and/or guidelines should provide a detailed set of criteria as to how constituent funds (and approved pooled investment funds) are to be approved; as well as the timeline for approval.

In addition, apart from reducing the opacity of the approval process, we believe that there are two other areas regarding the approval process that need to be revisited:

- The Government and the relevant authorities should study whether there is a need to have two regulators, namely MPFA and SFC, in the approval process.

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Some members note that the division of labor between the two regulators is not entirely clear and this has in certain instances, resulted in duplication and delay in the process.

As the system has been up and running for about 15 years and that MPFA has built up a very professional team, it is opportune to consider moving the whole process to a regulator – i.e. MPFA, rather than to split it between two regulators. This will help to streamline the process, avoid duplication and enhance cost efficiency. Also, it would be helpful to review the appeal mechanism and see how to further enhance its robustness.

- Secondly, we believe that in reviewing the approval process, the Government and authorities should take a holistic and balanced approach. Based on the proposed amendments, (in the consultation brief, it cites “e.g. a new fund with fees lower than those of similar existing MPF funds” as an example) the core fund consultation and various other initiatives, we note that the authorities have been fixated on the issue of fees. While we submit that “fees” is a very important factor, we do not believe that this should be the sole or the predominant factor. Such an approach would have a number of adverse unintended consequences – e.g. restricting the managers’ ability to innovate and to develop products that can best cater for the employees’ retirement needs; as well as preventing competition, which is pivotal to the success of the MPF system, to come into full play.

2. Withdrawal of accrued benefits

- We support the proposal to allow withdrawal by installments. However, to enhance administrative and cost efficiency, we believe that MPFA should consider specifying the minimum account balance (similar to the small MPF balance withdrawal) before a member can lodge such an application, as well as the minimum withdrawal payment. These amounts should be determined after consultation with service providers and other stakeholder groups.
- Apart from allowing withdrawal upon terminal illness, we are of the view that withdrawal by members who suffer from critical illness should also be considered. This is especially relevant for cases where critical illness will likely result in death in the absence of proper and timely medical treatment which may be costly. References to the list of terminal illness used by health and life insurance companies can be made when considering the scope.

If you have any queries or need further information, please do not hesitate to contact us on 25379912.

Yours sincerely,



Sally Wong
Chief Executive Officer