

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

Further Response to the Follow-up Questions Raised

Purpose

This paper sets out the Administration's response to the relevant questions raised by a Member of 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 17 August 2018.

Arrangements for Green Bond Issuance under the Programme

2. As explained in paragraphs 9 to 12 of the Government's Response to the Subcommittee dated 18 July 2018 ("the Response") (LC Paper No. CB(1)1248/17-18(02)) and again in paragraph 7 of the Government's Further Response to the Subcommittee dated 6 August 2018 ("Further Response") (LC Paper No. CB(1)1316/17-18(02)), only projects under the Public Works Programme ("PWP") that are approved by the Finance Committee ("FC") of the Legislative Council ("LegCo") under the existing mechanism may be considered to be funded by green bonds under the Government Green Bond Programme ("the Programme"). Projects approved by FC will then be assessed and selected against the project categorization and criteria under the standards/guidelines adopted for that particular issuance as well as other relevant factors such as cashflow requirement of the projects. Independent external reviewer(s) will be engaged to verify and/or certify alignment of green bond framework with the standards/guidelines adopted for every issuance under the Programme. As stated in paragraph 6 of the LegCo brief, banks and/or financial institutions as well as other service suppliers might be engaged to provide the necessary assistance in implementing the Programme including arranging issuances under the Programme.

3. As explained in paragraphs 12 and 20 of the Response and paragraph 3 of the Further Response, sums raised under the proposed resolution will be credited to the Capital Works Reserve Fund (“CWRF”) in accordance with paragraph (b)(v) of the Capital Works Reserve Fund, Cap. 2A. Such sums, being the proceeds of issuances under the Programme, would be credited to the CWRF, form part of the balance of the CWRF, and be exclusively applied to finance in full or in part green projects included under the Programme selected in accordance with the mechanism as elaborated in the preceding paragraph. The relevant expenditure would be recorded in the relevant subheads of the concerned projects under PWP.

4. As explained above and in paragraph 6 of the Further Response, sums raised under the Programme would be exclusively applied to finance in full or in part green projects under the PWP included under the Programme. 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.

Objectives of the Programme and Purposes of the Proposed Resolution

5. Green finance, as explained in paragraphs 3 to 7 of the Response, is a new but rapidly expanding area of financial activities. The concept of green finance, as well as the underlying principles and mechanisms for assessment and evaluation, is at the nascent stage of development and fast evolving. As a market development initiative, the Programme must have a scope with sufficient flexibility so that it could evolve with the market globally and foster the opportunities brought by the development of green finance. In order to keep abreast with the global development of green finance, we consider it necessary and justified to adopt a practical approach by making clear our policy

intention but without attempting to define “green” in the resolution so that we would not inadvertently undermine our development potential in green finance because of a green definition imposed under the resolution that may, with hindsight, become obsolete or overly narrow as the world’s conception of what is green evolves over time. We do not consider it appropriate to set out the purposes in the proposed resolution as “green public works projects” but leaving “green” undefined (because of the absence of a universally accepted definition for green) as it would cause uncertainty as to the scope of the Programme. In proposing the practical approach, we have regard to the common approach by other issuers who issue green bonds with reference to standards/guidelines under the Green Bond Principles, Climate Bonds Standards, etc. as mentioned in the Response, which typically set out the types of projects or investment areas supported by green bonds. More details of such types and areas are set out in paragraphs 4 to 6 of the Response.

6. As stated in paragraph 7 of the Response and paragraph 5 of the Further Response, we have explained in the Explanatory Note of the proposed resolution and the LegCo brief the use of sums raised under the Programme on projects with environmental benefit under PWP and will reiterate it again in the speech of the Secretary for Financial Services and the Treasury when moving the proposed resolution in LegCo. This proposed approach would be able to give the required authority for the Government to launch the Programme to finance green projects under PWP, while at the same time, avoid challenges arising from the uncertainty of the meaning of “green”. The other approach as mentioned in the above paragraph will introduce uncertainty to the Programme.

Green Bonds Issued by Other Governments

7. As explained in paragraphs 7 and 8 of the Further Response, details of other sovereign green issuances including their respective

issuance size have been set out in the submission made by the International Capital Market Association (LC Paper No. CB(1)1248/17-18(06)). It has not been a requirement under prevailing green bond standards/guidelines for issuers to make corresponding carbon reduction commitment in relation to their green bond issuances and we are not aware of any such corresponding commitment made by other Governments in relation to the green bonds they have issued so far.

8. As far as we understand, and also explained in paragraph 8 of the Further Response, the approach of green bond issuances to be adopted by the Government is very similar to other sovereign green bond issuances.

Bonds Issued under the Government Bond Programme

9. As explained in paragraph 11 of the Further Response, as at end of July 2018, sixteen bonds issued under the Government Bond Programme amounting to a total of about HK\$129 billion remain outstanding. There have been in total 52 various types of “issues”¹ under the Government Bond Programme since 1 April 2013. Expenses incurred in relation to bonds issued are recorded under subhead 130 “Others” of the Bond Fund. Expenditure of the Bond Fund under subhead 130 between 2013-14 and 2017-18 are HK\$26.0 million, HK\$33.4 million, HK\$35.3 million, HK\$36.0 million and HK\$19.9 million respectively. We do not have a separate breakdown.

Financial Services and the Treasury Bureau 28 August 2018

¹ The “issue and settlement date” and “maturity date” of these issues are set out at Annex.

Issuances Made After 1 April 2013

Issue and Settlement Date	Maturity Date
9 May 2013	9 May 2016
24 Jun 2013	24 Jun 2016
18 July 2013	5 Feb 2018
8 Aug 2013	17 Jan 2023
5 Sep 2013	2 Dec 2015
7 Nov 2013	8 Dec 2016
16 Jan 2014	17 Jan 2023
20 Feb 2014	20 Feb 2019
10 Mar 2014	9 May 2016
10 Apr 2014	10 April 2017
15 May 2014	17 Jan 2023
10 Jul 2014	20 Feb 2019
7 Aug 2014	7 Aug 2024
11 Aug 2014	11 Aug 2017
4 Sep 2014	8 Dec 2016
18 Sep 2014	18 Sep 2019
6 Nov 2014	6 Nov 2017
15 Jan 2015	7 Aug 2024
5 Feb 2015	5 Feb 2020
12 Mar 2015	5 Feb 2018
16 Apr 2015	5 Feb 2020
7 May 2015	7 Aug 2024
3 Jun 2015	3 Jun 2020
16 Jul 2015	16 July 2030
7 Aug 2015	7 Aug 2018
8 Oct 2015	20 Feb 2019
5 Nov 2015	5 Nov 2020
21 Jan 2016	21 Jan 2026
3 Mar 2016	16 July 2030
14 Apr 2016	20 Feb 2019
12 May 2016	5 Nov 2020
20 Jun 2016	20 Jun 2019
7 Jul 2016	21 Jan 2026
12 Aug 2016	12 Aug 2019

Issue and Settlement Date	Maturity Date
8 Sep 2016	16 July 2030
6 Oct 2016	5 Feb 2020
3 Nov 2016	4 Aug 2021
19 Jan 2017	21 Jan 2026
28 Feb 2017	28 Feb 2027
2 Mar 2017	2 Mar 2032
7 Apr 2017	5 Feb 2020
18 May 2017	18 May 2022
23 Jun 2017	23 Jun 2020
29 Jun 2017	29 Jun 2027
7 Sep 2017	2 Mar 2032
19 Oct 2017	5 Nov 2020
23 Nov 2017	18 May 2022
18 Jan 2018	29 Jun 2027
8 Mar 2018	2 Mar 2032
19 Apr 2018	4 Aug 2021
17 May 2018	17 Jan 2023
12 Jul 2018	29 Jun 2027