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2 June 2020

Ms Connie SZETO
Clerk to Bills Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Ms Szeto,

Mandatory Provident Fund Schemes (Amendment) Bill 2019
("the Bill")

Thank you for the Secretariat's email dated 28 and 29 May 2020, providing the written submissions in relation to the captioned Bill. Please find the Government's response at **<u>Annex</u>**.

Yours sincerely,

(Ms Joan HUNG)
for Secretary for Financial Services and the Treasury

<u>**Annex**</u>

Bills Committee on Mandatory Provident Fund Schemes (Amendment) Bill 2019 ("the Bill")

Summary of views of Submissions and the Government's response

Item	Summary of views of submissions	Government's response
(A) Matters relating to the Bill		
1.	Supportive of the establishment of the eMPF Platform and the proposal on the Annual Registration Fee ("ARF") *[Liberal Party]*	Noted.
2.	Whether the proposed new section 22C of the Mandatory Provident Fund Schemes Ordinance (Cap. 485), i.e. prohibiting trustees from charging any constituent fund of a registered scheme, any registered scheme or any scheme member any ARF-related fee, can be effectively enforced. *[Mr Yuen]*	The auditors of Mandatory Provident Fund ("MPF") schemes will scrutinise the relevant annual financial reports of registered trustees of the schemes to ensure that no unpermitted fee and expenses, including any fee related to the ARF, will be deducted from scheme members' assets. Meanwhile, the Mandatory Provident Fund Schemes Authority ("MPFA") will also conduct vetting diligently with a view to ensuring the reasonableness of any proposed new fee item or fee increase of MPF schemes and assess the reasonableness

		of fees charged to the MPF schemes based on the fees disclosed in offering documents when reviewing the financial reports of schemes. In addition, the new financial penalty set out in the proposed item 4AA of Part 1 of Schedule 4 to the Mandatory Provident Fund Schemes (General) Regulation (Cap. 485 sub. leg. A) will also create a deterrent effect to punish the trustee who passes on the annual registration fee to scheme members under the disguise of a different label. If there is evidence to prove that the trustee has failed to perform a duty or to comply with a requirement specified in the proposed new section 22C of Cap. 485, the trustee is subject to a financial penalty of $5,000 or 10% of the amount of the fee charged, whichever is the greater.
(B) Other issues (fee, performance, level of protection)		
3.	The Government should abolish the MPF System given the high management fee and unsatisfactory investment performance of MPF funds. *[Mr Yuen]*	As at end December 2019, the total assets of the MPF System were $970 billion, representing, net of fees and charges, a return of 12.2% in 2019 and an annualized return of 4.1% since the inception of the MPF System in

	The Government and MPFA should continue to carry out different measures to lower MPF management fee, including to consider imposing a fee cap, making reference to the Default Investment Strategies ("DIS"), on all other MPF funds. *[Liberal Party]*	2000. Over 20 years, the MPF system is able to provide retirement savings coverage to about 70% of Hong Kong's working population (nearly 90% if including some other forms of retirement schemes) as compared with about one-third before the launch of the MPF System Inevitably, the recent impact of the epidemic on the global economy and investment market would affect the value of the overall MPF assets and hence the return of MPF. However, MPF is a long-term investment spanning across an investment period up to 30 to 40 years. We therefore consider that we should not put too much emphasis on short-term fluctuations. For MPF fee, as a matter of fact, the overall average Fund Expense Ratio ("FER") of all MPF funds has decreased by 31% from 2.10% in 2007 to 1.44% in end April 2020. In addition, over 50% of MPF constituent funds fall within the range of low fee funds (i.e. FER not exceeding 1.3% or management fee, plus guarantee

		charges if applicable, not exceeding 1% of the net asset value). We consider the current benchmarking effect of DIS funds effective in driving the downward trend of MPF fee. We are also kick-starting the review on the current DIS fee cap level (i.e. 0.95%), with a view to further lowering the cap. At the same time, the Government and MPFA are currently working in full steam to develop the eMPF Platform for standardising, streamlining and automating MPF scheme administration to create room for fee reduction. We will continue to refine the MPF System, with a view to lowering the fee and expense level of MPF funds.
4.	Lack of protection to the unemployed persons / low-income earners *[Mr Yuen]*	After years of deliberation, the MPF System was introduced in the form of mandatory privately managed retirement protection scheme for the workforce in Hong Kong. It serves as the second pillar of the retirement protection in Hong Kong, complementary to other pillars of the retirement protection framework to provide retirement security for the population of Hong Kong.

		The Chief Executive announced in January 2020 the Government's proposal to pay MPF contributions to those on low incomes who are exempted from making MPF contributions themselves to enhance their retirement protection. For employees or self-employed persons whose income is less than the minimum level of relevant income (currently at $7,100 per month), the Government will pay the 5% contributions. The proposal will be carried out upon implementation of the eMPF Platform in 2024 the earliest.

Financial Services and the Treasury Bureau
2 June 2020