

# LCQ18: Improving Mandatory Provident Fund schemes

Following is a question by the Hon Kenneth Leung and a written reply by the Acting Secretary for Financial Services and the Treasury, Mr Joseph Chan, in the Legislative Council today (January 15):

Question:

On improving Mandatory Provident Fund (MPF) schemes, will the Government inform this Council whether it has plans to: (i) require trustees to offer, as investment choices for all of the MPF schemes managed by them, equity funds that track the performance of global equity indices and funds that track global bond indices, (ii) enact legislation to provide that the expense ratios of index funds must not be higher than 0.2 per cent, (iii) enact legislation to stipulate the caps on the expense ratios of various funds, and to lower such caps year after year, and (iv) require trustees to remove funds with unsatisfactory performance (e.g. persistently having rates of return lower than the relevant benchmarks by 5 per cent or more for the past five years) from their MPF schemes; if so, of the details; if not, the reasons for that?

Reply:

President,

(i) The Mandatory Provident Fund Schemes Authority (MPFA) has been encouraging the market to offer more passively managed funds and requiring trustees to consider including index funds when applying for approval to set up new funds. Currently, over half of the MPF schemes (i.e. 16 out of 28 MPF schemes) offer index funds for scheme members to choose from. MPFA will continue to explore with trustees to offer more index funds as investment options to scheme members.

(ii) and (iii) MPFA has always strived to lower the level of fees and expenses of MPF funds through various measures, including:

1. requiring each MPF scheme to offer at least one "low-fee fund", i.e. funds with an expense ratio that does not exceed 1.3 per cent or management fees not higher than 1 per cent. This type of funds includes both actively managed funds and passively managed funds. At present, there are 224 low-fee funds, accounting for about 54 per cent of the total number of MPF funds available in the MPF market;

2. implementing the Default Investment Strategy (DIS) with fee cap (i.e. a management fee cap of 0.75 per cent and a recurrent out-of-pocket expenses cap of 0.2 per cent). On the whole, we expect that DIS will become a benchmark to drive for more competition among other MPF funds as well as fee reduction. In fact, since the passage of the legislation regarding DIS in May

2016 until December 2019, a total of 153 MPF funds have reduced their fees, with a maximum reduction of 54.55 per cent. In the long run, the fee cap for DIS will be further lowered. MPFA is currently conducting a review on the fee cap; and

3. enhancing transparency of fund information, including the Fund Expense Ratio, to facilitate scheme members to compare fund fees.

These measures have been effective in lowering fees and expenses. The Fund Expense Ratio dropped from 2.10 per cent in December 2007 to 1.46 per cent in December 2019, representing a reduction of around 30 per cent. The Government and MPFA are working in collaboration to build the eMPF electronic platform, which is aimed at improving the administrative efficiency of the MPF System, thus creating room for further fee reduction.

(iv) MPF trustees have governance and fiduciary duties. They must monitor and review the performances of MPF funds systematically and regularly, and take follow-up actions as appropriate, such as issuance of warning letters to fund managers, replacing the fund managers of relevant funds and even excluding constituent funds with unsatisfactory performance. MPFA will also ensure that trustees deliver their governance and fiduciary duties and take timely actions to follow up on funds with unsatisfactory performance.

In addition, MPFA has been striving to enhance the transparency of fund information, e.g. through providing the MPF Fund Platform, which can enable the public to monitor fund performances more closely. MPFA has also implemented the Employee Choice Arrangement to allow scheme members to choose the appropriate funds.