

MEMO# 28303

August 6, 2014

Hong Kong Solicits Comments on the "Core Fund" Proposal for Its Mandatory Retirement System: Input Requested

ACTION REQUESTED

[28303]

August 6, 2014

TO: PENSION COMMITTEE No. 18-14

PENSION OPERATIONS ADVISORY COMMITTEE No. 17-14

INTERNATIONAL COMMITTEE No. 24-14

ICI GLOBAL RETIREMENT SAVINGS COMMITTEE

ICI GLOBAL REGULATED FUNDS COMMITTEE No. 6-14

ICI GLOBAL ASIA PACIFIC CHAPTER No. 7-14 RE: HONG KONG SOLICITS COMMENTS ON THE "CORE FUND" PROPOSAL FOR ITS MANDATORY RETIREMENT SYSTEM -- INPUT REQUESTED

The Mandatory Provident Fund Schemes Authority (MPFA), the pension regulator for the Hong Kong's Mandatory Provident Fund (MPF [\[1\]](#)), published a consultation soliciting input on a proposed requirement that all MPF schemes offer a "core fund" -- a standardized low-fee investment product that is designed in a manner consistent with the overall objective of retirement savings. [\[2\]](#) The core fund will serve as a default investment for members who do not make an investment choice (defaulted members), and will also be available as an investment option by other members. In addition, MPFA envisions that the core fund will become a benchmark and a driving force for competition and fee reduction for other funds in the MPF system.

Comments to the MPFA are due September 30, 2014. We intend to file a comment letter, and we will circulate a draft letter for your comments. In the meantime, please contact me if you have suggestions for the letter.

Proposal Description

MPFA proposes that the core fund have the following features:

- The core fund must be the standardized default fund for defaulted members. Currently, there are no requirements identifying the type of fund that is eligible to be a default fund. Current default funds range from money market funds to mixed asset funds. The MPFA is concerned at the diversity of default funds used across schemes.

- The core fund must be available for investments by all MPF scheme members.
- The investment approach of the core fund should balance long-term risks and returns in a manner appropriate for retirement savings. As the preferred investment approach, the proposal suggests a lifecycle/target date approach that reduces exposure to risky assets before a member reaches the age of 65.
- The core fund should be good value. The MPFA proposes to limit core fund fees to 0.75% of assets per annum (under 1% for the Fund Expense Ratio). The proposal encourages the use of passive investment strategies.

The consultation paper includes 12 questions related to the specific proposed requirements and also solicits comments on the proposal overall, including on implementation issues.

Anna Driggs
Associate Counsel

endnotes

[1] MPF system (implemented in 2000) is a mandatory, privately-managed, employment-based defined contribution system.

[2] The consultation titled “Providing Better Investment Solutions for MPF Members” is available at

http://www.mpfa.org.hk/eng/information_centre/Consultations_and_Conclusions/Consultation_Paper-Providing_Better_Investment_Solutions_for_MPF_Members-Eng.pdf.

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