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SPECIAL ADMINISTRATIVE REGION
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14 October 2016

Miss Flora TAI
Clerk to House Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong
(Fax No.: 2509 0775)

Dear Ms Tai,

Mandatory Provident Fund Schemes (Amendment) Ordinance 2016 (Commencement) Notice

I write to inform the House Committee of the coming into operation of the Mandatory Provident Fund Schemes (Amendment) Ordinance 2016 (Commencement) Notice ("Commencement Notice") and the preparatory work of the "Default Investment Strategy" ("DIS"). A copy of the Commencement Notice is at **Annex** for Members' reference.

Background

The Mandatory Provident Fund Schemes (Amendment) Ordinance 2016 (Ordinance No. 9 of 2016) ("Amendment Ordinance") was passed by the Legislative Council on 26 May 2016. Its primary objective is to mandate approved trustees of Mandatory Provident Fund ("MPF") schemes to provide a highly standardised and fee-controlled DIS in each MPF scheme, so as to regulate the default investment arrangement for all MPF schemes. This is to ensure that such arrangement is consistent with the long-term investment objectives of retirement savings with a view to protecting the interests of scheme members. The main provisions include –

(i) the requirement for each MPF approved trustee to provide a DIS in each MPF scheme (section 8 of the Amendment Ordinance);

(ii) the definition of the DIS, fee control mechanism[1], de-risking mechanism[2], as well as investment[3] and transitional arrangements[4]; and

(iii) consequences of non-compliance[5].

Pursuant to section 1(2) of the Amendment Ordinance, the Amendment Ordinance comes into operation on a day to be appointed by the Secretary for Financial Services and the Treasury by notice published in the Gazette.

Commencement Notice and Implementation Schedule

After reviewing the progress of the preparatory work (see below for details), the Mandatory Provident Fund Schemes Authority ("MPFA") proposed to implement all the provisions in the Amendment Ordinance on 1 April 2017. As such, we gazette the Commencement Notice on 14 October 2016 for tabling at this Council on 19 October 2016.

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1 The fee control mechanism seeks to impose caps on the management fees and recurrent out-of-pocket expenses charged to the two constituent funds ("CFs") of the DIS (i.e. the Core Accumulation Fund and the Age 65 Plus Fund) or imposed on a scheme member investing in the CFs. The caps are set at a daily rate equivalent to an annualized rate of 0.75% of the CF's net asset value ("NAV") and 0.2% of the CF's annual NAV respectively.

2 Section 11 of the Amendment Ordinance: for the Core Accumulation Fund, 60% of its NAV will be invested in higher risk investments and 40% in lower risk investments; for the Age 65 Plus Fund, 20% of its NAV will be invested in higher risk investments and 80% in lower risk investments. De-risking will commence when a DIS member reaches the age of 50, under which his exposure to investment risk will be reduced automatically as he ages. From the age of 50 onwards, the member's accrued benefits in the Core Accumulation Fund will be gradually switched to and completely invested in the Age 65 Plus Fund by the time he is 65.

3 Section 8 of the Amendment Ordinance: an approved trustee is required to invest the accrued benefits of a new scheme member who has not given any investment instruction according to the DIS. An existing scheme member may also choose to invest in the DIS.

4 Section 8 of the Amendment Ordinance: transitional arrangements apply to scheme members who satisfy the criteria prescribed in law. Generally speaking, for an existing scheme member who has not given investment instructions for his account, of which the accrued benefits are invested under a pre-existing default investment arrangement of the scheme, the approved trustee is required to issue a specified notice informing such member that he may choose to opt out from the DIS. If no reply is received from the member by the trustee within 42 days after the date of the issue of the notice, such benefits will be transferred to and invested in the DIS within 14 days after the expiry of the 42-day opt-out period.

5 Sections 4, 6, 7, 21, 23, 24 and 26 of the Amendment Ordinance: the MPFA may request an approved trustee to provide an auditor's investigation report on its compliance with the DIS if the MPFA reasonably believes that the trustee has failed to comply with DIS-related requirements. Sanctions against an approved trustee's failure to comply with DIS-related requirements include revocation of its approval as an approved trustee, suspension or termination of its administration of the scheme by the MPFA and financial penalties.

Impact of the Commencement Notice on different MPF scheme members is set out below –

(i) New scheme members and accounts: starting from 1 April 2017, after a scheme member has opened a new account under an MPF scheme, the accrued benefits of the account (including new contributions made after 1 April 2017) will be invested according to the DIS, unless the member gives specific investment instructions for the accrued benefits of the account. This, however, does not apply to new accounts created due to scheme restructuring, cancellation of the approval granted in respect of a fund or transfer of benefits between different accounts in a scheme.

(ii) Accounts of existing scheme members who have not given any investment instructions and whose accrued benefits in existing accounts are being invested according to the default investment arrangement under existing schemes: these scheme members will receive a "DIS Re-investment Notice" ("Notice") from their approved trustees within six months after the commencement of the Amendment Ordinance. The accrued benefits of these members will be invested according to the DIS unless specific investment instructions are received by the trustees within the 42-day opt-out period. Scheme members who give a reply to their trustees within the 42-day period to opt out from the DIS may still opt for the DIS or other investment options any time thereafter.

(iii) Accounts of other existing scheme members: these scheme members may opt for the DIS or other investment options any time after the commencement date. If these members do not give any other instruction, the accrued benefits in their accounts will continue to be invested according to prevailing instructions.

Progress of the DIS Preparatory Work

Since the passage of the Amendment Ordinance, the MPFA and approved trustees have been actively preparing for the DIS implementation. For the MPFA, major tasks include considering approved trustees' applications for approval of the DIS CFs and scheme documents, promulgating guidelines relating to implementation of the DIS. As for approved trustees, their work includes enhancing MPF administration and computer systems, amending relevant MPF scheme documents and operation procedures, and revising internal control measures.

Publicity

To ensure that MPF scheme members can well understand the DIS and its transitional arrangements, the MPFA has rolled out a three-stage publicity and education campaign starting from June 2016. Major tasks include –

(i) From June to November 2016: launched a thematic campaign on management of MPF accounts, encouraging all scheme members to update their correspondence addresses with their approved trustees to ensure timely receipt of important information on the DIS and other MPF issues. The MPFA has also enriched its MPF Investment Education Campaign to remind scheme members that MPF is a long-term investment and that retirement investment shall adopt the strategy of age-based de-risking, and encourage scheme members to play an active role in managing their MPF accounts.

(ii) From December 2016 to March 2017: to launch a large-scale publicity campaign to introduce the DIS, its features and commencement date, and to explain to scheme members how they will be affected by the new arrangements. Scheme members will be reminded to watch out for and read the notices issued by their approved trustees.

(iii) From April to September 2017: to launch a large-scale publicity campaign and district-based activities to make scheme members aware of the implementation of DIS, and to continue to highlight its features and impact on scheme members. Major effort will also be made to publicise the transitional arrangements and corresponding actions to be taken by scheme members.

During the above three stages, the MPFA will disseminate the relevant information to scheme members through advertisements (on different platforms such as print media, websites and social media), press releases as well as newspaper and magazine articles. At the second and third stages, the MPFA will also make use of television and radio in the form of Announcements of Public Interest to raise public awareness of the DIS and remind them to read information sent by approved trustees.

Conclusion

We envisage that the DIS will provide better protection for scheme members. It will also become a driving force for competition among service providers and fee reduction for other CFs. In fact, since the passage of the Amendment Ordinance in May this year, we have already seen reduction in the management fees of 45 CFs and consolidation of eight MPF schemes. In collaboration with the MPFA, we will closely monitor the impact brought by the implementation of the DIS.

We should be grateful for your assistance in disseminating the information to Members of the House Committee.

Yours sincerely,

(Miss Wendy CHUNG)
for Secretary for Financial Services
and the Treasury

c.c. Mandatory Provident Fund Schemes Authority
(Attn.: Mr Darren McShane)

Annex

Mandatory Provident Fund Schemes (Amendment) Ordinance 2016 (Commencement) Notice

Under section 1(2) of the Mandatory Provident Fund Schemes (Amendment) Ordinance 2016 (9 of 2016), I appoint 1 April 2017 as the day on which the Ordinance comes into operation.

Secretary for Financial Services and
the Treasury

30 September 2016