

立法會 *Legislative Council*

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Panel on Financial Affairs

Meeting on 4 April 2022

Updated background brief on development of a 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 related subjects in recent years.

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 in early 2022, there were about 4.6 million scheme members with about 10 million accounts in 27 MPF schemes administered by 13 approved trustees either internally or through third-party administrators, involving various 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. The Mandatory Provident Fund Schemes (Amendment) Ordinance 2019 enacted in July 2020 empowers MPFA to establish a wholly-owned subsidiary to own and operate the eMPF Platform ("the Company"). The Company was established in March 2021 and the contract for the design, building and operation of the eMPF Platform was awarded to a contractor ("the Contractor") in January 2021.¹ LegCo approved a total provision of \$4.9 billion from 2019 to 2021 for developing the eMPF Platform, and for setting up the Company and its initial operation.

Implementation of the eMPF Platform

6. LegCo further passed the Mandatory Provident Fund Schemes (Amendment) Bill 2021 (which was enacted as the Mandatory Provident Fund Schemes (Amendment) Ordinance 2021 ("Amendment Ordinance 2021") in

¹ The contract was novated from MPFA to the Company in January 2022.

October 2021 to provide proper legal basis for the implementation of the eMPF Platform. The Amendment Ordinance 2021, among others, (a) designates the eMPF Platform as the gateway for specified administrative procedures in the MPF system and the mandatory use of the Platform by trustees; (b) delineates the roles, functions, powers and responsibilities of the Administration, MPFA, the Company and trustees; (c) stipulating the requirements of “straight pass-on” of cost savings and “corresponding fee reduction” to directly benefit MPF scheme members;² and (d) streamlines MPF scheme administration workflow and reduced compliance burden on trustees as a result of the implementation of the eMPF Platform.

7. Under the Amendment Ordinance 2021, the Secretary for Financial Services and the Treasury is empowered to publish notices in the Gazette for: (a) designating the eMPF Platform to provide services and facilities to facilitate MPF trustees in performing their scheme administration functions; (b) specifying the dates on which an existing MPF scheme must begin the mandatory use of the eMPF Platform; and (c) appointing the commencement dates for statutory requirements in relation to regulation fees on constituent funds of MPF schemes. The notices are subsidiary legislation subject to the negative vetting procedure of the LegCo.³

Major views and concerns expressed by Members

8. Issues relating to the development the eMPF Platform were raised during meetings of the Panel on Financial Affairs (“FA Panel”) on 18 December 2018, 2 December 2019, and 4 January 2021 when the Panel was consulted on the legislative and funding proposals for developing the eMPF Platform, and on 1 March 2021 when the Panel discussed MPFA’s budget for 2021-2022. The Bills Committee on the Mandatory Provident Fund Schemes (Amendment) Bill 2019 and the Mandatory Provident Fund Schemes (Amendment) Bill 2021 (“the Bills Committee on the 2021 Bill”) also discussed issues relating to the eMPF Platform during scrutiny of the two Bills. The major views and concerns

² The two statutory fee requirements are:

- (a) the scheme administration fee to be charged by trustees must not exceed the eMPF Platform fee, such that there can be “straight pass-on” of cost savings (being the difference between the existing scheme administration fee charged by trustee on its scheme members and the future eMPF Platform fee payable by trustee) to scheme members; and
- (b) the overall Fund Expense Ratio of MPF funds must fully reflect the cost savings to ensure that there is corresponding reduction in the overall fee level.

³ The Administration provided an information paper on the latest development of the eMPF Platform in March 2022 (LC Paper No. CB(1)117/2022(02)).

expressed by Members at the above meetings are summarized in the ensuing paragraphs.

Reduction of fees for MPF schemes

9. Members enquired about the level of MPF fees reduction after implementation of the eMPF Platform and whether any target would be set in this regard, as well as how the Administration would ensure scheme members could benefit from the cost savings.

10. 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. The proposed statutory requirements under the 2021 Bill, i.e. the requirements of “straight pass-on” of cost savings and “corresponding fee reduction”, would ensure any cost savings be passed directly to scheme members.

11. The Bills Committee on the 2021 Bill noted from the Administration that scheme members would expect to enjoy an average of about 30% reduction in the scheme administration fee payable if a 90% digital take-up rate could be achieved in five years after implementation of the eMPF Platform. Members enquired about the measures to ensure achievement of the target take-up rate.

12. The Administration explained that the responsibility for the Contractor of the system operator to achieve a 90% digital take-up rate in five years was stipulated in the tender documents and contract for the development and operation of the eMPF Platform, and the Contractor would be liable to contractual remedies and consequences for failure in meeting the target. Also, the Contractor was under contractual obligations to take a multi-pronged approach to boost the digital take-up rate of the eMPF Platform, including enhancing promotion and technical support, introducing user-friendly interface and enhancement in functionality, and providing incentives for users to adopt digital means to use the Platform. The Administration, MPFA and the Company would closely monitor the digital adoption situation and implement suitable and timely measures to boost the take-up rate.

“Full Portability” of MPF benefits and arrangement of offsetting severance payments and long service payments against MPF accrued benefits

13. Members enquired how the eMPF Platform could help expedite the introduction of “Full Portability” of MPF benefits and facilitate 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 the setting up of Designated Saving Accounts (“DSAs”) 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. With the implementation of the eMPF Platform, employers would be able to handle their DSA-related transactions via the Platform interface. The DSA employers should overlap with those participating employers of the MPF schemes under the existing MPF system and the relevant system specifications for the DSAs had been incorporated into the tender documents and contract of the eMPF Platform for development. 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 also one of the pre-requisites for allowing Full Portability of MPF benefits.

Migration of trustees to the eMPF Platform

15. Members of the Bills Committee on the 2021 Bill enquired about the criteria for determining the order of migration of trustees to the eMPF Platform and the timetable of the eMPF onboarding process of trustees. Some Members further asked about the rationale for providing \$210 million out of the total funding of \$4.9 billion for the development of the eMPF Platform to incentivize trustees’ early boarding to the Platform (i.e. “early-bird scheme”) given that usage of the Platform by trustees would be mandatory.

16. On the criteria for determining the order of migration of trustees to the eMPF Platform, the Administration advised that it would work out with MPFA and the Company on the matter taking into account trustees’ readiness for migration and operational risks, etc. Issues including the onboarding sequence and details of the early-bird scheme would be worked out in developing the transitional arrangements and implementation timetable of the eMPF Platform. The Administration envisaged that trustees would start phased migration to the eMPF Platform from 2023, and full onboarding was expected to complete around 2025 the earliest. As regards the funding provision of \$210 million for the early-bird scheme, the Administration explained that the sum was to be allocated to those trustees who opt for early onboarding to the eMPF Platform. The use

of the eMPF Platform would involve high risk for early-bird trustees due to the uncertainty arising from the connection of their systems to the Platform. The early-bird scheme would provide incentives to trustees in meeting their associated transition and risk management costs.

Reform of the MPF system

17. 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.

18. 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.

19. 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 MPF system was designed as a long-term saving scheme for retirement. Any proposals allowing early withdrawal of accrued benefits from the MPF system must take into consideration the corresponding reduction of scheme members’ accrued benefits meant for their retirement, thus would undermining the integrity of the system. Hence, after detailed deliberation within the Government and thorough consideration of relevant policy objectives and long-term implications, it was considered not appropriate to allow early withdrawal of MPF accrued benefits by scheme members for addressing their imminent needs. 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.

Latest development

20. The Administration will brief the FA Panel on the latest development of the eMPF Platform at the meeting on 4 April 2022.

Relevant papers

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

Council Business Division 1
Legislative Council Secretariat
30 March 2022

List of relevant papers

Date	Event	Paper
18 December 2018	Panel on Financial Affairs (“FA”) meeting	Administration’s paper (LC Paper No. CB(1)309/18-19(04)) Minutes (paragraphs 46-59) (LC Paper No. CB(1)806/18-19)
27 March 2019	FA information paper	Administration’s paper (LC Paper No. CB(1)791/18-19(01))
23 October 2019	First reading of the Mandatory Provident Fund Schemes (Amendment) Bill 2019	Legislative Council Brief (File Ref.: MPF/2/1/42C)
2 December 2019	FA meeting	Administration’s paper (LC Paper No. CB(1)175/19-20(08)) Background brief (LC Paper No. CB(1)199/19-20(01)) Minutes (paragraphs 96-107) (LC Paper No. CB(1)376/19-20)
1 June 2020	FA information paper	Administration’s paper (LC Paper No. CB(1)695/19-20(01))
12 June 2020	Bills Committee on Mandatory Provident Fund Schemes (Amendment) Bill 2019	The Bill Legislative Council Brief (File Ref.: MPF/2/1/42C) Background brief (LC Paper No. CB(1)631/19-20(03)) Report to House Committee (LC Paper No. CB(1)740/19-20)

Date	Event	Paper
4 January 2021	FA meeting	<u>Administration's paper</u> (LC Paper No. 417/20-21(03)) <u>Updated background brief</u> (LC Paper No CB(1)417/20-21(04)) <u>Minutes</u> (paragraphs 4-24) (LC Paper No. CB(1)674/20-21)
1 March 2021	FA discussed the proposed budget of MPFA for 2021-2022	<u>Administration's paper</u> (LC Paper No. CB(1)604/20-21(03)) <u>Minutes</u> (paragraphs 7-25) (LC Paper No. CB(1)883/20-21)
9 July 2021	Bills Committee on Mandatory Provident Fund Schemes (Amendment) Bill 2021	<u>The Bill</u> <u>Legislative Council Brief</u> (File Ref.: MPF/2/1/43C) <u>Background brief</u> (LC Paper No. CB(1)1158/20-21(02)) <u>Report to House Committee</u> (LC Paper No. CB(1)1358/20-21)
March 2022	FA information paper	<u>Administration's paper</u> (LC Paper No. CB(1)117/2022(02))