

For Information

**Legislative Council
Panel on Financial Affairs**

Latest Development of the eMPF Platform

INTRODUCTION

This paper provides an update on the progress of the eMPF Platform Project (“the Project”).

BACKGROUND

2. Currently, the administration of Mandatory Provident Fund (“MPF”) schemes is operated under a decentralized landscape. There are about 4.6 million scheme members with about 10 million accounts under 27 MPF schemes, which are administered by 13 trustees either internally or through third party. The lack of standardized administration platform makes it difficult to achieve economies of scale. Moreover, among the some 30 million MPF administration transactions every year, more than 65% are paper-based. All these have contributed to the high administration costs of the MPF System.

3. The eMPF Platform is a common and integrated electronic platform that will standardize, streamline and automate the administration processes of MPF schemes, thereby enhancing operational efficiency, reducing administration costs and improving user experience of the MPF System. When the eMPF Platform is in place, we expect that the average MPF administration fee would reduce by around 30% in the first two years. The total cumulative quantifiable cost savings would possibly be in a range of \$30 billion to \$40 billion in ten years of operation of the Platform. During the period from 2019 to 2021, the Legislative Council (“LegCo”) approved a total provision of around \$4.9 billion to fund the software and hardware development, system maintenance and initial operation of the eMPF Platform.

PROGRESS TO DATE

4. Further to our last update to the Panel¹ on the Project progress in

¹ LC Paper No. CB(1)417/20-21(03)

January 2021, the ensuing paragraphs set out the latest progress of the Project since then.

Incorporation of the eMPF Platform Company Limited

5. The LegCo passed the Mandatory Provident Fund Schemes Amendment Bill 2019 in July 2020 (i.e. the first-stage legislative amendments for the Project), which empowers the Mandatory Provident Fund Schemes Authority (“MPFA”) to establish a wholly-owned subsidiary subject to the approval by the Financial Secretary. To take forward the Project, the MPFA incorporated the eMPF Platform Company Limited (“the Company”) on 5 March 2021. The Company is directly supervised by its Board of Directors (“BoD”) comprising representatives from the Government, the MPFA and different professional sectors. It is also governed by relevant governance instruments such as the Articles of Association and the Corporate Governance Code to ensure its effective discharge of statutory functions and public mission. The Company will operate the eMPF Platform as a public utility under the not-for-profit and cost-recovery principles and charge fees from trustees in respect of the scheme administration services it provides.

Second-stage legislative amendments

6. The second-stage legislative amendments (i.e. the Mandatory Provident Fund Schemes Amendment Bill 2021) was passed by LegCo on 22 October 2021. It provides a solid legal basis for the implementation of the eMPF Platform, including –

- (a) empowering the Secretary for Financial Services and the Treasury (“the Secretary”) to designate the eMPF Platform as the common gateway for scheme administration processes in the MPF System, and designate the mandatory use of the Platform by trustees;
- (b) delineating the roles, functions, powers and responsibilities of the MPFA, the Company and trustees;
- (c) stipulating the requirements of “straight pass-on” of cost savings and “corresponding fee reduction”² to directly benefit MPF scheme members; and

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.

- (d) making technical amendments to reflect the streamlined MPF scheme administration workflow and reduced compliance burden on trustees as a result of the implementation of the eMPF Platform.

Development of the Platform and timeline

7. Following an open tender exercise, the MPFA awarded the contract for the design, building and operation of the eMPF Platform (“the Contract”) to PCCW Solutions Limited (“the Contractor”) in January 2021. The Contract was novated from the MPFA to the Company on 1 January 2022 as the Company has gradually built up its organizational structure and resources since incorporation in March 2021.

8. Under the Contract, there are three main categories of work to be delivered by the Contractor –

- (a) Category A: the software component, covering the collection of functional and technical requirements, system analysis and design, and various system development and testing to ensure the functionality of the Platform;
- (b) Category B: the hardware component, including the setting up and maintenance of both the production and backup data centres for the eMPF Cloud; and
- (c) Category C: the operation and service component, covering the design and operation of the operation sites including back-end administration offices and frontline service centres which provide on-site services to users.

9. The MPFA and the Company will continue to closely supervise the Contractor’s work, including the quality and timeliness of the project deliverables. The high-level timetable of the Project is set out below –

Stage	Target Completion
System development	End-2022
System testing	Q1 2023
System ready for onboarding by MPF schemes in sequence	April 2023
Completion of onboarding by all MPF schemes	2025

To take forward the above plan smoothly, control of time and quality is of utmost importance. In this regard, the Management Board of the MPFA and the BoD of the Company will continue to closely monitor the progress of the Project, identify any bottleneck issues and demand resolution as necessary in a prompt manner.

MAJOR ACTIVITIES IN THE COMING YEAR

10. 2022-23 marks a key stage of the Project. In addition to those activities in relation to Platform development mentioned above, the MPFA and the Company will take forward major activities as set out below in the coming year to tie in with the implementation of the eMPF Platform.

Close communication with stakeholders

11. Effective enhancement of user experience and promoting digital take-up of the eMPF Platform are the key success factors for the implementation of the Platform. To this end, the MPFA and the Company together with the Contractor have kicked off a stakeholder engagement exercise in December 2021 covering no less than 60 engagement sessions. The objective of the exercise is to collect opinions on the front-end portal design from users (i.e. employers, employees, and self-employed persons (“SEPs”)), and gauge the views from different major stakeholder groups of the MPF System including labour unions, business chambers, small and medium enterprises, SEPs and professional bodies, etc., with a view to ensuring that the design of the eMPF Platform can cater for the needs of different users. The engagement exercise will last until mid-2022. The MPFA will, as and when necessary, increase the number of engagement sessions. It will also review and adjust the mode and schedule of the engagement sessions taking into account the epidemic situation.

Development of MPF guidelines, Operating Rules and Subscription Agreements

12. Upon implementation of the eMPF Platform, trustees will continue to owe fiduciary duties towards their scheme members, yet with significantly reduced compliance burden on scheme administration work. Hence, the MPFA has commenced work to streamline its supervisory and regulatory framework as well as review its existing MPF guidelines. The MPFA will also issue revised guidelines and develop new guidelines, as appropriate, to provide guidance to the MPF sector and facilitate trustees’ smooth transition so as to support the operation of the eMPF Platform and implementation of relevant legal provisions.

13. On the other hand, the Company is drafting a set of Operating Rules to define the way the Company, as the system operator, is to operate the eMPF Platform, provide scheme administration services and facilitate trustees in discharging their scheme administration duties. The Company has started consultation with trustees on the draft skeleton of the Operating Rules, with the target to complete the preparation of the rules for review and approval by the MPFA as required by law by the end of 2022.

14. The Company and trustees will also sign Subscription Agreements as their mutual contracts, laying down the relevant scope of service, payment of fees, representations and warranties, intellectual property rights and other legal matters relating to the provision of scheme administration services by the Company to the trustees. The drafting work has commenced. It is expected that the Company will start signing Subscription Agreements with trustees from 2023 onwards.

Onboarding sequence of MPF schemes

15. The transition of all MPF schemes to the eMPF Platform will involve data migration of some 10 million MPF accounts under 27 schemes managed by 13 trustees using different scheme administration systems. Without affecting the day-to-day live administration of the MPF schemes, the technical complexity of such mega-scale data migration process must not be under-estimated. To ensure a smooth and seamless transition between the old and new systems, we need to determine well ahead the onboarding sequence of MPF schemes to the eMPF Platform and allow sufficient time for the planning and execution of the data migration process. The entire transitional period for all schemes would take around two years, targeted for commencement in April 2023 and completion in 2025.

16. At present, the 27 schemes under the MPF System have different sizes of asset-under-management (“AUM”) and entail varying degree of technical and operational risks in data migration. In general, schemes with smaller AUM would encounter relatively fewer technical challenges. In a bid to manage risks and ensure a smooth transition, MPF trustees and their schemes will get onboard to the eMPF Platform in ascending order of their AUM (i.e. the “default sequence”). Meanwhile, considering that the first batch of trustees getting onboard to the eMPF Platform (i.e. “early adopters”) need to bear additional technical and operational risks and costs, \$210 million have been set aside within the \$4.9 billion funding provision as approved by LegCo to support the handling of data cleansing and migration work by the early adopters who are willing to get onboard to the Platform early. After extending invitation to all trustees, the MPFA has accepted five applications from trustees to become early adopters. The five concerned MPF schemes elected by the early adopters will start migrating to the eMPF Platform from April 2023, in advance to those under the default

sequence.

17. Trustees are required under the law to put in place effective plans, procedures and systems for enabling and facilitating the implementation of the eMPF Platform. As regulator, the MPFA is responsible for supervising trustees' compliance with the relevant provisions. A trustee will be subject to financial penalty if it fails to comply with relevant requirements as stipulated in a written notice issued by the MPFA. Together with the Company and the Contractor, the MPFA will also assess the trustees' readiness for onboarding and monitor their execution of the onboarding plans. The Contractor will set up designated teams and deploy dedicated resources to devise individualized onboarding plan for each trustee and their schemes (particularly the early adopters) and provide necessary support.

Subsidiary legislation in relation to the eMPF Platform

18. The second-stage legislative amendments empowers the Secretary to publish notices in the Gazette for –

- (a) designating an electronic system administered and operated by the Company (i.e. 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 of fees on constituent funds of MPF schemes.

The notices will be subsidiary legislation subject to the negative vetting procedure of the LegCo.

19. As mentioned above, the Contractor will devise data migration and transition plan with each trustee, including the specific date on which the relevant MPF scheme is expected to get onboard to the eMPF Platform. To tie in with the transitional arrangement, we plan to prepare the notices by batches. The first batch of notices are targeted for publication in the Gazette and tabling before the LegCo in early part of Q1 2023. We will brief the Panel on the preparation of relevant subsidiary legislation in Q3/ Q4 this year.

NEXT STEPS

20. Our working target is to complete the development of the eMPF Platform by end-2022 at the earliest to enable sequential and orderly onboarding of MPF trustees and their schemes to the Platform starting from around April 2023, thereby making the eMPF Platform fully functional in 2025. The MPFA and the Company will continue to engage with relevant stakeholders and closely monitor the work of the Contractor to ensure quality and timely completion of the Project, with a view to bringing early fee reduction to scheme members.

Financial Services and the Treasury Bureau
March 2022