

立法會
Legislative Council

LC Paper No. CB(1)2347/08-09
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by the Administration)

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

**Minutes of meeting
held on Monday, 25 May 2009, at 8:30 am
in the Chamber of the Legislative Council Building**

Members present : Hon Jeffrey LAM Kin-fung, SBS, JP (Chairman)
Hon Albert HO Chun-yan
Dr Hon David LI Kwok-po, GBM, GBS, JP
Hon CHAN Kam-lam, SBS, JP
Hon WONG Ting-kwong, BBS
Hon CHIM Pui-chung
Hon Starry LEE Wai-king
Dr Hon LAM Tai-fai, BBS, JP
Hon Paul CHAN Mo-po, MH, JP
Hon CHAN Kin-por, JP
Hon Tanya CHAN
Hon WONG Kwok-kin, BBS
Hon Mrs Regina IP LAU Suk-ye, GBS, JP

Members absent : Hon James TO Kun-sun
Dr Hon Philip WONG Yu-hong, GBS
Hon Miriam LAU Kin-ye, GBS, JP
Hon Abraham SHEK Lai-him, SBS, JP
Hon Ronny TONG Ka-wah, SC

Public officers attending : Financial Services and the Treasury Bureau
Mr CHENG Yan-chee, JP
Deputy Secretary for
Financial Services and the Treasury (Financial Services) 1

Miss Natalie LI
Principal Assistant Secretary for
Financial Services and the Treasury (Financial Services) 5

Miss Ann CHAN
Principal Assistant Secretary for
Financial Services and the Treasury (Treasury)(I)

Hong Kong Monetary Authority

Mr Edmond LAU, JP
Executive Director (Monetary Management)

Mr Daryl HO
Head (Market Development)(Acting)

Department of Justice

Mr Michael LAM
Senior Assistant Law Draftsman

Ms Lonnie NG
Senior Government Counsel

Clerk in attendance : Ms Rosalind MA
Chief Council Secretary (1)5

Staff in attendance : Miss Kitty CHENG
Assistant Legal Adviser 5

Ms Amy LEE
Senior Council Secretary (1)8

Ms Haley CHEUNG
Legislative Assistant (1)8

I Meeting with the Administration

Follow-up to issues raised at the meeting on 14 May 2009

(LC Paper No. CB(1)1662/08-09(01) — List of follow-up actions arising from the first meeting on 14 May 2009 prepared by the Legislative Council Secretariat

- LC Paper No. CB(1)1662/08-09(02) — Administration's supplementary information in response to issues raised at the meeting on 14 May 2009
- LC Paper No. CB(1)1662/08-09(03) — Letter from Assistant Legal Adviser dated 18 May 2009 to Administration
- LC Paper No. CB(1)1662/08-09(04) — Administration's response to the letter from Assistant Legal Adviser)

Relevant papers previously issued

- (LC Paper No. CB(1)1567/08-09 — Background Brief on proposed resolutions under section 29 of the Public Finance Ordinance (Cap. 2) and section 3 of the Loans Ordinance (Cap. 61) prepared by the Legislative Council Secretariat
- LC Paper No. CB(3)553/08-09 — Proposed resolution under section 29 of the Public Finance Ordinance (Cap.2)
- LC Paper No. CB(3)554/08-09 — Proposed resolution under section 3 of the Loans Ordinance (Cap.61)
- G6/123/5C — The Legislative Council Brief issued by the Financial Services and the Treasury Bureau
- LC Paper No. LS68/08-09 — Legal Service Division Report on proposed resolution under section 3 of the Loans Ordinance (Cap. 61) and proposed resolution under section 29 of the Public Finance Ordinance (Cap. 2))

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

Follow-up actions to be taken by the Administration

2. The Administration was requested to provide written response to the comments made by Mrs Regina IP on the proposed resolutions tabled at the meeting and whether the purpose for the establishment of the Bond Fund and the investment strategy to be adopted should be expressly provided in the resolutions.

3. In relation to Mrs Regina IP's concern about the issuance of bond by the Hong Kong Mortgage Corporation Limited (HKMC), the Administration was requested to liaise with HKMC to provide information on its debt issuance programme (DIP), and the investment strategy as well as risk control of HKMC in managing the funds raised under DIP.

4. In relation to the concerns of Ms Starry LEE and Mr Jeffrey LAM, the Administration was requested to provide information, if any, on the investment strategy and investment portfolios of the funds raised under the Singapore Government Securities programme.

(Post-meeting note: The Administration's response and the information provided by HKMC were issued to members vide LC Paper Nos. CB(1)1813/08-09(03) and (04) on 5 June 2009.)

II Any other business

Date of next meeting

5. Members agreed to hold its third meeting on one of the following dates:

- (a) Thursday, 4 June 2009, 4:30pm to 6:30 pm; or
- (b) Monday, 8 June 2009, 8:30 am to 10:30 am.

(Post-meeting note: Having regard to members' availability for the third meeting in June 2009, the Subcommittee Chairman decided that the third meeting be scheduled for Monday, 8 June 2009. Members were informed of the meeting arrangements vide LC Paper No. CB(1)1746/08-09 on 27 May 2009.)

6. There being no other business, the meeting ended at 10:25 am.

**Proceedings of the
Subcommittee on Proposed Resolutions under Section 29 of the Public Finance
Ordinance (Cap. 2) and Section 3 of the Loans Ordinance (Cap. 61)
Meeting on Monday, 25 May 2009, at 8:30 am
in the Chamber of the Legislative Council Building**

Time Marker	Speaker	Subject(s)	Action Required
000158 – 000327	Chairman	Introductory remarks	
000328 – 001215	Chairman Administration	Briefing by the Administration (LC Paper No. CB(1)1662/08-09(02))	
001216 – 002508	Chairman Mrs Regina IP Administration HKMA	<p>(a) In response to Mrs Regina IP's enquiry on the size of bond issuance by HKMC under its DIP, the Administration's advice that the issuance size of HK\$8,892 million set out in paragraph 21 of LC Paper No. CB(1)1662/08-09(02) represented the quantity of bonds issued during the period from 1 January to 14 May 2009.</p> <p>(b) Mrs IP's suggestion that the name "Debt Fund" be used instead of "Bond Fund" so as not to restrict the programme technically to issuing bonds only. Her view that bonds were longer-dated papers and the Government had indicated that it intended to issue short-dated papers initially.</p> <p>(c) HKMA's response that the name "Bond Fund" was appropriate as the Government intended to issue bonds with tenors of two to ten years. Also, it was in line with market convention that debt securities with tenors of more than one year be labelled as bonds.</p> <p>(d) Mrs IP's view that the proposed issuance of about HK\$10 to 20 billion of government bonds in the first year of implementation of the Government Bond Programme (GBP), and the proposed borrowing ceiling of HK\$100 billion might not be sufficient to promote the development of the local bond market.</p> <p>(e) HKMA's response that the proposed borrowing ceiling represented a long-term target over a period of five to ten years and had been drawn up upon detailed and careful consideration. Views from major market participants indicated that the market might be able to digest government bonds of HK\$10 to</p>	

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		<p>20 billion over the course of one year. The Government would solicit further market views and conduct further assessment with a view to determining the appropriate issuance size for the first year of programme implementation.</p> <p>(f) Mrs IP's suggestion to state explicitly in the proposed resolution the purpose of the Bond Fund, by adding "to give impetus for the further development of the Hong Kong Dollar debt market to provide for depth and sophistication thus enhancing Hong Kong's position as a financial centre."</p> <p>(g) The Administration's response that paragraphs (e)(i) and (e)(ii) of the proposed resolution under section 29 of the Public Finance Ordinance (Cap.2) (PFO) set out the purpose for which the Bond Fund was to be established and moneys in the Bond Fund might be expended.</p>	
002509 – 003447	Chairman Mr Albert HO Administration HKMA	<p>(a) Mr Albert HO's concern about the power of the Financial Secretary (FS) in the administration and investment of the Bond Fund under the proposed resolution under PFO. His view that expressed provision should be added to the resolution to restrict the scope of the power of FS, say, by stipulating the investment arrangement of the Bond Fund. His view that Members belonging to the Democratic Party would not support the proposed resolution if the power of administration and investment of the Bond Fund would vest in one Principal Official.</p> <p>(b) The Administration's advice that in view of the long-term nature of GBP, it would not be desirable to set out any specific investment arrangement in the proposed resolution under PFO. The implementation details might need to be adjusted having regard to changes in the market. It would be necessary for FS to fine-tune the specific investment arrangement under unforeseeable or exceptional circumstances, if any, in the long run. According to the proposed framework of GBP, FS would direct HKMA to assist in coordinating the offering of the bonds and manage the investment of moneys in the Bond</p>	

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		<p>Fund which would be placed with the Exchange Fund.</p> <p>(c) Mr Albert HO's view that the unrestricted power of FS in the investment of the Bond Fund could not be justified by the need to allow flexibility to fine-tune the investment arrangement. His concern about the types of investment permissible, such as the purchase of fixed assets like tunnels.</p> <p>(d) HKMA's advice that investment of the Exchange Fund was governed by its investment objectives and benchmark portfolios. Investment in fixed assets such as infrastructure would not be in line with the benchmark portfolios of the Exchange Fund.</p>	
003448 – 003647	Chairman Mr CHAN Kin-por Administration	<p>(a) Mr CHAN Kin-por's view that the Government should expedite the implementation of GBP so as to make good use of the existing favourable market conditions and consider increasing the issuance size in response to market demand.</p> <p>(b) The Administration's response that it would continue to tap market views for drawing up the implementation details of GBP. Necessary adjustments would be made in implementing GBP, having regard to relevant factors including market needs.</p>	
003648 – 004447	Chairman Miss Tanya CHAN Administration	<p>(a) Miss Tanya CHAN's concern about the power of FS on the administration and investment of the Bond Fund provided in paragraphs (b) and (e)(ii) of the proposed resolution under PFO. Her view that the investment arrangement of the Bond Fund should be set out in the proposed resolution.</p> <p>(b) The Administration's advice that paragraphs (b) and (e)(ii) of the proposed resolution under PFO provided sufficient details on the power of FS to administer the Bond Fund, to delegate the power of administration to other public officers and to determine the investment of the Bond Fund. It was not desirable to set out details of the delegation and the specific investment arrangement in the resolution as this might give rise to the need for legislative amendments should it be</p>	

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		<p>necessary to fine-tune the details to cope with unforeseeable or exceptional circumstances, such as change in the title of the public officers and market changes.</p> <p>(c) Miss CHAN's further view that instead of setting out the specific investment arrangement in the proposed resolution, the Government might consider setting restrictions on types of non-permissible investments.</p> <p>(d) The Administration's advice that pursuant to the purpose of the Bond Fund set out in paragraph (e) of the proposed resolution under PFO, moneys in the Bond Fund would be used to repay the principal of bonds issued and meet the financial obligations and liabilities in relation to sums borrowed under GBP. Given the objectives of preserving capital and generating reasonable investment returns for meeting the financial obligations and liabilities in relation to sums borrowed under GBP, a long-term and conservative strategy would be adopted for investment of moneys in the Bond Fund.</p>	
004448 – 004742	Chairman Mr WONG Ting-kwong HKMA	<p>(a) Mr WONG Ting-kwong's enquiry on the interest rate benchmark to be used in determining the coupon rate for retail tranche issues.</p> <p>(b) HKMA's explanation that the pricing mechanism of retail bonds to be issued under GBP would follow market convention. According to market convention, a bond issuer would normally use a representative interest rate benchmark to price a retail bond. The yield of Exchange Fund Notes was one of such benchmarks commonly used by issuers of Hong Kong Dollar bonds. Another commonly-used benchmark was that derived from the interest rate swap market.</p>	
004743 – 005036	Chairman Ms Starry LEE Administration	<p>(a) Ms Starry LEE's concern about measures to ensure implementation of the intended investment arrangement of the Bond Fund.</p> <p>(b) The Administration's response that it had set out clearly in the written information provided to the Subcommittee the proposed</p>	

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		<p>arrangement to place moneys in the Bond Fund with the Exchange Fund for investment and to receive an investment income on the basis of the "fixed rate" sharing arrangement applicable to the fiscal reserves. In addition, FS would indicate the intended investment arrangement of the Bond Fund in his speech for moving the motion regarding the proposed resolution under PFO. The Administration would explain to the LegCo should there be a need to change such arrangement under exceptional circumstances.</p>	
005037 – 010638	Chairman HKMA	<p>(a) Responding to the Chairman’s enquiry on overseas practice, HKMA’s advice that in most developed economies such as UK and USA, the Finance Ministry would be responsible for issuance of government bonds. Similar to the proposed framework for GBP under which FS would delegate the authority to the Financial Services and the Treasury Bureau (FSTB) to administer the Bond Fund, the Finance Ministers in UK and USA were underpinned by the debt management offices in the administration of the bond issuance programme.</p> <p>(b) The Chairman’s concern about the offering of bonds for institutional tranche, including the use of a bank syndicate and bookbuilding structure, the mechanism for appointment of Primary Dealers (PDs).</p> <p>(c) HKMA’s advice that while the mechanism of competitive tender would be adopted for conventional fixed rate Hong Kong Dollar government bonds to be issued under the institutional tranche of GBP, this mechanism might not be the most effective way to reach the target investors of other possible types of bonds covered by GBP in the future. For example, for bonds denominated in foreign currencies, a bank syndicate and bookbuilding structure, rather than competitive tender, would provide a better access to the target foreign investors. The appointment of PDs would be based on objective, quantitative and open criteria including the activity of the market players concerned in the Exchange Fund Bills and Notes market.</p>	

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		<p>(d) Responding to the Chairman's enquiry about considerations for issuing bonds denominated in foreign currencies, HKMA's advice that issuance of other types of bonds under GBP would be considered from the market development perspective. Such factors as the effectiveness in attracting foreign investors to the local bond market would be relevant.</p> <p>(e) The Chairman's further concern about whether the issuance of government bonds would result in crowding out effect on other bond issuers and raising the cost of issuance. His enquiry about the consideration for issuing about HK\$10-20 billion of government bonds in the first year of implementation of GBP.</p> <p>(f) HKMA's advice that due consideration would be given to relevant factors including the prevailing market conditions and impacts on other issuers in the market when drawing up the implementation details of GBP Views from market participants on the timing and size for issuance of bonds under GBP would also be tapped. On the issuance size in the first year of implementation, HKMA's advice that views from major market participants had indicated that the market would be able to digest government bonds of HK\$10-20 billion over the course of a year. Further assessment would be conducted in this regard before launching the first issuance..</p>	
010639 – 011715	Chairman Mrs Regina IP Administration HKMA	Mrs Regina IP's reiteration that the name "Debt Fund", instead of "Bond Fund", should be used. Her request for information on DIP of HKMC. Mrs IP's suggestion that the legal and executive responsibilities of FS and HKMA should be clearly delineated in the proposed resolution under PFO.	The Administration to take action as required in paragraphs 2 and 3 of the minutes
011716 – 012455	Chairman Mr Albert HO ALA5	(a) Mr Albert HO's comment that paragraph (e)(i) of the proposed resolution under section 29 of PFO had stated the obligation rather than the purpose of the Bond Fund. His view that the investment arrangement of the Bond Fund be explicitly stated in the proposed resolution. His concern about the manner in which amendments to the resolution might be proposed.	

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		<p>(b) ALA5's response that amendments to the proposed resolution could be moved in accordance with Rule 29(6)(a) of the Rules of Procedures.</p>	
<p>012456 – 013521</p>	<p>Chairman Ms Starry LEE Administration HKMA</p>	<p>(a) Ms Starry LEE's concern about study on measures adopted by overseas economies to promote secondary market liquidity.</p> <p>(b) Request of the Chairman and Ms Starry LEE for information on the investment strategy and investment portfolios of the funds raised under the Singapore Government Securities Programme.</p> <p>(c) HKMA's advice that in developing the framework for GBP, consideration had been given to how to promote secondary market liquidity, drawing reference from studies on the development of bond markets in overseas economies. Relevant arrangements that were applicable to GBP included - PDs would be required to provide two-way bid and offer quotations to Recognized Dealers (RDs); bid/offer indicative prices for the government bonds would be broadcast on the Central Moneymarkets Unit Bond Price Bulletin/Reuters for better transparency; use of Electronic Trading Platform to provide a channel for the market players involved to provide indicative quotes and execute trades; wider use of repo instruments and re-opening of existing bonds, etc.</p>	<p>The Administration to take action as required in paragraph 4 of the minutes.</p>
<p>013522 – 014152</p>	<p>Chairman Administration HKMA</p>	<p>(a) The Chairman's concern on how FSTB could ensure that purpose of the Bond Fund would be achieved.</p> <p>(b) The Administration's advice that in authorizing expenditure from the Bond Fund, FSTB would ensure that only the financial obligations and liabilities associated with bond issuance under GBP would be charged to the Bond Fund. FSTB would keep a vigilant oversight of the Bond Fund. It would also prepare returns on the Bond Fund for inclusion in the annual Estimates to be laid before the LegCo in the annual budgetary exercise.</p>	

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		<p>(c) The Chairman's concern about the impact of the implementation of GBP on the capital market, in particular the impact on the banking sector and other bond issuers.</p> <p>(d) HKMA's advice that careful consideration would be given to the timing as well as size of each issuance with regard to relevant factors including the prevailing market conditions. Given the abundance of liquidity in the banking system, GBP was expected to be well-received by the banking sector and institutional investors. In addition, given the modest amount of bond issuance of HK\$10-20 billion in the first year of implementation of GBP, it was expected that GBP would unlikely have any significant impact on the capital market and other bond issuers.</p>	
014153 – 015233	Chairman Mr Albert HO Administration Mrs Regina IP	<p>(a) Concern shared by Mr Albert HO and Mrs Regina IP about whether due consideration had been given to all relevant provisions in PFO and the Loans Ordinance. Mrs IP's reiteration of her view that the purpose of the Bond Fund, the investment strategy of the Bond Fund and the role and responsibilities of HKMA in the investment of the Bond Fund should be set out in the proposed resolution under PFO.</p> <p>(b) The Administration's advice that the two proposed resolutions were drafted in accordance with relevant provisions in PFO and the Loans Ordinance.</p>	
015234 – 015512	Chairman Mr Albert HO	Date of next meeting	