LCQ3: Mandatory Provident Fund investments in bonds of specified Mainland authorities

Following is a question by the Hon Edmund Wong and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (February 16):

Question:

The Government plans to amend the current legislation governing Mandatory Provident Fund (MPF) investments to include the Central People's Government and three Mainland policy banks (i.e. the China Development Bank, the Export-Import Bank of China and the Agricultural Development Bank of China) (specified Mainland authorities) in the scope of "exempt authority", so as to facilitate MPF investments in bonds issued by these authorities. In this connection, will the Government inform this Council:

(1) whether it knows the number of individual bonds issued by each of these specified Mainland authorities in each of the past three years; of the shortest and longest tenors as well as the ranges of yields of such bonds;

(2) given that under the current restrictions, MPF investments in bonds issued by specified Mainland authorities only account for 0.27 per cent of MPF's total asset value, whether the Government has estimated the increase in the percentage of investments in bonds issued by the specified Mainland authorities within the first year after making amendments to the relevant legislation; and

(3) as the Government has proposed that upon inclusion of the specified Mainland authorities in the scope of exempt authority, each MPF fund may invest up to 30 per cent of its funds in these authorities' bonds of the same issue and may also choose to invest all of its funds in such bonds of at least six different issues, of the justifications for such proposed caps?

Reply:

President,

My reply to the various parts of the question raised by the Hon Wong is as follows:

(1) According to data published by the China Central Depository and Clearing Co., Ltd. (i.e. China central securities depository), information on the Central People's Government (CPG) bonds (including those issued by the Ministry of Finance (MOF) and the People's Bank of China (PBOC)) and bonds issued by the three Mainland policy banks (i.e. The Export-Import Bank of China, Agricultural Development Bank of China, and China Development Bank) in the past three years are as follows:

Bonds		Issuing Authority	
		CPG*	Policy Banks
Issue Volume (¥RMB Billion)	2019	4,009.100	3,660.210
	2020	7,017.325	4,902.850
	2021	6,675.806	5,034.410
Tenor		3 months – 50 years	6 months – 20 years
Yield		2.0006% – 3.4350%	2.2189% – 3.4469%

* includes MOF and PBOC

(2) As of December 31, 2021, some 19.5 per cent of the total assets of the Mandatory Provident Fund (MPF) were invested in debt securities, while 0.28 per cent and 2.24 per cent of the total MPF assets were investments in debt securities issued by the CPG and its three policy banks, and the commercial entities in the Mainland respectively.

With the Mainland bond market being the second largest in the world and the largest in Asia, there is an increasing demand from the MPF industry to invest in more diversified investment options with stable returns, in particular bonds issued by the CPG and its policy banks. To this end, following our review with the Mandatory Provident Fund Schemes Authority (MPFA), the Government plans to propose to the Legislative Council in mid-2022 amendments to the Mandatory Provident Fund Schemes (General) Regulation (Cap. 485A) (the Regulation) to include the CPG, PBOC and the three Mainland policy banks as "exempt authority" under the Regulation, so as to facilitate MPF investment in their bonds. Under the current investment rules as set out in the Regulation, each MPF fund may invest up to 30 per cent of its funds in bonds of the same issue issued by an exempt authority, and may choose to invest all of its funds in bonds of at least six different issues issued by the same exempt authority. The increase in amount to be invested in bonds issued by these newly-included exempt authorities in the Mainland will depend on the investment policy of individual MPF funds and prevailing market conditions. We do not have forecast figures.

(3) The main objective of the investment restrictions set out in the Regulation and relevant guidelines governing MPF investment is to balance the investment risks of MPF funds in order to protect the interests of MPF scheme members. At present, the total amount of MPF funds invested in securities and other permissible investments issued by any one issuer cannot exceed 10 per cent of the total funds of an MPF fund. As mentioned above, for MPF investment in debt securities issued by an exempt authority, an MPF fund may invest up to 30 per cent of its funds in bonds of the same issue, and may choose to invest all of the funds in bonds of at least six different issues issued by the same exempt authority. The list of "exempt authority" currently includes the Government of the Hong Kong Special Administrative Region, the Exchange Fund, and any government, the central or reserve bank of any country or territory, or any multilateral international institution with the highest possible credit rating. The risk of default of bonds issued by these

institutions is relatively low and therefore the upper limit of investment in such bonds is higher.