

For information

**LEGISLATIVE COUNCIL
PANEL ON FINANCIAL AFFAIRS**

**Progress Report on Review of
Mandatory Provident Fund Schemes Compensation Fund**

PURPOSE

This paper sets out the progress of the review of the optimum level of the Compensation Fund under the Mandatory Provident Fund (“MPF”) System (“the Compensation Fund”).

BACKGROUND

2. The Compensation Fund is established under section 17(1) of the Mandatory Provident Fund Schemes Ordinance (Cap. 485) for the purpose of compensating scheme members and other persons who have beneficial interests in the schemes for losses of accrued benefits that are attributable to misfeasance or illegal conduct committed by the approved trustees or by other persons concerned with the administration of the schemes. It covers all losses in accrued benefits arising from both mandatory and voluntary contributions without any limit. The claim for compensation shall be determined by the Court of First Instance on the application of the Mandatory Provident Fund Schemes Authority (“MPFA”).

3. As prescribed under section 188 of the Mandatory Provident Fund Schemes (General) Regulation, the rate of the Compensation Fund levy

is 0.03% of the net asset value of the scheme assets. The levy applies from the commencement of the MPF System so as to build up a reserve of reasonable size for the protection of scheme members' interests.

4. The MPFA conducted a review of the Compensation Fund and reported the review results to the Legislative Council Panel on Financial Affairs on 3 July 2006. Members agreed that collection of the levy for the Compensation Fund at the current rate of 0.03% should be maintained, and that the MPFA should work out a model / mechanism for determining the optimum level of the Compensation Fund in 36 months' time. Members also requested that a progress report be provided in 18 months' time.

PRESENT POSITION

The growth of MPF assets

5. As of 31 October 2007, the net asset value of the Compensation Fund stood at HK\$1,074.3 million. No claim has been made from the Compensation Fund so far.

6. The MPF assets have continued to grow at a fast rate. The aggregate net asset value of all MPF schemes stood at HK\$257 billion as at 30 September 2007, compared with HK\$182 billion a year ago. The amount of mandatory contributions made in the first three quarters of 2007 (totaling HK\$20.52 billion) increased by 7.8% compared with the amount made in the same period in 2006.

7. With enhanced public awareness of the importance of saving for retirement and the improved economic conditions, the amount of voluntary

contributions made to the MPF system has also been growing in the past few years, from HK\$2,088 million in 2002 to HK\$3,254 million in 2006. As a result, it is noted that the amount of voluntary contributions as a percentage of mandatory contributions has been increasing, from about 9% in 2002 to 12.8% in 2006. For the first nine months in 2007, there is further growth in the amount of voluntary contributions (totaling HK\$3,010 million), representing 14.7% of mandatory contributions received over the same period, and an increase of 24% over voluntary contributions received during the same period in 2006. It is envisaged that the continuous growth of voluntary contributions would contribute to a faster growth rate of total MPF assets in the future.

WAY FORWARD

8. The continued increase in the rate of growth for both mandatory and voluntary MPF contributions as well as the total asset size of MPF funds indicate that it would be prudent to maintain collection of levy to ensure that the Compensation Fund offers reasonable protection cover to scheme members. MPFA will continue to keep in view market development trends and other prevailing factors in trying to work out a suitable model / mechanism for determining the optimum level of the Compensation Fund. In the process, the MPFA will make reference to arrangements for compensation funds both in Hong Kong and overseas. Other compensation funds available in the financial markets of Hong Kong include the Investor Compensation Fund (“the IC Fund”) and the Deposit Protection Scheme (“DPS”) Fund. The IC Fund was established in 2003 to pay compensation to those investors who suffer pecuniary losses as a result of default of a licensed intermediary or authorized financial institution in relation to

exchange-traded products in Hong Kong. The DPS, which was launched in September 2006, aims to protect depositors for deposits held with banks in Hong Kong.

9. As agreed at the meeting of the Panel on Financial Affairs on 3 July 2006, the MPFA will complete the review and provide a report with recommendations and/or various options for consideration in 18 months' time.

Mandatory Provident Fund Schemes Authority
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