

**立法會**  
***Legislative Council***

LC Paper No. CB(1)991/03-04  
(These minutes have been seen  
by the Administration)

Ref : CB1/SS/2/03

**Subcommittee on  
proposed resolution under section 3(1) of the Loans Ordinance**

**Minutes of the meeting held on  
Friday, 16 January 2004, immediately after the House Committee meeting  
in Conference Room A of the Legislative Council Building**

**Members present** : Hon CHAN Kam-lam, JP (Chairman)  
Hon LEE Cheuk-yan  
Hon SIN Chung-kai  
Hon Miriam LAU Kin-ye, JP  
Hon Abraham SHEK Lai-him, JP  
Hon Henry WU King-cheong, BBS, JP

**Members absent** : Hon LI Fung-ying, JP  
Hon LEUNG Fu-wah, MH, JP  
Hon Audrey EU Yuet-mee, SC, JP

**Public officers  
attending** : Mr Martin GLASS  
Deputy Secretary for Financial Services and the Treasury  
(Treasury)

Mr Tommy YUEN  
Principal Assistant Secretary for Financial Services  
and the Treasury (Treasury)

Mr Richard FAWLS  
Senior Assistant Law Officer (Civil Law)  
Department of Justice

Mr Allen LAI  
Senior Government Counsel (Law Drafting)  
Department of Justice

Mrs Sharon YIP  
Principal Assistant Secretary for Environmental, Transport  
and Works

Miss LUI Ying  
Principal Transport Officer/Management  
Transport Department

**Attendance by invitation** : The Hong Kong and Shanghai Banking Corporation Limited

Mr Michael KERSHAW  
Head of Financing Group, Asia-Pacific

Mr Sarwar AHMAD  
Head of Structured Capital Markets

Mr Robert MONTANARI  
Director, Financing Risk & Advisory

Mr Kyson HO  
Associate Director, Structured Capital Markets

**Clerk in attendance** : Miss Salumi CHAN  
Chief Council Secretary (1)5

**Staff in attendance** : Ms Connie FUNG  
Assistant Legal Adviser 3

Ms Connie SZETO  
Senior Council Secretary (1)4

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**I. Election of Chairman**

Mr CHAN Kam-lam was elected Chairman of the Subcommittee.

**II. Meeting with the Administration**

(File Ref: FIN CR1/4651/01)

- Legislative Council Brief on “Resolution to Authorize the Securitization of Future Revenue from Government Toll Roads” issued by Financial Services and the Treasury Bureau
  
- LC Paper No. LS 28/03-04 — The Legal Service Division Report on proposed resolution under section 3(1) of the Loans Ordinance (Cap. 61)
  
- LC Paper No. CB(1)693/03-04(01) — Loans Ordinance (Cap. 61)
  
- LC Paper No. CB(1)780/03-04(01) — Background brief prepared by the Legislative Council Secretariat
  
- LC Paper No. CB(1)780/03-04(02) — Letter dated 14 January 2004 from Hon LEUNG Fu-wah to the Administration with a list of questions on the proposed securitization exercise
  
- LC Paper No. CB(1)780/03-04(03) — Letter dated 14 January 2004 from Hon Audrey EU to the Clerk to Subcommittee with a list of questions on the proposed securitization exercise
  
- LC Paper No. CB(1)800/03-04(01) — Letter dated 15 January 2004 from Secretary for Financial Services and the Treasury with replies to the list of questions raised by Hon LEUNG Fu-wah on the proposed securitization exercise
  
- LC Paper No. CB(1)800/03-04(02) — Letter dated 16 January 2004 from Secretary for Financial Services and the Treasury with replies to the list of questions

raised by Hon Audrey EU on the proposed securitization exercise

- LC Paper No. CB(1)713/03-04(03) — Letter dated 30 December 2003 from Assistant Legal Adviser 3 of Legal Service Division of Legislative Council Secretariat to the Administration
- LC Paper No. CB(1)713/03-04(04) — Reply dated 2 January 2004 from the Administration to Assistant Legal Adviser 3
- LC Paper No. CB(1)713/03-04(05) — Letter dated 2 January 2004 from Assistant Legal Adviser 3 to the Administration
- LC Paper No. CB(1)780/03-04(04) — Reply dated 6 January 2004 from the Administration to Assistant Legal Adviser 3
- LC Paper No. CB(1)717/03-04(01) — Reply dated 6 January 2004 from the Administration to the Clerk to the Panel on Financial Affairs providing a brief profile and some important data of the concerned toll tunnels and bridges
- LC Paper No. CB(1)727/03-04(01) — Letter dated 6 January 2004 from Hon Henry WU to the Secretary for Financial Services and the Treasury requesting detailed information about the securitization exercise
- LC Paper No. CB(1)735/03-04(01) — Reply dated 8 January 2004 from the Administration to the Clerk to the Panel on Financial Affairs)

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

Follow-up actions to be taken by the Administration

3. At the request of the Subcommittee, the Administration agreed to take the following actions -

- (a) To provide Government's guidelines issued to bureaux and departments regarding investment of Government funds in financial instruments, such as bonds and securities;
- (b) To provide guidelines issued by Government to statutory bodies, such as the Hong Kong Housing Authority, regarding investments in bonds with different levels of credit ratings; and
- (c) To report on the overall outcome of the securitization exercise to the LegCo Panel on Financial Affairs in due course.

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*(Post-meeting note: On items (a) and (b) above, the Administration's reply and the "Investment Guide" issued by the Government to bureaux and departments were circulated to members vide LC Paper No. CB(1)888/03-04(02) on 29 January 2004.)*

#### Invitation of public views

4. Members considered it not necessary to invite public views on the proposed resolution.

#### Way forward

5. The Subcommittee completed scrutiny of the proposed resolution. Members supported the objectives of the proposed securitization exercise, and agreed that a report be submitted to the House Committee for its consideration at the meeting to be held on 30 January 2004. Members noted that subject to the House Committee's views, the Administration would give notice by 3 February 2004 for moving the proposed resolution at the Council meeting on 18 February 2004.

*(Post-meeting note: The report of the Subcommittee (LC Paper No. CB(1)866/03-04) was issued to all Members on 29 January 2004.)*

### **III. Any other business**

6. There being no other business, the meeting ended at 5:00 pm.

Council Business Division 1  
Legislative Council Secretariat  
13 February 2004

## Appendix

**Proceedings of the meeting of the  
Subcommittee on  
proposed resolution under section 3(1) of the Loans Ordinance  
on Friday, 16 January 2004, immediately after the House Committee meeting  
in Conference Room A of the Legislative Council Building**

Time marker	Speaker	Subject(s)	Action Required
000000-000045	Mr LEE Cheuk-yan Mr Henry WU Mr SIN Chung-kai Mr CHAN Kam-lam	Election of Chairman	
000046-000428	Chairman	Welcoming remarks	
000429-003149	Administration	Briefing by the Administration on its written responses to questions raised by Hon LEUNG Fu-wah and Hon Audrey EU (LC Paper Nos. CB(1)800/03-04(01) and (02))	
003150-003459	Mr SIN Chung-kai Administration Chairman	Types of revenues covered by the securitization exercise	
003460-004129	Mr Henry WU Administration Chairman HSBC	Credit ratings of the securitized bonds  (a) Hong Kong and Shanghai Banking Corporation Limited (HSBC)'s confirmation that the possible ratings of AA- or Aa3 for the securitized bonds would be attractive to both retail and institutional investors	



<b>Time marker</b>	<b>Speaker</b>	<b>Subject(s)</b>	<b>Action Required</b>
		<p>(b) Whether the ratings of the securitized bonds were comparable to those adopted in Government's guidelines on investment of Government funds and guidelines issued to statutory bodies regarding investments in bonds and notes</p> <p>(Items A3 and A4 of LC Paper No. CB(1)800/03-04(02))</p>	<p>Administration to take follow-up action under paragraph 3(a) and (b) of the minutes</p>
004130-005152	<p>Mr Henry WU Administration Chairman HSBC</p>	<p>Compensation for investors on changes in environmental policy leading to reduction in toll revenue</p> <p>(a) Administration's confirmation that investors would be compensated for events within direct or indirect control of Government leading to non-operation of the toll bridges and tunnels</p> <p>(b) Whether funding approval from the Legislative Council (LegCo) would be required for making compensation payments and whether there would be any upper limit for such payments</p>	

<b>Time marker</b>	<b>Speaker</b>	<b>Subject(s)</b>	<b>Action Required</b>
005153-010124	Ms Miriam LAU Administration Chairman	<p>Impact of the proposed securitization exercise on transport policy</p> <p>(a) Concern that the exercise would adversely affect Government's plan to optimize the utilization of the three cross-harbour tunnels</p> <p>(b) Administration's assurance that it would incorporate into the securitization exercise a mechanism to retain flexibility in the future implementation of Government transport policy and it would be careful in structuring the deal to ensure that the securitization would not erode any transport initiatives that were underway</p> <p>(Item A5 of LC Paper No. CB(1)800/03-04(02))</p>	
010125-011326	Mr LEE Cheuk-yan Administration Chairman	<p>(a) Concern that the securitization exercise would restrain Government's power in formulating and implementing transport policy and would adversely affect staff of the operators of the toll bridges and tunnels</p>	

<b>Time marker</b>	<b>Speaker</b>	<b>Subject(s)</b>	<b>Action Required</b>
		<p>(b) Administration's confirmation that the exercise was purely a financial arrangement and there would be no impact on the users and operators of the toll bridges and tunnels, and staff of the operators concerned (LC Paper No. CB(1)800/03-04(01))</p> <p>(c) Costs for issuance of conventional government bonds and securitized bonds, and protection for investors (Item A1 of LC Paper No. CB(1)800/03-04(02))</p>	
011327-011405	Mr Abraham SHEK	Support for the proposed securitization exercise	
011406-011829	Chairman HSBC Administration	<p>Maturity and interest rates of the securitized bonds</p> <p>(a) Administration's advice that the securitized bonds would consist of tranches with different maturities, and that a combination of fixed and floating interest rates would be offered</p> <p>(b) HSBC's advice that in general, lower interest rates would be offered to bonds with a shorter maturity</p>	

<b>Time marker</b>	<b>Speaker</b>	<b>Subject(s)</b>	<b>Action Required</b>
011830-011934	Chairman Administration	<p>(a) Government's option to exclude the Cross-Harbour Tunnel from the securitization exercise through early redemption</p> <p>(b) Timing for Government to consider exercising this option and the factors to be taken into account</p>	
011935-012101	Chairman Administration	<p>Compensation to investors if a change in toll rates resulted in an overall decrease in toll revenue</p> <p>(a) Administration's confirmation that investors would be compensated if the decrease in toll revenue was greater than a certain threshold</p> <p>(b) The Administration's advice that the threshold level would be worked out with the arranger and the credit rating agencies after the appointment of the arranger</p> <p>(Item C1 of LC Paper No. CB(1)800/03-04(02))</p>	
012102-012335	Mr SIN Chung-kai Administration	<p>Target investors of the securitized bonds</p> <p>(a) Percentage of securitized bonds to be offered to retail and institutional investors</p>	

<b>Time marker</b>	<b>Speaker</b>	<b>Subject(s)</b>	<b>Action Required</b>
		(b) Urge for Government to give priority to retail investors in the allocation of securitized bonds	
012336-012619	Mr Abraham SHEK	Costs of the securitization exercise and how the estimated costs were worked out  (Item B4 of LC Paper No. CB(1)800/03-04(02))	
012620-012849	Chairman Administration	Whether it was necessary for Government to compensate investors if it redeemed the securitized bonds before their maturities	
012850-013313	Ms Miriam LAU Administration	Impact on Government if changes in toll rates led to increase/decrease in toll revenue  (Item C1 of LC Paper No. CB(1)800/03-04(02))	
013314-013534	Mr Abraham SHEK Administration	Compensation to investors for business interruption events due to force majeure  (Paragraph 3 of Annex C of the LegCo Brief)	
013535-013735	Mr Abraham SHEK Administration HSBC	Interest rates of the securitized bonds	
013736-014134	Chairman Administration	Details about the operations of the “special purpose issuer” for issuance of the securitized bonds, management of the sinking fund to be established	

<b>Time marker</b>	<b>Speaker</b>	<b>Subject(s)</b>	<b>Action Required</b>
		for the toll revenue (Item D2 of LC Paper No. CB(1)800/03-04(02)), roles of the transaction administrator and the securities trustee for administering payments to investors and to protect their interests	
014135-015124	Chairman Assistant Legal Adviser 3 Mr Abraham SHEK Administration Mr SIN Chung-kai	Discretion of the Financial Secretary (FS) under section 3(4) of the Loans Ordinance to exclude the agreement between Government and a lender in respect of the sum borrowed under the proposed securitization exercise from the requirement of tabling at LegCo  (a) Administration's intention to recommend FS to exercise the discretion  (b) Reasons for excluding the agreements from the requirement of tabling at LegCo  (c) Administration's advice that most of the information contained in the agreements would be included in the prospectus of the securitization exercise and made known to the public, and that only the identity of the investors and the amount subscribed would be kept confidential for commercial reasons	

<b>Time marker</b>	<b>Speaker</b>	<b>Subject(s)</b>	<b>Action Required</b>
		(d) Administration's undertaking to report the overall outcome of the securitization exercise to the Panel on Financial Affairs in due course	Administration to take follow-up action under paragraph 3(c) of the minutes
015125-015200	Mr Abraham SHEK	Support for FS to exercise the discretion under section 3(4) of the Loans Ordinance	
015201-015350	Chairman Administration HSBC	Administration's confirmation that information on the securitized bonds, e.g. performance, would be available on the internet and regularly updated for investors' reference	
015351-015454	Chairman	Invitation of public views	
015455-015640	Chairman Administration Mr SIN Chung-kai	Way forward	