公共專業聯盟
The Professional Commons

3 June 2013

Dear Mrs. Lam,

We, the Finance Expert Group of the Professional Commons, are writing to you as Chairperson of the Steering Committee on Population Policy of the HKSAR Government to recommend including HKD bond market invigoration in the Committee's policy consideration. We believe a mature and liquid HKD bond market has a critical role in stabilizing and sustaining investment returns for Hong Kong's retiree population. Our recommendation is detailed in the enclosed report and summarized below.

**Executive Summary**

Public consensus is that Hong Kong's core retirement funds, the Mandatory Provident Fund and the Occupational Retirement Scheme, have excessively high volatility and management fees that are detrimental to the funds' purpose to provide for retirement living. The root cause, in our view, is that Hong Kong lacks a developed HKD bond market for the funds to hedge and diversify risks.

As there are limited HKD fixed income products, Hong Kong retirement funds invest mostly in domestic and foreign equity instruments, which are comparatively much more volatile and risky, and costly to manage - proved by the fact that Hong Kong's MPF management fee is the highest among countries with similar retirement schemes. The simulation we did established that a portfolio weighing mostly on HKD bonds yields more stable and predictable returns, and thus more closely aligned to a retiree's goal for long term savings investment.

Despite being recognized as an international financial centre, Hong Kong lacks a developed local bond market - result of incongruous planning and the local financial community's lack of interest in selling bonds to retail investors. To strengthen Hong Kong's overall competitiveness in the financial services and to improve investment returns for the aging population, we recommend the following steps for the Government to take leadership in developing a HKD bond market:

1. Encourage statutory bodies such as the MTR, Airport Authority and Hong Kong Mortgage Corporation to raise funds by issuing HKD bonds as much as possible;

2. Improve the liquidity of the HKD bond market by diligent enforcement of underwriters' market making responsibilities;

3. Set up an electronic platform for online retail trading, making use of readily available vehicles such as the Hong Kong Post's digital certificate for identity verification;

4. Provide a central depository system for HKD bonds similar to that of the Hong Kong Exchange's CCASS for retail investors;

5. Commission the Hong Kong Monetary Authority or HK Mortgage Corporation to assume fund manager role for HKD bond retirement funds;

6. Promote public awareness and demand through the Securities and Futures Commission's education programs.

It is our earnest wish that our recommendation will be adopted for building a stable and profitable investment environment for the good of the aging population.

Yours truly,

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