SBF clarifies proposal on possible use of CPF funds

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The need for a livelier bourse so local firms can access a bigger capital pool is behind the Singapore Business Federation's (SBF's) proposal to deploy Central Provident Fund (CPF) cash to invest in local shares.

SBF's chief executive Ho Meng Kit told The Straits Times yesterday: "Our main concern is that we need to put more emphasis on developing local enterprises.

"For that, our stock exchange needs to play an important part, to mobilise savings for investments, and to facilitate corporate sector growth."

But with fewer listings on the Singapore Exchange and less liquidity, it is perhaps time to remove some of the curbs on where the CPF money can be invested, he added.

Mr Ho was clarifying the SBF's position on its recent recommendation that the Future Economy Committee consider taking CPF money from GIC Investments and have it managed as pension funds that can invest locally.

The proposal has drawn criticism, with many cautioning that it will expose Singapore's national savings to more market risks.

CPF money is invested in Special Singapore Government Securities, which guarantee a fixed return while providing for GIC investments overseas.

Mr Ho stressed that the SBF is only proposing a removal of restrictions so that market forces can decide whether some of Singapore's $275 billion CPF savings can be invested in local stocks without changing the system's risk profile.

"There is some scope for the Government to use some - not all - of this money, to park it with institutionalised pension fund investors like other countries. The investments are not to be restricted to overseas or Singapore. We're saying, let the market decide, and hopefully more money will be invested in the local stock market... The key is that the money is still invested based on the mandate of the CPF Board, which is to ensure a fixed return to retirees. That is a given."

At the same time, the Government can try to develop institutionalised pension funds to handle local investments, which is the norm globally, he added.

About 87 per cent of the equities held by Australia's pension market are domestic, while only 30 per cent of Canada's pension funds are invested abroad, Mr Ho said.

Association of Small and Medium Enterprises president Kurt Wee also urged an open mind, saying: "I believe there is room for more liberalisation, to let the market play a more active role in a system dominated by blue chips and government- linked entities."

But Lee Kuan Yew School of Public Policy research fellow Christopher Gee is sceptical, saying: "Certainly, we need to be thinking quite hard about whether we are sending too much of our capital overseas... That's a valid consideration.

"But still, instead of what SBF proposed - instead of having to choose and hope that a pension fund manager can generate returns better than what the Government already gives - we can easily just allow GIC to also invest locally without tweaking the CPF system."