

**For discussion
on 18 March 2024**

Legislative Council Panel on Financial Affairs

**Mandatory Provident Fund Schemes Authority
Budget for Financial Year 2024-25 and
Latest Development of the eMPF Platform**

PURPOSE

This paper highlights the main features of the Proposed Budget of the Mandatory Provident Fund Schemes Authority (“MPFA”) for the financial year (“FY”) 2024-25, and provides updates on development of the eMPF Platform.

BACKGROUND

2. The MPFA is established under the Mandatory Provident Fund Schemes Ordinance (Cap. 485) (“MPFSO”) to regulate, supervise and monitor the operation of the Mandatory Provident Fund (“MPF”) System.

3. Section 6J of the MPFSO requires the MPFA to prepare, before the end of each FY, a corporate plan for the next FY, which should include a budget of estimated expenditure for achieving the corporate objectives. The draft corporate plan, together with the budget of estimated expenditure, must be submitted to the Financial Secretary for approval.

KEY CORPORATE ACTIVITIES IN FY2024-25

Implementation and Operation of the eMPF Platform

4. As an important reform with aims to standardise, streamline and automate existing MPF scheme administration processes for the benefit of around 4.7 million scheme members, 360 000 employers and the MPF industry, the eMPF Platform remains the top priority of the MPFA.

5. In FY2024-25, the MPFA will continue to monitor the work of the eMPF Platform Company Limited (“eMPF Company”) in implementing the eMPF Platform and supervising MPF trustees’ onboarding process. With the

planned launch of the eMPF Platform, the MPFA will exercise regulatory oversight on the final preparations for launch of the Platform, operation of the Platform, enhance stakeholders' awareness of this new centralised electronic MPF administration hub and the benefits it will bring, and embed relevant messages on the eMPF Platform in recurrent member education programmes.

6. Details about the latest development of the eMPF Platform are set out in the paper at **Annex I**.

Investment Return of the MPF System

7. In 2023, MPF recorded positive investment returns with an overall year-on-year return of 3.4%. All six MPF fund types, including equity funds, mixed assets funds, bond funds, guaranteed funds, MPF conservative funds and money market funds (other than MPF conservative funds), have posted positive returns. The core accumulation funds under default investment strategy even recorded an average year-on-year return of 14.3%. As of end-December 2023, total MPF assets amounted to around \$1,141 billion, within which about \$252 billion was investment returns net of fees and charges. The net annualised internal rate of return of the MPF System since its inception is 2.5%, higher than the inflation rate of 1.8% over the same period.

8. The MPFA will further review and refine the MPF System with a view to creating better retirement outcomes for scheme members. Initiatives include facilitating priority investment by MPF funds in infrastructure bonds to be issued by the Government, continuing to work with the Hong Kong Monetary Authority on the study on MPF funds that offer stable returns at low fees, and formulating proposals to refine current restrictions on MPF investments.

Regulation and Supervision of the MPF Industry

9. In respect of supervision of the MPF industry, the MPFA will maintain ongoing dialogue with MPF trustees with the aim of further driving down the fees of MPF funds, identify good governance practices from MPF trustees' reports submitted to the MPFA for sharing with the industry, develop disclosure requirements for environmental, social and governance-themed constituent funds, and raise the standards amongst trustees and intermediaries. Upon the launch of the eMPF Platform, the MPFA will also monitor the implementation of the amended MPFSO in respect of the mechanism to ensure a straight pass-on of cost savings to scheme members.

FY2024-25 PROPOSED BUDGET

10. A summary of the MPFA's Proposed Budget for FY2024-25 is shown below, with details at [Annex II](#).

(HK\$ million ("M"))	FY2023-24 Approved Budget	FY2023-24 Revised Estimates	FY2024-25 Proposed Budget	Increase/(decrease) from FY2023-24 Approved Budget		Increase/(decrease) from FY2023-24 Revised Estimates	
				\$	%	\$	%
Income	440.07	456.25	496.92	56.85	12.9%	40.67	8.9%
Operating Expenditure	607.62	585.65	613.73	6.11	1.0%	28.08	4.8%
Deficit	(167.55)	(129.40)	(116.81)	(50.74)	(30.3%)	(12.59)	(9.7%)
Balance of Capital Grant	1,910.72	2,117.03	2,000.22	89.50	4.7%	(116.81)	(5.5%)
Capital Expenditure	20.00	20.00	24.60	4.60	23.0%	4.60	23.0%
Total Expenditure	627.62	605.65	638.33	10.71	1.7%	32.68	5.4%
Operating Expenditure¹	586.80	564.80	580.69	(6.11)	(1.0%)	15.89	2.8%

11. In preparing the Proposed Budget for FY2024-25, the MPFA has followed the Government's plan for fiscal discipline² by maintaining zero growth in manpower and trimming 1% operating expenditure from the Approved Budget for FY2023-24. The estimated total operating expenditure (excluding costs to be recouped from the eMPF Company) is expected to be \$580.69M for FY2024-25, which is 1% lower than that of the Approved Budget for FY2023-24 (\$586.80M).

12. For FY2024-25, there will be a projected **operating deficit of \$116.81M**, showing a slightly improved financial position of the MPFA *vis-à-vis* the deficit situation (\$129.40M) under the Revised Estimates for FY2023-24.

¹ Excluding the costs to be recouped from the eMPF Company.

² The Government has taken measures to control its expenditure, including maintaining the target of zero growth in the civil service establishment and requiring all policy bureaux and departments to trim recurrent expenditure by 1% in FY2024-25.

Income

13. In 1998, the Government provided the MPFA with a Capital Grant of \$5 billion for meeting its set-up and operating costs before it could operate on a self-financing basis and recover its costs from the collection of statutory and other fees, including the annual registration fee (“ARF”)³ on MPF registered schemes payable by MPF trustees, and fees from MPF intermediaries and registered schemes under the Occupational Retirement Schemes Ordinance (Cap. 426) (“ORSO schemes”). The other major source of income is investment income from the Capital Grant. As at the end of FY2023-24, the balance of Capital Grant is estimated to be \$2.12 billion.

14. The estimated total income for FY2024-25 is about **\$496.92M**, which is \$40.67M or 8.9% higher than the Revised Estimates for FY2023-24 (\$456.25M). Major sources of income are –

- (a) ARF (\$345.10M)⁴;
- (b) investment income (\$66.75M);
- (c) interest income on bank deposits (\$32.16M); and
- (d) fee income from MPF intermediaries, ORSO schemes and financial penalties (\$18.64M).

15. The increase is primarily attributed to the forecast increase in ARF income (+\$16.93M / +5.2%) because of a larger size of assets under management, higher estimated investment income (+\$10.90M / +19.5%), as well as more interest income on bank deposits (+\$1.00M / +3.2%).

Operating Expenditure

16. The estimated operating expenditure for FY2024-25 is **\$613.73M**, which is \$28.08M or 4.8% higher than the Revised Estimates for FY2023-24 (\$585.65M). The estimated expenditure comprises the following key items –

³ In relation to the registered MPF schemes, the MPFA did not collect ARF from the inception of MPF System until October 2020 when the MPFA started collecting ARF at a rate of 0.03% per annum on the net asset value (“NAV”) of registered MPF schemes. The 0.03% rate is applicable for the first six years and will be subject to review from the seventh year with a view to achieving full-cost recovery for the MPFA.

⁴ An assessment of ARF income against the cost which should be recovered by ARF is at **Annex III**.

- (a) **Personal Emoluments (“PE”)** – the estimated PE costs for FY2024-25 is \$422.99M, which is \$17.05M or 4.2% more than that of the Revised Estimates for FY2023-24 (\$405.94M). While there will be a headcount freeze in FY2024-25 as compared with the FY2023-24 Revised Estimates⁵, the increase in PE costs covers the full-year effect of staff costs for new recruits hired during the course of FY2023-24 and a budgetary provision for salary adjustment⁶;
- (b) **Office Accommodation Expenses** – the estimated expenditure for FY2024-25 is \$50.97M, which is \$9.06M or 21.6% more than the Revised Estimates for FY2023-24 (\$41.91M). The provision caters for rents, management fees and electricity expenses for MPFA offices. The increase is mainly attributed to the end of some concessions for rent and management fees applicable to certain periods in FY2023-24 offered by the landlord of the new office premises. Notwithstanding the increase in FY2024-25, the overall rent of the new office premises is still some 28% lower than that of the previous office premises after office consolidation;
- (c) **Member Education and Engagement** – the provision is mainly for ongoing programmes on MPF messages and education. The estimated expenditure for FY2024-25 is \$14.06M, which is \$1.27M or 9.9% more than the Revised Estimates for FY2023-24 (\$12.79M). The increase is mainly due to stepped-up efforts in promoting the MPF System upon the launch of the eMPF Platform
- (d) **Information System-Related Expenses** – the provision is primarily for maintenance of business operation systems and security equipment, investment information service charges and data communication line charges. The estimated expenditure for FY2024-25 is \$19.10M, which is \$2.56M or 15.5% more than the Revised Estimates for FY2023-24 (\$16.54M). The increase is mainly due to the maintenance of more business operation systems and security equipment, and the acquisition of security equipment and software for new cyber security controls;
- (e) **One-off Projects** – the provision is mainly for costs for project-based personnel and non-recurrent projects. The estimated

⁵ MPFA has proposed to revise the original budgeted regular positions from 590 to 593 in the Revised Estimates for FY2023-24.

⁶ A provisional increment of 3.9% for non-directorate staff has been proposed, subject to the Financial Secretary’s approval.

expenditure for FY2024-25 is \$10.18M, which is \$0.24M or 2.3% less than the Revised Estimates for FY2023-24 (\$10.42M). The reduction is mainly due to the completion of certain one-off projects in FY2023-24; and

- (f) **Depreciation and Amortisation** – the estimated expenditure for FY2024-25 is relatively stable at \$39.93M, which is \$0.27M or 0.7% less than the Revised Estimates for FY2023-24 (\$40.20M).

Capital Expenditure

17. The total estimated capital expenditure for FY2024-25 is about **\$24.60M**, which is \$4.60M or 23% more than the Revised Estimates for FY2023-24 (\$20M), mainly due to the increase in information system capital expenditure as a result of more system application enhancement and development projects, netted off by a decrease in expenditure for leasehold improvement, office equipment and furniture.

Capital and Reserve

18. In FY2024-25, the MPFA estimates an **operating deficit of \$116.81M**. The shortfall in operating expenditure will be met by the balance of the Capital Grant, which will be reduced from \$2.12 billion to \$2 billion by the end of March 2025. To ensure long-term financial sustainability, the MPFA will continue to exercise stringent control on its expenditure, and review the current rate of ARF at 0.03% of the NAV of registered MPF schemes in 2026 with a view to attaining full-cost recovery in the long term.

COMPARISON OF THE APPROVED BUDGET WITH THE REVISED ESTIMATES FOR FY2023-24

19. A comparison of the Approved Budget and Revised Estimates for FY2023-24 is as follows –

(HK\$ M)	FY2023-24 Approved Budget	FY2023-24 Revised Estimates	Increase/(decrease) from FY2023-24 Approved Budget	
			\$	%
Income	440.07	456.25	16.18	3.7%
Operating Expenditure	607.62	585.65	(21.97)	(3.6%)
Deficit	(167.55)	(129.40)	(38.15)	(22.8%)
Balance of Capital Grant	1,910.72	2,117.03	206.31	10.8%
Capital Expenditure	20.00	20.00	-	0%
Total Expenditure	627.62	605.65	(21.97)	(3.5%)

Income

20. The revised total income for FY2023-24 (**\$456.25M**) is \$16.18M or 3.7% more than the Approved Budget (\$440.07M), mainly due to a higher estimate of ARF income.

Operating Expenditure

21. The revised operating expenditure for FY2023-24 is **\$585.65M**, which is \$21.97M or 3.6% less than the Approved Budget (\$607.62M), mainly due to the following reasons –

- (a) decrease in PE costs of \$9.02M attributable to staff turnover, the time lag in filling vacancies and the lower-than-budgeted salary expenses for some replacements and new appointments, netted off by the increase attributable to a net increase in budgeted regular positions; and
- (b) decrease in depreciation and amortisation of \$12.50M primarily due to the lower-than-expected spending on capital expenditure in the last FY, specifically for the set-up costs of the new office and information systems.

Capital Expenditure

22. The revised capital expenditure for FY2023-24 is **\$20M** and remains the same as in the Approved Budget.

Capital and Reserve

23. The revised operating deficit for FY2023-24 is **\$129.40M**, which is \$38.15M or 22.8% less than the Approved Budget (\$167.55M), resulting in an increase in the projected balance of the Capital Grant from \$1.91 billion to \$2.12 billion by the end of March 2024.

THE GOVERNMENT'S VIEWS

24. We note that the financial position of the MPFA in FY2024-25 will improve due to a forecast increase in ARF and investment income, though there is a slight estimated increase in operating expenditure. Compared to the Revised Estimates for FY2023-24, the forecast operating deficit will decrease by around 10%, revealing that the financial situation of the MPFA continues to improve.

25. While we recognise the MPFA's efforts in imposing a self-initiated constraint on the size of operating expenditure and a freeze in headcount, in light of the current global economic challenges and MPFA's continued deficit position, we suggest the MPFA to continue exercising fiscal discipline, particularly by critically assessing the cost-effectiveness of its operational costs and implementing various transformation measures for ensuring its financial sustainability.

ADVICE SOUGHT

26. Members are invited to note the MPFA's Proposed Budget for FY2024-25.

**Financial Services Branch
Financial Services and the Treasury Bureau
March 2024**

Latest development of the eMPF Platform

PURPOSE

This paper sets out the latest development of the eMPF Platform, including the tentative onboarding schedule of Mandatory Provident Fund (“MPF”) trustees to the eMPF Platform and relevant gazettal arrangements, strategies to drive its digital uptake, and the initial eMPF Platform fee.

BACKGROUND

2. Currently, there are about 4.7 million MPF scheme members with around 11 million accounts scattered across 24 schemes administered by 12 trustees, with each trustee adopting different sets of software and hardware, operating procedures as well as data standards. The lack of a common and standardised administration platform makes it difficult for the MPF industry to drive cost reduction via economies of scale and imposes hurdles to the performance of certain scheme administration functions, for instance, consolidation of MPF accounts in schemes administered by different trustees.

3. Against the above backdrop, the eMPF Platform Company Limited (“the eMPF Company”), a wholly owned subsidiary of the Mandatory Provident Fund Schemes Authority (“MPFA”), has been tasked to design, build and operate the eMPF Platform as a common and integrated electronic platform to standardise, streamline and automate various MPF scheme administration work, with a view to enhancing operational efficiency, reducing administration costs and providing one-stop hassle-free user experience for scheme members and employers.

4. 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. At the same time, the Mandatory Provident Fund Schemes (Amendment) Ordinance 2021 (“the Amendment Ordinance 2021”) enacted by LegCo in October 2021 provides the necessary legal basis for the implementation of the eMPF Platform, and confers power on the Secretary for Financial Services and the Treasury to publish legal notices in the Gazette to put certain provisions of the Amendment Ordinance 2021 into operation when the eMPF Platform is ready for use in due course to facilitate the phased onboarding of MPF trustees / schemes.

LATEST DEVELOPMENT

5. Subsequent to the last update to the Panel on Financial Affairs on the latest progress of the eMPF Platform project in March 2023¹, MPFA and the eMPF Company have been making our best efforts to drive the delivery of a fully functional system by PCCW Solutions Limited (“the Contractor”) in accordance with its proposed recovery plan to minimise delay. Salient points of these efforts are summarised below –

- (a) Apart from closely overseeing and monitoring project progress, the management of MPFA and the eMPF Company held meeting and conference call several times a week with the senior management of the Contractor to drive project delivery and closely monitor project progress;
- (b) The eMPF Company’s technical lead and his team were stationed at the Contractor’s project office to monitor project progress and to give advice and steer onsite where necessary as well as participating in meetings with trustees to facilitate data migration preparation;
- (c) The Contractor was required to conduct various show-and-tell sessions² to walk through all developed system functions of the eMPF Platform to facilitate the eMPF Company’s verification of the robustness and quality of system functionalities as well as relevant operation control procedures;
- (d) Checkpoints were set by the eMPF Company to closely monitor the progress of the Contractor’s various key tasks in delivering a fully functional system;
- (e) MPFA seconded an expert group of over 15 staff to the eMPF Company for supporting the review of the Contractor’s project deliverables as well as monitoring the progress of its work; and
- (f) The matter was escalated to the personal attention of the Contractor’s Group Chairman for the Contractor’s immediate remedial actions.

¹ See LC Paper No. CB(1)205/2023(05).

² A show-and-tell session is an interactive activity for the Contractor to demonstrate the functionalities of the eMPF Platform including end-to-end business flow. It provides an opportunity for stakeholders to give feedback and validate the Contractor’s work to ensure that the Platform meets the requirements and standards.

6. Below is the latest project progress as at end-February 2024 –
- (a) **System development and individual functional testing**: Development of 23 functional modules (e.g. enrolment, employers’ contribution, fund switching, withdrawal, etc.) and testing of individual modules were completed by end-June 2023;
 - (b) **Overall testing of eMPF Platform**: A series of testing by both the Contractor and the eMPF Company on various fronts, including system integration, security, resilience, load, user acceptance, external integration, privacy, etc., were completed by end-February 2024 to ensure a robust, reliable, secure and user-friendly eMPF Platform;
 - (c) **Independent assessments by third-party auditors**: As per contractual requirement, an auditor was engaged by the Contractor in August 2023 to conduct an independent security risk assessment and audit as well as privacy impact assessment, both of which were completed by end-February 2024; in addition, the eMPF Company has engaged an independent consultant to conduct an external assessment on the eMPF Platform to provide additional and objective assurance on system readiness for the commencement of trustee onboarding. Final results from the independent assessment confirmed such readiness;
 - (d) **Data centres and services for project operation**: Major digital infrastructure enabling the eMPF Platform, including the data centres, has been operating smoothly since July 2022. The sites for call centres, service centres and administrative offices upon launch of the eMPF Platform are almost ready for use;
 - (e) **User group testing**: User group testing sessions comprising representatives from scheme members, employers, and frontline colleagues of trustees and MPFA are being conducted to gauge views on user interface and user experience for continuous system refinements; and
 - (f) **Stakeholders engagement exercise**: The second phase of stakeholders engagement exercise³ commenced in April 2023 to promote awareness and good understanding of the eMPF Platform, especially among the less

³ The first phase of the stakeholders engagement exercise was conducted from end-December 2021 to mid-July 2022 to gauge the views and comments of various stakeholders on user interface and user experience of the eMPF Platform.

tech-savvy grassroots, casual employees and small and micro businesses, for securing buy-in, thereby boosting its digital uptake.

7. Taking into account the latest project progress and final results from the independent consultant’s system readiness assessment, the latest assessment by MPFA and the eMPF Company is that the system is ready for commencement of trustee onboarding, and that phased onboarding of trustees to the Platform that is well tested against the criteria of robustness, reliability, quality and user-friendliness could commence in June 2024, with full implementation expected to be achieved in 2025.

ONBOARDING SCHEDULE

8. Meanwhile, MPFA and the eMPF Company have been working closely with individual trustees on their respective target onboarding dates. The latest tentative onboarding schedule of all 12 trustees, in ascending order of their assets-under-management (“AUM”) size for prudence sake, is as follows –

MPF trustee	Tentative onboarding
<i>Early adopters</i> ⁴	
1. YF Life Trustees Limited (“YF Life”)	June/July 2024
2. China Life Trustees Limited (“China Life”)	
3. Bank of Communications Trustee Limited	Q4 2024
4. Standard Chartered Trustee (Hong Kong) Limited	
5. Bank of East Asia (Trustees) Limited (“BEA”) – BEA (MPF) Value Scheme ⁵	

⁴ Early adopters refer to those trustees who have agreed to get onboard to the eMPF Platform at an early stage.

⁵ Of their three registered schemes, BEA has chosen BEA (MPF) Value Scheme to be an early adopter, with the other two schemes (i.e. BEA (MPF) Industry Scheme and BEA (MPF) Master Trust Scheme) getting onboard afterwards.

MPF trustee	Tentative onboarding
<i>Others</i>	
6. BEA – BEA (MPF) Industry Scheme and BEA (MPF) Master Trust Scheme	Q1/Q2 2025
7. Principal Trust Company (Asia) Limited	
8. BOCI-Prudential Trustee Limited	
9. Bank Consortium Trust Company Limited	
10. AIA Company (Trustee) Limited	Q2/Q3 2025
11. Sun Life Trustee Company Limited	
12. Manulife Provident Funds Trust Company Limited	Q3/Q4 2025
13. HSBC Provident Fund Trustee (Hong Kong) Limited	

9. To ensure timely and orderly data migration and onboarding, MPFA, the eMPF Company and the Contractor have been providing all necessary assistance to trustees, particularly the five early adopters, such as assigning designated case officers for each trustee, attending weekly meetings with individual trustees as well as convening industry-wide meetings concerning the eMPF Platform, etc.

GAZETTAL ARRANGEMENTS

10. To prepare for the launch of the eMPF Platform and phased onboarding of trustees, we have asked the Government to arrange the following legal notices to be published in the Gazette to –

- (a) designate the eMPF Platform to provide services and facilities to facilitate MPF trustees in performing their scheme administration functions and any other functions that may be specified in Schedule 12⁶

⁶ Schedule 12 to the Ordinance (i.e. supplementary functions of the eMPF Platform) is blank for the time being, which allows for flexibility such that the eMPF Platform may be conferred or assigned new functions which may not otherwise fall within the scope of “scheme administration function” as defined in section 2(1) of the Ordinance.

to the Mandatory Provident Fund Schemes Ordinance (“the Ordinance”) (Cap. 485) (**system designation notice**);

- (b) appoint a day for the relevant provisions of the Amendment Ordinance 2021⁷ to come into operation respectively (**commencement notice**);
- (c) specify a day for an MPF scheme as “material day” for the purposes of section 19M(2)(a) of the Ordinance relating to mandatory use of the eMPF Platform by MPF trustees (**mandatory use notice**); and
- (d) appoint a day as “material day” for the purposes of sections 19U(4), 19Y(3) and 19Z(4) of the Ordinance relating to cost savings and fee-setting of MPF schemes to be charged by MPF trustees on scheme members⁸ (**fee control notice**).

These aforementioned legal notices will be **subsidiary legislation subject to negative vetting** by LegCo.

11. To tie in with the phased onboarding schedule, different “material days” will be specified in legal notices for mandatory use of the eMPF Platform for different schemes, and for fee control purpose for constituent funds under the schemes. Mandatory use notices and fee control notices will be published in batches when the dates of respective onboarding of MPF trustees/schemes are ascertained having regard to the trustees’ onboarding preparation status, as well as the finalised meeting schedule of LegCo for the 2025 session.

12. Depending on the onboarding preparation progress of the first two early adopters (i.e. YF Life and China Life), the first batch of legal notices will be published in the Gazette in April 2024 to prepare for their onboarding in June/July 2024. Besides, provisions contained in section 1(3)(a) of the Amendment Ordinance 2021 shall come into operation on the same day as the onboarding of the first trustee.

⁷ These relevant provisions under section 1(3) of the Amendment Ordinance 2021 are technical amendments to reflect the streamlined workflow of MPF administration after the implementation of the eMPF Platform, covering different aspects such as registration and enrolment; contribution and default contribution recovery; transfer and withdrawal of accrued benefits of scheme members; giving notices and documents; supervision and investigation; maintenance of a register of members of registered schemes; matters related to register of members with unclaimed benefits; and other miscellaneous matters.

⁸ See paragraphs 15 and 16 of LC Paper No. CB(1)417/20-21(03) for details.

STRATEGIES TO DRIVE DIGITAL UPTAKE

13. The success of the eMPF Platform will largely depend on the digital uptake rate of employers and scheme members. It is the contractual requirement that the Contractor needs to achieve target digital uptake rate of 90% at the end of five years after commencement of the operation of the eMPF Platform.

14. To this end, with the support of MPFA and the eMPF Company, the Contractor has been devising a multi-channel marketing and publicity plan to promote the eMPF Platform and drive digital uptake, including –

Upon publication of the first batch of legal notices in the Gazette

- (a) **Announcement**: To officially announce the commencement of the phased onboarding of MPF trustees / schemes to the eMPF Platform. Suitable publicity initiatives will also be launched to provide a heads-up on the phased onboarding arrangement;
- (b) **Official website**: To roll out an official website of the eMPF Platform to facilitate communication by providing the public with up-to-date information pertinent to the eMPF Platform;
- (c) **User guides**: To publish practical and easy-to-understand step-by-step education user guides specifically designed for less tech-savvy employers/scheme members to facilitate their understanding of the different functions of the eMPF Platform;

Two to three months prior to onboarding of the first trustee / schemes

- (d) **Seminars, training and engagement sessions**: To arrange seminars for employers and scheme members to apprise them of the onboarding arrangement and relevant details, training programmes for MPF intermediaries and human resources practitioners, as well as engagement sessions for grassroots via labour unions, business chambers, district bodies, etc., with a particular focus on less tech-savvy frontline employees, casual workers and small and micro enterprises;
- (e) **Communication Packs**: To issue Communication Packs to employers and scheme members participating in the first onboarding MPF scheme to notify them of the onboarding date and relevant arrangements. For other MPF schemes, Communication Packs will also be issued around two to three months prior to their scheduled onboarding; and

- (f) **Marketing activities:** To leverage various online and offline media channels to promote the eMPF Platform. There will be continuous efforts in marketing throughout the onboarding period until full implementation.

INITIAL FEE AND FINANCIAL IMPLICATIONS

15. To maintain long-term financial sustainability of the public digital infrastructure, the eMPF Company will operate the eMPF Platform on a cost-recovery basis as a non-profit making entity, with the ultimate objectives to cut the average scheme administration fees and deliver early and material cost savings. The Amendment Ordinance 2021 has also empowered the eMPF Company to charge a fee for providing any service or facility in relation to the eMPF Platform.

16. The initial eMPF Platform fee to be paid by onboarded trustees will be set at 37 basis points (“bps”) of AUM under the MPF System during the onboarding phase, representing a roughly 36% reduction as compared to the reference level of average MPF administrative expenses charged by trustees (around 58 bps). The fee level will be reviewed by the Government annually alongside the eMPF Company’s budget to ensure that the objectives set out in paragraph 15 above could be achieved.

17. According to our latest estimate, the eMPF Platform fee is expected to further drop after the onboarding period, in a gradual and steady manner. It is anticipated to reach around 20 to 25 bps in ten years’ time after the launch of the eMPF Platform, with a view to achieving total cumulative cost savings of \$30 billion to \$40 billion for scheme members over the same period. Under the requirement of “straight pass-on” of cost savings and “corresponding fee reduction”⁹ as stipulated in the Amendment Ordinance 2021, scheme members will be able to enjoy substantial fee reduction soon after respective trustees of their MPF schemes get onboard.

⁹ 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.

WAY FORWARD

18. The eMPF Platform project will enter the final preparatory stage in the coming few months, and we will continue to spare no effort in working closely with the eMPF Company and the Contractor to ensure robustness, reliability, security and user-friendliness of the eMPF Platform, smooth onboarding of the first two early adopters in June/July 2024 and full implementation of the Platform in 2025.

Mandatory Provident Fund Schemes Authority
March 2024

Mandatory Provident Fund Schemes Authority
Estimates of Income and Expenditure for FY2024-25

HK\$ million	FY2023-24	FY2023-24	FY2024-25	Increase / (decrease)		Increase / (decrease)		Reference to Explanatory Notes
	Approved Budget	Revised Estimates	Proposed Budget	from FY2023-24 Revised Estimates	%	from FY2023-24 Approved Budget	%	
	(a)	(b)	(c)	(d) = (c) - (b)	%	(e) = (c) - (a)	%	
INCOME								
Annual Registration Fee	300.96	328.17	345.10	16.93	5.2%	44.14	14.7%	1
Interest Income on Bank Deposits	41.08	31.16	32.16	1.00	3.2%	(8.92)	(21.7%)	2
Investment Income	55.85	55.85	66.75	10.90	19.5%	10.90	19.5%	3
Other Income	42.18	41.07	52.91	11.84	28.8%	10.73	25.4%	
Other Fees and Charges	20.16	19.02	18.64	(0.38)	(2.0%)	(1.52)	(7.5%)	4
Recoveries from MPF Schemes Compensation Fund	1.20	1.20	1.23	0.03	2.5%	0.03	2.5%	5
Income Recharged from eMPF Company	20.82	20.85	33.04	12.19	58.5%	12.22	58.7%	6
TOTAL INCOME	440.07	456.25	496.92	40.67	8.9%	56.85	12.9%	
OPERATING EXPENDITURE								
Personal Emoluments	414.96	405.94	422.99	17.05	4.2%	8.03	1.9%	7
Office Accommodation Expenses	45.15	41.91	50.97	9.06	21.6%	5.82	12.9%	8
Depreciation and Amortization	52.70	40.20	39.93	(0.27)	(0.7%)	(12.77)	(24.2%)	9
Legal and Professional Expenses	8.75	8.75	9.98	1.23	14.1%	1.23	14.1%	10
One-off Projects	10.19	10.42	10.18	(0.24)	(2.3%)	(0.01)	(0.1%)	11
Other Items	75.87	78.43	79.68	1.25	1.6%	3.81	5.0%	
Hire of Services	9.75	9.35	8.14	(1.21)	(12.9%)	(1.61)	(16.5%)	12
Information System-Related Expenses	16.57	16.54	19.10	2.56	15.5%	2.53	15.3%	13
Public Relation Expenses	9.15	10.20	9.77	(0.43)	(4.2%)	0.62	6.8%	14
Member Education and Engagement	12.79	12.79	14.06	1.27	9.9%	1.27	9.9%	15
Other Operating Expenses	27.61	29.55	28.61	(0.94)	(3.2%)	1.00	3.6%	16
TOTAL OPERATING EXPENDITURE	607.62	585.65	613.73	28.08	4.8%	6.11	1.0%	
RESULT FOR THE YEAR	(167.55)	(129.40)	(116.81)	(12.59)	(9.7%)	(50.74)	(30.3%)	
Operating Expenditure (excluding the costs to be recouped from eMPF Company)	586.80	564.80	580.69	15.89	2.8%	(6.11)	(1.0%)	
CAPITAL EXPENDITURE								
Leasehold Improvement, Office Equipment and Furniture	2.45	2.45	0.61	(1.84)	(75.1%)	(1.84)	(75.1%)	17
Information System Capital Expenditure	17.55	17.55	23.99	6.44	36.7%	6.44	36.7%	18
TOTAL CAPITAL EXPENDITURE	20.00	20.00	24.60	4.60	23.0%	4.60	23.0%	
TOTAL EXPENDITURE (OPERATING AND CAPITAL EXPENDITURE)	627.62	605.65	638.33	32.68	5.4%	10.71	1.7%	

Balance of Capital Grant Brought Forward (Note)	2,078.27	2,248.94	2,117.03
Result for the Year	(167.55)	(129.40)	(116.81)
Budget of One-off Projects Carried Forward	-	(2.51)	-
BALANCE OF CAPITAL GRANT CARRIED FORWARD	1,910.72	2,117.03	2,000.22

Note:

The balance of Capital Grant brought forward in the FY2023-24 Approved Budget was a forecast based on the FY2022-23 revised estimates. For the FY2023-24 revised estimates, this balance was updated to reflect the actual balance based on the FY2022-23 audited financial statements.

Explanatory Notes to the Proposed Budget of the Mandatory Provident Fund Schemes Authority for FY2024-25

INCOME

1. ARF (\$345.10 million)

With effect from 1 October 2020, MPF trustees are required to pay ARF to the MPFA at a rate of 0.03% p.a. on the respective MPF schemes' NAV for the first six years. ARF income from registered MPF schemes are estimated at \$345.10 million, based on 0.03% of projected NAV of MPF schemes at their year-end dates in FY2023-24.

2. Interest Income on Bank Deposits (\$32.16 million)

Interest income on bank deposits is estimated at \$32.16 million, based on the assumptions of Hong Kong dollar interest rate of 4.0%¹.

3. Investment Income (\$66.75 million)

With a forecast return of 5.62% for FY2024-25, investment income from the externally managed portfolio is estimated to be \$66.75 million².

4. Other Fees and Charges (\$18.64 million)

Other Fees and Charges include fee income from MPF intermediaries (\$10.12 million), ORSO schemes (\$6.20 million) and financial penalties (\$2.32 million³).

5. Recoveries from MPF Schemes Compensation Fund (\$1.23 million)

Recoveries from the MPF Schemes Compensation Fund cover the administrative service provided by the MPFA which is expected to generate an annual income of \$1.23 million.

6. Income Recharged from eMPF Company (\$33.04 million)

Income recharged from eMPF Company is estimated at \$33.04 million, comprising (i) a provision of \$26.29 million for recovering the personnel costs of middle / back office support (such as human resources, external affairs and general administration) provided by the MPFA for the eMPF Company; and (ii) a provision of \$6.75 million for recovering other operating expenditure (such as cost of MPFA's office space) incurred.

¹ An average rate of 4.0% in FY2024-25 is assumed, taking into account market forecasts of interest rates.

² It is estimated by the external fund manager on a mark-to-market basis.

³ The projection on financial penalties made under the income forecast for FY2024-25 is based on a past 5-year average, excluding any anomalies in order to smooth out the projection.

OPERATING EXPENDITURE

7. Personal Emoluments (\$422.99 million)

As compared with the provision of \$405.94 million for the revised estimates for FY2023-24, there is an increase of \$17.05 million despite the implementation of a headcount freeze for next FY. The increase covers primarily the full-year effect of staff costs for new recruits hired during the course of FY2023-24, and a budgetary provision for annual salary adjustment for non-directorate staff.

8. Office Accommodation Expenses (\$50.97 million)

The provision caters for rents, management fees and electricity expenses for MPFA offices. The increase of \$9.06 million is mainly attributed to the end of some concessions for rent and management fees applicable to certain periods in FY2023-24 offered by the landlord of the new office premises.

9. Depreciation and Amortisation (\$39.93 million)

Depreciation and amortisation is calculated using the straight-line method over the cost of fixed assets (such as furniture and fixtures as well as office and IT systems and equipment) with estimated useful lives of three or four years.

10. Legal and Professional Expenses (\$9.98 million)

The provision covers professional fees for legal, audit, consultancy services and recruitment agency services.

11. One-off Projects (\$10.18 million)

The provision is mainly for –

- (a) engaging external consultant for a holistic review on risk management framework of the MPFA to be conducted after the launch of the eMPF Platform;
- (b) seeking external legal advice for enforcement cases;
- (c) supporting Government's Anti-epidemic Fund for countering the impact of the COVID-19 pandemic on the Hong Kong economy through the provision of temporary positions which is a cross-year project, with subsequent reimbursement of expenditure from the Government; and
- (d) cost for project personnel in FY2024-25 for supporting various projects in the MPFA.

12. Hire of Services (\$8.14 million)

The provision is mainly for paying contractors for outsourced services (including IT helpdesk, system support, office assistants/support personnel and technicians).

13. Information System-Related Expenses (\$19.10 million)

The provision is mainly for maintenance of business operation systems and security equipment, investment information service charges and data communication line charges.

14. Public Relation Expenses (\$9.77 million)

The provision is mainly for ongoing activities (including production of education materials and other promotional materials, Good MPF Employer Award, etc.) and production of videos for posting on the MPFA corporate social media platforms.

15. Member Education and Engagement (\$14.06 million)

The provision is mainly for ongoing programmes on MPF education.

16. Other Operating Expenses (\$28.61 million)

The provision is mainly for –

- (a) personnel-related expenses covering programmes for talent development and staff welfare activities;
- (b) office expenses covering telephone maintenance and mobile phone charges, postage and courier services, and office supplies;
- (c) travelling and transport expenses;
- (d) fixed assets-related expenses covering acquisition of low-value IT equipment and software, repairing and maintenance of office equipment and furniture, and insurance for fixed assets;
- (e) investment expenses and general bank charges for bank services; and
- (f) regulatory and supervision expenses covering investigation and litigation-related expenses in respect of tracing default MPF contributions.

CAPITAL EXPENDITURE STATEMENT

17. Leasehold Improvement, Office Equipment and Furniture (\$0.61 million)

The provision is mainly for general replacement of office equipment and furniture.

18. **Information System (\$23.99 million)**

The provision is mainly for various system application enhancement and development projects, and for enhancement of servers or replacement of personal computers and notebook computers.

March 2024

Mandatory Provident Fund Schemes Authority

Estimated ARF Income

Statutory Requirement - section 22B of MPFSO

- (1) To comply with the statutory requirement, only the costs attributable to exercising and performing MPFA's functions with respect to registered MPF schemes should be recovered by ARF (ARF eligible costs).
- (2) Total amount of costs in FY2024-25 which are not eligible for ARF recovery is estimated to be \$62.14M, including:
- ORSO related cost (\$17.75M);
 - the cost of operating MPF intermediaries functions already recovered by the intermediaries fees (\$10.12M);
 - cost recovered from eMPF Company (\$33.04M); and
 - cost recovered from MPF Schemes Compensation Fund (\$1.23M).

<i>HK\$ million</i>	FY2023-24 Revised Estimates	FY2024-25 Proposed Budget
ARF Income (a)	328.17	345.10
ARF Eligible Cost (b)	536.42	551.59
Under (c) = (a) - (b)	(208.25)	(206.49)

Total Operating Expenditure (See Annex I)	585.65	613.73
Less : Items not eligible for ARF recovery	(49.23)	(62.14)
ORSO related cost	(17.03)	(17.75)
Cost recovered by the intermediaries fees	(10.15)	(10.12)
Cost recovered from eMPF Company	(20.85)	(33.04)
Cost recovered from MPF Schemes Compensation Fund	(1.20)	(1.23)
ARF Eligible Cost	536.42	551.59

March 2024