

**URGENT**

Ref : LC-04/040

January 20, 2004

The Hon. Ma Si Hang Frederick  
Secretary for Financial Services and the Treasury  
Financial Services and the Treasury Bureau  
West Wing, Central Government Offices  
HONG KONG

*By fax and post*  
( # 2147 3873 )

Dear

Re : Securitisation of Future Revenue from Government Toll Roads

Thank you very much for your prompt reply to my letter dated January 6, 2004 with reference to the captioned securitisation. However, some of the questions which I have raised were not answered or only partially answered. Subsequently at the special meeting of the Panel on Financial Affairs ("FA Panel") on January 15 where the Policy Initiatives of the Bureau were discussed, I raised other questions on the securitisation issue. However, I was told that answers would defer to the meeting of the Subcommittee on Proposed Resolution Under Section 3(1) of the Loans Ordinance ("Subcommittee") on January 16.

In the Subcommittee meeting held on January 16, the Chairman of the Subcommittee asked that the replies to the letters of the Hon. LEUNG Fu-wah and Hon. Audrey EU be discussed first. Since I had to attend another meeting and had to leave at 4:00 p.m., I was unable to follow-up on your reply to my letter of January 6. Although I understand that the Chairman did ask on my behalf some of the outstanding questions, I would like your written detail response to the following:

1. Although you have responded to my question by providing basic information on other successful arrangements ("Arrangements") of similar nature in other jurisdictions, additional details on these cases would help to ensure the success of our own securitisation. Please provide in table form of the Arrangements you have quoted, the following
  - (a) total proceed raised (gross and net),
  - (b) units issued,

- (c) ratings by credit agencies,
- (d) years to maturity,
- (e) interest rates,
- (f) currency of issue,
- (g) year of issue,
- (h) allocations to investor types (and if more than one type, the percentage of each),
- (i) percentage of over- or under- subscription,
- (j) details of any guarantee/undertaking by the Government or Authority,
- (k) details of any recourse obligations by / actions against the Government or Authority,
- (l) details of risk coverage by Government and by insurance agencies,
- (m) names of advisor(s)/arranger(s),
- (n) distribution network for the issue,
- (o) details of trading in secondary markets, and
- (p) total initial costs and annual on-going costs.

2. In your reply to my letter on Target Investors, you have mentioned that “*a significant percentage ... is expected to be offered to Retail investors in Hong Kong*”. However, in the same reply, you have attached an Annex where information was provided by the Government Financial Advisor. Under the paragraph of Investors’ Perspective, it was mentioned that “*a significant proportion of the target investors ... will be professional institutional investors based in Hong Kong and internationally*”. Since the promotion strategy would be rather different between institutional and retail investors, a clear policy should be set. If a significant percentage is planned for the retail investors in Hong Kong, I believe that a **direct participation by the financial services industry** would provide a wider investor base. As such, one of the selection criteria for the Arranger of the securitisation exercise should include a proposal on the inclusion of the **direct participation of the financial services industry**.
3. In your reply, only the detail breakdown of the general gross revenue was provided with the question for net revenue unanswered. However, since the “*net revenue ... will be earmarked for the purpose of servicing the Notes*”, your response as such would be appropriate. In fact, a detail breakdown of revenue from the different types of revenue should also be included.
4. Please provide the maximum amount that the Government would be exposed in the worst scenario and if such amount would require the approval of the Legislative Council.
5. After the passing of the Proposed Resolution, please elaborate as to how the Legislative Council be able to monitor the progress. At what stage and when would the Government provide further briefing to the FA Panel.

6. Please provide information with regard to the current investment policy of the Government, in particular the Treasury, on the acceptable investment credit rating of bond and note.
7. Please elaborate on the consequences on changes in Government policies (other than toll rates that caused direct decrease in total net revenue from the Toll Roads) that would lead directly or indirectly to possible compensation to investors.
8. Please provide the names of those institutions who have made submission and considered by the Government for Advisor for the securitisation arrangement. Please advise what are the reasons for the appointment of the current Advisor (HSBC).

As mentioned in past meetings, I support in principal the securitisation arrangement, especially if such arrangement would help to reduce the budget deficit of the Government. However, since this arrangement is new to Hong Kong, extreme care must be exercised to ensure its successful launching. It follows that any responsible Legislative member would and should closely monitor the progress and relevant arrangement.

It is my understanding that the Subcommittee would submit a report to the House Committee on January 30. I would therefore ask that your reply to the above be provided not later than noon on January 29.

Thank you very much for your kind attention.

Yours sincerely,

Henry K. C. Wu

cc Hon. Ambrose Lau - Chairman of FA Panel ) Fax # 2869 6794  
Hon. Chan Kam-lam - Chairman of the Subcommittee on )  
Proposed Resolution under Section 3(1) of the Loans Ordinance )  
Ms Salumi Chan - Clerk to FA Panel and the Subcommittee )

HW/jc