

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

First meeting on 14 May 2009

List of follow-up actions

1. 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 provide information on:
 - (a) whether it has considered issuing floating rate bonds under GBP and if so, the possible mechanism for offering of such bonds in the future;
 - (b) 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).
2. 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).
3. 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 will be issued through competitive tenders.
4. 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 Hon 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 Hon Albert HO, Hon Regina IP and Hon Tanya CHAN) request for narrowing the scope of FS's power under paragraphs (b) and (e) (ii) and specify explicitly in the resolution that the proceeds in the Bond Fund will 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, please provide information on the relevant overseas practice in the issuance of government bonds.
5. In response to Hon 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 are 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.