

For information

**Legislative Council Panel on Financial Affairs
Follow-up to Meeting on 8 April 2013**

**Supplementary Information for
the Proposal to Raise the Maximum Amount of Borrowings
under the Government Bond Programme**

Purpose

The Administration briefed the Panel, at its meeting held on 8 April 2013, the proposal to raise the maximum amount of borrowings under the Government Bond Programme from HK\$100 billion to HK\$200 billion, with a view to promoting the further development of the local bond market. This note sets out the supplementary information requested by some Members at the meeting.

Comparison of the bond markets of Hong Kong with those of major Asian financial centres as a financial intermediation channel for private sector

2. As a financial intermediation channel for the private sector, Hong Kong's local currency bond market is not as large as that of some other Asian economies. According to the Asian Development Bank ("ADB") (**Annex A**), the size of the Hong Kong local currency corporate bond market as a percentage of gross domestic product ("GDP") was about 32% at end 2012. As compared with our well-developed equity market and banking sector, which have long been effective for financial intermediation, there is room for further development in the Hong Kong local currency bond market as a domestic financing platform.

3. As regards the foreign currency bond segment, according to the Bank for International Settlements ("BIS")¹, the size of the Hong Kong foreign currency bond market as a percentage of GDP was nearly 42% at end 2012,

¹ Since bond issuances typically take place in multiple locations (e.g. a bond originated by an issuer from Hong Kong could be distributed to investors in different markets), it is not straightforward in determining whether a bond is actually issued in a "specific market". That notwithstanding, for purposes of international comparison, the data on international debt instruments (i.e. debt instruments issued outside of the domestic market where the issuer resides) compiled by BIS are often used as *proxy* to the size of a jurisdiction's foreign currency bond market.

which was the highest amongst financial centres in Asia (**Annex B**).

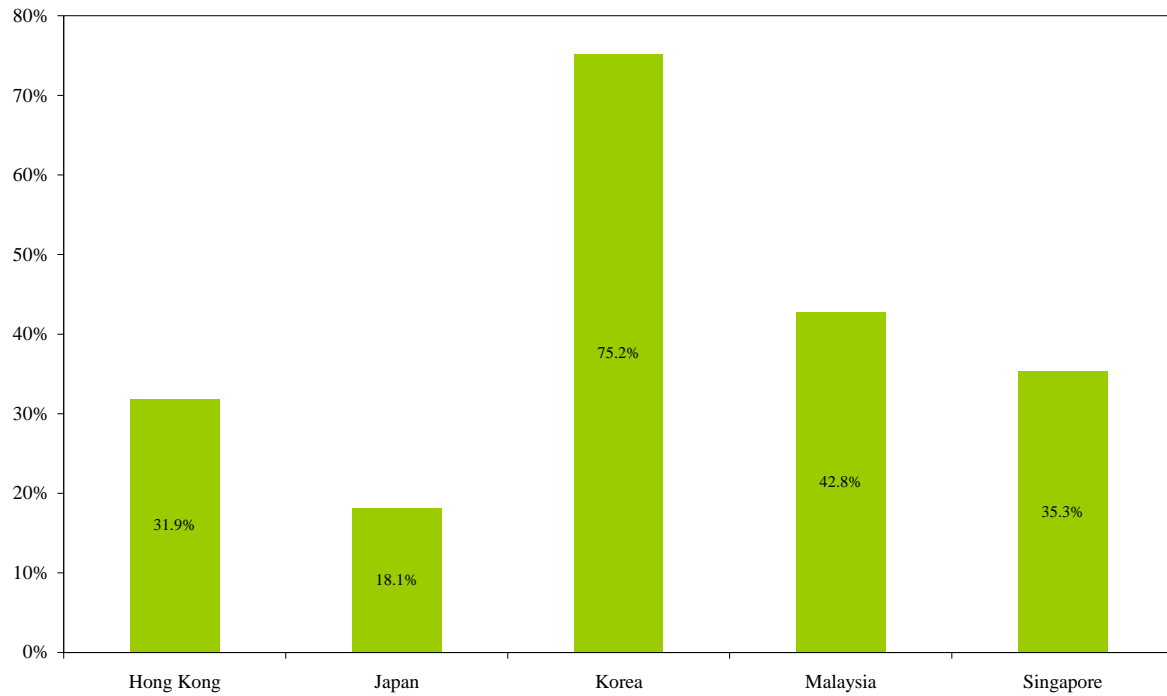
Financial statements of the Bond Fund

4. Audited financial statements of the Bond Fund for the years ended on 31 March of 2011 and 2012 are at **Annex C**. They show the financial information of the Bond Fund since its launch in July 2009 till 31 March 2012².
5. Members are invited to note the contents of this note.

Financial Services and the Treasury Bureau
29 April 2013

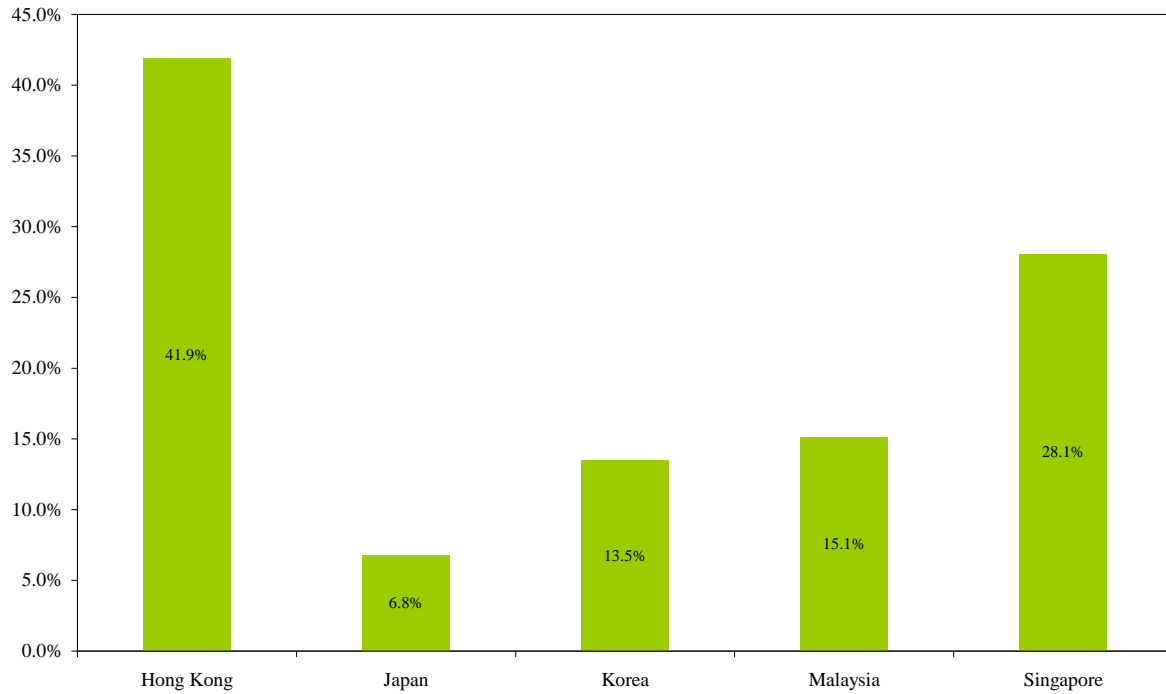
² The financial statement of the Bond Fund for the year ended on 31 March 2013 will be available in around August 2013.

Outstanding size of the local currency corporate bond market as a percentage of GDP at end 2012



Source: Asian Development Bank

Outstanding size of the foreign currency corporate bond market (proxy by international debt instruments), as a percentage of GDP at end 2012



Source: Bank for International Settlements

Bond Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2011

	Note	2011 HK\$'000	2010 HK\$'000
Assets			
Investments with the Exchange Fund	3	28,452,075	11,582,423
Representing:			
Fund Balance			
Balance at beginning of year		11,582,423	-
Surplus for the year		16,869,652	11,582,423
Balance at end of year	4	28,452,075	11,582,423

Notes 1 to 8 form part of these financial statements.

Mrs Lesley Y C WONG
Director of Accounting Services
25 August 2011



Bond Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 HK\$'000	2010 HK\$'000
Cash and bank balances at beginning of year		-	-
Revenue	5	17,139,343	11,599,422
Expenditure	6	(269,691)	(16,999)
Surplus for the year		16,869,652	11,582,423
Other cash movements	7	(16,869,652)	(11,582,423)
Cash and bank balances at end of year		-	-

Notes 1 to 8 form part of these financial statements.

Mrs Lesley Y C WONG
Director of Accounting Services
25 August 2011



Bond Fund

NOTES TO THE FINANCIAL STATEMENTS

1. Purpose and Legislation

The Bond Fund was established with effect from 10 July 2009 by a Resolution (hereinafter referred to as the Resolution) passed by the Legislative Council under section 29(1) of the Public Finance Ordinance (Cap. 2) on 8 July 2009. Sums raised under the Government Bond Programme are credited to the Bond Fund. The Hong Kong Monetary Authority has been directed by the Financial Secretary to, inter alia, assist in managing the investment concerning the Bond Fund.

2. Accounting Policy

The accounts of the Bond Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid. The Statement of Assets and Liabilities of the Fund excludes outstanding liabilities in respect of sums borrowed under paragraph (c)(i) of the Resolution referred to in Note 4 below.

3. Investments with the Exchange Fund

- (i) These are investments made under paragraph (e)(ii) of the Resolution. They represent the cost of investments together with interest of HK\$983 million received in the year ended 31 March 2011.
- (ii) The return on the investments is calculated on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year Exchange Fund Notes for the previous year subject to a minimum of zero percent, whichever is the higher.

4. Liabilities

The following outstanding liabilities in respect of sums borrowed for the purposes of the Bond Fund under the Loans Ordinance (Cap. 61) are not included in the Statement of Assets and Liabilities:

	2011	2010
	HK\$'000	HK\$'000
Outstanding government bonds	<u>27,500,000</u>	<u>11,500,000</u>

Following a resolution passed under section 3(1) of the Loans Ordinance in July 2009, the Government issued bonds totalling HK\$27,500 million to institutional investors as at 31 March 2011. The bonds will mature within the period from September 2011 to January 2020. During the financial year, payments of HK\$269 million interest were made.

5. Revenue

	2011		2010
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Proceeds from issuance of bonds	17,500,000	16,156,658	11,498,598
Investment income	922,654	982,685	100,824
	<u>18,422,654</u>	<u>17,139,343</u>	<u>11,599,422</u>

Bond Fund

6. Expenditure

	2011		2010
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Interest payment for bonds	301,225	268,716	15,968
Others	9,868	975	1,031
	311,093	269,691	16,999

7. Other Cash Movements

These are cash movements arising from changes in other assets and liabilities.

	2011 HK\$'000	2010 HK\$'000
Increase in Assets:		
Investments with the Exchange Fund	16,869,652	11,582,423

8. Comparative Figures

The comparative figures are for the period from 10 July 2009 (date of establishment of the Fund) to 31 March 2010.

Bond Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2012

	Note	2012 HK\$'000	2011 HK\$'000
Assets			
Investments with the Exchange Fund	3	<u>52,019,013</u>	<u>28,452,075</u>
Representing:			
Fund Balance			
Balance at beginning of year		28,452,075	11,582,423
Surplus for the year		<u>23,566,938</u>	<u>16,869,652</u>
Balance at end of year	4	<u>52,019,013</u>	<u>28,452,075</u>

Notes 1 to 7 form part of these financial statements.

Mrs Lesley Y C WONG
Director of Accounting Services
15 August 2012



Bond Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 HK\$'000	2011 HK\$'000
Cash and bank balances at beginning of year		-	-
Revenue	5	31,384,643	17,139,343
Expenditure	6	(7,817,705)	(269,691)
Surplus for the year		23,566,938	16,869,652
Other cash movements	7	(23,566,938)	(16,869,652)
Cash and bank balances at end of year		-	-

Notes 1 to 7 form part of these financial statements.

Mrs Lesley Y C WONG
Director of Accounting Services
15 August 2012



Bond Fund

NOTES TO THE FINANCIAL STATEMENTS

1. Purpose and Legislation

The Bond Fund was established with effect from 10 July 2009 by a Resolution (hereinafter referred to as the Resolution) passed by the Legislative Council under section 29(1) of the Public Finance Ordinance (Cap. 2) on 8 July 2009. Sums raised under the Government Bond Programme are credited to the Bond Fund. The Hong Kong Monetary Authority has been directed by the Financial Secretary to, inter alia, assist in managing the investment concerning the Bond Fund.

2. Accounting Policy

The accounts of the Bond Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid. The Statement of Assets and Liabilities of the Fund excludes outstanding liabilities in respect of sums borrowed under paragraph (c)(i) of the Resolution referred to in Note 4 below.

3. Investments with the Exchange Fund

- (i) These are investments made under paragraph (e)(ii) of the Resolution. They represent the cost of investments together with interest of HK\$2.12 billion received in the year ended 31 March 2012.
- (ii) The return on the investments is calculated on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year Exchange Fund Notes for the previous year subject to a minimum of zero percent, whichever is the higher.

4. Fund Balance

The Fund Balance includes receipts from sums borrowed for the purposes of the Bond Fund under the Loans Ordinance (Cap. 61) that are required to be credited to the Fund under paragraph (c)(i) of the Resolution. Repayments of the principal in relation to the outstanding liabilities in respect of sums borrowed are included in expenditure charged to the Fund under paragraph (e)(i) of the Resolution.

Following a resolution passed under section 3(1) of the Loans Ordinance in July 2009, the Government issued bonds totalling HK\$56.5 billion to institutional and retail investors as at 31 March 2012. These include a total of HK\$19 billion bonds issued to institutional investors and a total of HK\$10 billion bonds issued to retail investors during the year. The outstanding liabilities, not included in the Statement of Assets and Liabilities, in respect of sums borrowed are as follows:

	2012 HK\$'000	2011 HK\$'000
Outstanding government bonds	<u>49,500,000</u>	<u>27,500,000</u>

Of the outstanding bonds, HK\$7 billion will mature within the period from April 2012 to March 2013, and the rest within the period from April 2013 to August 2021. During the financial year, repayments of principal of HK\$7 billion and payments of interest of HK\$785 million were made.

Bond Fund

5. Revenue

	2012		2011
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Proceeds from issuance of bonds	16,000,000	29,260,991	16,156,658
Investment income	1,880,000	2,123,652	982,685
	<u>17,880,000</u>	<u>31,384,643</u>	<u>17,139,343</u>

6. Expenditure

	2012		2011
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Repayment of principal for bonds	7,000,000	7,000,000	-
Interest payment for bonds	465,714	785,276	268,716
Others	3,166	32,429	975
	<u>7,468,880</u>	<u>7,817,705</u>	<u>269,691</u>

7. Other Cash Movements

These are cash movements arising from changes in other assets and liabilities.

	2012 HK\$'000	2011 HK\$'000
Increase in Assets		
Investments with the Exchange Fund	<u>23,566,938</u>	<u>16,869,652</u>

Revenue, Expenditure and Fund Balance for the years ended 31 March 2010 to 2012

HK\$Billion

