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5 May 2009

Professor K C CHAN, SBS, JP
Secretary for Financial Services and the Treasury
8th Floor, West Wing
Central Government Offices
Hong Kong

Dear Professor CHAN,

Panel on Financial Affairs

Follow-up to meeting on 4 May 2009

Agenda item V – Government Bond Programme

To address members' concerns about the background and merits of the Government Bond Programme (GBP), the Administration is requested to provide supplementary information, covering but not limited to the followings:

- a) 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;
- b) will the Administration consider the possibility of issuing asset-back securities as in the securitization exercise of “Five tunnels and one bridge” in 2004;
- c) details of the proposed mechanism in executing GBP;
- d) proportion of bond issues for institutional and retail investors, and any flexibility for increasing the proportion for retail issues in the event of strong demand from retail investors;
- e) minimum subscription amount for retail issues;
- f) estimates of the indicative yields for the government bonds and the relevant mechanism for determining the yields;

- g) how retail investors could benefit from GBP given that the interest rate is very low at the moment;
- h) detailed considerations of the investment strategy for the Bond Fund, and the appropriateness of placing the proceeds raised under GBP with the Exchange Fund (EF) for investment. In this connection, please provide information on the track record of EF investment returns/losses in the past years;
- i) 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;
- j) additional manpower required and administrative cost incurred for implementing GBP;
- k) measures to improve risk disclosure in the bond issues and to enhance secondary market liquidity; and
- l) impact of GBP on the banking sector, in particular the small and medium-sized banks.

To facilitate Panel members' consideration before the House Committee meeting on 8 May, I should be grateful if the Administration would provide the required information **by 11:00 am on 7 May 2009** (in both Chinese and English and with softcopy to yhcheung@legco.gov.hk) for timely circulation to members. In line with our usual practice, the written information provided by the Administration will be made available to the media and the public, placed in the Library of the Legislative Council and made available on the website of the Council on the Internet, unless parties concerned advise otherwise.

Meanwhile, if you have any question, please do not hesitate to contact the undersigned (tel : 2869 9577) or Mr Noel SUNG (tel : 2509 4602).

With best regards,

Yours sincerely,

(Ms Rosalind MA)
Clerk to Panel

- c.c. Hon CHAN Kam-lam, SBS, JP (Panel Chairman)
- Miss Natalie LI, Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)⁵ (Fax: 2527 0790)
- Miss Ann CHAN, Principal Assistant Secretary for Financial Services & the Treasury (Treasury)(I) (Fax: 2523 0642)
- Mr Edmond LAU, Executive Director (Monetary Management), Hong Kong Monetary Authority (Fax: 28788059)