

THIS IS THE THIRD Annual Report of the Mandatory Provident Fund Schemes Authority (MPFA), covering the period from 1 April 2001 to 31 March 2002. The 2001-02 financial year marked the first full year of operation of the MPF System, paralleled by a shift in the MPFA's work focus from preparation for launching the MPF System to consolidating its functions. In reflection of this shift, the MPFA at the beginning of the year set out the objectives of:

Chairman's Statement

- A. Consolidating the work and the organization of MPFA;
- B. Enhancing the MPFA's regulatory and enforcement abilities with an emphasis on MPF investment products and investment education; and
- C. Increasing productivity, thereby enhancing operational efficiency and containing costs.

This report records the course we took in achieving these objectives, as given in more detail in the Managing Director's report and further elaborated in subsequent chapters.

Last year, we set the target of achieving an enrolment rate of at least 88% to 90% of the employers by the end of this financial year 2001-02. I am proud to say that this target has been achieved, and with a generous margin. As at 31 March 2002, sixteen months after the MPF System was implemented, 92% of the employers and 96% of relevant employees have joined MPF schemes. That means, about 210 000 employers, 1 727 000 employees and 300 000 self-employed persons are now MPF participants. When we include those members of Hong Kong's workforce who have joined other retirement schemes, 86% of the working population are now covered by some form of retirement protection. This is a remarkable achievement within so short a period, given that only one-third



of the workforce was covered by retirement protection schemes before the MPF's launch. In fact, this is an unprecedented success by world standards. Comparable schemes in many developed countries came nowhere near ours in terms of compliance rate during their first year of operation.

As far as MPF assets are concerned, total net asset value of MPF is increasing by \$2 billion every month. Counting the assets transferred from ORSO

schemes, the net asset value of MPF amounted to a total of \$42 billion as at end of March 2002. MPF is recognized by many to be an important contributing factor to the recent rapid growth of the retail fund sector. As at the end of the financial year, there were 20 trustees, 311 constituent funds,

220 approved pooled investment funds and over 28 000 registered MPF intermediaries in the MPF industry. It is estimated that MPF accrued assets would grow to about \$1,000 billion in 30 years and the annual contribution by then would amount to about \$60 billion. In this context, MPF is also considered an important force in sustaining the HKSAR as a leading centre for the fund management industry.

After the MPF System's first full year of operation, the MPFA is entering another phase with different challenges. We will reinforce our efforts in safeguarding scheme members' interests and refining the MPF System. Partly due to our education and publicity efforts on investments and partly due to the marketing initiatives of the MPF trustees, together with low interest rates, there has been a rise in the public knowledge of investment products, and a growing appetite for them. This development underscores the need for quality investment products. It is therefore vital that the regulation of MPF funds must provide the necessary quality assurance. The MPFA has started to examine the need and measures for further enhancement and development of a regulatory framework for MPF related investment funds: a framework that represents a good balance between investors' protection and free market initiatives. The eventual development and implementation of this programme, which will put even greater emphasis on disclosure and transparency, together with the necessary legislative enactment, will be a principal preoccupation of the Authority in the next few years.

With the groundwork laid down in the previous years and having regard to the anticipated operating environment for the coming year, the MPFA will develop its activities in several directions. There will be re-adjustment of work focus in areas such as MPF supervision and human resources management. The former will move from a broad-based and auditing approach to focus more on potential risk areas while the latter will put even greater emphasis on performance management. At the same time, we will aim to strengthen existing capabilities in the areas of investment regulation and provision of management information systems. We will strive to sustain our enforcement efforts because it is important that the credibility and integrity of the MPF System be upheld. Publicity activities will be less intensive after the initial drive to launch a brand new programme. However, MPF education for the general public, especially at the grass-roots level, as well as for the younger generation will be sustained.

According to figures recently published by the Census and Statistics Department, Hong Kong's population is projected to reach 8.72 million in 2031. In the projection, the proportion of people aged 65 and above will rise markedly from the current 11 per cent to 24 per cent in 30 years. The overall dependency ratio will rise from 382 to 562 per thousand; which means in 30 years' time the proportion will be 1.8 workers to one dependant, compared to the current situation of 2.62 workers to one dependant. With the population rapidly aging, ensuring that the elderly are adequately provided for is of paramount importance. The launch of a mandatory programme of retirement protection helps the workforce save for their retirement and helps ease the burden on future generations.

We are glad that at last we have embarked on the mission of ensuring the provision of retirement protection for Hong Kong's workforce in the years ahead.

The success of our past year's work owes much to the active participation and ardent support of the MPF industry participants who, with their talents, flexibility and perseverance, have helped iron out many of the initial operational problems associated with the launch of a new system. The cooperation of employers in enrolling their employees into MPF schemes, making contributions for them and handling the requisite administrative work, and the support of employees in making MPF contributions, are crucial in bringing about a most encouraging participation rate. The leaders of the community, including political parties, unions, chambers of commerce, District Councils, district organizations and various professional groups, have lent their generous support during the year, providing valuable input at various stages of MPF's implementation. It has been indeed a manifestation of social coherence, in that almost every individual is taking part in this mega social programme with a shared long-term objective for the common good.

Having witnessed MPFA's achievements in such a short time, I must also pay tribute to the dedication and contribution of my fellow Management Board Members, many of whom are also chairmen or members of various committees under the Management Board. The Guidelines Committee made meticulous efforts in helping MPFA lay out the guidelines and codes to facilitate compliance with the legislation. The Information Management System Committee, through the relentless efforts of its members, has seen the successful implementation of all phases of the Information Management System, which provides the essential data processing support for MPFA's operation. Having accomplished its mission, the Committee was dissolved at the end of this financial year. I would like to take this opportunity to put on record my deep appreciation for their hard work in the past years.

The invaluable advice of the MPF Schemes Advisory Committee as well as the MPF Industry Schemes Committee during the year has been indispensable, particularly in regard to the proposals made to enhance and improve on the operational efficiency and effectiveness of the MPF System.

Last but not the least, I wish to thank the management and staff for their continuous commitment and zealous drive towards greater heights of achievement after the MPF launch.

The successful start of the MPF System has been a highlight in my years of voluntary public service. In closing this statement, I wish to say that it has given me great pride and satisfaction in witnessing the growth and development of the MPFA as a prudent regulator, taking on a task that has no ready reference anywhere.



CHARLES LEE YEH-KWONG
Chairman