

BOND FUND

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Memorandum Note

The Bond Fund was established by the Resolution of the Legislative Council on 8 July 2009 in connection with the implementation of the Government Bond Programme to promote the further and sustainable development of the bond market in Hong Kong. The Programme can provide more diversified investment products and avenues for financing to attract more overseas capital, and reinforce Hong Kong's position as an international financial centre. The Programme consists of an institutional part and a retail part. The Fund does not form part of the fiscal reserves and is managed separately from other Government accounts. The Fund is placed with the Exchange Fund for investment purposes and attracts investment income on the basis of the "fixed rate" sharing arrangement applicable to the fiscal reserves.

2 The Resolution provides, inter alia, that—

- (a) the Fund is to be administered by the Financial Secretary, who may direct or authorize other public officers to administer the Fund and delegate the power of administration to other public officers;
- (b) the following are to be credited to the Fund—
 - (i) sums borrowed under section 3 of the Loans Ordinance (Cap. 61) that are required to be credited to the Fund by any resolution of the Legislative Council approving the borrowing;
 - (ii) sums received by way of interest, dividends or investment income earned in respect of the sums held in the Fund;
 - (iii) any appropriations from the general revenue that may be approved by the Legislative Council;
 - (iv) any other sums that may be received for the purposes of the Fund;
- (c) earnings from interest or dividends on investments of the Fund are to be retained for the purposes of the Fund;
- (d) the Financial Secretary may expend money from the Fund for the purposes of—
 - (i) repaying or, if appropriate, paying the principal of, interest on, and expenses incurred in relation to, any sums that have been borrowed under section 3 of the Loans Ordinance (Cap. 61) for the purposes of the Fund; and
 - (ii) investing in the manner the Financial Secretary considers appropriate for the prudent management of the Fund, and paying the expenses incurred in relation to the investments;
- (e) the Director of Accounting Services, under the authority of a funds warrant issued by the Financial Secretary, is to pay from the Fund any sums that may be required to meet expenditures from the Fund; and
- (f) the Financial Secretary may transfer from the Fund to the general revenue the balance held in the Fund, if so approved by the Legislative Council, when all financial obligations and liabilities are met in relation to any sums that have been borrowed under section 3 of the Loans Ordinance (Cap. 61) for the purposes of the Fund.

3 The Legislative Council passed a Resolution on 22 May 2013, replacing the relevant Resolution passed on 8 July 2009, authorizing the Government to borrow from any person from time to time for the purposes of the Bond Fund such sums not exceeding in total \$200 billion or equivalent, being the maximum amount of all borrowings that may be outstanding by way of principal at any time.

4 Under the institutional part of the Government Bond Programme, the Government intends to introduce two measures to enhance the liquidity of relevant bonds, namely, bond swap facility (which involves the early redemption of certain bonds for issuance of other bonds of the same monetary value for a short period and the reversal of these transactions on a later date) and switch tender (which involves the early redemption of certain bonds in market value for issuance of other bonds at tender prices). These measures entail additional issuances and early redemptions of relevant bonds. They will be recorded in the Bond Fund as proceeds from issuance of bonds, as well as repayments for bonds, under bond swap facility and switch tender as appropriate. Based on plans at hand, we have included two new subheads, namely, "proceeds from issuance of bonds under bond swap facility" and "repayments for bonds under bond swap facility", to estimate the relevant transactions under the bond swap facility in 2013–14 and 2014–15.

5 Payments from the Fund for 2013–14 and 2014–15 are estimated at \$127,194,807,000 and \$793,120,419,000 respectively. The expected payment items include mainly interest payments and repayment for bonds issued and to be issued under the Government Bond Programme (including repayment for bonds under tender or subscription and under bond swap facility) as well as other relevant expenses (e.g. expenses for external services procured in the course of implementing the Government Bond Programme).

6 Receipts taking the form of proceeds from issuance of bonds (including issuance of bonds under tender or subscription and under bond swap facility) and investment income for 2013–14 and 2014–15 are estimated at \$152,574,380,000 and \$804,545,000,000 respectively.

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(Payments)

Sub-head (Code)	Actual expenditure 2012–13	Revised estimate 2013–14	Estimate 2014–15*	
	\$'000	\$'000	\$'000	
Head G01—Bond Fund				
100	Repayments for bonds under tender or subscription.....	7,000,000	7,000,000	20,000,000
102	Repayments for bonds under bond swap facility	—	118,300,000	770,700,000
120	Interest payments for bonds	1,241,388	1,868,805	2,394,417
130	Others	25,324	26,002	26,002
Total (Payments).....		8,266,712	127,194,807	793,120,419

* Estimate for 2014–15 is projected based on the bond issuance size in 2013–14 (except for repayments for bonds under bond swap facility).

BOND FUND
(Receipts)

Sub-head (Code)	Actual receipts 2012–13	Revised estimate 2013–14	Estimate 2014–15*	
	\$'000	\$'000	\$'000	
Head G01—Bond Fund				
200	Proceeds from issuance of bonds under tender or subscription	28,160,543	30,089,311	30,500,000
202	Proceeds from issuance of bonds under bond swap facility	—	118,300,000	770,700,000
	Investment income	3,380,645	4,185,069	3,345,000
Total (Receipts).....		31,541,188	152,574,380	804,545,000

* Estimate for 2014–15 is projected based on the bond issuance size in 2013–14 (except for proceeds from issuance of bonds under bond swap facility).

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Movement of the Account

	Actual			Revised Estimate	Estimate
	2010-11	2011-12	2012-13	2013-14	2014-15
	\$m	\$m	\$m	\$m	\$m
Opening Balance	11,582	28,452	52,019	75,293	100,672
Revenue	17,140	31,385	31,541	152,574	804,545
Expenditure	270	7,818	8,267	127,195	793,120
Surplus	16,870	23,567	23,274	25,379	11,425
Closing Balance	28,452	52,019	75,293	100,672	112,097

Revenue Analysis

	Actual			Revised Estimate	Estimate
	2010-11	2011-12	2012-13	2013-14	2014-15
	\$m	\$m	\$m	\$m	\$m
Proceeds from issuance of bonds under tender or subscription	16,157	29,261	28,160	30,089	30,500
Proceeds from issuance of bonds under bond swap facility	—	—	—	118,300	770,700
Investment income	983	2,124	3,381	4,185	3,345
Total Revenue	17,140	31,385	31,541	152,574	804,545

Expenditure Analysis

	Actual			Revised Estimate	Estimate
	2010-11	2011-12	2012-13	2013-14	2014-15
	\$m	\$m	\$m	\$m	\$m
Repayments for bonds under tender or subscription	—	7,000	7,000	7,000	20,000
Repayments for bonds under bond swap facility	—	—	—	118,300	770,700
Interest	269	785	1,242	1,869	2,394
Others	1	33	25	26	26
Total Expenditure	270	7,818	8,267	127,195	793,120