立法會
Legislative Council

LC Paper No. CB(1)976/06-07
(These minutes have been seen by the Administration)

Ref : CB1/PL/FA/1

Panel on Financial Affairs

Minutes of meeting
held on Friday, 5 January 2007 at 10:45 am
in the Chamber of the Legislative Council Building

Members present	:	Hon CHAN Kam-lam, SBS, JP (Chairman) Hon Bernard CHAN, GBS, JP (Deputy Chairman) Hon James TIEN Pei-chun, GBS, JP Hon Albert HO Chun-yan Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP Dr Hon David LI Kwok-po, GBS, JP Hon James TO Kun-sun Hon SIN Chung-kai, JP Hon Abraham SHEK Lai-him, JP Hon Jeffrey LAM Kin-fung, SBS, JP Hon Andrew LEUNG Kwan-yuen, SBS, JP Hon WONG Ting-kwong, BBS Hon CHIM Pui-chung Hon TAM Heung-man
Members attending	:	Hon LEE Cheuk-yan Hon CHAN Yuen-han, JP Dr Hon Fernando CHEUNG Chiu-hung
Members absent	:	Hon Emily LAU Wai-hing, JP Hon Ronny TONG Ka-wah, SC

Public officer attending	**:**	Agenda Item IV Ms Cora HO Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)
Attendance by invitation	**:**	Agenda Item IV Mandatory Provident Fund Schemes Authority Mr Darren MCSHANE Executive Director (Regulation and Policy) Ms Gabriella YEE Senior Manager (Policy and Development)
Clerk in attendance	**:**	Miss Polly YEUNG Chief Council Secretary (1)5
Staff in attendance	**:**	Ms Rosalind MA Senior Council Secretary (1)8 Mr Justin TAM Council Secretary (1)3 Ms Sharon CHAN Legislative Assistant (1)8

Action

I. Confirmation of minutes of meeting

(LC Paper No. CB(1)604/06-07 — Minutes of meeting on 6 November 2006)

The minutes of the meeting held on 6 November 2006 were confirmed.

II. Information papers issued since the last meeting

(LC Paper No. CB(1)501/06-07 — Mandatory Provident Fund Schemes Statistical Digest – September 2006

LC Paper No. CB(1)512/06-07(01)	—	Updated background brief on the use of the accumulated surplus of the Exchange Fund prepared by the Secretariat
LC Paper No. CB(1)512/06-07(02)	—	Exchange Fund Abridged Balance Sheet (as at 31 October 2006) published by the Hong Kong Monetary Authority)

2. Members noted that the above papers had been issued for the Panel's information.

III. Date of next meeting and items for discussion

(LC Paper No. CB(1)602/06-07(01)	—	List of outstanding items for discussion
LC Paper No. CB(1)602/06-07(02)	—	List of follow-up actions)

Impact of banks' branch closure and fee-charging on the public

3. The Chairman informed members that in accordance with the decision at the last Panel meeting, the Hong Kong Association of Banks (HKAB) had been invited to make necessary arrangements to meet with the Panel for discussion of the captioned subject at the earliest possible date, preferably before or at the beginning of the second quarter of 2007. Members noted and agreed to HKAB's proposal to meet with the Panel at the regular meeting scheduled for 2 April 2007 for discussion of the subject.

Conflict of interest issue involved in and after the listing of The Link Real Estate Investment Trust

4. The Chairman drew members' attention that pursuant to the Panel's decision at the last meeting held on 14 December 2006, the Secretariat had written to Mr LEUNG Chin-man, former Permanent Secretary for Housing, Planning and Lands (Housing) again, inviting him to attend a meeting of the Panel on a date convenient to him. Members noted that Mr LEUNG had replied that he was currently not in Hong Kong and would only be able to indicate a suitable timing for meeting with the Panel after checking his commitments upon his return in around end January 2007. Mr LEUNG had also indicated in his reply that he would try his best to provide assistance to the Panel. The Secretariat would follow up with Mr LEUNG on the meeting arrangements in due course.

Clerk

Issues relating to the listing of companies which are incorporated outside Hong Kong

5. Members noted that as agreed at the Panel meeting held on 14 December 2006, the Administration/the Hong Kong Exchanges and Clearing Limited (HKEx) were invited to provide information on the proposal for opening the equity listing regime and to brief the Panel on the subject. They further noted the Administration's response dated 22 December 2006 (LC Paper No. CB(1)589/06-07(02)) that the proposal was still under consideration by HKEx and the Securities and Futures Commission and that HKEx would provide a paper for members' information in the first quarter of 2007. In this connection, the Chairman informed members that the item had been included in the Panel's list of outstanding items for discussion.

Discussion item for the meeting in February 2007

6. Members agreed to discuss the item on "Briefing on the work of the Hong Kong Monetary Authority" proposed by the Administration at the next regular meeting scheduled for 5 February 2007 at 10:45 am.

IV. Review of the minimum and maximum relevant income levels for Mandatory Provident Fund contributions

(LC Paper No. CB(1)602/06-07(03)	—	Paper provided by the Mandatory Provident Fund Schemes Authority
LC Paper No. CB(1)603/06-07	—	Background Brief on Review of the Minimum and Maximum Relevant Income Levels for Mandatory Provident Fund Contributions prepared by the Secretariat
LC Paper No. CB(1)646/06-07(01)	—	Power-point presentation material provided by the Mandatory Provident Fund Schemes Authority (tabled at the meeting and soft copy subsequently issued to members on 5 January 2007))

Briefing by the Mandatory Provident Fund Schemes Authority

7. At the invitation of the Chairman, Mr Darren MCSHANE, the Executive Director (Regulation and Policy), Mandatory Provident Fund Schemes Authority (ED(RP)/MPFA) gave a power-point presentation on the review of the minimum and

maximum relevant income levels for Mandatory Provident Fund (MPF) contributions. ED(RP)/MPFA advised that the current minimum and maximum relevant income levels were $5,000 and $20,000 respectively, which were approved by the Legislative Council (LegCo) in July 2002 and commenced operation in February 2003. In accordance with section 10A of the Mandatory Provident Fund Schemes Ordinance (MPFSO) (Cap. 485), MPFA must conduct a review of the minimum and maximum relevant income levels not less than once in every four years to ascertain whether or not there were grounds to amend the levels. He then briefed members on the adjustment mechanism for the review, the rationale behind the setting of the minimum and maximum relevant income levels and the results of the first four-year review undertaken by MPFA. He advised that the following recommendations were made to the Government in the light of the review findings and other relevant considerations:

(a) to maintain the minimum level of relevant income at $5,000 per month; and

(b) to increase the maximum level of relevant income from $20,000 to $30,000 per month.

8. ED(RP)/MPFA also briefed members on the reasons for recommending an increase in the maximum level of relevant income for MPF contributions and the impact of the recommended increase, if implemented, on employees and self-employed persons. He welcomed members' views on the recommendations of MPFA.

The Administration's view on the recommendations of MPFA

9. At the invitation of the Chairman, the Principal Assistant Secretary for Financial Services and the Treasury (Financial Services) (PAS(FS)) advised that MPFA had conducted a review of the minimum and maximum relevant income levels in accordance with section 10A of MPFSO, taking into account the information on monthly employment earnings prevailing at the time of the review as compiled from the General Household Survey (GHS); and forwarded its recommendations to the Administration. In considering the recommendations, the Administration would take into account the views of LegCo Members and the public as well as other relevant factors. It aimed to make a decision as soon as practicable. In this connection, PAS(FS) further advised that revision to the relevant income levels, if any, would have to be made through legislative amendments to MPFSO, which would be subject to the scrutiny and approval of LegCo.

Discussion

10. Mr Bernard CHAN declared that he was the shareholder of a MPF scheme service provider. Mr WONG Ting-kwong declared that he was a non-executive director of the MPFA Management Board.

Impact of the proposed increase in the maximum level of relevant income

11. Mr Andrew LEUNG said that the economy had not fully recovered and conveyed the concern of some employers of small and medium enterprises about the additional financial burden resulting from the increase in employers' MPF contributions if the maximum relevant income level was raised from $20,000 to $30,000 a month. On the employees' side, Mr LEUNG noted that some employees were also concerned about the reduction in their disposable income as a result of the increase in employees' MPF contributions.

12. Pointing out that the proposed increase in the maximum relevant income level would result in increased MPF contributions by both employers and employees, Miss TAM Heung-man was concerned whether employers would try to offset such additional cost by freezing or reducing the wages of their employees. Miss TAM enquired whether MPFA had made any assessment on the impact of the proposed increase on employment earnings.

13. Mr James TIEN expressed similar concern and said that the wider implications of the proposed increase should not be overlooked. Referring to the figures on the increase in average monthly contributions by employers and employees in Chart 10 of the power-point presentation material, Mr TIEN cautioned that these figures might not reflect the reality as employers might choose to offset the increased MPF contributions by offering a lower percentage of pay rise for their employees in an attempt to reduce operating costs.

14. ED(RP)/MPFA advised that it would be difficult to estimate the impact of the proposed increase on employees' salaries as the latter was the outcome of a wide range of factors. Some employers might choose to contain the impact of the increased mandatory contributions by varying some of their existing arrangements for voluntary contributions. Nevertheless, the projection made by MPFA on the impact of the proposed increase in maximum relevant income level on employers indicated that the overall increase in employers’ MPF contributions would be about $1,600 million per annum, which was a relatively small amount compared to the overall costs of business operation (i.e. less than 0.1% of the total business operating costs of employers). The impact would be less if the additional MPF costs would be offset by a reduction in the profits tax payable by the employers, as employers’ MPF contributions were tax-deductible.

15. Noting that tax concessions were granted for MPF contributions made by employers and employees, Dr Fernando CHEUNG sought information on the possible impact on tax revenue if the maximum relevant income level was increased

from $20,000 to $30,000. In reply, ED(RP)/MPFA advised that the recommended adjustment to the maximum relevant income level had only been put forward for the consideration of the Administration. MPFA had not made any estimation on the impact of the recommended adjustment on tax revenue. At the request of the Chairman, PAS(FS) agreed to provide the Panel with information on the impact on tax revenue as requested by Dr Fernando CHEUNG.

16. The Chairman noted that when introducing the Mandatory Provident Fund Schemes (Amendment) Bill 2002, the Administration had decided not to increase the then maximum relevant income from $20,000 to $30,000 per month despite the relevant findings of the review at that time. However, on this occasion, it was recommended by MPFA that the level be increased to $30,000 in accordance with the relevant findings under section 10A of MPFSO. The Chairman sought explanation on the different approaches adopted by MPFA/the Administration.

17. In response, ED(RP)/MPFA explained that the primary reason for maintaining the maximum relevant income level at $20,000 in 2002 was the adverse economic conditions prevailing at that time and the financial burden on employers/employees should they need to make additional MPF contributions. Referring to the paper provided by MPFA, ED(RP)/MPFA highlighted that with the economy in a healthier shape compared with that in 2001-02, it was difficult to identify other factors which suggested that the maximum relevant income level should not be increased to $30,000 in accordance with the findings of the current review.

Minimum level of relevant income

18. While expressing support for MPFA's recommendation of increasing the maximum relevant income level to $30,000, Mr LEE Cheuk-yan disagreed with the recommendation to maintain the minimum relevant income level at $5,000 and suggested that it should be raised to $6,000 instead. Mr LEE pointed out that employees earning a monthly income below $6,000 could barely make ends meet and might have difficulties in making MPF contributions. He added that the level of $6,000 was also in line with the proposed level of statutory minimum wage put forward by the Hong Kong Confederation of Trade Unions.

19. Mr James TIEN also opined that employees earning a monthly income below $6,000 might have difficulties in making MPF contributions. Mr TIEN was of the view that the Administration should consider some form of publicly-funded scheme as a basic safety net to cater for part of the retirement needs of lower income earners. In this connection, he urged the Administration to critically re-examine whether 50% of the monthly median employment earnings was an appropriate threshold for determining the minimum relevant income level and whether any upward adjustment was needed.

20. In response, PAS(FS) referred members to paragraph 9 of the Background Brief prepared by the LegCo Secretariat and advised that the Administration had responded to a similar suggestion by some members of the Bills Committee on Mandatory Provident Fund Schemes (Amendment) Bill 2002. She recapped that the Administration did not agree with the then suggestion to raise the minimum relevant income level as this would defeat the purpose of the MPF System to help lower income earners prepare for retirement. Excluding more employees from the MPF contribution net would also mean a reduction in the amount of MPF benefits that would be accrued for scheme members upon their retirement. PAS(FS) also advised that the MPF System was designed to form one of the pillars under the three-pillar approach to retirement protection advocated by the World Bank, the other two being a publicly managed, tax-financed social safety net and voluntary personal savings and insurance.

21. On whether the minimum level of relevant income should be raised to $6,000, Mr SIN Chung-kai cautioned that the suggestion should be carefully considered having regard to the objective of the MPF System in mandating the workforce to save for their retirement. Pointing out that people were inclined to accord a lower priority to savings for their future, Mr SIN considered that increasing the minimum relevant income level might not be conducive to achieving the purpose of the MPF System. To enable members to have a better picture on the retirement protection provided by MPF schemes, Mr SIN asked MPFA to provide information, if any, on the projected accrued benefits to scheme members upon retirement based on the real MPF investment return rates over the past few years.

22. In response, ED(RP)/MPFA advised that MPFA had been doing a number of modellings to project the accrued benefits of MPF schemes and agreed to provide the Panel with the information on the projections made under various modellings. He nevertheless pointed out that such modellings had been compiled on a number of assumptions and variables, including the investment return of MPF schemes which would vary with the choices of MPF portfolios by individual scheme members.

23. Miss CHAN Yuen-han was disappointed that MPFA had not recommended a higher minimum relevant income level to relieve the financial burden of low income earners in making MPF contributions. Expressing concern about the problem of working poverty, Miss CHAN considered that the MPF System could only provide very limited retirement protection to low income earners whose employment earnings were below the minimum relevant income level for MPF contributions. Miss CHAN was of the view that only an universal old age pension scheme could provide adequate retirement protection for the elderly population. She also urged the Administration to actively explore other retirement protection schemes, by making reference to those adopted in overseas jurisdictions (such as the old-age pension scheme or the Central Provident Fund) to supplement the MPF System.

24. In response, PAS(FS) advised that the Administration had no plan at the present stage for other forms of mandatory universal retirement protection schemes

and reiterated that the MPF System in Hong Kong was one of the three pillars for retirement protection. PAS(FS) added that the Central Policy Unit (CPU) was undertaking a study on "Sustainability of the Three Pillars of Retirement Protection in Hong Kong" and the study was expected to complete in 2007.

25. Dr Fernando CHEUNG also expressed concern about the difficulties of low income earners in making MPF contributions. He was of the view that as the MPF System was one of the three pillars of retirement protection in Hong Kong, any proposed adjustment to the contributions made under the System should be examined in the context of the protection offered under the three-pillar approach. In the light of the rapidly ageing population in Hong Kong and the current position that over 30% of the elderly population were living in poverty, Dr CHEUNG queried the efficacy of the existing publicly managed safety net in providing sufficient retirement protection to the population at the grass-root level. As such, he considered that the study undertaken by CPU on the three-pillar approach would provide valuable information on the way forward for the MPF System.

Existing adjustment mechanism

26. The Chairman recapped members' concern about the difficulties faced by low income earners in making ends meet and the adequacy of the MPF System in providing retirement protection to the workforce as a whole. He called on MPFA/the Administration to examine whether the existing adjustment mechanism for the minimum and maximum relevant income levels should be reviewed. For example, whether 50% of the monthly median employment earnings was an appropriate threshold for determining the minimum level of relevant income; and whether it should be raised to, say, 60% of the monthly employment earnings. Mr WONG Ting-kwong also urged the Administration and MPFA to take into consideration members' views, in particular whether the minimum relevant income level should be adjusted upward.

27. In this connection, PAS(FS) said that the adjustment mechanism applicable to the minimum and maximum relevant income levels for MPF contributions had been adopted since 1995. Notwithstanding the discussion of other alternatives when Members considered the legislative amendments to MPFSO in 2002, it was finally decided that the prevailing adjustment mechanism should continue to be adopted. Pointing out that a balance should be struck between the short-term impact of complying with the statutory contribution requirements and the long-term retirement protection of MPF scheme members, PAS(FS) stressed that any change to the adjustment mechanism would require community-wide consultation and must not be resorted to lightly.

Voluntary contributions made by MPF scheme members

28. Mr Bernard CHAN welcomed the proposed increase of the maximum relevant income level to $30,000 per month. He recalled that there had been detailed discussion on the minimum and maximum relevant income levels before the implementation of the MPF System and said that in the view of MPF service providers, the initial minimum and maximum relevant income levels of $4,000 and $20,000 respectively for purposes of MPF contributions were insufficient in providing adequate retirement protection for scheme members. As employees with monthly income between $20,000 and $30,000 would usually make further savings/investments for their retirement protection, Mr CHAN sought information on the voluntary contributions made by MPF scheme members in the past years and urged MPFA to encourage MPF scheme members to enhance their retirement protection through making voluntary contributions.

29. In reply, ED(RP)/MPFA advised that as revealed from the statistics compiled by MPFA, the amount of voluntary contributions made by MPF scheme members had remained rather static since the implementation of the MPF System. By way of illustration, he pointed out that the amount of voluntary contributions was $2.6 billion in 2005 and $2.2 billion in 2006, representing only 10% and 11% of the overall contributions respectively.

30. Mr James TIEN pointed out that as the investment performance of MPF schemes in the past few years had not been very satisfactory, higher income earners might prefer to invest in other instruments for higher returns. He was of the view that the maximum relevant income level at 90^{th} percentile of the monthly employment earnings might be too high and consideration should be given to lowering it to enable higher income earners to have greater flexibility in putting their disposable income in other higher-return investments/voluntary contributions for their retirement benefits. Miss TAM Heung-man also enquired on measures, if any, to improve the investment return of MPF schemes.

31. Noting the views of members, PAS(FS) highlighted that voluntary participation in retirement fund schemes and personal savings for retirement were different from making mandatory contributions to MPF schemes as they represented two different approaches to address retirement protection needs. Nevertheless, she said that the Administration would continue to liaise with MPF service providers and other stakeholders to encourage voluntary contributions by scheme members.

32. ED(RP)/MPFA advised that the investment return of MPF schemes should be examined in the context of the risks profile of different types of funds and the impact of MPF scheme members' choice. He said that the figure of 6.99% real MPF investment return per annum was an average system-wide return and individual schemes or funds might have higher or lower return depending on their risk profile. On measures to improve the investment return of MPF schemes, ED(RP)/MPFA pointed out that investment was a matter for trustees and investment managers of MPF schemes who had to abide by their respective mandate in the administration and investment management of MPF funds. The return achieved by scheme members

would be largely driven by their risk preference and choice of fund. In general, benchmarking different types of funds under the MPF schemes with overall market returns indicated that the return of MPF schemes were within the benchmark range. ED(RP)/MPFA further informed members that a sizable portion of about 30% of MPF scheme members had chosen to invest in conservative funds which carried lower risks but also lower return, such as guaranteed funds and capital preservation funds. In this regard, MPFA would continue its publicity efforts in educating scheme members about the importance of keeping track of their MPF investment and making use of appropriate opportunities to add value to their investment.

33. Mr WONG Ting-kwong noted that since the implementation of the MPF System in December 2000, there had been an overall increase in the awareness of the workforce on the need to plan and invest for their retirement protection. Nevertheless, to facilitate scheme members in adjusting their level of voluntary contributions according to their affordability at different times, Mr WONG was of the view that MPF service providers should try to simplify the procedures to provide greater flexibility to scheme members in the arrangements for making voluntary contributions.

34. ED(RP)/MPFA advised that the provisions of MPFSO relating to portability or withdrawal of the accrued benefits derived from mandatory contributions did not apply to that of voluntary contributions. On the amount of voluntary contributions, ED(RP)/MPFA said that as far as he was aware, employees could, subject to the relevant scheme rules, vary the amount of contributions in accordance with their needs or financial circumstances.

35. Miss TAM Heung-man suggested that to provide greater incentive, the Administration should consider providing tax concessions for voluntary contributions to MPF schemes. In reply, PAS(FS) said that while mandatory contributions under the MPF schemes were eligible for tax concessions under the Inland Revenue Ordinance (Cap. 112), the propriety or otherwise of granting tax concessions for voluntary contributions to MPF schemes should be carefully examined, also in the light of the possible implication on the other types of contributions, say, to investments. The Administration had no plan at this stage to consider providing tax concessions for voluntary contributions to MPF schemes.

36. Mr James TO noted that employees with monthly earnings of more than $20,000 might be making other investments on top of their mandatory MPF contributions in preparation for retirement. He pointed out that in examining the recommendation of MPFA to increase the maximum relevant income level from $20,000 to $30,000, it would be helpful to understand the economic benefits, if any, brought about by the investment activities of employees with monthly income between $20,000 and $30,000 should they be given the flexibility to make investments with the amount of funds which would otherwise be used as MPF contributions. In this connection, Mr TO enquired whether MPFA had any

information on the investment behaviour of employees with monthly income between $20,000 and $30,000.

37. In response, ED(RP)/MPFA stated that there might be some general researches indicating that higher income earners were more active participants in the investment market. Nevertheless, MPFA did not have specific information on the investment behaviour of higher income earners in relation to particular investment products or in substitution of contributions to MPF schemes. Nevertheless, noting Mr James TO's concern, MPFA/the Administration agreed to provide information, where practicable, on the investment behaviour of employees in the income bands between $20,000 and $30,000 per month and those who had monthly earnings in excess of $30,000 per month.

(*Post-meeting note:* The supplementary information provided by the Administration and MPFA pursuant to members' requests in paragraphs 15, 22, 23, 26 and 37 above was issued vide LC Paper No. CB(1)822/06-07(01) on 29 January 2007.)

Other concerns

38. Mr Andrew LEUNG expressed concern about the need or otherwise of reviewing the current MPF contribution rate of 5% of the employee's relevant income. In this regard, ED(RP)/MPFA said that the review conducted by MPFA under section 10A of MPFSO and the MPF contribution rate were two separate issues. The purpose of the adjustment mechanism for reviewing the minimum and maximum relevant income levels was to maintain the relativity of the MPF System in the long run to changes in employment earnings. The MPF contribution rate was not part of the subject of the current review.

39. Mr LEE Cheuk-yan said that enforcement actions by MPFA against non-compliant employers who had defaulted or evaded payment of MPF contributions had been unsatisfactory. Mr WONG Ting-kwong expressed similar concern and suggested that the Administration should consider stepping up enforcement actions against defaulting employers to achieve a stronger deterrent effect. In this connection, the Chairman advised that issues outside the scope of the review of the minimum and maximum relevant income levels for MPF contributions should best be pursued at other appropriate forums.

Way forward

40. Mr Andrew LEUNG considered that the merits or otherwise of MPFA's recommendations should be further examined having regard to the views of the stakeholders. In this connection, he suggested that the Panel on Financial Affairs should invite relevant organizations and interested parties to a Panel meeting to present their views. Mr James TIEN supported Mr LEUNG's suggestion and opined

that the Panel should invite views from employers, employees as well as MPF service providers.

41. Mr SIN Chung-kai said that Members of the Democratic Party supported the review recommendations of MPFA. He nevertheless agreed with the suggestion to invite stakeholders and interest parties to attend a meeting of the Panel to present their views on the recommendations.

42. Summing up, the Chairman said that a special meeting would be arranged, preferably in late January and before the Chinese New Year. The Clerk suggested and members agreed that the Secretariat would prepare a proposed list of invitees for members' consideration. Members also agreed that the Panel would post a general invitation notice on the Council's website on the Internet, and write to the 18 District Councils to invite their views on the subject.

> (*Post-meeting note*: Having regard to the availability of Panel members and with the agreement of the Chairman, the special meeting was scheduled to be held on Thursday, 1 February 2007 at 2:30 pm.)

V. Any other business

43. There being no other business, the meeting ended at 12:10 pm.

Council Business Division 1
Legislative Council Secretariat
16 February 2007