



SECURITIES AND FUTURES COMMISSION

證券及期貨事務監察委員會

8th Floor, Chater House, 8 Connaught Road Central, Hong Kong
香港中環干諾道中八號遮打大廈八樓

29 January 2009

By Post & By Email

Ms Ka Shi Lau
Chairman
Retirement Schemes Subcommittee
Hong Kong Trustees' Association
c/o Bank Consortium Trust Company
18/F Cosco Tower
183 Queen's Road Central
Hong Kong

Dear Ms Lau,

Disclosure of MPF Products

I refer to your meeting with our Peggy Yang on 30 December 2008 and your letter of 13 January 2009 (the "Letter"). I would like to set out below our way forward in respect of the disclosure issues of MPF products which we have consulted the MPFA.

We do not have comments on the proposed revised risk statement. However, we also require upfront disclosure in respect of a capital preservation fund, an insurance policy (where applicable) and a guaranteed fund (where applicable), all of which are described in detail under the respective headings below.

Suitability Statement

The HKTA has proposed the following suitability statement:

"You should consider your own risk tolerance level and financial circumstances before making any investment choices. When, in your selection of funds, you are in doubt as to whether a certain fund is suitable for you (including whether it is consistent with your investment objectives), you should seek financial and/or professional advice and choose the fund(s) most suitable for you taking into account your circumstances. "

We have no comments on the above statement and please inform members to include such statement in all MPF marketing materials and principal brochures to incorporate the above suitability statement.

Counterparty Risk of Insurance Policy APIFs

We have recently been informed by the MPFA that any structural solution in respect of insurance policy APIFs may take some time to implement. Furthermore, as you would appreciate, the concentration risk in relation to insurance policy APIFs is higher than other investments and in fact, is different from direct investments in a fund product. As such, in the interim whilst a structural solution is being worked out, from a disclosure perspective, investors in MPF products with insurance policy APIFs should make upfront disclosure in



both principal brochures and marketing materials of a MPF scheme that invests in insurance policy APIs as follows:

"The [name of constituent funds] in this MPF scheme each invests solely in an insurance policy issued by [name of insurance company]. Your investments are therefore subject to the credit risks of [name of insurance company]."

Guaranteed Funds

The recent financial turmoil has clearly led to the call for enhanced disclosure. We therefore require that such MPF schemes that have guaranteed funds make upfront disclosure in their principal brochures and marketing materials of the exposure to the risk of the guarantors, and to remind their scheme members to refer to the specific section of the principal brochures for the qualifying conditions of the guaranteed funds.

Disclosure of Fund Type Risks

We note your point that given the nature of MPF products, any risk statement about the scheme would be too wordy and general. We therefore will not require fund specific disclosure by MPF schemes (unless otherwise specified in this letter), though they are encouraged to make such specific risk disclosures as they consider appropriate and necessary in light of their investments.

Capital Preservation Fund ("CPF")

You mentioned that our concerns over the misleading implication of the name of CPF will soon be dealt with by the adoption of a new name for the fund. However, we understand from the MPFA that it may take some time to implement any name change. We therefore require that in the interim, all MPF schemes make upfront disclosure in their principal brochures and marketing materials where CPF is mentioned that a CPF does not guarantee the repayment of capital.

We believe that it is important that key information is brought upfront to investors' attention. Our proposed disclosure requirements set out in this letter are intended to achieve this result. I wish to thank you and your colleagues in HKTA for your suggestions and we look forward to your continued support for our drive for enhanced disclosure, which we believe is both necessary and appropriate for rebuilding investor confidence at this time.

Yours sincerely,

Christina Choi
Director
Investment Products

c.c. Mr. Darren McShane, MPFA