

立法會

Legislative Council

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Bills Committee on Mandatory Provident Fund Schemes (Amendment) Bill 2019

Background brief

Purpose

This paper provides background information on the Mandatory Provident Fund Schemes (Amendment) Bill 2019 ("the Bill"), and summarizes the views and concerns expressed by members of the Panel on Financial Affairs ("FA Panel") on the proposed legislative amendments and related issues.

Background

The Mandatory Provident Fund System

2. The Mandatory Provident Fund ("MPF") system was launched in Hong Kong in December 2000 to offer basic retirement protection to the working population, and is a mandatory, privately-managed and fully-funded pension system established under the Mandatory Provident Fund Schemes Ordinance (Cap. 485) ("MPFSO"). Employees and self-employed persons are required under MPFSO to join a registered MPF scheme selected by the employers or self-employed persons (as the case may be) and make choice from a range of constituent funds available under the scheme for investment of contributions. All provident fund schemes intended to be operated as MPF schemes must be registered with the Mandatory Provident Fund Schemes Authority ("MPFA"), and registered MPF schemes must be operated by MPF trustees approved by MPFA. The major service providers in the MPF System include approved trustees, custodians, scheme administrators and investment managers. Other than investment management, service providers of registered MPF schemes provide a range of services covering collection and allocation of contributions, providing assistance in the recovery of outstanding contributions,

providing statutory reporting to regulators, handling transfers between schemes and fund switches within schemes, and administration of withdrawals of accrued benefits.

Common Electronic Platform for the administration of Mandatory Provident Fund registered schemes

3. The development of a common electronic platform ("eMPF Platform"), which was an initiative in the Chief Executive's 2017 Policy Address delivered in January 2017, aims to handle MPF-related transactions electronically (such as enrolment of scheme members, processing Remittance Statements submitted by employers, managing fund and scheme switching) and to enhance the administrative efficiency of MPF schemes, thereby providing more room for fee reduction. The Government and MPFA set up a Working Group on eMPF¹ ("the Working Group") in June 2017 to steer the development of the eMPF Platform.

4. After evaluating four options² of institutional arrangements for owning and operating the eMPF Platform, the Government considers that the optimal option is to task MPFA to own and operate the Platform. MPFA will establish a wholly-owned subsidiary as a legal entity to own and operate the eMPF Platform following the necessary empowering legislative amendments. In December 2018, the Government estimated that the development of the eMPF Platform would require a public funding of \$3,367.15 million.³ In view of the additional functionalities including know-your-customer and anti-money laundering support capability to be taken up by the eMPF Platform and the need to provide funding for the initial operation of the subsidiary company wholly-owned by MPFA for the running of the Platform, the Government proposed in December 2019 to seek an additional fund of \$536.48 million from

¹ The Working Group on eMPF is co-chaired by the Financial Services and the Treasury Bureau and the Mandatory Provident Fund Schemes Authority ("MPFA"). Members of the Working Group include the Deputy Government Chief Information Officer (Infrastructure and Operations), the Executive Director (Supervision) of MPFA and representatives of the Mandatory Provident Fund ("MPF") approved trustees who are operating MPF schemes.

² The four options considered by the Government are:
(a) setting up a privately-owned model;
(b) setting up a dedicated statutory body;
(c) forming a government-owned company; and
(d) tasking MPFA to own and operate the centralized electronic platform.

³ The Legislative Council approved in May 2019 the non-recurrent public funding of \$3,367.15 million which had been incorporated into the Appropriation Bill 2019.

the Legislative Council ("LegCo") for enhancing the information technology ("IT") infrastructure of the Platform and funding the first two years of set-up and operation of the subsidiary company.⁴

5. As there is no express power under MPFSO for MPFA to set up a limited company to perform its own functions, the Government considers that the prudent approach is to amend MPFSO to provide a legal basis for MPFA to set up a wholly-owned subsidiary for building, owning and operating the eMPF Platform.

Annual Registration Fee for Mandatory Provident Fund Approved Trustees

6. Under section 22B of MPFSO, an approved trustee of a registered MPF scheme must pay to MPFA an annual registration fee ("ARF") in respect of the scheme not later than the date on which the annual statement relating to the scheme is required to be lodged with MPFA (i.e. within six months after the end of the financial period of that particular scheme). The amount of ARF is prescribed in Schedule 1 to the Mandatory Provident Fund Schemes (Fees) Regulation (Cap. 485C) ("MPFFR") as a percentage of the net asset value ("NAV") of the scheme as at the end of its immediately preceding financial period. Since 2000, the amount of ARF has been set at 0% of the NAV of the scheme. In order to help MPFA, which is a self-financing entity, to attain financial sustainability, the Government proposes to amend MPFFR to set ARF at a level of 0.03% of the NAV with respect to registered schemes under management with effect from 1 January 2020.

The Mandatory Provident Fund Schemes (Amendment) Bill 2019

7. The Bill was published in the Gazette on 28 June 2019 and received its First Reading at the LegCo meeting of 23 October 2019.

8. The Bill seeks to amend MPFSO and its subsidiary legislation to:

- (a) empower MPFA to establish a wholly owned subsidiary;
- (b) revise the amount of ARF payable to MPFA by the approved trustee of a registered provident fund scheme;

⁴ According to the Government, the addition funding has been incorporated into the Appropriation Bill 2020.

- (c) prohibit the trustee from passing on ARF to the scheme or its constituent fund or scheme members; and
- (d) make related amendments.

9. The main provisions of the Bill are explained in paragraph 16 of the LegCo Brief (File Ref.: MPF/2/1/42C issued on 26 June 2019) and paragraphs 6 to 8 of the Legal Service Division Report on the Bill (LC Paper No. LS6/19-20). The Bill, if passed, would come into operation on the day on which the enacted Ordinance is published in the Gazette.

Major views and concerns expressed by members of the Panel on Financial Affairs

10. At the meeting on 18 December 2018, the Government and MPFA consulted FA Panel on the proposals to set up the eMPF Platform with public funding and to amend MPFFR to enable MPFA to start charging ARF on approved trustees. They also briefed FA Panel on the latest development of the eMPF Platform including the additional functionalities to be included in the Platform and the need for additional public funding to support the Platform at the meeting on 2 December 2019. The major concerns and views expressed by members at the meetings are summarized in the ensuing paragraphs.

Benefits of the eMPF Platform for scheme members

11. Noting that according to MPFA's analysis the launch of the eMPF Platform could result in an estimated annual saving of some \$1.1 billion for 20 years, some members enquired what measures the Government and MPFA would take to ensure scheme members could benefit from the savings, and whether the Government and MPFA had assessed or set target as to how far the administration fee of MPF schemes could be reduced following the implementation of the eMPF Platform. Some members also urged the Government and MPFA to develop measures to ensure that scheme members could benefit from fee reduction as early as possible after the implementation of the Platform.

12. On how scheme members could benefit from the savings arising from the eMPF Platform, the Government and MPFA advised that MPFA was empowered under MPFSO to require trustees to provide detailed cost breakdown of their MPF schemes (including trustee fees, administration fees, fund management fees, custodian fees and sponsor fees) and conduct inspections to verify the information if necessary. Currently, MPFA was

conducting a transparency exercise to collect and disclose such information to facilitate scheme members' comparison. As the service charges of the eMPF Platform would be transparent and imposed on trustees on a cost-recovery basis, it would be easier for scheme members to compare the administration costs and management fees of various trustees after the launch of the eMPF Platform.

13. Regarding the anticipated level of fee reduction, according to MPFA, the administrative fee of an MPF scheme accounted for about 0.4% to 0.8% (or an average of 0.6%) of the overall administrative cost of managing a scheme. While it was envisaged that implementation of the eMPF Platform would help streamlining the administrative processes and reducing the compliance cost of MPF schemes, the rate of fee reduction would depend on the result of the tendering exercise for developing the eMPF Platform and the subsequent digital take-up rate. The Government would make reference to the prevailing rate, i.e. 0.4% to 0.8%, as the benchmark when assessing possible reduction in MPF administrative fees. It was also envisaged that with implementation of the eMPF Platform, the processing time of time-consuming administration tasks (particularly those relating to the submission of contribution payments by employers) could be significantly reduced.

14. Members were concerned whether scheme members would be charged for using the eMPF Platform. The Government advised that the subsidiary to be set up under MPFA would be a non-profit making entity, and would not seek to make profit from managing the eMPF Platform.

Challenges in the development of the eMPF Platform

15. Members considered that the promotion of digital take-up was vital to the success of the eMPF Platform. Some members enquired if the eMPF Platform would handle both digital and paper-based MPF scheme administration processes, and the estimated time for the Platform to operate in parallel with the paper-based MPF scheme administration system.

16. On the digitalization of paper-based MPF scheme administration processes, the Government advised that the Working Group had developed a set of technical specifications covering 18 major areas of MPF scheme administration processes. The Working Group would examine the feasibility to digitalize the various processes in each of the 18 areas to facilitate their handling by the eMPF Platform. For those administration processes that could not be digitalized, MPFA would discuss with trustees to explore ways to standardize the processes concerned where possible. However, it was inevitable to have a certain level of paper-based transactions. As there could

be few IT-challenged users who might not readily adapt to full electronic transactions, there would be service centres to assist users during the inception years of the eMPF Platform.

17. Regarding the promotion of digital take-up rate, MPFA advised that a dedicated task force had been formed under the Working Group to tackle this issue. MPFA together with trustees would formulate and implement relevant measures to raise the digital take-up rate prior to the launch of the eMPF Platform. While all trustees had been providing digital tools for use by employers and scheme members, it was noticed that the usage rate of such tools varied greatly among trustees. The dedicated task force would examine the practices of trustees with higher digital take-up rates and encourage them to share the successful experience with their counterparts.

Determination and review of the Annual Registration Fee rate

18. Some members welcomed that the Government had taken into account the industry's view in lowering the proposed ARF rate. Pointing out that the aggregate NAV of registered schemes would increase over time, they considered that it might not be necessary to increase the ARF rate in order to achieve full cost-recovery when MPFA conducted the review on ARF rate in the future.

19. The Government advised that the proposed rate of 0.03% was considered reasonable and the total ARF to be collected under this rate could only recover about 50% of MPFA's cost for providing services to MPF approved trustees in 2018. Given that the aggregate NAV of registered schemes was growing, it was possible that MPFA would not need to increase the rate for ARF significantly after review in the future. The rate might in fact be adjusted downward in the long run.

Council questions

20. At the LegCo meeting of 2 May 2018, Hon CHAN Kin-por raised a written question on the work of the Working Group. The question covers the work progress of the Working Group, the latest timetable for launching the eMPF Platform, and the Government's plan to apply various types of financial technologies to enhance the effectiveness of the Platform. Details of the question and the Government's reply are given in the hyperlinks in the **Appendix**.

Latest development

21. At the Special meeting of the House Committee held in the afternoon on 8 May 2020, Members agreed to form a Bills Committee to study the Bill.

Relevant papers

22. A list of relevant papers is in the **Appendix**.

Council Business Division 1
Legislative Council Secretariat
15 May 2020

List of relevant papers

Date	Event	Paper
2 May 2018	Hon CHAN Kin-por raised a written question on Work of the Working Group on eMPF	Hansard (pages 9011- 9012)
18 December 2018	The Government and the Mandatory Provident Fund Schemes Authority ("MPFA") briefed the Panel on Financial Affairs ("FA Panel") on the proposals to (a) establish a common electronic platform ("the eMPF Platform") for the Mandatory Provident Fund ("MPF") System; and (b) enable MPFA to start charging MPF approved trustees the statutory annual registration fee	Administration's paper 1 (LC Paper No. CB(1)309/18-19(04)) Administration's paper 2 (LC Paper No. CB(1)309/18-19(06)) Minutes (paragraphs 46-59) (LC Paper No. CB(1)806/18-19)
27 March 2019	The Government provided an information paper on the progress of the eMPF Platform development to FA Panel	Administration's paper (LC Paper No. CB(1)791/18-19(01))
9 April 2019	Special meetings of the Finance Committee to examine the Estimates of Expenditure 2019-2020 (session on financial services)	Speaking note of the Secretary for Financial Services and the Treasury Report on the examination of the Estimates of Expenditure 2019-2020

Date	Event	Paper
23 October 2019	The Mandatory Provident Fund Schemes (Amendment) Bill 2019 received its First reading	<u>Legislative Council Brief</u> (File Ref.: MPF/2/1/42C) <u>Legal Service Division Report</u> (LC Paper No. LS6/19-20)
2 December 2019	FA Panel was briefed by the Government and MPFA on the latest development of the eMPF Platform	<u>Administration's paper</u> (LC Paper No. CB(1)175/19-20(08)) <u>Minutes</u> (paragraphs 96-107) (LC Paper No. CB(1)376/19-20)