

# Managing Director's Report



**Diana Chan Tong Chee-ching**

*Managing Director*

The MPF System entered into its fourth year of implementation during the 2004-05 financial year. As mentioned by the Chairman in his Statement, the MPF System has been playing an important role in helping the working population to accumulate wealth for their retirement. It is therefore imperative that the MPFA rigorously regulate and supervise the MPF System and the approved MPF trustees in order to protect employees' rights and scheme members' interests and benefits. It is equally important to sustain our law enforcement actions to uphold the integrity and credibility of the MPF System. Public education is also essential for enabling scheme members to understand their needs and rights, ensuring that they have the requisite knowledge to protect their interests, and impressing upon them the importance of saving early for retirement protection.

In respect of the regulatory framework, the MPFA has engaged in a project since 2002 to improve the disclosure of performance and fees and charges for MPF funds. On the basis of the research and discussions with the industry carried out in the previous years, the Code on Disclosure for MPF Investment Funds (the Disclosure Code) was promulgated in mid 2004 for implementation in phases. Implementation of the Disclosure Code serves to enhance transparency and to enable scheme members to make more informed and effective investment decisions. At the same time, the MPFA also made further advances in the review of the investment restrictions in the MPF legislation. During the year, a total of six proposals to amend the legislation were made including some to improve the investment rules by allowing flexibility to accommodate new developments in financial products. In addition, five proposals to improve scheme administration and to resolve technical issues were put forward as part of the continuing review of the operation of the MPF legislation to further enhance the efficiency and effectiveness of the MPF System.

Following the adoption of a risk-based approach in the supervision of approved MPF trustees in the previous financial year, the MPFA further developed regulatory tools to ensure that there is good corporate governance, proper risk management and a compliance culture within the approved trustees' organizations. With the assistance of international consultants, the MPFA formulated a set of draft Compliance Standards for the guidance of approved MPF trustees to establish a structured framework for monitoring their compliance with statutory duties and responsibilities. The Compliance Standards, which will be issued in mid-2005 after consultation with the industry, are expected to help the approved trustees review their compliance plans, and to encourage the cultivation of a culture of compliance among them.

In respect of law enforcement, the MPFA's objective has been to ensure that relevant employees, relevant employers and self-employed persons enrol in the MPF system and make timely MPF contributions. While the current high compliance rates indicate that the vast majority of the workforce has complied with the law, the MPFA has been dedicating its efforts to tackle the small percentage of hardcore defaulters who have failed to comply. Enforcement measures include conducting proactive inspection visits to employment premises, investigating complaints, imposing contribution surcharges on defaulting employers, filing civil claims and pursuing criminal prosecution. In 2004-05, we also adopted new and more effective means to handle repeated offenders and enhance recovery of outstanding default contributions and surcharges. The Special Task Force set up in December 2003 has continued to proactively investigate employers with multiple complaint records and long periods of default contribution. As there has been the need to make larger claims on behalf of more employees, we have taken

cases to the District Court and the High Court, in addition to the Small Claims Tribunal. Taking cases to the higher courts was found to be an effective avenue for making these claims, with many more employees covered in each case than those filed with the Small Claims Tribunal. In addition, to enforce court orders, the MPFA applied for garnishee orders and charging orders<sup>1</sup> against those employers who did not pay the judgement debt before the date set, successfully recovering outstanding contributions and surcharges in a number of cases. We also succeeded for the first time in prosecuting the directors of a liquidated company that had failed to meet MPF requirements.

Enforcement actions must go hand in hand with education to achieve the best result. While surveys have indicated general support for the MPF System, the MPFA is mindful that public understanding of MPF schemes and investment still needs to be enhanced. Thus, we have continued to disseminate information on MPF and MPF-related investment knowledge through various channels, including the print and electronic media, seminars and exhibitions. In the printed media alone, as many as 230 articles were written for newspaper columns in 2004-05 on various topics of MPF investment and the MPF System. As the impact of MPF is expected to cross generations, we have placed emphasis on educating the younger generation on the concept and benefit of early financial planning to ensure better protection for retirement. On top of these, we launched separate publicity campaigns targetting self-employed persons, and employers and employees of the two industries covered by the industry schemes to remind them of their rights and obligations under the MPF System.

Internally, the MPFA has conducted a number of reviews to further enhance operational efficiency. Among the most significant is a review of the work processes and organization structures of the Enforcement Division to enable a “through-train” service in complaints handling, investigation and debt recovery. A review of the Supervision Division’s organization structure, job roles and skills required has also commenced in the light of the new supervisory approach accompanying the introduction of the Compliance Standards. In order to enhance the staff’s ability to maintain business continuity during crisis situations, we also conducted a comprehensive drill to familiarize ourselves with the procedures to follow after a disaster that would render the MPFA’s office premises inaccessible.

Hong Kong’s unique experience in implementing the multi-pillar arrangement for old age security recommended by the World Bank has been of interest to many countries and organizations around the world, and we treasured the opportunity of exchanging views and sharing experiences with them. As in past years, the MPFA received a stream of visitors from overseas and the Mainland who wish to learn about the MPF System and our implementation experience. The MPFA also accepted an invitation from the World Bank to participate in the development and presentation of a distance learning course for pension regulators.

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<sup>1</sup> These are means of executing a court judgement to recover debts due, under the District Court Ordinance (Cap. 336) and the High Court Ordinance (Cap. 4).

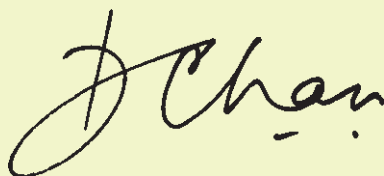
In the years to come, the MPFA will further develop and refine the MPF System, taking into account our operational experience. For 2005-06, we have resolved to strengthen public support and deepen their understanding of the MPF System and MPF investment; uphold the credibility and integrity of the MPF System through rigorous regulation, supervision and enforcement actions; and enhance the MPFA's capabilities, quality of service and accountability. To pursue these objectives, we have formulated three major strategies, namely:

- (a) enhance public education, focusing on the MPF System, investment and financial planning for retirement;
- (b) reinforce supervision and regulation of MPF and ORSO schemes and enforcement actions; and
- (c) drive organizational advancement through developing the corporate culture, human resources and support systems.

I am pleased to be given the opportunity to continue to serve the MPFA, as its Managing Director from 1 July 2004. In pursuing the objectives for the past year and developing the strategies and programmes for 2005-06, I am most thankful to the Chairman, other members of the Management Board, as well as members of the supporting committees established under the Management Board, for their guidance and support. My appreciation also goes to members of the MPF Schemes Advisory Committee and Industry Schemes Committee, who have given us valuable advice on various aspects of the MPF System and the operation of the Industry Schemes.

A number of members retired from the Management Board and the MPF Schemes Advisory Committee in March 2005. I would like to thank them especially for their advice and guidance over the years. I also look forward to working closely with the new members and benefit from their advice in the years to come.

Finally, I would like to express my deep appreciation for the dedication and commitment of my colleagues. Without their enthusiasm and hard work, we would not have been able to accomplish our goals set for the year.



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