LC Paper No. CB(1)645/19-20(01)

Mandatory Provident Fund Schemes (Amendment) Bill 2019

Financial Services and the Treasury Bureau

Mandatory Provident Fund Schemes Authority

18 May 2020

Purpose

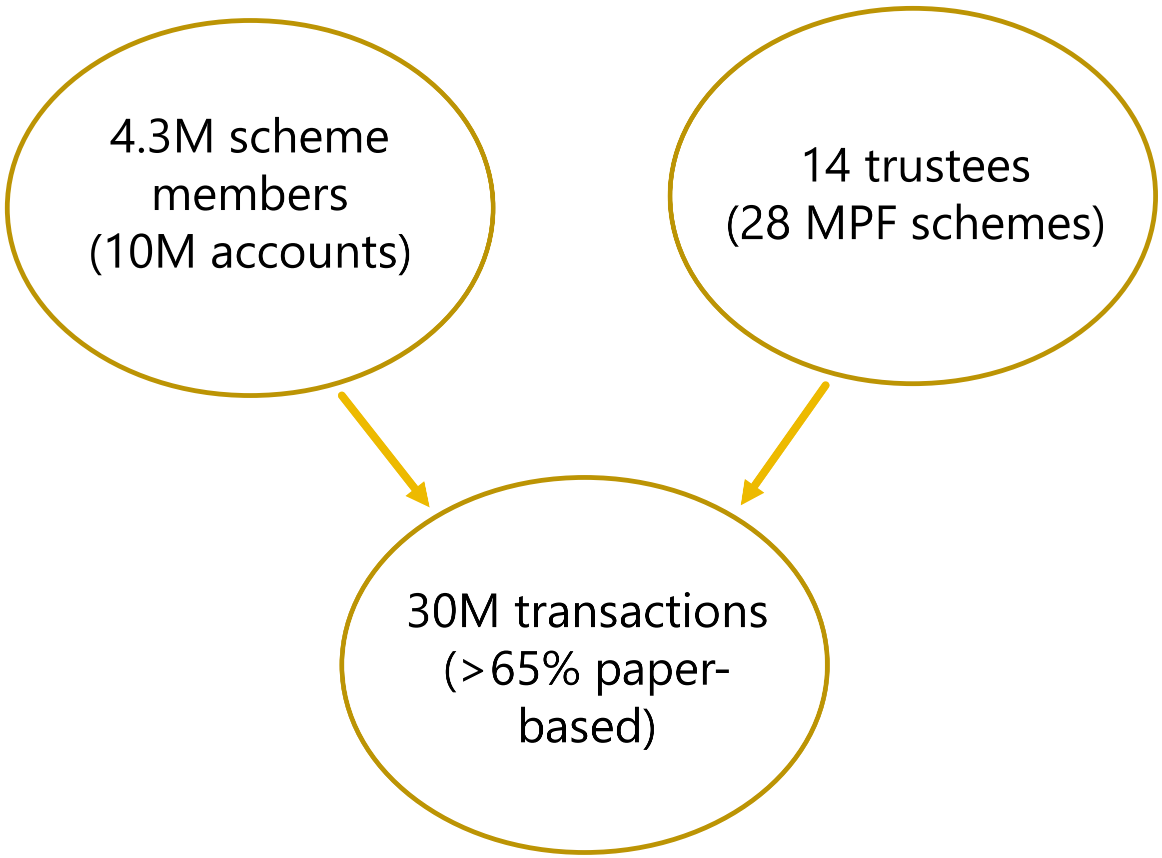
Give MPFA explicit power to set up a wholly owned subsidiary as the legal entity to build, own and operate the eMPF Platform (Platform)

Enable MPFA to collect from MPF trustees the Annual Registration Fee (ARF) at 0.03% of the net asset value of an MPF scheme starting from 2020

PART 1

Power for the MPFA to set up a wholly owned subsidiary to build, own and operate the Platform

Current MPF ecosystem

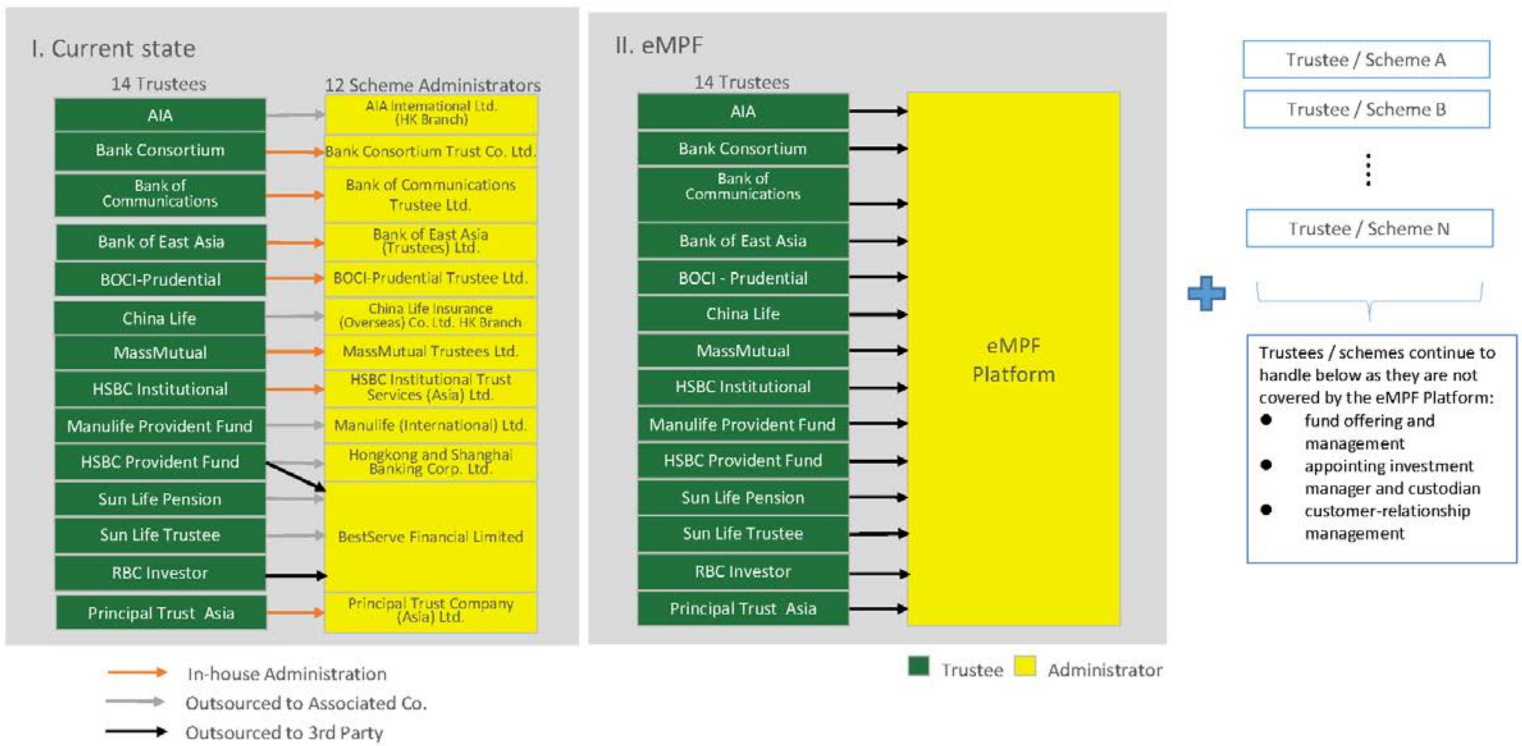


Current status VS the Platform

Processing of Scheme Administration under the eMPF Platform

Apart from a small number of trustees who outsource to BestServe Financial Limited, each trustee operates MPF scheme administration services through its own scheme administrator.

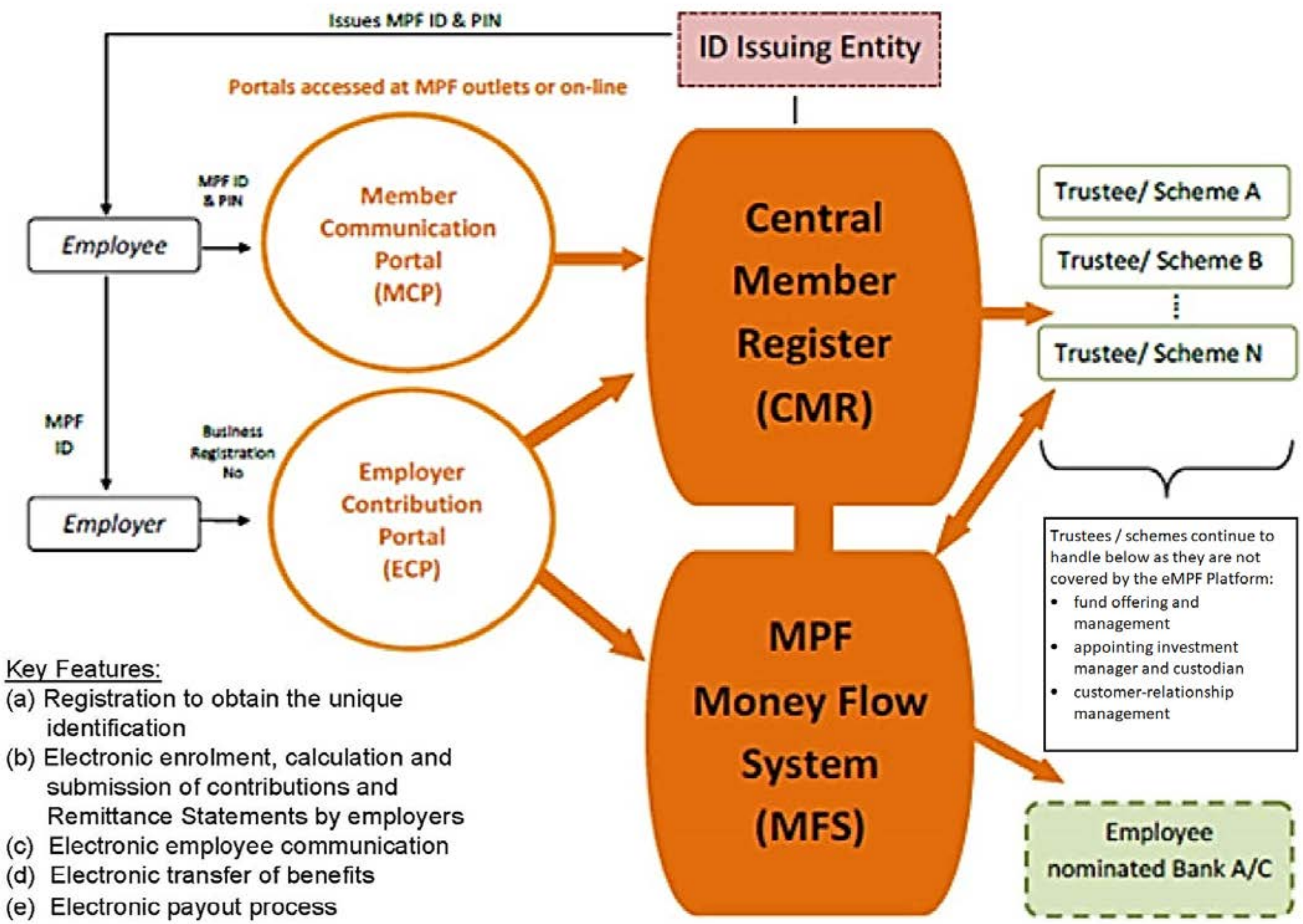
Under centralized administration, all trustees would use the eMPF Platform to handle MPF scheme administration processes. This would standardise and streamline administration processes, deliver enhanced user experience for members and employers, and create cost reduction through synergies.



Features of the Platform

- We briefed the Panel on Financial Affairs of LegCo on the development of the eMPF Project in December 2018, March and December 2019
- A common platform -
  - centralized processing of registration, enrolment, contribution, transfer of benefits, benefits withdrawal and record keeping and maintenance
  - automated processing capability with one set of common standards
  - two core systems (one for handling member data and transaction data and the other for handling payment instructions)
  - central registration which issues a unique MPF ID
  - enabling employers and scheme members (employees, self-employed persons and personal account holders) to access the Platform via a user interface (e.g. employers can make MPF contributions for their employees)
  - data and instructions from employees and employers can be channeled to the trustees

Conceptual Model of the Platform



Key Features:

(a) Registration to obtain the unique identification

(b) Electronic enrolment, calculation and submission of contributions and Remittance Statements by employers

(c) Electronic employee communication

(d) Electronic transfer of benefits

(e) Electronic payout process

Note: The MFS is a payment gateway for transmitting payment instructions.

MPFA to set up a wholly owned subsidiary

- As the legal entity to build, own and operate the Platform –
  - Securing public trust and confidence
  - Ensuring an optimal timeframe for establishing the institutional set-up
  - Ensuring a lean institutional structure, cost efficiency and effective management
  - Ensuring a clear chain of command, better alignment of objectives and priorities between the MPFA and the operator of the Platform
  - Ensuring smoother collaboration and maximizing operational flexibility

Proposed legislative amendments

- Currently, the MPFA has no explicit power to set up a wholly owned subsidiary
- A new provision will be added to the Mandatory Provident Fund Schemes Ordinance (Cap. 485) to provide that with the approval of the Financial Secretary (FS), the MPFA may establish a wholly owned subsidiary to facilitate the performance of its functions
- Given the substantial public funds to be involved, we recommend to designate the wholly owned subsidiary as a public body under the Prevention of Bribery Ordinance (Cap. 201). A Committee Stage Amendment will be moved accordingly.

Proposed legislative amendments (cont'd)

- The Government and the MPFA will conduct a comprehensive overhaul of Cap. 485 at a later stage to streamline scheme administration workflows by reducing regulatory burden on MPF trustees and re-aligning their regulatory responsibilities under Cap. 485, for having the Platform ready by 2022 at the earliest and the on-boarding to the Platform by all trustees by phases within the subsequent two to three years

PART 2

Enabling MPFA to collect ARF from MPF trustees

Proposal

- With effect from 1 October 2020, MPF approved trustees should pay the ARF to MPFA
- 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

Background

- According to section 22B of Cap. 485, MPF trustees shall pay the ARF to MPFA. The level of ARF is a % of NAV
- The purpose is to provide MPFA with a stable source of income for achieving self-financing
- Section 22B of the Cap. 485 sets out that 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 MPF schemes, i.e. cost-recovery level
- In 2018/19, the estimated relevant cost with respect to registered MPF schemes incurred by MPFA was about $453 million
- For reference, the estimated relevant cost is about 0.05% of the total NAV of about $868 billion as at 31 March 2020, above the proposed ARF rate of 0.03%

Current situation – MPFA's financial position

- ARF has not been collected from MPF approved trustees for the past 19 years. MPFA has been relying mainly on investment income from the Capital Grant of $5 billion provided by the Government in 1998
- Balance of Capital Grant as at March 2020: $2.58 billion*
- Capital Grant is projected to be fully depleted by 2024/25

* Unaudited figure

Transparency and cost efficiency of MPFA's expenditure

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

- Collection of MPF Intermediaries Fees (~$8m annually)
- Recovering costs for managing the MPF Compensation Fund (~$1m annually)

Proposed legislative amendments

- Amend the Mandatory Provident Fund Schemes (Fees) Regulation (Cap. 485C) to set ARF at a level of 0.03% of the NAV of registered schemes under management with effect from 1 January 2020 (to move a Committee Stage Amendment to defer the commencement date to 1 October 2020, see slide 17)
- Amend Cap. 485 by adding a new section 22C to prohibit trustees from charging any constituent fund of a registered scheme, any registered scheme or any scheme member any ARF-related fee
- Amend the Mandatory Provident Fund Schemes (General) Regulation (Cap. 485A) to impose a financial penalty on an approved trustee for breaching section 22C of Cap. 485
- New administrative 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 Cap. 485. MPFA will also brief the Panel on Financial Affairs on its annual budget

Implementation timeline

- We originally proposed that MPFA start collecting the ARF from 1 January 2020
- Given the updated schedule for scrutiny in LegCo, we suggest deferring the above date to 1 October 2020 in order to allow sufficient time for trustees and MPFA to prepare for the implementation
- We will propose a Committee Stage Amendment to effect the change

Q&A