MSCI

January 6, 2016

Hon. TAM Yiu-chung
Chairman of the Bills Committee
Legislative Council, Hong Kong
Email: bc_03_15@legco.gov.hk

Dear Chairman,

This responds to the invitation to submit our views to the Bills Committee regarding the Mandatory Fund Schemes (Amendment) Bill 2015 ("the Bill")

MSCI is overall very supportive of the Bill and its proposed amendments, but we would like to highlight a few areas for consideration.

As you know, MSCI is a leading equity benchmark provider with an estimated 9.5 trillion US dollars benchmarked to its indexes. Since 2013, MSCI has been providing global equity indexes reflecting the unique MPF investment requirements (MSCI MPF Index Series).

MSCI has been serving the investment needs of investors for more than 40 years. The globalization of equity portfolios has been a pre-eminent theme over this period as evidenced by the continued and structural reduction of home-bias in long term portfolios. MSCI therefore welcomes the Bill, particularly in relation to the offering of broad, well-diversified and lower cost Default Investment Strategy (DIS) solutions to its members. We are convinced that these enhancements will bring meaningful and lasting benefits.

We believe that the Bill describes the two core investment strategies well. In particular, we support the flexibility given to the fund providers to vary their exposure to the risky asset class within a reasonable band. This flexibility offers fund providers with an important incentive to seek to enhance fund returns for the benefit of the participants. We also support that the Bill does not advocate any investment style (for example, Indexing), but rather sets a total expense limit which, in turn, allows fund providers the choice of their implementation.

Our suggestion is around the formulation of any index benchmark choice. We understand that for simplicity and ease of implementation, the Bill may imply the idea of referencing to one multi-asset index against which all fund providers will be benchmarked to. However, this could potentially have un-intended consequences by reducing the level of competition and innovation of index services and discouraging the diversity of product offering over time. Just like in any other competitive industries, index providers compete through the provision of their index methodologies, their data quality, their service levels and their fees. In our view, a default reference to one benchmark index creates a perceived regulatory preference and could potentially be unfavorable to participants over time. As such, we strongly advocate that the standardized DIS funds be given the explicit flexibility to select from a list of approved indexes rather than having the obligation to use a specific one.

Sincerely yours,

T Niggli

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