



MESSAGE FROM THE CHAIRMAN

According to an authoritative study of the old age crisis conducted by the World Bank, there are two principal objectives in the design of retirement protection systems, namely, protection of the aged and promotion of economic growth. The protection of the aged is best achieved by adopting a three-pillar approach. The first pillar is a mandatory, privately managed, fully funded contribution scheme; the second, a publicly managed social security net financed from the public purse; and the third, voluntary personal savings and insurance. The second and third pillars have been in place in Hong Kong for many years. With the implementation of the Mandatory Provident Fund (MPF) System, Hong Kong will have erected the first and most important pillar supporting the protection of the aged.

After many years of debate, Hong Kong eventually decided to adopt the MPF System as the first of the three “pillars” of our retirement protection system. The Mandatory Provident Fund Schemes Authority (MPFA) was established in September 1998 to plan, implement, supervise and regulate the operation of the System.

This annual report records the work of the MPFA in the first two years of operation. The period covered is in itself an important chapter in the development of the retirement protection system in Hong Kong.

It is fitting for me, in this very first report of the MPFA, to say a few words on the achievements of the MPFA up to the end of March 2000, as well as indicate the tasks lying ahead.

Prior to the establishment of the MPFA, preparatory work for the introduction of the MPF System had already commenced under the Mandatory Provident Fund Office. The Office was disbanded and its functions were fully taken over by the MPFA on 1 April 1999. The onslaught of the Asian financial turmoil had not affected the pace of work on MPF because of the urgent need for a retirement protection system in Hong Kong to alleviate the anticipated burden on our future generations in the face of a rapidly aging population.

The MPF System, apart from its retirement protection functions, will have a **positive and stimulating impact** on Hong Kong’s long term economic growth.

The MPF System, apart from its retirement protection functions, will have a positive and stimulating impact on Hong Kong’s long term economic growth. In its first full year of operation, contributions to MPF schemes will amount to more than \$10 billion, rising to about \$60 billion annually after 30 years. By then, the accumulated assets of MPF schemes will total almost \$1 trillion. This huge pool of funds will give a significant impetus to the financial services industry. The development of a pensions market will be conducive to maintaining our status as a leading regional and international financial centre.

In more specific terms, the development of our bond market will be strengthened because of the anticipated increase in the number of transactions and in the demand for quality rated bonds, resulting in more

issues and higher market liquidity. The MPF funds will also create a significant pool of capital, which will enable new companies to raise capital through equity listings. The relationship between service providers and scheme members will provide an opportunity for the marketing of other financial products. As scheme members retire and receive their provident fund benefits, new investment opportunities will be generated by their desire for ensuring that their newly acquired assets can provide sufficient income over their lifetime. These potential spin-offs of the MPF System will bring further benefits to the financial services industry - in the establishment of new businesses and the creation of new jobs.

By 31 March 2000, the MPFA had been in operation for over 18 months. It has accomplished a large number of targets in its work programme. The first batch of corporate trustees and MPF master trust schemes, which form the core part of the MPF System, were approved. Twenty-eight thousand MPF intermediaries were also registered. In addition, 37 guidelines or codes were issued to service providers to facilitate their compliance with the various legislative requirements. In order to minimize the interference with existing, voluntarily established occupational retirement schemes, interface arrangements between such schemes and the MPF System were worked out, and applications for MPF exemption commenced on 3 January 2000. A public education and publicity campaign was launched to set the stage for the official start of the MPF System in December 2000. All these are but some of the activities that marked our eventful year. Fuller details are set out in this report.

To perform the various regulatory functions effectively, our organization needs to be staffed with dedicated, professionally qualified and competent personnel. It is also necessary to put in place efficient administrative and financial control systems. I am pleased to report that by the end of March 2000, the MPFA had successfully appointed nearly 200 staff or about two thirds of its approved establishment.

During the past 18 months, the MPFA had been working closely with the industry and resolved many technical issues so as to ensure a successful start. The service providers, on their part, have been actively gearing up for the launch of the MPF System. The MPFA will continue the partnership forged with the industry to respond to the many technical and business issues that may likely arise in the early years of the MPF System.

As we move into the third year, the MPFA will need to consolidate its work in providing Hong Kong people with a protected future. Public education campaigns on different facets of the MPF will intensify, reaching a peak towards the end of the year when contributions to MPF schemes are due to commence, in order to reinforce awareness and foster a positive attitude towards the MPF System.

Our achievements are the results of the dedicated work of all members of the Management Board of the MPFA, the MPF Schemes Advisory Committee and the several committees under the MPFA, as well as the staff of the executive departments. They have been highly dedicated and committed to a worthwhile cause. It has been a privilege for me to have worked with them, and I should like to place on record my deep appreciation for their valuable contributions to the community of Hong Kong.

These potential spin-offs of the MPF System will bring **further benefits** to the financial services industry - in the **establishment** of new businesses and the **creation** of new jobs.

As we move into the third year, the MPFA will need to consolidate its work in providing Hong Kong people with a **protected future**.

Charles Lee Yeh-kwong
Chairman