

立法會
Legislative Council

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by the Administration)

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**Subcommittee on Proposed Resolutions under Section 29 of the Public Finance
Ordinance (Cap. 2) and Section 3 of the Loans Ordinance (Cap. 61)**

**Minutes of meeting
held on Thursday, 14 May 2009, at 8:30 am
in Conference Room B of the Legislative Council Building**

- Members present** : Hon Jeffrey LAM Kin-fung, SBS, JP (Chairman)
Hon Albert HO Chun-yan
Dr Hon David LI Kwok-po, GBM, GBS, JP
Hon James TO Kun-sun
Hon CHAN Kam-lam, SBS, JP
Dr Hon Philip WONG Yu-hong, GBS
Hon Miriam LAU Kin-ye, GBS, JP
Hon Abraham SHEK Lai-him, SBS, JP
Hon WONG Ting-kwong, BBS
Hon CHIM Pui-chung
Hon Starry LEE Wai-king
Dr Hon LAM Tai-fai, BBS, JP
Hon Paul CHAN Mo-po, MH, JP
Hon CHAN Kin-por, JP
Hon Tanya CHAN
Hon WONG Kwok-kin, BBS
Hon Mrs Regina IP LAU Suk-ye, GBS, JP
- Member absent** : Hon Ronny TONG Ka-wah, SC
- Public officers attending** : Financial Services and the Treasury Bureau
Mr CHENG Yan-chee, JP
Deputy Secretary for
Financial Services and the Treasury
(Financial Services)1

Miss Natalie LI
Principal Assistant Secretary for
Financial Services and the Treasury
(Financial Services)5

Miss Ann CHAN
Principal Assistant Secretary for
Financial Services and the Treasury
(Treasury)(I)

Hong Kong Monetary Authority

Mr Edmond LAU, JP
Executive Director (Monetary Management)

Mr Daryl HO
Head (Market Development) (Acting)

Department of Justice

Mr Michael LAM
Senior Assistant Law Draftsman

Ms Lonnie NG
Senior Government Counsel

Clerk in attendance : Ms Rosalind MA
Chief Council Secretary (1)5

Staff in attendance : Miss Kitty CHENG
Assistant Legal Adviser 5

Ms Amy LEE
Senior Council Secretary (1)8

Ms Haley CHEUNG
Legislative Assistant (1)8

I Election of Chairman

Mr CHAN Kam-lam, the member with the highest precedence among those present at the meeting, presided over the election of the Chairman of the Subcommittee. He invited nominations for the chairmanship of the Subcommittee.

2. Mr Jeffrey LAM was nominated by Dr Phillip WONG and the nomination was seconded by Mr CHAN Kin-por. Mr Jeffrey LAM accepted the nomination. There being no other nominations, Mr Jeffrey LAM was elected Chairman of the Subcommittee.

3. Mr Jeffrey LAM took over the chair and invited members to consider the application for late membership from Miss Tanya CHAN. Members agreed that Miss CHAN's application should be accepted and noted that with the expansion in membership, six members would be required to form a quorum for future meetings of the Subcommittee.

II Meeting with the Administration

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| (LC Paper No. CB(1)1567/08-09 | — Background Brief on Proposed Resolutions under Section 29 of the Public Finance Ordinance (Cap. 2) and Section 3 of the Loans Ordinance (Cap. 61) prepared by the Legislative Council Secretariat |
| LC Paper No. CB(3)553/08-09 | — Proposed resolution under Section 29 of the Public Finance Ordinance (Cap.2) |
| LC Paper No. CB(3)554/08-09 | — Proposed resolution under Section 3 of the Loans Ordinance (Cap.61) |
| G6/123/5C | — The Legislative Council Brief issued by the Financial Services and the Treasury Bureau |
| LC Paper No. LS68/08-09 | — The Legal Service Division Report on Proposed Resolution under section 3 of the Loans Ordinance (Cap. 61) and Proposed Resolution under section 29 of the Public Finance Ordinance (Cap. 2)) |
| LC Paper No. CB(1)1591/08-09(01) | Administration's powerpoint presentation material on the Proposed Resolutions under Section 29 of the Public Finance Ordinance (Cap. 2) and Section 3 of the Loans Ordinance (Cap. 61) (tabled at the meeting and soft copy issued on 15 May 2009) |

Relevant papers previously issued by the Panel on Financial Affairs for the

meetings on 4 and 11 May 2009

(LC Paper No. CB(1)1469/08-09(01) — Administration's paper on Government Bond Programme

LC Paper No. CB(1)1507/08-09(01) — Letter dated 5 May 2009 to the Administration

LC Paper No. CB(1)1507/08-09(02) — Administration's supplementary information on Government Bond Programme

LC Paper No. CB(1)1558/08-09(01) — Dr Hon David LI Kwok-po's letter on Government Bond Programme (Chinese version only)

4. The Subcommittee deliberated (Index of proceedings attached at **Appendix**).

Follow-up actions to be taken by the Administration

5. In response to members' concern about the types of bonds to be issued under the proposed Government Bond Programme (GBP), the Administration was requested to:

- (a) advise whether it had considered issuing floating rate bonds under GBP and if so, the possible mechanism for offering of such bonds in the future;
- (b) advise whether asset-back securities could be issued under the proposed framework of GBP; and
- (c) provide to the Legislative Council, as and when appropriate, information note(s) on its plan(s) for issuing special type of bonds (e.g. convertible bonds or asset-backed securities) before commencing the issuance exercise(s).

6. In relation to members' concern about the offer of government bonds to retail investors, the Administration was requested to:

- (a) provide information on the determination and possible level of subscription fees charged by the placing banks on retail investors; and
- (b) explain why the yield of the Exchange Fund Notes was used as reference in determining the coupon rate for retail tranche (in connection with the example given in Slide 14 of the Administration's powerpoint presentation material).

7. In relation to the proposed resolution under section 3 of the Loans Ordinance, the Administration was requested to respond to Hon James TO's request for the Financial Secretary (FS) to undertake, during the moving of the motion on the proposed resolution, that the institutional tranche of GBP would be issued through competitive tenders.

8. In relation to members' concern about the FS's power under paragraphs (b) and (e) (ii) of the proposed resolution under section 29 of the Public Finance Ordinance (PFO) (Cap. 2) on the administration and investment of the Bond Fund, the Administration was requested to:

- (a) consider Mrs Regina IP's suggestion that, in the long-run, an investment management corporation should be established to administer the placement and investment of the Bond Fund, as in the case of the Government Investment Corporation in Singapore;
- (b) consider members' (including Mr Albert HO, Mrs Regina IP and Miss Tanya CHAN) request for narrowing the scope of FS's power under paragraphs (b) and (e) (ii) and specifying explicitly in the resolution that the proceeds in the Bond Fund would be placed with the Exchange Fund for investment by the Hong Kong Monetary Authority as authorized by FS; and
- (c) consider whether the sums raised under GBP would be credited to the fiscal reserves rather than to a separately managed Bond Fund which would not be treated as part of the fiscal reserves, and explain the differences between the two. In this connection, the Administration should provide information on the relevant overseas practice in the issuance of government bonds.

9. In response to Mr James TO's request, the Administration was requested to provide further information on the following:

- (a) conversion clause to be included in the offering documents of the bonds, if any, to provide for conversion of Hong Kong Dollar denominated bonds in the event that Hong Kong Dollar ceased to be the legal tender of Hong Kong;
- (b) total quantity of bonds which were planned to be issued by other public sector entities in the market;
- (c) factors for consideration in determining the timing for bond issuance under GBP, in particular, whether the impact of bond issuance on the local securities market would be one of these factors; and
- (d) whether the Government would consider limiting the issuance of bonds under GBP to bonds denominated in Hong Kong Dollar and US Dollar only, by making suitable amendments to the proposed resolution under

section 3 of the Loans Ordinance.

(Post-meeting note: the supplementary information provided by the Administration was issued to Members vide LC Paper No. CB(1)1662/08-09(02) on 21 May 2009.)

III Any other business

Invitation for submissions

10. Miss Tanya CHAN suggested that public views might be invited on the proposed resolutions. After discussion, the Subcommittee decided that it was not necessary to invite public views at the present stage.

Date of next meeting

11. Members agreed that the second meeting should be held on Monday, 25 May 2009 at 8:30 am.

12. There being no other business, the meeting ended at 10:42 am.

Council Business Division 1
Legislative Council Secretariat
15 June 2009

**Proceedings of the
Subcommittee on Proposed Resolutions under Section 29 of the Public Finance
Ordinance (Cap. 2) and Section 3 of the Loans Ordinance (Cap. 61)
Meeting on Thursday, 14 May 2009, at 8:30 am
in Conference Room B of the Legislative Council Building**

Time Marker	Speaker	Subject(s)	Action Required
000138 – 000246	Mr. CHAN Kam-lam Dr Phillip WONG Mr Jeffrey LAM Mr CHAN Kin-por	Election of Chairman	
000247 – 000627	Chairman Mr Abraham SHEK Ms Miriam LAU Dr Phillip WONG Mr CHAN Kam-lam	(a) Subcommittee accepted Miss Tanya CHAN's application for late membership. (b) Mr Abraham SHEK's request that another Subcommittee meeting should be arranged to enable detailed deliberation by members on the proposed GBP.	
000628 – 003340	Chairman Administration HKMA Mr Abraham SHEK Mrs Regina IP	(a) Briefing by the Administration on the proposed GBP (Administration's powerpoint presentation material at LC Paper No. CB(1)1591/08-09(01)). (b) Mr Abraham SHEK's enquiry on why the yield of the Exchange Fund Notes was used as reference in determining the coupon rate for retail tranche (in connection with the example given in Slide 14 of the Administration's powerpoint presentation material).	The Administration to take action as required in paragraph 6(b) of the minutes.
003341 – 003953	Chairman Mrs Regina IP Administration HKMA	(a) Mrs Regina IP's concern about the Administration's considerations for launching GBP at this particular timing. (b) The Administration's advice that the primary objective of GBP was to promote the further and sustainable development of the local bond market, providing an alternative channel for financial intermediation. The interest rate environment was only one of the factors for considering the appropriate timing for bond issuance. Having regard to other relevant factors, including the demand from institutional investors such as pension funds and insurance companies for HK Dollar assets to match their long-term HK Dollar liabilities, the Government considered it an opportune time to implement GBP.	

Time Marker	Speaker	Subject(s)	Action Required
		<p>(c) Responding to Mrs Regina IP's further enquiry, HKMA's advice that low interest rate environment, in general, would enable bond issuers to raise funds at a lower cost. As far as investors were concerned, they would take into consideration a number of factors in making their investment decisions.</p>	
<p>003954 – 004832</p>	<p>Chairman Mr James TO HKMA Administration</p>	<p>(a) Mr James TO's concern about a fair mechanism for execution and distribution of the government bonds. His view that the proposed resolution under section 3 of the Loans Ordinance (Cap.61) should set out explicitly the issuance of government bonds through competitive tenders, or at least "in a fair and reasonable manner".</p> <p>(b) The Administration/HKMA's advice that it was not a common arrangement for sovereign bond issuers to set out in legislation the details of relevant distribution arrangements. As far as Hong Kong was concerned, no such provision had been made for previous government bond issuance exercises. Moreover, only bonds issued under the institutional tranche of GBP would be distributed through competitive tenders. The proposed phrase "in a fair and reasonable manner" might be subject to interpretation and argument, creating uncertainties for the implementation of GBP.</p>	
<p>004833 – 005638</p>	<p>Chairman Mr Albert HO Administration HKMA</p>	<p>(a) Mr Albert HO's concern of FS's power on the administration and investment of the Bond Fund under paragraph (b) and (e)(ii) of the proposed resolution under section 29 of the Public Finance Ordinance (PFO) (Cap. 2). His concern that expenses related to the Bond Fund were public expenditure which should be subject to LegCo's approval in accordance with the Basic Law.</p> <p>(b) The Administration's advice that the purpose of the resolution under section 29 of the PFO was to establish the Bond Fund for the management of the sums raised under GBP. HKMA would be tasked to manage the investment of moneys in the Bond Fund, and assist in coordinating the offering of bonds under GBP. The Bond Fund would be used</p>	

Time Marker	Speaker	Subject(s)	Action Required
		<p>to repay principals, and meet the financial obligations and liabilities associated with GBP, including any expenses arising from the procurement of necessary services by HKMA for the offering of the bonds. The Government stood ready to provide information on the Bond Fund to the LegCo. The Administration's further explanation that meeting the expenses for bond issuance by sums in the Bond Fund was in line with section 5 (4) of the Loans Ordinance which stipulated that "any expenses of or incidental to the raising of a loan may be defrayed from the sums borrowed".</p>	
005639 – 010318	Chairman Miss Tanya CHAN HKMA	<p>(a) Miss Tanya CHAN's concern about the possible level of subscription fees charged by the placing banks on retail investors.</p> <p>(b) HKMA's advice that the offering circular would state the handling fee charged by placing banks when they processed retail bond applications for their customers.</p> <p>(c) Miss Tanya CHAN's concern on how GBP could help promote the local bond market and provide liquidity in the secondary market.</p> <p>(d) HKMA's advice that GBP would be an ongoing programme, which was different from the one-off and ad-hoc issues of government bonds previously. Against this backdrop, issuance of government bonds under GBP was expected to be conducive to growing the size of the local debt market, attracting more investors and enhancing liquidity in the market. The technique of reopening of existing bonds could be used as and when appropriate to build up the size of individual bond issues over time. Bonds issued under GBP would attract both institutional and retail investors. The implementation of GBP would increase retail investors' understanding of the local bond market.</p>	
010319 – 010759	Chairman Mr CHAN Kam-lam HKMA	<p>(a) Mr CHAN Kam-lam's concern on whether consideration had been given to issuing floating rate bonds under GBP and if so, the possible mechanism for offering of such bonds in the future.</p>	The Administration to take action as required in paragraph 5(a)

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		<p>(b) HKMA's advice that most government bonds were fixed rate bonds. At this stage, the intention of the Government was to focus on issuing fixed rate bonds under GBP.</p> <p>(c) Mr CHAN Kam-lam's further concern about the proportion of subscription fees charged by the placing banks vis-a-vis the yields of the retail bonds.</p>	<p>of the minutes.</p> <p>The Administration to take action as required in paragraph 6 (a) of the minutes.</p>
010800 – 011146	Chairman Dr LAM Tai-fai Administration	<p>(a) Dr LAM Tai-fai's concern that publicity of GBP should be enhanced and the public should be provided with more details on the execution of GBP, such as the amount of retail issues, the yields and liquidity in the secondary market. His view that retail investors should be provided with more opportunities to invest in the government bonds.</p> <p>(b) The Administration's response that details of GBP would be finalized after the LegCo's approval of the relevant resolutions. A full-scaled publicity campaign would be launched upon implementation of GBP.</p>	
011147 – 011657	Chairman Mr CHAN Kin-por HKMA	<p>(a) Mr CHAN Kin-por's request for the Government to consider issuing Renminbi (RMB) – denominated bonds to meet the demand of insurance companies looking for RMB assets.</p> <p>(b) HKMA's advice that the primary objective of GBP was to promote the further and sustainable development of the local bond market. As such, bonds issued under GBP would be mainly denominated in HK Dollars. Nevertheless, the Government would not rule out the possibility of issuing bonds in other currencies, if conditions required and situation permitted.</p>	
011658 – 012005	Chairman Mrs Regina IP HKMA	<p>(a) The Chairman's concern on the types and tenors of government bonds to be issued, and whether views from major market participants had been sought in this regard.</p> <p>(b) Mrs Regina IP's concern on whether convertible bonds or asset-backed securities</p>	

Time Marker	Speaker	Subject(s)	Action Required
		<p>would be issued under GBP and, if so, the Administration should provide information to the LegCo before the issuance.</p> <p>(c) HKMA's advice that views from major market participants including those from the banking, brokerage, insurance and pension sectors had been sought. Most were in favour of bonds with shorter tenors, around two to five years, while some insurance companies and pension funds would prefer bonds with tenors up to 10 years. During the initial implementation of GBP, the Government intended to issue conventional fixed rate bonds with shorter tenors within the range of two to ten years.</p>	<p>The Administration to take action as required in paragraphs 5 (b) and 5 (c) of the minutes.</p>
<p>012006 – 012917</p>	<p>Chairman Mrs Regina IP HKMA Administration</p>	<p>(a) Mrs Regina IP's concern that proceeds raised under GBP would be placed with the Exchange Fund for investment but the role and responsibility of HKMA was not explicitly specified in the proposed resolution.</p> <p>(b) The Administration's advice that according to the resolution under section 29 of the PFO, FS was responsible for the administration of the Bond Fund. FS would direct HKMA to manage the investment of moneys in the Bond Fund. HKMA's advice that the investment strategy of the Exchange Fund suited the investment objectives of the Bond Fund. Relevant investment return was expected to be reasonable and stable under the same "fixed rate" sharing arrangement for investment income applicable to the fiscal reserves. Such an arrangement would also allow the Bond Fund to benefit from the economy of scale of assets managed under the Exchange Fund.</p> <p>(c) Mrs Regina IP's suggestion of establishing an investment corporation in the long run to administer the placement and investment of Bond Fund, as in the case of the Government Investment Corporation in Singapore.</p>	<p>The Administration to take action as required in paragraph 8(a) of the minutes.</p>
<p>012918 – 013657</p>	<p>Chairman Mr James TO Administration HKMA</p>	<p>(a) Mr James TO's request for FS to undertake, during the moving of the motion of the proposed resolution under section 3 of the Loans Ordinance, that the institutional tranche of GBP would be issued through competitive</p>	

Time Marker	Speaker	Subject(s)	Action Required
		<p>tender.</p> <p>(b) HKMA's advice that sufficient flexibility should be allowed for the Government to determine the offering mechanism for different types of bonds. The mechanism of competitive tender might not always be the most effective way to reach the target investors. For example, for issuance of bonds denominated in foreign currencies, offering through a bank syndicate and bookbuilding structure would probably be more effective in reaching the target investors.</p>	<p>The Administration to take action as required in paragraph 7 of the minutes.</p>
<p>013658 – 014718</p>	<p>Chairman Mr Albert HO HKMA Administration</p>	<p>(a) Mr Albert HO's query on whether FS's power to determine investment and expense of the Bond Fund would be subject to any restrictions, such as whether FS could use the sums in the Bond Fund to purchase assets like tunnels.</p> <p>(b) HKMA's advice that the sums in the Bond Fund would be placed with the Exchange Fund for investment, which was guided by the long-term strategic asset allocation of the Exchange Fund, with a benchmark bond-to-equity ratio and currency-mix. Moreover, sums in the Bond Fund would be used to repay principals and meet the financial obligations and liabilities associated with GBP. Therefore, adequate liquidity would need to be maintained in the Bond Fund. Purchase of fixed assets would unlikely be conducive to this purpose.</p> <p>(c) Concern shared by Mr Albert HO, Mrs Regina IP and Miss Tanya CHAN about FS's power under paragraphs (b) and (e)(ii) of the proposed resolution under section 29 of PFO on the administration and investment of the Bond Fund. Their request for the Administration to narrow the scope of FS's power.</p> <p>(d) The Administration's advice that while details of the investment arrangement for the Bond Fund had not been set out in the proposed resolution, information had been provided to the LegCo through a supplementary information paper (LC Paper No. CB(1)1507/08-09(02)).</p>	<p>The Administration to take action as required in paragraph 8(b) of the minutes.</p>

Time Marker	Speaker	Subject(s)	Action Required
014719 – 015142	Chairman Mrs Regina IP HKMA	Responding to Mrs Regina IP's enquiry, HKMA's advice that market participants would be encouraged to enter into bilateral repo agreements with their counter-parties to enhance secondary market liquidity.	
015143 – 015712	Chairman Mr James TO HKMA	<p>(a) Mr James TO's concern on whether the proposed borrowing ceiling of HK\$100 billion would be exceeded in the event of appreciation of other currencies, if bonds denominated in other currencies would be issued. His concern about measures to manage the risk of currency mismatch.</p> <p>(b) HKMA's advice that if government bonds denominated in other currencies were to be issued, the Government could manage the currency risk through a number of investment tools in the market. The Government would closely monitor the impact of exchange rate fluctuations on the level of the sums borrowed and would timely consult the LegCo when the level drew close to the borrowing ceiling. Approval from the LegCo to raise the ceiling would be sought as and when appropriate.</p>	
015713 – 015941	Chairman Mr Albert HO Administration	<p>(a) Mr Albert HO's concern about FS's power on the administration and investment of the Bond Fund. His suggestion of placing the proceeds raised under GBP to the fiscal reserves instead of the Bond Fund.</p> <p>(b) The Administration's advice that the proposed arrangement that sums raised under GBP be credited to the Bond Fund, which would not be treated as part of the fiscal reserves and would be managed separately from other government accounts, would be an appropriate arrangement since the primary objective of GBP was to promote the development of the local bond market instead of meeting the needs of public expenditure.</p>	The Administration to take action as required in paragraph 8(c) of the minutes.
015942 – 020314	Chairman Mr James TO	Mr James TO's request for further information on details of GBP.	The Administration to take action as required in paragraph 9 of the minutes.

Time Marker	Speaker	Subject(s)	Action Required
020315 – 020623	Chairman Mr CHAN Kam-lam	(a) Mr CHAN Kam-lam's views that (i) placing the proceeds raised under GBP in the Bond Fund which was separate from the fiscal reserves would be conducive to the transparency of the on-going GBP; and (ii) narrowing FS's power under paragraphs (b) and (e)(ii) of the proposed resolution under section 29 of the PFO might reduce flexibility for FS to decide on the administration and investment of the Bond Fund to cope with rapid market changes.	
020624 – 021204	Chairman Miss Tanya CHAN Mr WONG Kwok-kin Mrs Regina IP Administration	(a) Invitation for submissions (b) Date of next meeting	