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**Panel on Financial Affairs**

**Meeting on 4 January 2021**

**Updated background brief on the centralized electronic platform for the  
administration of Mandatory Provident Fund registered schemes**

**Purpose**

This paper provides background information on the development of a centralized electronic platform for the administration of mandatory provident fund registered schemes ("eMPF Platform"). It also summarizes the views and concerns expressed by Members of the Legislative Council ("LegCo") on the subject since 2017.

**Background**

The Mandatory Provident Fund System

2. The Mandatory Provident Fund ("MPF") system is a mandatory, privately-managed and fully-funded pension system established under the Mandatory Provident Fund Schemes Ordinance (Cap. 485) ("MPFSO") and was launched in December 2000 to provide retirement protection to the working population, complementary to other pillars of the retirement protection framework. 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.

3. According to the Administration, as at mid-2020, there were about 4.4 million scheme members with about 10 million accounts in 28 MPF schemes administered by 14 approved trustees either internally or through third-party administrators, involving 12 scheme administration platforms with different scheme administration processes of varying standards. The multiple business models, data standards, process designs and administration system infrastructure make it difficult to achieve standardization and economies of scale. Moreover, among the around 30 million MPF administration transactions (e.g. enrolment of scheme members, collection and allocation of contributions, recovery of outstanding contributions, handling transfers between schemes and fund switches within schemes, and administration of withdrawals of accrued benefits) per year, more than 65% are paper-based. All these have contributed to the high administration costs of the MPF System.

#### Development of a centralized electronic platform for the administration of Mandatory Provident Fund registered schemes

##### *Establishment of a wholly-owned subsidiary under the Mandatory Provident Fund Schemes Authority*

4. The development of the eMPF Platform was an initiative in the Chief Executive's 2017 Policy Address delivered in January 2017. The Administration considered that the eMPF Platform, which provided a common, integrated electronic platform to facilitate the standardization, streamlining and automation of MPF scheme administration processes, would enhance the operational efficiency of MPF schemes and achieve cost savings, thereby provided more room for reduction in the administration fee of MPF funds.

5. After evaluating four options<sup>1</sup> of institutional arrangements for owning and operating the eMPF Platform, the Administration considered that the optimal option was to task MPFA to own and operate the Platform. The Administration introduced the Mandatory Provident Fund Schemes (Amendment) Bill 2019<sup>2</sup> into the Legislative Council ("LegCo") in 2019 to

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<sup>1</sup> The four options considered by the Administration are:  
(a) setting up a privately-owned entity;  
(b) setting up a dedicated statutory body;  
(c) forming a government-owned company; and  
(d) tasking the Mandatory Provident Fund Schemes Authority to own and operate the eMPF Platform.

<sup>2</sup> The Mandatory Provident Fund Schemes (Amendment) Bill 2019 was gazetted in June 2019, received its First Reading at the Legislative Council ("LegCo") meeting of 23 October 2019. The Bill was passed at the LegCo meeting of 17 July 2020.

empower MPFA to establish a wholly-owned subsidiary (i.e. "the eMPF Platform Company") as a legal entity for this purpose. The LegCo approved a total funding of \$3,903.63 million in 2019 and 2020 for developing the eMPF Platform, and for setting up the eMPF Platform Company and its initial operation.

### *Implementation of the eMPF Platform*

6. According to the Administration, in order to pave the way for the launch and smooth operation of the eMPF Platform, it is necessary to provide proper legal basis for the designation of the eMPF Platform as the gateway for specified administrative procedures, and delineate the roles, functions, powers, responsibilities and the interface of the Administration, MPFA, the new eMPF Platform Company, trustees and other stakeholders. Details for the implementation of the eMPF Platform have to be made through introducing legislative amendments to MPFSO and its related subsidiary legislation. Moreover, it is necessary to promulgate new operating rules, guidelines and other instruments, or amend existing ones, to provide for the safe, smooth and efficient operation of the eMPF Platform for the benefit of all users and the society as a whole. The Administration and MPFA are formulating proposals for this second-phase legislative exercise.

### **Major views and concerns expressed by Members**

7. The Panel on Financial Affairs ("FA Panel") discussed the proposed creation of one supernumerary Administrative Officers Staff Grade C post in the Financial Services and the Treasury Bureau ("the establishment proposal") to improve the MPF system, including the progress in developing the eMPF Platform at its meeting on 5 March 2018, and the funding proposals for developing the eMPF Platform at its meetings on 18 December 2018 and 2 December 2019. Members enquired about the development of the eMPF Platform when the Establishment Subcommittee ("ESC") and the Finance Committee ("FC") considered the afore-mentioned establishment proposal at the meetings on 29 May and 22 June 2018 respectively, and during the discussion of the Bills Committee on Mandatory Provident Fund Schemes (Amendment) Bill 2019 ("Bills Committee"). Issues relating to the implementation of the eMPF Platform were also discussed during the special meetings of FC on 3 April 2017, 17 April 2018, 9 April 2019 and 6 April 2020 for examination of the relevant Estimates of Expenditure. The major views and concerns expressed by Members at the above meetings are summarized in the ensuing paragraphs.

### Benefits of the eMPF Platform for scheme members

8. At the FA Panel meetings on 5 March 2018 and 2 December 2019, as well as the FC meetings on 3 April 2017 and 22 June 2018, Members enquired about the initial assessment on the level of MPF fees reduction and whether any target would be set in this regard, as well as whether the Administration would charge users of the eMPF Platform or waive the charges upon commitment of trustees to drive down MPF fees.

9. The Administration advised that the objective of the eMPF Platform was to enhance the efficiency of the MPF system, thereby providing more room for fee reduction to benefit scheme members through the switching from the current predominantly paper-based MPF-related transactions to electronic transactions. Trustees would be required to pay for using the eMPF Platform in order to cover its operating cost.

10. On 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 Administration would refer to the prevailing rate (i.e. 0.4% to 0.8%) as the benchmark when assessing possible reduction in MPF administrative fees.

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 at the FA Panel meeting on 18 December 2018 about the measures the Administration and MPFA would take to ensure scheme members could benefit from the savings.

12. The Administration and MPFA responded that 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. During the discussion at the FA Panel meeting on 18 December 2018 and meetings of the Bills Committee, members enquired how the eMPF Platform could help expedite the introduction of "Full Portability" of MPF benefits and abolition of the arrangement of offsetting severance payments ("SP") and long service payments ("LSP") against MPF accrued benefits ("the offsetting arrangement").

14. The Administration advised that the eMPF Platform would improve efficiency, reliability and accuracy of the MPF System and facilitate MPFA's enforcement actions. MPFA would also ensure a level playing field for the healthy and sustainable development of the MPF System for the benefit of scheme members and Hong Kong. The eMPF Platform might also pave way for future MPF reform initiatives such as Full Portability. As regards the abolition of the offsetting arrangement, the Administration responded that it involved preparation at various fronts such as establishing the proposed designated saving accounts ("DSA") to which each employer would need to contribute 1% of his/her employees' relevant income so as to save up in advance to meet the employer's SP/LSP liabilities after the abolition of the offsetting arrangement. MPFA had been assisting the Administration to incorporate the DSA component into the eMPF Platform. The eMPF Platform would facilitate the abolition of the offsetting arrangement, which was one of the pre-requisites for allowing Full Portability of MPF benefits

#### Progress of development of the eMPF Platform

15. At the FA Panel meeting on 5 March 2018, some members opined that eMPF Platform should be implemented early so as to drive down the administrative fees. Similar views were expressed by some members at the FC meeting on 22 June 2018 and FA Panel meeting on 2 December 2019. At the FA Panel meeting on 18 December 2018, 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 Administration advised that the Working Group on eMPF 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, as there could be some users who might not readily adapt to full electronic transactions, the Administration envisaged that it was inevitable to have a certain level of

paper-based transactions. Service centres would be set up to assist these users during the inception years of the eMPF Platform.

17. On some members' enquiry about measures to promote the digital take-up of the eMPF Platform, MPFA advised that a dedicated task force had been formed under the Working Group to promote digitalization under the Platform. 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. As such, 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.

#### Reform of the Mandatory Provident Fund system

18. During discussion at meetings of the Bills Committee, some members considered that the Administration and MPFA should reform the MPF system to address issues including poor investment performance of many MPF funds and restrictive requirements for early withdrawal of MPF benefits by scheme members. These members noted that some members of the public had urged for abolishing the MPF System or permitting early withdrawal of the MPF benefits by scheme members to cope with financial hardship during adverse economic situations like those arising from the coronavirus disease 2019 ("COVID-19") epidemic.

19. The Administration advised that MPFA had taken a number of measures, such as introducing the Employee Choice Arrangement in 2012 and the Default Investment Strategy in 2017, to create more room to reduce the administration fee of MPF funds. It was envisaged that the implementation of the eMPF Platform would further reduce the administration cost of the MPF system and enhance competition, thus providing further room for trustees to lower the administration fee. Moreover, the implementation of the eMPF Platform could lower the threshold for potential trustees to enter the MPF market as the Platform could automatically and electronically handle many MPF scheme administration processes currently performed by trustees, thus reducing the cost barrier for them in entering the market and increase competition in the market.

20. As regards allowing scheme members to withdraw their MPF benefits for relieving financial hardship due to the outbreak of COVID-19, the Administration stressed that the purpose of the MPF System was to provide retirement protection for the working population, and allowing easy withdrawal of MPF benefits might undermine the integrity of the System and adversely affect the benefits available to scheme members upon retirement. Any changes

to the requirements on early withdrawal of MPF benefits required prudent consideration. The Administration had already launched a number of relief measures including the Employment Support Scheme and the Cash Payout Scheme to help the public cope with the difficulties arising from the COVID-19 epidemic.

### **Relevant question raised at Council meeting**

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

### **Latest development**

22. The Administration will brief the FA Panel on the second-phase legislative amendments and a funding proposal for taking forward the eMPF Platform project and related matters at the meeting on 4 January 2021.

### **Relevant papers**

23. A list of relevant papers is set out in the **Appendix**.

## List of relevant papers

Date	Event	Paper
3 April 2017	Special meetings of the Finance Committee to examine the Estimates of Expenditure 2017-2018 (session on financial services)	<a href="#">Speaking note of the Secretary for Financial Services and the Treasury</a> <a href="#">Report on the examination of the Estimates of Expenditure 2017-2018</a>
5 March 2018	Meeting of the FA Panel	<a href="#">Administration's paper</a> (LC Paper No. CB(1)625/17-18(07))  <a href="#">Background brief</a> (LC Paper No. CB(1)625/17-18(08))  <a href="#">Minutes</a> (paragraphs 43-49) (LC Paper No. CB(1)924/17-18)
17 April 2018	Special meetings of the Finance Committee to examine the Estimates of Expenditure 2018-2019 (session on financial services)	<a href="#">Speaking note of the Secretary for Financial Services and the Treasury</a> <a href="#">Report on the examination of the Estimates of Expenditure 2018-2019</a>
2 May 2018	Hon CHAN Kin-por raised a written question on Work of the Working Group on eMPF	<a href="#">Hansard</a> (pages 9011- 9012)
29 May 2018	ESC deliberated on the staffing proposal	<a href="#">Administration's paper</a> (EC(2018-19)4)  <a href="#">Minutes</a> (paragraphs 97-103) (LC Paper No. ESC142/17-18)



<b>Date</b>	<b>Event</b>	<b>Paper</b>
22 June 2018	FC deliberated on the staffing proposal	<a href="#">Administration's paper</a> (FCR(2018-19)26)  <a href="#">Minutes</a> (paragraphs 17-27) (LC Paper No. FC72/18-19)
18 December 2018	FA Panel meeting	<a href="#">Administration's paper</a> (LC Paper No. CB(1)309/18-19(04))  <a href="#">Minutes</a> (paragraphs 46-59) (LC Paper No. CB(1)806/18-19)
27 March 2019	FA information paper	<a href="#">Administration's paper</a> (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)	<a href="#">Speaking note of the Secretary for Financial Services and the Treasury</a>  <a href="#">Report on the examination of the Estimates of Expenditure 2019-2020</a>
23 October 2019	First reading of the Bill	<a href="#">Legislative Council Brief</a> (File Ref.: MPF/2/1/42C)
2 December 2019	FA Panel meeting	<a href="#">Administration's paper</a> (LC Paper No. CB(1)175/19-20(08))  <a href="#">Background brief</a> (LC Paper No. CB(1)199/19-20(01))  <a href="#">Minutes</a> (paragraphs 96-107) (LC Paper No. CB(1)376/19-20)
6 April 2020	Special meetings of the Finance Committee to examine the Estimates of Expenditure 2020-2021 (session on financial services)	<a href="#">Speaking note of the Secretary for Financial Services and the Treasury</a>  <a href="#">Report on the examination of the Estimates of Expenditure 2020-2021</a>

<b>Date</b>	<b>Event</b>	<b>Paper</b>
1 June 2020	FA information paper	<a href="#"><u>Administration's paper</u></a> (LC Paper No. CB(1)695/19-20(01))
12 June 2020	Bills Committee on Mandatory Provident Fund Schemes (Amendment) Bill 2019	<a href="#"><u>The Bill</u></a> (LC Paper No. CB(3)773/18-19)  <a href="#"><u>Background brief</u></a> (LC Paper No. CB(1)631/19-20(03))  <a href="#"><u>Report to House Committee</u></a> (LC Paper No. CB(1)740/19-20)