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葉劉淑儀議員辦事處
Office of Hon. IP LAU Suk Yee, Regina

2 June 2009

Hon Jeffrey LAM Kin-fung, SBS, JP
Chairman, Subcommittee on Proposed Resolutions under
Section 29 of the Public Finance Ordinance (Cap. 2) and
Section 3 of the Loans Ordinance (Cap. 61)
Legislative Council
8 Jackson Road
Hong Kong

Dear Mr Chairman,

Government Bond Program

Further to the comments I made at the last meeting, I have further questions on the Government Bond Program (GBP) as follows:

a) The Exchange Fund Bills and Notes (ESBN) issued by the HKMA on behalf of the government form part of the monetary base and can be used by holders as securities for borrowing at the HKMA's discount window. Will the bonds to be issued by the government enjoy the same treatment by the HKMA? If not, they may be perceived by buyers as inferior to the ESBN. The government will have to pay higher coupon rates to attract buyers. This will not reflect well on the standing of the government bonds relative to the ESBN in the eyes of the international financial community;

b) The Hong Kong Mortgage Corporation Ltd. (HKMC) boasts the largest corporate debt issue program in Hong Kong. According to its portfolio information at the end of March 09, it has more than $41 billions' worth of "Treasury securities" outstanding. Can the government provide information on the debt issued, including tenor mix, coupon rates and other relevant information? Can the debt issued by the HKMC be used as securities at the HKMA's discount window?

香港中環雪廠街11號中區政府合署西座306室 Room 306, West Wing, Central Government Offices, 11 Ice House Street, Hong Kong
電話 TEL: (852) 2537 3265 / 2537 3267 傳真 Fax: (852) 2810 0358 網站 Website: www.reginaip.hk 電郵 Email: iplau@reginaip.hk

c) As I said at the last meeting, the role of the HKMA should be crystalised and dealt with in Resolution (b) under the Public Finance Ordinance. At the end of the Resolution (b), additional words along the following lines can be tagged on:

   i. After coma, 'the said public officer authorised and delegatee for the time being shall be The Hong Kong Monetary Authority whose duties and responsibilities and powers and limitation of powers thereof shall be set out in Memoranda of Understanding exchanged between the Financial Secretary and the Hong Kong Monetary Authority and the said Memoranda of Understanding shall be recorded publicly'.

I would be grateful if you would pass the above suggestions to the government for consideration.

Yours sincerely,

Regina IP LAU Suk-yee (Mrs.)

c.c. Other Subcommittee Members