For discussion on
4 January 2021

Legislative Council
Panel on Financial Affairs

Detailed Proposals for Taking Forward the eMPF Platform Project and Related Matters

INTRODUCTION

This paper provides an update on the progress of the eMPF Platform Project ("the Project") and briefs Members on the detailed proposals for taking forward the Project and related matters.

NEED FOR eMPF PLATFORM

2. The Mandatory Provident Fund ("MPF") System fulfills the function of the second pillar of the multi-pronged retirement protection framework. Since its inception in December 2000, the total asset under the System's management has reached over $1 trillion, of which some $303 billion are net return after deduction of fees. The annualized rate of return of MPF from its inception to November 2020, after netting off fees and charges, is 3.9%, which is higher than the annualized inflation rate of 1.8% over the same period. During the same period, the percentage of working population with retirement protection has also increased from one-third to over 80%.

3. Currently, the MPF schemes operate under a decentralized landscape. There are about 4.6 million scheme members with about 13 million accounts in 27 MPF schemes administered by 14 trustees either internally or through third-party administrators, involving 12 scheme administration platforms with different standards. The multiple business models, data standards, process designs and administration system infrastructure of the MPF System have made it difficult to achieve standardization and economies of scale. Moreover, more than 65% of the some 30 million MPF administration transactions per year are paper-based. All these have contributed to the high administration costs of the MPF System. Against this backdrop and with the benefit of the consultancy studies commissioned by the Mandatory Provident Fund Schemes Authority ("MPFA"), a common electronic platform, known as the **eMPF Platform**, has been recommended to standardise, streamline and

automate the administration processes of the MPF schemes, thereby improving operational efficiency and reducing costs of the MPF System.

PROGRESS TO DATE

4. The eMPF Platform is a common, integrated electronic platform to assist MPF trustees in their discharge of scheme administration duties through standardization, streamlining and automation of the MPF scheme administration processes. The Government has tasked the MPFA to set up a wholly-owned subsidiary to design, build and operate the eMPF Platform for the provision of infrastructure and services and working with trustees on the interfacing issues. The Platform is anticipated to bring tremendous benefits to all key stakeholders of the MPF System, including scheme members, employers, self-employed persons ("SEPs"), trustees and MPFA. The major features and benefits of the eMPF Platform are highlighted at **Annex A**.

5. Since 2018, we have achieved the following major milestones in taking forward the Project –

Funding support

(a) With the support of the Panel on Financial Affairs ("FA Panel") of the Legislative Council ("LegCo"), a total of some $3.9 billion of non-recurrent public funding has been approved for the Project.

Tender for Platform Development

(b) A Request for Proposal ("RFP") for the eMPF Platform was issued by the MPFA in December 2019 to openly invite interested parties to build and operate the eMPF Platform. Following the closure of the RFP on 29 April 2020 and tender evaluation subsequently, the MPFA plans to make the conditional offer to the preferred tenderer by around the end of December 2020.

First-stage Legislative Amendments

(c) The Mandatory Provident Fund Schemes (Amendment) Bill 2019 was passed by LegCo in July 2020 to empower MPFA, inter alia, to set up a wholly-owned subsidiary (i.e. the eMPF Platform Company ("the Company")) to take forward the Project. The second-stage legislative amendments will be introduced into LegCo in the second half of the 2020-21 legislative session, details of which are set out in paragraphs 7 – 20 below.

Incorporation of the eMPF Platform Company

(d) The MPFA has been making preparatory work to incorporate a subsidiary company pursuant to the requirements set out in section 6DA of the Mandatory Provident Fund Schemes Ordinance (Cap. 485) ("MPFSO"). The Company as a wholly-owned subsidiary of the MPFA is set up with the primary objective of operating the eMPF Platform as a public utility. Given the public mission and to align corporate objectives, the MPFA and the Company will put in place robust governance structures, internal controls, compliance and risks management arrangements to ensure that the eMPF Platform Company will operate in accordance with the stated policy objectives and deliver the safe and efficient operation of the eMPF Platform.

6. The ensuing paragraphs set out the detailed legislative and funding proposals for taking forward the Project.

LEGISLATIVE PROPOSALS

(A) Second-stage legislative amendments for the Project

7. The Government spearheads the legislative exercises to provide the legal backing for the operation of the eMPF Platform and related matters. Further to the completion of the first-stage legislative exercise in July 2020 as mentioned in paragraph 5(c) above, we are taking forward the second-stage legislative amendments, which aim to pave the way for the launch and smooth operation of the eMPF Platform, by providing the legal basis for the designation of the eMPF Platform as the common gateway for scheme administration processes in the MPF System, and delineating the respective roles, functions, powers and responsibilities of the Government, the MPFA, the Company and trustees. The amendments will also reflect the streamlined MPF scheme administration work flow and reduced regulatory burden on trustees as a result of the implementation of eMPF Platform. Key elements of the second-stage legislative proposals are set out below.

Roles and Responsibilities of the Company, the MPFA and the Government

8. The **Company** is a wholly-owned subsidiary of the MPFA and its executive arm to facilitate trustees' performance of the scheme administration functions vide operation of the eMPF Platform by statute. The Company will outsource its scheme administration services including

the operation of the eMPF Platform to a third party service provider in the initial years of operation.

9. The **MPFA**, as the holding entity and sole shareholder, will assume an oversight role over the Company through its Board of Directors and express statutory powers. In the second-stage legislative proposals, we ***propose*** to confer the following statutory powers on the MPFA:

(a) overseeing the operation of the eMPF Platform to safeguard system integrity and stability;

(b) approving the Operating Rules[1] of the eMPF Platform;

(c) supervising the Company in the performance of its functions; and

(d) giving directions on the operation of the eMPF Platform where circumstances require, e.g. facing major system failure.

These statutory powers would empower the MPFA to, among other things, require the Company as the Platform operator to provide information and documents regularly and on an ad hoc basis, conduct onsite inspections and offsite reviews of the eMPF Platform, and take appropriate follow-up actions to ensure that the Company and the eMPF Platform would operate in accordance with the Operating Rules and requirements set by the MPFA in its performance of the oversight role.

10. As a subsidiary wholly-owned subsidiary of the MPFA, the Company is not a regulatee of the MPFA subjecting to the regulations currently applicable to approved trustees in the MPF System. The MPFA's role over the Company would primarily focus on safeguarding system integrity and stability, ensuring effective and efficient development and maintenance of the eMPF Platform by the Company, and taking remedial actions as early as possible when deficiencies are identified.

11. The **Government** will also have an important role to play in the governance of the Company. Section 6DA of the MPFSO, added by the first-stage legislative exercise in July 2020, provides that incorporation of the Company requires approval of the Financial Secretary ("FS"). We ***propose*** to introduce further legislative amendments to the MPFSO to provide for the powers of the FS/Government to approve essential governance, financial and administrative matters of the Company, including

[1] The Operating Rules, being a set of administrative instrument, will lay down rules with which the Company is to operate the eMPF Platform and provide support services to trustees.

appointments to the Board of Directors, annual budget, work plan, fees and charges, and change in ownership, etc.

Functions of the Company

12. Under the first-stage amendments to the MPFSO, the MPFA is empowered to delegate its functions (other than the power of delegation) to the Company. This is meant to enable the MPFA and the Company to kick-start preparatory work for the development of the eMPF Platform. In the coming second-stage legislative proposals, we ***propose*** to spell out in the MPFSO the functions of the Company such that it may, in addition to performing the functions delegated to it by the MPFA, perform such other functions as are conferred or imposed on the Company by or under –

(a) the **MPFSO**, to provide scheme administration services vide the operation of the eMPF Platform for facilitating trustees in discharging their duties with respect to the administration of a registered scheme; to ensure safe and efficient operations of the eMPF Platform to minimise foreseeable disruption of functions; and to put in place Operating Rules for the system and adequate arrangement to monitor and ensure compliance with Operating Rules;

(b) **any other Ordinance**, to provide flexibility for the Company to support other relevant public functions;

(c) the **MPFA**, for example to provide assistance to the MPFA in its enforcement actions against non-compliance with statutory requirements; or

(d) the **FS**, if he is satisfied that it is in the public interest and can be appropriately performed so by the Company.

Designation

13. The second-stage legislative amendments will ***propose*** that the eMPF Platform will be designated for the mandatory use by the trustees in the MPF System for performing scheme administration functions. The designation will be made by way of a notice, which is a piece of subsidiary legislation subject to negative vetting by LegCo, to be issued by the Secretary for Financial Services and the Treasury. Specifically, the designation notice(s) will specify –

(a) the approved trustees and registered schemes which would be required to use the eMPF Platform operated by the Company or its service provider;

(b) the use of the eMPF Platform for all or part of the scheme administration functions and/or other functions by the trustees and schemes; and

(c) the date when the eMPF Platform would be applicable to the trustees and schemes concerned.

14. The designation in respect of individual trustees and schemes will be made by batches. The sequence will be agreed with the trustees having regard to the readiness of the trustees and progress of data migration[2]. The trustees will be expected to make reasonable efforts to cooperate with the Company to facilitate the onboarding process. Based on the current development plan, we envisage that trustees will start phased migration to the eMPF Platform from 2023 by batches. The whole transition of all trustees/schemes is expected to take around two years to complete (i.e. around 2025) when the eMPF Platform would become fully functional[3].

"Straight pass-on" requirement for cost savings and fee-setting

15. A key objective of the Project is to achieve cost savings from the enhanced operational efficiency of the MPF System, thereby creating room for fee reduction for the benefit of scheme members. As the MPF System is designed as a mandatory yet privately managed contribution scheme, there are at present only few statutory controls on fees charged by MPF schemes, except for example the Default Investment Strategy ("DIS") funds[4].

16. To achieve the above policy objective of the eMPF Platform and ensure that any cost savings derived from the Platform operation would be passed directly to scheme members, we ***propose*** that there should be a

[2] Transfer of data will be empowered under the same legislative exercise.

[3] For example, until the completion of migration of all trustees and schemes to the eMPF Platform, the functionality of transfer of accrued benefits between trustees/schemes using the eMPF Platform cannot be fully implemented.

[4] Introduced in April 2017, the DIS is a standardised default investment strategy required to be offered by each MPF scheme. The DIS is subject to fee control of management fee cap of 0.75% and a recurrent out-of-pocket expenses cap of 0.2%.

statutory requirement to the effect that the cost savings, being the difference between the existing scheme administration fees charged by trustees on scheme members and the future scheme administration fees of the eMPF Platform ("eMPF Platform fee") payable by trustees, would be passed to scheme members under a "straight pass-on" arrangement (details in paragraphs 21 to 22). Specifically, the law would provide that no fee on scheme administration exceeding the eMPF Platform fee payable by trustees to the Company could be charged, whether in whole or in part, to the scheme, a constituent fund of the scheme, or a member of the scheme. With this straight pass-on requirement, we also expect a corresponding level of reduction to the topline fees[5] charged on MPF schemes generally. A financial penalty at $5,000 or 10% of the amount of the fee overcharged, whichever is the greater, is proposed for non-compliance with this straight pass-on rule.

Technical amendments to the streamlined workflow

17. The eMPF Platform will simplify the administrative functions and streamline processes of the MPF System, thereby enhancing efficiency and driving down costs, including regulatory burden and compliance costs of trustees. To this end, some statutory provisions or requirements will become obsolete or redundant upon operation of the Platform. We therefore ***propose*** to introduce technical amendments to reflect the streamlined workflow of those MPF administration[6], covering different aspects such as registration and enrolment; contribution and default contribution recovery; transfer and withdrawal of accrued benefits; giving notices and documents; supervision and investigation; and other miscellaneous matters.

[5] The topline fee of MPF schemes generally comprises three major components: (i) scheme administration/trustee/custodian fees; (ii) sponsor fees; and (iii) investment management fees. The eMPF Platform will affect cost item (i).

[6] In the spirit of simplifying the workflow, we propose to repeal around 20 administrative requirements that will be taken over by the eMPF Platform. As part of the re-engineering process, the existing requirements for information to be given "in writing" or "in the specified form", or for submission or issue of a "statement", "notice" or "application form" in the MPFSO will also be regarded as satisfied, after amendments to the law, if the information required is submitted or provided through the eMPF Platform in future.

Immunity and Liabilities

The Company

18. Pursuant to the first-stage legislative amendments, the immunity from civil liability for the MPFA, its directors or employees provided under section 42B of the MPFSO has been extended to the Company as well as its directors or employees with respect to the performance of the statutory functions delegated by the MPFA. With the proposed additional functions of the Company to be conferred on or imposed by the MPFA (paragraph 12), we ***propose*** that the immunity from civil liabilities to the Company be extended to cover the provision of administrative support to the MPFA for its discharge of statutory functions and the carrying out of any directions given by the MPFA[7].

Trustees

19. The implementation of the eMPF Platform will not change the regulatory relationship between the MPFA and the trustees. Trustees will continue to owe fiduciary duties to scheme members, and will remain legally responsible for the administration of MPF schemes. Non-compliance with those statutory requirements imposed on trustees would entail regulatory sanctions or criminal liabilities. As the eMPF Platform/Company will perform scheme administration functions in future and that it is not a service provider to the trustees per se, we see a need to provide certain safeguards to trustees and relieve trustees from consequences and civil liabilities arising from non-compliance which are attributable to the failure of the eMPF Platform in performing the scheme administration functions. Hence, we ***propose*** that –

(a) no enforcement actions[8] against the trustees will be undertaken by the MPFA, through a "safe harbour" provision, if non-compliance with the statutory requirements under the MPFSO is due to the sole failure of the eMPF Platform/Company; and

(b) regarding the civil liabilities that may arise from the breach of a requirement under the MPF legislation and other liabilities of a trust

[7] Similar immunity from civil liabilities is also provided to subsidiary company owned by financial regulators such as the Hong Kong Interbank Clearing Limited, which is jointly owned by the Hong Kong Monetary Authority and the Hong Kong Association of Banks.

[8] There are mainly two types of enforcement actions against trustees' non-compliance with the statutory requirements on myriad scheme administration functions under the MPFSO, namely financial penalty that the MPFA may impose under section 45B of the MPFSO and criminal prosecution.

company due to any failure, acts or omissions of the eMPF Platform/Company, trustees will not be prohibited from seeking reasonable remediation from the Company for that part of the liabilities attributable to the Company.

(B) Miscellaneous Amendments to the MPFSO

20. In addition to the eMPF-related legislative proposals, we ***propose*** to take the opportunity of the coming legislative exercise to make miscellaneous amendments to the MPFSO to strengthen the statutory functions of the MPFA and align with the practices adopted by other financial regulators as appropriate. For example, we propose to expand the statutory function of the MPFA to cover educating the public on the MPF System and investments [9] and allow the MPFA explicitly to engage consultants, agents and advisers to assist the MPFA in its performance of statutory functions[10]. We also intend to amend the relevant provisions to remove the requirement on automatic suspension of transfer or withdrawal of accrued benefits when the MPFA exercises its power to conduct an investigation, and cease the practice of requiring the MPFA to commence an investigation only after prior notification to the approved trustees concerned.

FEE CHARGING MODEL AND POSSIBLE COST SAVINGS

Fee-charging model

21. To achieve the policy objective of lowering the fees of MPF System for the benefit of scheme members, the Government will work with MPFA and the Company on a robust, fair and reasonable fee-charging model. The overarching principle is to achieve early and material cost savings, while ensuring smooth and secure transition from the existing system to the new eMPF Platform. The fee-charging model would carry the following

[9] For example, the Securities and Futures Commission ("SFC") is clearly vested with the statutory function to "*enhance the understanding and knowledge of members of the public of financial services including – (i) the operation and functioning of the securities and futures industry; and (ii) the benefits, risks and liabilities associated with purchasing financial services including investing in financial products*".

[10] For example, the SFC and the Insurance Authority are both empowered under respective ordinances to engage a wide scope of persons to assist them in the performance of their statutory functions (e.g. consultants, agents and advisers). At present, MPFA is only explicitly allowed to engage consultants for the purpose of providing expert advice.

major features –

(a) to maximize the cost savings, the eMPF Platform would be operated on a **cost-recovery** basis. The Company will run as a **non-profit making** entity, by recouping the costs from trustees through service charges;

(b) the **straight pass-on requirement of cost savings** as mentioned in paragraph 16 above would be applied to **all types of MPF funds**, including DIS funds[11]. A **corresponding level of reduction to the topline fee** should also be made to reflect the cost savings to scheme members in full; and

(c) taking into account the estimated costs in operating the eMPF Platform, the eMPF Platform fee to be charged by the Company in the transitional stage would be in a range of 0.3% to 0.4% (or 30 to 40 basis points) out of the asset under management ("AUM"). Depending on the rate of digital take-up and consequential improvement to operational efficiency, we also expect the eMPF Platform fee to further drop, in a gradual and steady manner, to 0.2% to 0.25% (or 20 to 25 basis points) in about ten years' time.

22. As approved trustees will be required to migrate to the eMPF Platform by batches which involve additional costs of and investments by trustees in system adjustment for interfacing and inter-operability, data cleansing and migration and risk management, we envisage that the magnitude of cost savings may not be fully realized in the early stage of transition. The Government and the MPFA are in discussion with the MPF industry on the necessary transitional arrangements and assistance to facilitate and ensure a smooth onboarding process to the eMPF Platform. The eMPF Platform fee would be determined having regard to the above discussions, subject to approval by the Company's Board of Directors, the MPFA and the Government.

[11] The Government undertook to review the current statutory fee caps on the DIS funds after three years of introducing the DIS (i.e. 2020). The review direction is to further lower the DIS fees, especially with the implementation of the eMPF Platform that reduces scheme administration costs across the board. The Government will propose downward adjustment to the DIS fee caps after determining the eMPF Platform fee (see paragraph 22) through legislative amendments to Schedule 11 of the MPFSO.

Possible cost savings

23. As at November 2020, the industry-wide fund expenses ratio ("FER")[12] is around 1.44% of the AUM. Of this, about 0.58% (or 58 basis points) is for scheme administration. Over the last 13 years, the FER has dropped by about 30% (i.e. from 2.1% in 2007 to 1.44% at present). With an eMPF Platform fee level in the range of 30 to 40 basis points in the two-year transitional stage as mentioned in paragraph 21(c) above, we expect that scheme members can enjoy around an **average 30% upfront cut in scheme administration costs (with corresponding reduction to the topline fees)**. It is expected that over 99% of the some 4.6 million scheme members will benefit from a fee reduction.

24. When we briefed Members in December 2018, the original estimate by the MPFA's consultant was that assuming the digital take-up rate will increase to 90% in five years, the cumulative quantifiable future financial savings that could be derived from the implementation of the eMPF Platform would be in the region of $22.5 billion to $23.6 billion spread over 20 years. We have recently updated this ballpark figure based on the estimated operating costs of the eMPF Platform, the latest tender price of the eMPF Platform, as well as the eMPF Platform fee level and reduction schedule as proposed in paragraph 21. The latest guestimate is that the **total cumulative quantifiable cost savings to scheme members would possibly be in a range of $30 billion to $40 billion in ten years of the operation**[13] (see **Annex B** for an illustration). This has not included the benefits to the industry in terms of the enhanced operational efficiency and reduced administrative and regulatory burden.

ADDITIONAL FUNDING PROPOSALS

25. As mentioned in paragraph 5(a) above, some $3,900 million of non-recurrent funding provisions have been approved for the Project. The two tranches of non-recurrent funding requirements approved so far are for meeting the costs for IT infrastructure and software applications (through payment of a tender price to the eMPF Platform contractor), and operating costs of the Company in its first two years of set-up. As foreshadowed in the

[12] The FER is a ratio that measures the total expenses of a MPF fund as a percentage of the fund's asset value. Such expenses mainly come from fee and charges (such as management fees), which would affect the investment return of an MPF fund. It generally refers to the topline fees of MPF scheme (see footnote 5) plus the out-of-pocket expenses.

[13] Calculated based on the current administration fee charged by the trustees and the estimated projection of AUM.

paper referenced LC Paper No. CB(1)175/19-20(08) submitted to the FA Panel in December 2019, there is a need for a third tranche of funding requirement which would be determined having regard to the results of the tendering exercise, the service level of the eMPF Platform, and duration of transition, etc. In this connection, we ***propose*** an increase in commitment to the approved funding to meet additional funding requirements, with breakdowns as follows -

(a) *Costs relating to data cleansing and migration and use of Government Cloud ("GovCloud") infrastructure ($262.586 million)*:
To assist trustees in their data cleansing and migration exercise which is pivotal to the secure and smooth transition to the eMPF Platform, an additional funding provision of $210 million is required to facilitate the transition process and manage the risk factors, especially for the first batch of trustees getting onboard to the eMPF Platform[14]. Moreover, as the MPFA will adopt the GovCloud infrastructure when setting up the data centres and with the latest data centre hosting approach, an increase to the approved commitment for data centres provision[15] ($52.586 million) would be required.

(b) *Uncovered seed money and funding reserve for the Company ($395.06 million)*:
In 2020, a provision of $254.88 million was approved for funding the initial set-up costs of the Company for 2020-21 and 2021-22. Before the Company recovers costs from trustees starting from 2023 and achieves breakeven in operation, we need additional provisions to bridge the funding gap to meet the operating costs of the Company until 2022-23 ($134.06 million), and for procuring insurance to cover potential liabilities of the Company in performing its duties and functions ($100 million). In addition, given that the eMPF Platform fee to be charged would be linked to the AUM and therefore subject to market fluctuations and unforeseen circumstances, a funding reserve ($161 million) is also

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[14] Details of the assistance to the first batch of trustees (i.e. "early birds") will be worked out between the MPFA, the Company, the contractor and trustees during the discussions on the transitional arrangements.

[15] In the first tranche of funding approved in 2019, an amount of $95.521 million has been reserved for the primary and secondary data centres to be hosted on private cloud using a self-built approach under the contract. Taking account of the comments of LegCo FA Panel Members in 2018/19 and after discussion with the Office of the Government Chief Information Officer ("OGCIO"), it was decided to separately arrange the data centre hosting service. The GovCloud infrastructure will be adopted and the detailed hosting arrangement is being discussed between OGCIO and the MPFA.

required to smoothen possible changes in AUM[16] and provide greater stability to the eMPF Platform fee.

(c) *Cash buffer for the Company ($378 million)*: The Company would have to meet the costs of operating and maintaining the eMPF Platform by making regular payment to the contractor(s), but its expected income stream is based on payment by trustees in arrears and would largely depend on the fees payable by trustees according to the fee-charging model and schedule of onboarding by individual trustees in batches. To address the possible mismatch in timing of the expenditures and incomes, we need to provide a cash buffer for the Company to meet possible cash-flow requirements. The amount would be disbursed to the Company only if necessary having regard to the projected cash flow requirements and financial position of the Company to be reviewed each year under the budgeting cycle.

26. The additional funding requirements mentioned in paragraph 25 above, as an increase in commitment to the approved funding provisions in paragraph 5(a), will be $1,035.646 million spanning over the financial years of 2021-22 ($901.586 million) and 2022-23 ($134.06 million). Funding approval would be sought in accordance with established mechanism.

WAY FORWARD

27. The Government and the MPFA are working in full steam to take forward the incorporation of the Company, the award of tender for the development of the eMPF Platform, and the legislative and funding exercises. Our target is to introduce the second-stage legislative amendments in the second quarter of 2021, secure approval of the LegCo in July 2021, and complete the hardware and software development of the eMPF Platform by the end of 2022 at the earliest. Subject to the orderly transition by trustees in batches starting from 2023, the eMPF Platform would come into full operation in around 2025. We will continue to work closely with relevant stakeholders throughout the development process.

Financial Services Branch
Financial Services and the Treasury Bureau
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[16] For example, the AUM could experience sudden sharp drop owing to adverse market conditions e.g. the 2008 financial crisis and impact of the pandemic in 2020.

<u>Annex A</u>

Key Features and Benefits of the eMPF Platform

In technical terms, the eMPF Platform will provide –

(a) automated processing capability with one set of common standards which enable MPF instructions to be handled centrally as much as possible by the eMPF Platform;

(b) an user interface that enables access by employers and scheme members (i.e. employees and SEPs); and

(c) a database to support its operation and connected to the trustees' system, including receiving data and instructions from employers and scheme members either directly or channeled via the trustees, who can also provide updated information and data to the eMPF Platform, thereby facilitating the carrying out of scheme administration work in the system.

With the above features, the eMPF Platform will bring multi-faceted benefits –

(a) For **scheme members**, user experience will be enhanced by providing one-stop online portal for managing members' accounts and their MPF portfolio spanning across different schemes virtually, anytime and anywhere. With a more user-friendly and secure online environment, the eMPF Platform can encourage scheme members to manage their MPF accounts more actively and effectively. Scheme members will also benefit from shorter processing time for various scheme administration processes due to the automation and streamlined processing of the eMPF Platform. Moreover, the operational efficiency achieved would create room for fee reduction for the benefit of scheme members. Under the updated estimation, the cumulative quantifiable financial savings to be derived from the eMPF Platform is possibly in the region of $30 billion to $40 billion over a ten-year period. The exact magnitude and schedule of reduction in scheme administration fees is being mapped out having regard to the operating costs of the eMPF Platform, alongside formulation of the fee-charging mechanism under the principles of non-profit making and cost-recovery. The cost savings should also be a "straight pass-on" to scheme members. With lower scheme administration costs, there should be corresponding level of reduction in the topline fees of MPF schemes.

(b) For **employers and SEPs**, the eMPF Platform will standardise and automate administrative procedures that can reduce paper work, human errors and inadvertent delay or default contributions that might incur surcharges. There will also be reduction in time, costs and efforts for employers and SEPs to manage MPF matters.

(c) For **trustees**, while they will continue to remain accountable for their fiduciary duties owed to scheme members, their administrative work and associated regulatory burden should be reduced significantly after the standardization, streamlining and automation of administration processes by the eMPF Platform that improves reliability and accuracy of data and maintains up-to-date information. The transition to the eMPF Platform also opens up opportunity for trustees to rationalize their work flow and reduce business costs.

(d) At the **system-wide** level, with centralisation of members' accounts and data, the eMPF Platform is adaptable to new measures and functionalities that pave the way for the implementation of "Full Portability"[17]. As a major financial infrastructure, the eMPF Platform will elevate digital capabilities of the pension industry and add fresh impetus to the development of more Fintech applications for retirement planning. There will also be scope for the wider use of data analytics for macro-planning, policy-making and statistical purposes, thereby boosting the development of Hong Kong as a smart city.

17 "Full Portability" means employees have the option of transferring the accrued benefits derived from the mandatory contributions made by employers and employees to a scheme of their own choice.

<u>Annex B</u>

Illustration of the possible cost-savings to scheme members