

**Subcommittee on Proposed Resolution
under Section 3(1) of the Loans Ordinance (Cap. 61)**

**Further Response to the Follow-up
Questions and Issues Raised**

Purpose

This paper sets out the Administration's response to the relevant questions and issues raised by the Subcommittee on Proposed Resolution under Section 3 of the Loans Ordinance (Cap. 61) ("the Subcommittee") as set out in the Subcommittee's letter dated 20 July 2018.

**Objective of the Government Green Bond Programme ("the Programme"),
Purposes of the Proposed Resolution and Use of Proceeds of Issuances**

2. As mentioned in the Legislative Council ("LegCo") brief and our previous response to the Subcommittee on 18 July ("the Response"), the primary objective of the Government Green Bond Programme ("the Programme") is to promote the development of green finance in Hong Kong as well as to signify the Government's support for sustainable development and determination to combat climate change.

3. As set out in the proposed resolution in accordance with Section 3(1) of the Loans Ordinance, Cap. 61, sums borrowed pursuant to the proposed resolution are for the purposes of the Capital Works Reserve Fund ("CWRP") and to be credited to the CWRP in accordance with subparagraph (b) of the proposed resolution and paragraph (b)(v) of the Capital Works Reserve Fund, Cap. 2A.

4. Moneys of the CWRP including sums raised under the proposed resolution may be expended for the purposes set out in paragraph (c) of the Capital Works Reserve Fund, Cap. 2A in accordance with *conditions, exceptions and limitations as may be specified by the Finance Committee, which* includes for the purposes of the Government's public works programme ("PWP"). Provision of paragraph (c) would not be affected by the proposed resolution. All projects, with or without environmental benefits, under the

PWP will continue to require approval by the Finance Committee of LegCo (“FC”) in accordance with the said paragraph (c) and the FC Procedures and the Public Works Subcommittee Procedures of LegCo irrespective of whether the projects will be funded by sums raised under the proposed resolution and the Programme.

5. As explained in paragraphs 4 to 7 of the Response, the Government will only expend the sums raised under the proposed resolution and credited to the CWRP, on projects with environmental benefits under PWP approved by FC under the existing mechanism, i.e. approved in accordance with FC Procedures and the Public Works Subcommittee Procedures. Secretary for Financial Services and the Treasury will reiterate it in his speech when moving the proposed resolution in LegCo.

6. As illustrated in paragraph 22 of the Response, the CWRP, including the sums raised under the proposed resolution not expended for the purposes of projects with environmental benefits under PWP are placed with the Exchange Fund for investment purposes. Section 3 of the Public Finance Ordinance, Cap. 2 stipulates that any moneys raised or received for the purposes of the Government shall form part of the general revenue except where otherwise provided by or under the laws. The Government does not expect financial return or revenue in general from most projects under PWP and such return/revenue, if any, would form part of the general revenue in accordance with section 3 of the Public Finance Ordinance, Cap. 2.

Programme Arrangement and Other Sovereign Green Issuance

7. As stated in paragraphs 9 to 12 of the Response, only projects under PWP that are approved by FC under the existing mechanism may be considered to be included under the Programme. Every issuance under the Programme will comply with an issuance framework that aligns with standards/guidelines widely accepted by global investors for green bond issuance in terms of the use of proceeds for projects providing environmental benefits, the process for evaluation and selection of such projects, the management of proceeds, and the periodic reporting of project information after issuance. Projects will be assessed and selected against the project categorisation and criteria under the standards/guidelines adopted for that particular issuance. We will engage independent external reviewer(s) to verify and/or certify alignment of green

bond framework with the standards/guidelines adopted for every issuance.

8. The approach to be adopted by the Government is indeed very similar to other sovereign green bond issuances. The issuance frameworks of these sovereign issuances are aligned with green bond issuance standards/guidelines widely accepted by global investors; and external reviewers have been engaged by these sovereign issuers to verify/certify their alignment with such standards/guidelines. As the case studies on green bonds issued by the governments of Belgium, France and Poland, attached to the submission made by the International Capital Market Association¹, suggest, different sovereign issuers may have their own policy priority on environmental protection and apply the sums raised to their issuances in different areas/projects to protect their environment, as reflected in the uses of proceeds of their green bonds.

The Loans Ordinance and Bonds Issued under the Ordinance by the HKSAR Government

9. The Loans Ordinance, Cap. 61 was enacted by the then Legislative Council in May 1975 to make provisions for the raising of loans by the Government. It introduced new provisions and authorities for raising loans by the then Hong Kong Government in addition to other existing provisions to raise loans at the time including the Hong Kong Treasury Bills (Local) Ordinance, Cap. 74 and the Loans (Asian Development Bank) Ordinance, Cap. 271.

10. As set out in paragraph 17 of the Response, Section 3(1) of the Loans Ordinance requires the “sum or sums” and the “purposes” of loans to be approved by resolution of LegCo. The “manner”, “terms” and “conditions” of such loans are to be agreed between the Government and the lenders and need not be approved by LegCo by way of resolution. A resolution made and passed by LegCo pursuant to the Section should remain valid unless it is repealed or replaced². Since the enactment of the Loans Ordinance in 1975,

¹ Other than the case studies, a list of sovereign green bond issues to date attached to the Association’s submission (LC Paper No. CB(1)1248/17-18(06)) provide details of other sovereign green bond issued so far including issuing date and amount of these issuances.

² For example, the resolution made and passed by LegCo on 8 July 2009 and published in the Gazette as Legal Notice No. 169 of 2009 was replaced by another resolution made and passed by LegCo on 22 May 2013 and published in the Gazette as Legal Notice No. 96 of 2013.

LegCo made a number of resolutions³ for the purposes of the CWRP under Section 3 of the Loans Ordinance and they remain valid today. The purposes of the CWRP are set out in the Capital Works Reserve Fund, Cap. 2A in accordance with section 29(1) of the Public Finance Ordinance, Cap. 2. We consider that the proposed resolution is consistent with the Section 3 of the Loans Ordinance. The purposes as set out in the proposed resolution are legally certain and should be able to withstand any challenge.

11. Pursuant to a resolution made by LegCo in 2009 under section 3 of the Loans Ordinance, the Government launched the Government Bond Programme (“GBP”) to promote the further and sustainable development of the local bond market. Under GBP, the Government issued bonds including alternative bonds with original tenors ranging from three to fifteen years. As at end July 2018, sixteen bonds amounting to a total of about HK\$129 billion⁴ including alternative bonds and retail government bonds (such as iBonds) and Silver Bond remain outstanding. Other than bonds issued under GBP, the Government also issued bonds in 2004 pursuant to the resolutions made by LegCo under section 3(1) of the Loans Ordinance in 2004. Only one bond issued pursuant to the said resolutions made in 2004 remains outstanding. Expenses for bonds issued under GBP and those issued pursuant to the resolutions made in 2004 for the past five financial years, i.e. between year 2013-14 and 2017-18 amount to HK\$11.0 billion and HK\$1.1 billion respectively.

Expenses Relating to Borrowing under the Programme

12. LegCo may, by way of a resolution made under Section 29 of the Public Finance Ordinance, Cap. 2, establish a fund and authorise that moneys of such fund may, under the authority of a funds warrant issued by the Financial Secretary, be expended for the purposes for which the funds were established subject to such conditions, exceptions and limitations as may be specified in the resolution. By way of a resolution made under section 29 of the Public Finance Ordinance published in the gazette as Legal Notice No. 399 of 1991, LegCo

³ These resolutions include the resolution made and passed by LegCo for the purposes of CWRP or the Capital Investment Fund on 6 November 1991 and published in the Gazette as Legal Notice no. 398 of 1991, and the resolutions made and passed by LegCo for the purposes of CWRP on 18 February and 19 May 2004 and published in the Gazette as Legal Notice Nos. 26 of 2004 and 102 of 2004 respectively.

⁴ An exchange rate of US\$1 to HK\$7.8 is used to tabulate the outstanding amount of government bonds including alternative bonds denominated in US dollars.

amended the Capital Works Reserve Fund, Cap. 2A and authorised the Government to repay the principal, interest and expenses incurred in relation to sums borrowed under section 3 of the Loans Ordinance where the sums have been credited to the CWRF. There is no condition, exception or limitation for such expenses specified in the said resolution. The relevant provision now becomes subparagraph (d)(ii) of the Capital Works Reserve Fund, Cap. 2A. Since the said resolution made in 1991, the Government has been expending moneys of the CWRF for expenses incurred in relation to government bond issued for the purposes of the CWRF in 2004 in accordance with the resolution and subparagraph (d)(ii) of the Capital Works Reserve Fund, Cap. 2A efficiently and effectively. The Government will repay principals, interests and expenses incurred for sums borrowed under the proposed resolution and the Programme in accordance with subparagraph (d)(ii) of the Capital Works Reserve Fund, Cap. 2A and the existing arrangements.

13. As explained in paragraph 24 of the Response, the cost of an issuance under the Programme depends on a number of factors including the structure, terms and parameters of the issuance and the market condition at the time of issuance. As a reference, the annualised yield of a government bond issued on 12 July 2018 was 2.391% and according to market information, expenses relating to a bond issuance to institutional investors may amount to about 0.5% to 1% of the issuance size.

Green Bond Grant Scheme

14. As an initiative announced in the 2018-19 Budget to promote the development of green finance independent to the Programme, the Government announced the launch of the Green Bond Grant Scheme in June 2018 to subsidise eligible green bond issuers in obtaining certification under the Green Finance Certification Scheme established by the Hong Kong Quality Assurance Agency. Eligible criteria and application procedures of the Scheme is set out at the [Annex](#).

Financial Services and the Treasury Bureau
6 August 2018

Green Bond Grant Scheme

First time and repeated issuers with their green bonds of any tenor denominated in any currency are welcome to apply for grant under the Green Bond Grant Scheme (GBGS), subject to the following grant eligibility criteria:

Green Bond Feature	Grant Eligibility Criteria
External review (ER)	Certification obtained from the Hong Kong Quality Assurance Agency (HKQAA) under its Green Finance Certification Scheme
Issuance arrangement	<ol style="list-style-type: none"> 1. Issued in Hong Kong <ul style="list-style-type: none"> ● Majority of bond arranging activities ¹ takes place in Hong Kong; and ● Issued at issuance in Hong Kong to: <ol style="list-style-type: none"> (i) 10 or more persons; or (ii) Fewer than 10 persons none of whom is an associate of the issuer² 2. Listed in Hong Kong <ul style="list-style-type: none"> ● Listed on The Stock Exchange of Hong Kong Limited; and/or ● Lodged with and cleared by the Central Moneymarkets Unit operated by the Hong Kong Monetary Authority in its entirety
Issuance size	Minimum HK\$500 million (or the equivalent in foreign currency)
Grant amount	Full cost of ER ³ incurred during the valid period of the GBGS, up to HK\$800,000 per bond issuance

¹ Bond arranging activities comprise originating and structuring, legal and transaction documentation preparation, and sale and distribution. When assessing whether a majority of the bond arranging activities take place in Hong Kong, one of the factors considered is to what extent the involved lead arranger(s) has substantial Hong Kong debt capital market (DCM) operations, determined based on the size of an arranger's DCM operations, its use of Hong Kong service providers, its plan for developing its DCM operations in Hong Kong, among other relevant factors.

² The term "issuer" denotes the entity issuing a bond and the entity's associates. The term "associate" refers to (i) a person/corporation over which the issuer has control; (ii) a person/corporation which has control over the issuer; or (iii) a person/corporation that is under the control of the same person/corporation as the issuer.

³ Not applicable for the relevant cost of ER which has been subsidised under the Pilot Bond Grant Scheme.