



MRS DIANA CHAN
MANAGING DIRECTOR

In 2012–13, the Mandatory Provident Fund Schemes Authority (“MPFA”) continued to exercise its statutory authority to monitor the operations of Mandatory Provident Fund (“MPF”) service providers, enforce the law against non-compliance, educate the public on the MPF System and MPF investment, and network and communicate with different sectors of the community on MPF issues. At the same time, major efforts were spent on refining the MPF System. As at the end of the financial year, some of the work had been completed with significant changes brought to the MPF System and others were progressing in full speed.

MANAGING DIRECTOR'S REPORT

THE YEAR IN REVIEW

Reviews and Studies and Legislative Programmes

The Employee Choice Arrangement ("ECA"), or known as "MPF semi-portability", came into force on 1 November 2012, setting down a significant milestone in the development of the MPF System. ECA gives employees greater autonomy in managing part of their MPF investments. To cope with the intensified selling activities following ECA, better protection of scheme members against mis-selling was effected by putting in place a statutory regulatory regime for MPF intermediaries, giving a legal backing to an administrative regulatory regime adopted since the inception of the MPF System. The statutory regime became effective on the same day as ECA.

Some of the reviews and studies we conducted in previous years with an aim of refining the MPF System came to fruition upon the conclusion of the relevant legislative programmes in 2012–13. First, two new enforcement-related provisions to enhance the deterrent effect against non-compliance came into operation, making employers' failure to pay mandatory contributions a continuous offence, and making employers' failure to pay any sum payable under tribunal or court awards a criminal offence. Second, a mechanism was put in place for the Compensation Fund, under which the resumption and suspension of the Compensation Fund levy of 0.03% of scheme assets will be triggered at the minimum and maximum reserve levels of \$1 billion and \$1.4 billion respectively. Given that the balance of the Compensation Fund has exceeded the maximum level¹, the suspension of the levy has been triggered under the mechanism. This reduces scheme expenses, thus having a corresponding positive impact on the net asset value of members' accounts. Third, the monthly maximum relevant income ("RI") level for MPF contribution purposes was adjusted from \$20,000 to \$25,000 with effect from 1 June 2012 on the recommendation of a previous review conducted in 2010². This was the first adjustment to the maximum RI level since the inception of the MPF System, helping the relevant scheme members to save more for retirement.

Legislative exercises arising from other reviews and studies completed earlier are in progress. These included proposals related to the introduction of an additional ground for early withdrawal and allowing phased withdrawal of accrued MPF benefits, simplifying the contribution calculation methods in respect of casual employees who are members of Industry Schemes, increasing the minimum RI level having regard to a new Statutory Minimum Wage rate³, and taking forward the second-phase adjustment of the maximum RI level recommended in the last review. In addition, we are in the course of reviewing the statutory adjustment mechanism for the minimum and maximum RI levels.

As part of our continuous efforts to facilitate better disclosure of MPF information, we have enhanced a web-based calculator for projecting MPF accrued benefits, launched a Trustee Service Comparative Platform, and enhanced access to past fund performance data on our website. We have also modified the Fee Comparative Platform to facilitate easy identification of low-fee funds.

Supervising the Industry

We gave guidance to trustees to facilitate a smooth transition for the changes introduced to the MPF System in the year. Trustees' handling of MPF contributions was closely monitored in the initial period after the new maximum RI level took effect. For the launch of ECA, we issued relevant MPF Guidelines and supervised trustees' preparatory work. We have established a formal communication channel with each trustee to continue monitoring ECA-related issues. In preparing the statutory regulatory regime for MPF intermediaries, we enhanced the training of MPF intermediaries and issued several sets of guidelines, including the MPF Guidelines on Conduct Requirements for Registered Intermediaries, to provide the industry with guidance in respect of the minimum standards of conduct expected of MPF intermediaries. Registration of MPF intermediaries will undergo a two-year transition period. We continue to monitor market activities, share intelligence and keep a close dialogue with the frontline regulators of MPF intermediaries and are providing assistance and support to some 32 000 intermediaries in this transition up to 31 October 2014.

1 As at 31 March 2012, the balance of the Compensation Fund was \$1.64 billion.

2 In the same review, an adjustment to the minimum RI level was also suggested. With the passage of proposed legislative amendments, the monthly minimum RI level was adjusted with effect from 1 November 2011.

3 Announced in December 2012 and took effect from 1 May 2013.

MANAGING DIRECTOR'S REPORT (CONTINUED)

Over the years, we have been looking into ways to reduce the costs of the MPF System, thus facilitating fee reduction. In this connection, we engaged an independent consultant in late 2011 to analyse the scheme administration costs of the MPF System and suggest how to better achieve simplicity and cost reduction ("Cost Study"). Taking into account the results of the Cost Study, which were released in late 2012, we have pressed ahead with the implementation of short-term measures within the existing legislative framework, with a view to creating more room for fee reduction. A task force formed with the industry immediately set out to work on a programme to standardize, simplify and automate administrative processes. By the end of March 2013, we have agreed on the priority items to be pursued. Trustees have responded positively to our request to provide at least one low-fee fund investing in equities and bonds in each MPF scheme, and some low-fee funds are expected to be launched in 2013–14. Guided by a set of criteria provided by MPFA, trustees have identified some small-scale or less efficient schemes and funds for termination or amalgamation. Meanwhile, we have started a project to encourage multiple personal account holders to consolidate their accounts.

Member Protection

Ensuring that the contributions of members are properly remitted by employers and self-employed persons remains a key focus of MPFA. In 2012–13, we recovered on behalf of employees over \$120 million in default MPF contributions through the courts, or by persuading and counselling the employers concerned. We also continued to enhance the compliance of self-employed persons through proactive inspections and following up cases of non-compliance. Scheme members who make false declarations in order to withdraw MPF benefits on grounds of permanent departure from Hong Kong are another focus of our enforcement efforts. In March 2013, for the first time, a scheme member was given a suspended jail sentence instead of a fine as in past cases for making false or misleading statements to MPF trustees in order to withdraw MPF benefits before retirement. This enhances the deterrent effects on non-compliance.

We believe that our effective enforcement measures and heightened awareness of employers' MPF obligations brought about by our publicity and education efforts have contributed to the reduction of complaints received against MPF non-compliance, from 8 000 to 10 000 per year before 2007–08 to below 5 000 since 2010–11.

Public Education and Publicity

MPF is an integral part of our workforce's savings for retirement. It is imperative that scheme members take care of their MPF investments and possess the know-how to do so. Particularly in view of the launch of ECA, we carried out renewed programmes during the year to educate scheme members about the MPF System, MPF investment and how to manage their MPF accounts. Various messages were disseminated to a broad spectrum of the community, including all levels of students and their parents and teachers, as well as specific target groups such as the catering and construction industries and ethnic minorities.

At the same time, we carried out widespread publicity on MPFA's new initiatives, the roles and functions of the MPF System and MPFA, and developments of the MPF System, including the adjustment to the maximum RI level, the results of the Cost Study and proposed directions to reform the MPF System. Massive publicity was carried out to educate both scheme members and the public on ECA and the statutory regulatory regime for MPF intermediaries before and after their launch on 1 November 2012.

Staff and the Organization

Our corporate social responsibility is reflected in our vigilance in protecting the environment, visible care for the community, and keenness to promote the well-being of our staff. During the year, we continued to earn various recognitions for our efforts in these aspects, including the Caring Organization logo for the eighth consecutive year and the Wastewiſe Environmental Label for the third consecutive year. We were also honoured with the "Manpower Developer" status by the Employees Retraining Board in recognition of our efforts in staff training and development.

Two members of our staff won the Ombudsman's Awards 2012 for their exemplary service to the public. This is the tenth consecutive year that the award has been conferred on MPFA staff members. Internally, staff members who exemplify our core values are recognized through our annual corporate staff recognition programme. Through the operation of the MPFA Volunteer Team, our staff have been encouraged to render volunteer services to extend their care towards the community.

LOOKING FORWARD

There are growing expectations from the public for more fundamental changes to the MPF System. In pursuit of the reform objectives as expounded by the Chairman in her statement, we have put forward to the Government long-term reform approaches in the light of the Cost Study, and laid down relevant work plans in response to the Government's directions in the 2013 Policy Address and the 2013–14 Budget. Building on the work that has started in 2012–13, it is expected that further progress will be made in the coming years, bringing about substantial developments in the MPF System.

In the coming year, we will continue to take forward the short-term measures to simplify and enhance the efficiency of the MPF System. Specifically, we will further facilitate the standardization, simplification and automation of operational processes and launch a publicity campaign on the consolidation of personal accounts. At the same time, we will follow through the legislative programmes that are already in the pipeline, such as proposals to adjust the minimum and maximum RI levels, and carry on with the reviews started in 2012–13, such as the review of the statutory adjustment mechanism for the minimum and maximum RI levels. We will also further improve the disclosure and presentation of MPF fund information, including fees and performance.

On long-term reforms, we will continue the work to develop proposals on rationalization of the types and numbers of MPF funds and controlling fees of MPF funds and on providing a type of simple choice, low-fee default fund arrangement, bearing in mind the Government's aim to conduct a public consultation on the relevant proposals within 2013. We believe that in the long run, it will be in MPF scheme members' best interest if "MPF semi-portability" could be expanded to "full portability" to also cover accrued benefits derived from employers' mandatory contributions. We have been studying the necessary supporting measures for the implementation of full portability and will complete mapping out the implementation plans before 2016.

In introducing any changes, we will always be mindful of the need for balance and consensus. The eventual outcome might well be an amalgam of the different approaches that would be acceptable by the community as a whole and could best address the issues and concerns. We welcome comments from different sectors and will continue to work under the Government's directions for reforms.

VOTE OF THANKS

I am deeply indebted to the Chairman, other members of the Management Board, as well as members of the supporting committees for their leadership in shaping the development of the MPF System and MPFA, their contribution of ideas and sound advice in mapping out the reform direction, and their staunch support for the work of the executives. Special thanks are due to the members of various working groups who have devoted much time and effort to working out the details of reform proposals. I am immensely grateful to the chairmen of these working groups, including Mr Rimsky Yuen of the Working Group on Review of Withdrawal of MPF Benefits, Ms Anna Wu of the Working Group on MPF Reform Issues, Mr John Poon of the Project Steering Committee on Consultancy Study on MPF Trustees' Administration Costs, and Mr Philip Tsai of the Working Group on Review of Adjustment Mechanism for Minimum and Maximum Levels of Relevant Income. My sincere appreciation also goes to the chairmen and members of the MPF Schemes Advisory Committee and Industry Schemes Committee, who have rendered us valuable advice and support.

Last but not least, I must express my deep appreciation for the professionalism, dedication and commitment of all my colleagues at MPFA. Without their enthusiasm and hard work, we would not have been able to achieve these results in 2012–13.



Diana Chan Tong Chee-ching
Managing Director