

Legislative Council - Panel on Financial Affairs

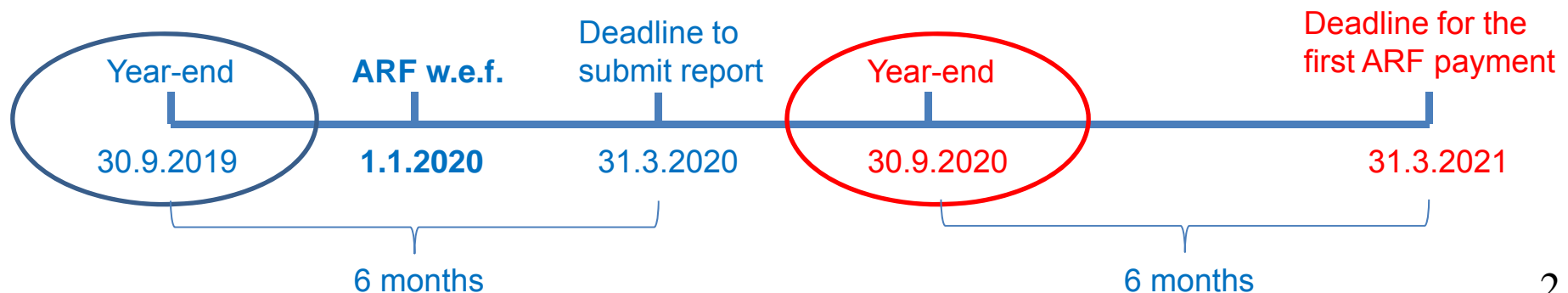
Charging Mandatory Provident Fund Approved Trustees the Annual Registration Fee (ARF)



18 December 2018

Proposal

- With effect from 1 January 2020, MPF approved trustees should pay the Mandatory Provident Fund Schemes Authority (MPFA) the ARF
- ARF rate at 0.03% of net asset value (NAV) for the first 6 years
- ARF rate will be revised with effect from the 7th year after a review with a view to achieving full cost recovery
- To amend the law to prohibit trustees from charging any constituent fund of the scheme, the scheme or a scheme member a new ARF fee item
- Transitional arrangement: the first payment of ARF as illustrated below



Background

- According to section 22B of the Mandatory Provident Fund Schemes Ordinance (MPFSO) (Cap. 485) , MPF trustees shall pay MPFA the ARF. The level of ARF is a % of NAV
- The purpose is to provide MPFA with a stable source of income for achieving self-financing
- The ARF level must not be fixed at a level exceeding cost incurred or likely to be incurred in exercising and performing MPFA's functions in respect of registered schemes, i.e. cost-recovery level
- In 2017/18, the actual relevant cost with respect to registered schemes incurred by MPFA was about \$0.46 billion
- With a total NAV of about \$858 billion, full cost-recovery level \approx 0.05%

Current situation – MPFA's financial position

- ARF has not been collected for the past 18 years. MPFA has been relying mainly on investment returns from the Capital Grant of \$5 billion provided by the Government in 1998
- Balance of Capital Grant as at August 2018: \$3.22 billion
- Capital Grant is likely to be fully depleted by 2024/25

Transparency and cost efficiency of MPFA's expenditure

- The budget of estimated expenditure is to be approved by the Financial Secretary (FS) and the annual expenditure is included in MPFA's annual report
- The law also provides that MPFA has to be mindful of measures to improve its operational effectiveness and efficiency and to report such measures to FS

Transparency and cost efficiency of MPFA's expenditure (con't)

Reduction of staff costs

- FS has imposed a cap of \$365m on personal emoluments since 2015/16 (subject to inflationary adjustments)

Reduction of rental costs

- Relocation of office premises from the central business area to Kwai Chung (saved \$50 million annually)

Other income sources

- Recovering costs for managing the MPF Compensation Fund
- Collection of MPF Intermediaries Fees
(*w.e.f. January 2018*)

Transparency and cost efficiency of MPFA's expenditure (con't)

	2017/18 HK\$million	2016/17 HK\$million	2015/16 HK\$million
INCOME			
Fees/ Financial Penalties	15	8	35
Investment income / (loss)	225	160	(26)
Interest income on bank deposits	3	2	2
Management of MPF Compensation Fund	1	1	0
Total Income	244	171	11
EXPENDITURE			
Staff costs	341	342	327
Rental costs	55	61	107
Other expenses	96	94	91
Total Expenditure	492	497	525
DEFICIT FOR THE YEAR	(248)	(326)	(514)

Review mechanism

- Section 22B(2) - The ARF may be determined by reference to the current value of the assets of a registered scheme. The ARF must not be fixed at a level that exceeds that which will enable the MPFA to recover the costs incurred, or likely to be incurred, in exercising and performing MPFA's functions with respect to registered schemes.
- Section 22B(3) - The MPFA has to take into account other fees payable to it under this Ordinance when fixing the level of the ARF.
- Section 6J(1) & (3) - The MPFA must prepare a corporate plan for its next financial year. The plan has to include a budget of estimated expenditure for achieving those objectives stated in the plan. The draft of the plan has to be approved by the FS before finalization after taking into account FS's comments.
- Section 6K(1) - The MPFA may provide the FS with a report as to any improvements that it considers to be necessary for the effective or efficient operation of the MPFA.
- New requirement : MPFA to submit an annual review to the Government through the annual budget exercise on the level of the ARF with respect to the requirements under section 22B of the MPFSO

Responses from the industry

- Consulted MPF trustees. No in-principle objection to the collection of ARF but need time and room to adjust to the new expense. In view of this, the Government proposes adopting an incremental approach by starting with a level of 0.03% of NAV for the first six years
- MPF trustees object to the proposed statutory ban on ARF fee item paid by scheme members. To protect the interests of scheme members, the Government will maintain the proposal



End