

# 立法會

## *Legislative Council*

LC Paper No. CB(1)1567/08-09

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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)**

#### **Background brief**

#### **Purpose**

This paper sets out the background of the proposed Government Bond Programme (GBP). It also summarizes the major concerns raised by Members at the meetings of the Panel on Financial Affairs (FA Panel) held on 4 and 11 May 2009.

#### **Previous government bond issuance and securitization exercises**

2. In response to the question raised by Hon YEUNG Sum on non-issuance of government bonds at the Council meeting on 4 December 2002, the Administration advised that during the past 30 years, the Government has issued bonds on three different occasions: in the financial years 1975-1976, 1984-1985 and 1991-1992<sup>1</sup>. The government bonds issued in the three exercises were meant to provide funding for capital works projects and those issued in the last exercise was also meant to develop the local debt market.

3. The Government announced in the 2003-2004 Budget its intention to dispose of or securitize \$112 billion of assets in the next five financial years and set a target to raise an estimate of \$21 billion in 2003-2004. On 18 February 2004, the Council passed a resolution under section 3 of the Loans Ordinance to authorize the Government to raise up to \$6 billion through securitizing its future revenue from tolls on specified bridges and tunnels<sup>2</sup> for the purposes of the Capital Works Reserve Fund (CWRP). The securitized bonds would be offered to both retail and institutional investors and the Government expected that there would be an active secondary market for the trading of the securitized bonds

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<sup>1</sup>\$250 million of government bonds were issued in 1975-1976 and fully redeemed in 1979-1980. \$1 billion of government bonds were issued in 1984-1985 and fully redeemed in 1988-1989. \$3.6 billion of government bonds were issued between 1991 and 1993 and fully redeemed by 1994-1995.

<sup>2</sup> Including Aberdeen Tunnel, Cross-Harbour Tunnel, Lantau Link (comprising Tsing Ma Bridge, Ma Wan Viaduct and Kap Shui Mun Bridge), Lion Rock Tunnel, Shing Mun Tunnels, and Tseung Kwan O Tunnel.

before their maturity. The sum or sums so borrowed and all interest and other charges thereon were charged upon and should be payable out of the general revenues and assets of Hong Kong. The Government retains ownership of the bridges and tunnels, and all of the Government's right to the revenue from the bridges and tunnels will fully revert to the Government at the end of the securitization period.

4. The Government announced in the 2004-2005 Budget it plans to issue up to \$20 billion worth of government bonds within 2004-2005 to fund infrastructural or investment projects which would bring long-term economic benefits to Hong Kong. On 19 May 2004, the Council passed a resolution under section 3 of the Loans Ordinance to authorize the Government to borrow a sum or sums not exceeding in total \$20 billion or equivalent for the purposes of CWRF. As advised by the Administration, the bond issue would offer a major domestic and global offering to retail and institutional investors and opportunities would be offered to all types of investors, in particular local investors. The \$20 billion to be raised in this bond issue would all be credited to CWRF, which is an ongoing account, to finance those projects approved by the Finance Committee. Interest expenditure on government bonds would be paid out of CWRF.

### **Government Bond Programme**

5. In his 2009-2010 Budget Speech, the Financial Secretary (FS) announced that to promote the further and sustainable development of the Hong Kong bond market, the Government intends to implement a programme to issue government bonds. Given the primary objective of GBP to promote the development of the local bond market, the Administration proposes that bonds to be issued under the programme will mainly be denominated in Hong Kong Dollar. The programme will comprise bond issues for institutional and retail investors respectively and bonds of tenors within the range of two to ten years will likely be issued at the initial stage of the programme. The sums raised will be credited to a fund to be established under the Public Finance Ordinance (Cap. 2) (PFO) (the Bond Fund). The Bond Fund will not be treated as part of the fiscal reserves and will be managed separately. It will be used to repay principal, meet the financial obligations and liabilities associated with the programme and make investments. 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. Any shortfall of funds for fulfilling the financial obligations and liabilities in respect of the programme may be financed from the general revenue in accordance with the Loans Ordinance.

6. A long-term and conservative investment strategy will be adopted for the Bond Fund with the objectives of preserving capital and generating reasonable investment returns for covering the financial obligations and liabilities under GBP. The Hong Kong Monetary Authority (HKMA) will be

tasked to manage the Bond Fund, and the same "fixed rate" sharing arrangement for investment income applicable to the fiscal reserves will apply to the Bond Fund.

### **The proposed resolutions**

7. On 28 April 2009, FS gave notices that he would, at the Council meeting on 20 May 2009, move a resolution under section 3 of the Loans Ordinance (Cap. 61) to authorize the Government to borrow up to the proposed limit of HK\$100 billion and a resolution under section 29 of PFO to set up a fund for the purpose of managing sums raised under GBP. A LegCo Brief on GBP and the proposed resolutions was issued to all Members on the same day.

8. At the House Committee on 8 May 2009, Members agreed that a subcommittee should be formed to study the proposed resolutions. The Administration then withdrew the notice given for moving the proposed resolutions at the Council meeting on 20 May 2009.

### **Members' major views and concerns**

9. At the meeting held on 4 May 2009, the Administration briefed the FA Panel on the framework of GBP and the two relevant resolutions to be proposed for the implementation of the programme. To address Members' concerns about GBP, the Administration provided supplementary information on 7 May 2009 (LC Paper No. CB(1)1507/08-09(02)) and the subject was further discussed at a special meeting of the FA Panel on 11 May 2009. Members expressed the following views and concerns:

- (a) The Administration's considerations and analysis for the launch of GBP, including reasons for adopting the strategy as currently proposed as opposed to the approach adopted in previous issuance exercises. In this connection, some members questioned whether the Administration would consider the possibility of issuing asset-back securities as in the securitization exercise of future revenue from tolls on specified bridges and tunnels in 2004.
- (b) Some Members were concerned whether the sums raised under GBP could also be used to finance major infrastructure projects.
- (c) Whether the Administration could consider issuing bonds in other currencies, such as Renminbi.
- (d) The Administration should provide more details of the programme framework to facilitate Members' consideration of the merits or otherwise of the programme. These should

included: details of the proposed mechanism in executing GBP; proportion of bond issues for institutional and retail investors (as well as flexibility for increasing the proportion for retail issues in the event of strong demand from retail investors); minimum subscription amount for retail issues; estimates of the indicative yields for the government bonds and the relevant mechanism for determining the yields.

- (e) Whether it was an appropriate timing for implementing GBP and how retail investors could benefit from GBP given the prevailing low interest rate.
- (f) Whether the investment returns of the Bond Fund could in the end meet the financial obligations of bond issues. The Administration's assessment of the expected investment returns for the Bond Fund, and any anticipation of the worst case scenario for the shortfall of the Bond Fund in meeting the financial obligations of bond issues. There were also concerns about the investment strategy for the Bond Fund, and the appropriateness of placing the proceeds raised under GBP with the Exchange Fund for investment.
- (g) Additional manpower required and administrative cost incurred for implementing GBP.
- (h) Measures to improve risk disclosure in the bond issues and to enhance secondary market liquidity.
- (i) Impact of GBP on the banking sector, in particular the small and medium-sized banks.

### **Relevant papers**

10. A list of relevant papers is in the **Appendix**.

## Appendix

### List of relevant papers

Committee/ Meeting	Paper	LC Paper No.
Council meeting on 4 December 2002	<p>✧ Dr YEUNG Sum's question on "Non-issuance of Government Bonds"</p> <p><a href="http://www.legco.gov.hk/yr02-03/english/counmtg/hansard/cm1204ti-translate-e.pdf">http://www.legco.gov.hk/yr02-03/english/counmtg/hansard/cm1204ti-translate-e.pdf</a> (Pages 38 to 46)</p>	
House Committee meeting on 30 January 2004	<p>✧ Report of the Subcommittee on proposed resolution under section 3(1) of the Loans Ordinance</p> <p><a href="http://www.legco.gov.hk/yr03-04/english/hc/papers/hc0130cb1-866e.pdf">http://www.legco.gov.hk/yr03-04/english/hc/papers/hc0130cb1-866e.pdf</a></p>	CB(1)866/03-04
House Committee	<p>✧ Report of the Subcommittee on proposed resolution under Section 3(1) of the Loans Ordinance (by way of issuance of Government Bonds)</p> <p><a href="http://www.legco.gov.hk/yr03-04/english/hc/papers/hc0507cb1-1839e.pdf">http://www.legco.gov.hk/yr03-04/english/hc/papers/hc0507cb1-1839e.pdf</a></p>	CB(1)1839/03-04
Panel on Financial Affairs (FA Panel) meeting on 4 May 2009 and FA Panel special meeting on 11 May 2009	<p>✧ The Legislative Council Brief issued by the Financial Services and the Treasury Bureau</p> <p><a href="http://www.legco.gov.hk/yr08-09/english/panels/fa/papers/fa0504-g61235c-e.pdf">http://www.legco.gov.hk/yr08-09/english/panels/fa/papers/fa0504-g61235c-e.pdf</a></p> <p>✧ Administration's paper on Government Bond Programme</p> <p><a href="http://www.legco.gov.hk/yr08-09/english/panels/fa/papers/fa0504cb1-1469-1-e.pdf">http://www.legco.gov.hk/yr08-09/english/panels/fa/papers/fa0504cb1-1469-1-e.pdf</a></p>	G6/123/5C  CB(1)1469/08-09(01)

<b>Committee/ Meeting</b>	<b>Paper</b>	<b>LC Paper No.</b>
	<p>✧ Administration's paper on Government Bond Programme (power-point presentation materials) (Chinese version only)</p> <p><a href="http://www.legco.gov.hk/yr08-09/chinese/panels/fa/papers/fa0504cb1-1491-1-c.pdf">http://www.legco.gov.hk/yr08-09/chinese/panels/fa/papers/fa0504cb1-1491-1-c.pdf</a></p> <p>✧ Letter dated 5 May 2009 to the Administration</p> <p>✧ Administration's supplementary information on Government Bond Programme</p>	<p>CB(1)1491/08-09(01)</p> <p>CB(1)1507/08-09(01)</p> <p>CB(1)1507/08-09(02)</p>