

Government Bond Program - Comments by Mrs Regina IP

Proposed Amendments to Draft Resolutions

1. “Bond Fund” be named “Debt Fund” so as not to be technically restricted to issuing bonds only. Bonds are longer-dated papers and the government has indicated it intends to issue short-dated papers initially;
2. Para. (b) of the draft Resolution under Public Finance Ordinance: the word “administer” needs qualifications, for example, “including inter alia, but not limited to, negotiating with arrangers and underwriters the issue amount and the terms and conditions for each of the issues; agreeing the same taking into consideration prevailing market conditions; and authorizing the proceeding of the issuance thereof;
3. Para. (b) of the same: there needs to be restriction on the power of the sub-delegation.
4. As LegCo’s Assistant Legal Adviser Miss Kitty Cheng pointed out, what is materially missing from the resolutions is the stated purpose for setting up the “Bond Fund”. The Financial Services and Treasury Bureau’s reply that the Fund is to be established to “expend money” for the purposes of paying the principal and interest etc in relation to any sums borrowed ; and to invest in such manner as the Financial Secretary may determine is a non-answer. It is tantamount to explaining that a person needs to set up a fund to borrow money so that he can pay the interest. The absence of clarification of the purposes of the “Bond Fund” is one of the most unsatisfactory features of the draft resolutions. Given that the government has stressed more than once that the purpose is to promote the development of the debt market, as opposed to raising funds for the purpose of providing counter-cyclical fiscal stimuli, I suggest that the purpose be spelt out and it could be framed in the following terms: “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.”
5. A general comment: it is noted that in the Exchange Fund Ordinance, the role played by the Financial Secretary in controlling the Exchange Fund and that played by the Monetary Authority in assisting the FS in the performance of his duties are clearly spelt out. As the Government Bond Program is to be administered de facto by the Hong Kong Monetary Authority, the relationship between the FS and the HKMA should be more clearly spelt out in the Resolutions. Para. (b) is not adequate for the purpose of more clearly delineating the legal and executive responsibilities of the FS and the HKMA. The same applies to para. (e)(ii) relating to the role played by the FS in investing the “Bond Fund”. As the investment is in reality managed by the HKMA, that should be more clearly spelt out, and cross-reference made to provisions in the Exchange Fund Ordinance. These matters should be either dealt with in the Resolutions or by way of Letters of Understanding exchanged between the FS and HKMA and published for public information.