

PUBLIC FINANCE ORDINANCE

RESOLUTION OF THE LEGISLATIVE COUNCIL

Resolution made and passed by the Legislative Council under section 29 of the Public Finance Ordinance (Cap. 2) on 2009.

RESOLVED that –

- (a) there is established a fund to be known as the "Bond Fund" in English and "債券基金" in Chinese;
- (b) the Fund is to be administered by the Financial Secretary, who may direct or authorize other public officers to administer the Fund and delegate the power of administration to other public officers;
- (c) the following are to be credited to the Fund –
 - (i) sums borrowed under section 3 of the Loans Ordinance (Cap. 61) that are required to be credited to the Fund by any resolution of the Legislative Council approving the borrowing;
 - (ii) sums received by way of interest, dividends or investment income earned in respect of the sums held in the Fund;
 - (iii) any appropriations from the general revenue that may be approved by the Legislative Council;
 - (iv) any other sums that may be received for the purposes of

the Fund;

- (d) earnings from interest or dividends on investments of the Fund are to be retained for the purposes of the Fund;
- (e) the Financial Secretary may expend money from the Fund for the purposes of –
 - (i) repaying or, if appropriate, paying the principal of, interest on, and expenses incurred in relation to, any sums that have been borrowed under section 3 of the Loans Ordinance (Cap. 61) for the purposes of the Fund; and
 - (ii) investing in the manner the Financial Secretary considers appropriate for the prudent management of the Fund, and paying the expenses incurred in relation to the investments;
- (f) the Director of Accounting Services, under the authority of a funds warrant issued by the Financial Secretary, is to pay from the Fund any sums that may be required to meet expenditures from the Fund; and
- (g) the Financial Secretary may transfer from the Fund to the general revenue the balance held in the Fund, if so approved by the Legislative Council, when all financial obligations and liabilities are met in relation to any sums that have been borrowed under section 3 of the Loans Ordinance (Cap. 61) for the purposes of the Fund.

Clerk to the Legislative Council

2009

Explanatory Note

This Resolution relates to the proposal in the 2009-2010 Budget to promote the further and sustainable development of the bond market in Hong Kong. As mentioned in the Budget Speech, promoting the development of the bond market is important to reinforcing Hong Kong's position as an international financial centre. This can provide more diversified investment products and avenues for financing to attract more overseas capital.

2. This Resolution establishes a fund known as the Bond Fund ("the Fund"). The Fund will be administered by the Financial Secretary or public officers under the Financial Secretary's authority. The Fund will have sums borrowed under section 3 of the Loans Ordinance (Cap. 61) ("the loans"), sums received by the Fund by way of interest, dividends or investment income, appropriations from the general revenue, and any other sums received for the purposes of the Fund. Earnings from interest or dividends on investments of the Fund will be retained in the Fund. The Fund will be used to repay the loans, meet related financial obligations and liabilities, and make investments. If the Fund has a

positive balance after all financial obligations and liabilities are met in relation to the loans, the surplus funds may be transferred to the general revenue.

[DRAFT]

**SPEECH BY
THE FINANCIAL SECRETARY
IN THE LEGISLATIVE COUNCIL
ON 8 JULY 2009**

GOVERNMENT BOND PROGRAMME

PUBLIC FINANCE ORDINANCE (CHAPTER 2)

Resolution to Set Up a Bond Fund

President,

I move the motion standing in my name on the Agenda pursuant to section 29 of the Public Finance Ordinance.

2. In the 2009-10 Budget Speech, I proposed launching a Government Bond Programme, under which bonds will be issued in a systematic manner with a view to promoting the further and sustainable development of the

bond market in Hong Kong. We believe that a local bond market with sufficient breadth, depth and liquidity would help develop another effective channel of financial intermediation apart from our banking and equity markets. It would contribute to the financial stability of Hong Kong, consolidate Hong Kong's status as an international financial centre and as a conducive and efficient platform for capital-raising, investment and intermediation, as well as promote economic growth.

3. To facilitate the implementation of the Programme, we propose setting up a "Bond Fund" under the Public Finance Ordinance, to which sums raised under the Programme will be credited. The "Bond Fund" will not be treated as part of the fiscal reserves. It will be managed separately from other government accounts. The arrangement to set up a "Bond Fund" separated from other government accounts to manage sums raised under the Programme will enable clear presentation and ready

assessment of the financial performance of the Programme. The “Bond Fund” will be used to repay principal, meet the financial obligations and liabilities associated with the Programme, and make investments. I will delegate the authority to the Financial Services and the Treasury Bureau to administer the “Bond Fund”. The Bureau will assist me in maintaining a vigilant oversight of the “Bond Fund” to ensure that only the financial obligations and liabilities associated with the Programme are charged to the “Bond Fund”.

4. I would like to stress again that the purpose of the Government Bond Programme is to promote the further and sustainable development of the local bond market. And the setting up of the “Bond Fund” is a measure for meeting the operational need of the Programme. Given this, sums contained in the “Bond Fund” will not be used to cover government expenses. Under paragraph (g) of this Resolution, if there is a positive balance in the “Bond Fund” after all financial obligations and liabilities are met in relation

to the Programme, the surplus funds may be transferred to the general revenue only after the Legislative Council has given the approval.

5. We shall adopt a long term and conservative strategy for the investment of the “Bond Fund”. This seeks to achieve the objectives of preserving capital and generating reasonable investment returns for covering the financial obligations and liabilities under the Programme. To this end, we will place moneys in the “Bond Fund” with the Exchange Fund for investment. And the “fixed rate” sharing arrangement for investment income applicable to the fiscal reserves will apply to the “Bond Fund”. That is, the investment income will be calculated on the basis of the average rate of return of the Exchange Fund’s investment portfolio over the past six years or the average annual yield of three-year Exchange Fund Notes for the previous year, whichever is higher. Such an arrangement will allow the “Bond Fund” to benefit from the economy of scale of assets

managed under the Exchange Fund and risk diversification. The substantial size of the Exchange Fund can provide sufficient investment diversification for the achievement of a stable investment return for the “Bond Fund”, especially during the initial phase of the Programme.

6. We need the sequential approval of the Legislative Council of two relevant Resolutions, one for setting up the “Bond Fund” pursuant to section 29 of the Public Finance Ordinance for managing sums raised under the Programme, and the other for authorizing the Government to borrow up to a ceiling of HK\$100 billion or equivalent for the purpose of the “Bond Fund” in accordance with section 3 of the Loans Ordinance, for implementation of the Programme.

7. The further and sustainable development of the local bond market will be conducive to promoting the financial and economic development of Hong Kong. Implementation of the Government Bond Programme is no

doubt an important step in promoting the development of the local bond market.

8. President, I earnestly hope that Members will support the Resolution under section 29 of the Public Finance Ordinance. I would also like to take this opportunity to thank the hard work of the Subcommittee set up to scrutinize the Resolutions over the last two months under the chairmanship of Hon. Jeffrey Lam.

9. Thank you, President.

《END》