



Clerk to Subcommittee on Proposed Resolution Under
Section 3(1) of the Loans Ordinance (by way of issuance
of Government Bonds)

Legislative Council Secretariat
3/F Citibank Tower
3 Garden Road
Central
Hong Kong

Attention: Mr Anthony Chu

11 May 2004

Dear Sir

Subcommittee on proposed resolution under section 3(1) of the Loan Ordinance (by way of issuance of Government Bonds)

We refer to your letter dated 6 May 2004 inviting us for comments on the captioned matter. On behalf of ACCA (Association of Chartered Certified Accountants) Hong Kong, we are pleased to submit our comments for your consideration.

ACCA HK agrees in principle that the issuance of bonds provides flexibility for the government in cash management and in the sale or securitisation of government assets. Nevertheless, we are of the view that the following issues must be addressed upon issuance of bonds:

- The objective of issuing bonds should be specified, so should the particular projects / assets to be financed;
- There should be a predetermined stream of revenue to meet the interest payment and principal redemption;
- The cost of the bond issue should be lower when compared to the private sector given that the credit ranking of Hong Kong government is comparatively higher;

ACCA Hong Kong 香港分會

Room 1901 19/F World Wide House 19 Des Voeux Road Central

中環 德輔道 19 號 環球大廈 19 樓 1901 室

tel 電話: +852 2524 4988 fax 傳真: +852 2868 4909 <http://hongkong.accaglobal.com>

- There should be a defined timetable for the term of the bond; and
- The cost of financing the infrastructure by way of bond issue must be lower than that of other funding alternatives.

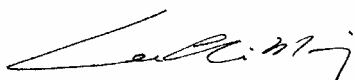
As noted from the proposed resolution, the issuance of bonds will generate a sum or sums not exceeding in total \$20 billion or equivalent for the purposes of the Capital Work Reserve Fund. While the Fund is to be expended for the purposes as stipulated in the Public Finance Ordinance (Cap 2), no particular project could be tracked in which the bonds' proceeds are expended. We are therefore concerned that it is difficult to assess the effectiveness of the bond issue, which should be the most critical factor to be considered, given that the government is not short of "cash" in its reserves.

ACCA therefore recommends that the government should have a comprehensive plan on the bond issue, in particular the projects or assets to be financed, the financial arrangements for interest payment and principal redemption, and the impact on public finance. In order to enhance transparency and provide more information to enable public oversight on the management of public finance, a mechanism should also be in place to ensure the economic benefit derived therefrom outweighs any costs involved in the bond issue.

Given the very short time span available for the submission, our comments are based on the broad principles that the Government should adhere to on bond issue. Details of the subject matter, including the fund requirements and the impact of the proposed resolution on public finance will need to be further studied.

Should you like to clarify any of the above issues, please do not hesitate to contact myself or Ms Sonia Khao at 2524 4988.

Yours faithfully



Leo Lee
President