

立法會
Legislative Council

LC Paper No. CB(1)1154/20-21
(These minutes have been seen
by the Administration)

Ref : CB1/SS/13/20/1

**Subcommittee on Two Proposed Resolutions
under Section 3(1) of the Loans Ordinance**

**Minutes of first meeting held on
Monday, 21 June 2021, at 10:45 am
in Conference Room 2B of the Legislative Council Complex**

- Members present** : Hon Holden CHOW Ho-ding (Chairman)
Hon Starry LEE Wai-king, SBS, JP
Hon CHAN Hak-kan, BBS, JP
Hon Christopher CHEUNG Wah-fung, SBS, JP
- Member absent** : Dr Hon Priscilla LEUNG Mei-fun, SBS, JP
- Public officers attending** : Mr CHAN Ho Lim, Joseph, JP
Under Secretary for Financial Services and the Treasury
- Ms CHEUNG Yi, Eureka
Principal Assistant Secretary for Financial Services and
the Treasury (Financial Services)5
- Ms LAU Li Yan, Candy
Principal Assistant Secretary for Financial Services and
the Treasury (Financial Services)3
- Mrs MA CHOW Pui Fun, Dorothy
Assistant Director (Cross-Boundary & International)
Environmental Protection Department

Mr CHAN Ngai Him, Henry
Senior Assistant Law Draftsman
Department of Justice

Mr LAU Ying Pan, Edmond, JP
Deputy Chief Executive
Hong Kong Monetary Authority

Mr YUEN Chi Choi, Samson
Head (Currency & Settlement)
Hong Kong Monetary Authority

Mr HUI Wai Chi, Kenneth
Head (Market Development)
Hong Kong Monetary Authority

Clerk in attendance : Ms Connie SZETO
Chief Council Secretary (1)4

Staff in attendance : Ms Clara WONG
Assistant Legal Adviser 4

Miss Sharon LO
Senior Council Secretary (1)9

Ms Sharon CHAN
Legislative Assistant (1)4

Ms Vivian CHAN
Clerical Assistant (1)4

Action

I Election of Chairman

Election of Chairman

Ms Starry LEE, the member with the highest precedence among those who were present at the meeting, presided over the election of the Chairman of the Subcommittee and invited nominations for the chairmanship of the Subcommittee.

Action

2. Mr Holden CHOW was nominated by Mr CHAN Hak-kan and the nomination was seconded by Mr Christopher CHEUNG. Mr Holden CHOW accepted the nomination. There being no other nomination, Ms Starry LEE declared that Mr Holden CHOW was elected the Chairman of the Subcommittee. Mr CHOW then took the chair.

II Meeting with the Administration

(File Ref: B&M/3/1/2C — Legislative Council Brief on the resolution to raise the maximum amount of borrowings under the Government Bond Programme

File Ref: B&M/3/1/4C — Legislative Council Brief on the resolution to expand the scope of and raise the maximum amount of borrowings under the Government Green Bond Programme

LC Paper No. LS76/20-21 — Legal Service Division Report

LC Paper No. CB(1)1020/20-21(01) — Background brief prepared by the Legislative Council Secretariat)

Declaration of interest

3. Ms Starry LEE declared that she had subscribed the eighth inflation-linked retail bond ("iBond").

Discussion

4. The Subcommittee deliberated (Index of proceedings attached at **Appendix**).

Action

Follow-up action to be taken by the Administration

5. The Administration was requested to provide information on the pre-announced fixed interest rate and the actual interest rate on the retail bonds, including iBond and Silver Bond, issued under the Government Bond Programme in the past years.

(Post meeting note: The Administration's written response was issued to members vide LC Paper No. CB(1)1046/20-21(02) on 24 June 2021.)

Invitation of views

6. Members agreed to post a notice on the website of the Legislative Council ("LegCo") to invite views on the two Proposed Resolutions under section 3(1) of the Loans Ordinance (Cap. 61) ("the two Proposed Resolutions").

(Post-meeting note: The notice was posted on the LegCo website on 21 June 2021 to invite interested parties for written submissions to give views.)

Legislative timetable

7. The Chairman concluded that the Subcommittee had completed the scrutiny of the two Proposed Resolutions. The Subcommittee noted that the Administration intended to give fresh notice to move the two Proposed Resolutions at the LegCo meeting on 21 July 2021. The Chairman said that he would give a verbal report on the deliberations of the Subcommittee at the House Committee meeting on 2 July 2021, and the deadline for giving notice to amend the two Proposed Resolutions would be 14 July 2021.

III Any other business

8. There being no other business, the meeting ended at 11:56 am.

**Proceedings of the first meeting of the
Subcommittee on Two Proposed Resolutions
under Section 3(1) of the Loans Ordinance
on Monday, 21 June 2021, at 10:45 am
in Conference Room 2B of the Legislative Council Complex**

| Time Marker | Speaker | Subject(s) | Action Required |
|---|--|---|-----------------|
| Agenda item I — Election of Chairman | | | |
| 000501 – 000640 | Ms Starry LEE Mr CHAN Hak-kan Mr Christopher CHEUNG Mr Holden CHOW | Election of Chairman | |
| Agenda item II — Meeting with the Administration | | | |
| 000641 – 001344 | Chairman Administration | Administration's briefing on the two proposed resolutions under section 3(1) of the Loans Ordinance (Cap. 61) ("the two Proposed Resolutions") to raise the maximum amount of borrowings under the Government Bond Programme ("GBP") and the Government Green Bond Programme ("GGBP") [Legislative Council Briefs (File Ref: B&M/3/1/2C and B&M/3/1/4C)] | |
| 001345 – 002252 | Chairman Mr Christopher CHEUNG Administration Hong Kong Monetary Authority ("HKMA") | Mr CHEUNG expressed support for the two Proposed Resolutions and asked if the Administration would consider – (a) further increasing the borrowing ceiling of GBP (e.g. to HK\$400 billion) in view of the substantial over-subscription of the retail bonds issued under GBP; (b) placing the proceeds raised under GBP for investment by HKMA; and (c) setting ratio on the respective distribution of institutional and retail bonds under GBP. The Administration and HKMA responded that – | |

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| | | <p>(a) the position of the Bond Fund set up for managing the proceeds raised under GBP was projected to nearly reach its borrowing limit by end-2022, and hence it was necessary to raise the borrowing limit for GBP to operate in a sustainable manner;</p> <p>(b) the borrowing limit of GBP was HK\$100 billion when GBP was set up in 2009, and was raised to HK\$200 billion in 2013. The proposed resolution on GBP would further raise the borrowing limit to HK\$300 billion. The Administration would keep in view the market demand and the development of the Hong Kong bond market and would consider raising the borrowing ceiling where necessary;</p> <p>(c) all along, the Administration had not set any ratio on the respective distribution of institutional bonds and retail bonds under GBP. This would allow flexibility for the Administration to consider the issuance of institutional bonds and retail bonds respectively in response to the prevailing market conditions, including market demand and development in interest rates;</p> <p>(d) primary dealers would be appointed to assist in taking forward the institutional bond issuance programme, whereas retail bonds would be available for subscription by retail investors;</p> <p>(e) the amount of outstanding principal of institutional bonds was HK\$80.6 billion and that of retail bonds was HK\$36 billion as at the end of 2020; and</p> <p>(f) the Administration would continue to promote the development of Hong Kong's bond market through systematic issuances of institutional bonds as well as inflation-linked retail bond ("iBond") and Silver Bond with a view to encouraging</p> | |

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| | | more investors to participate in the bond market. | |
| 002253 – 003904 | Chairman Ms Starry LEE Administration HKMA | <p>Ms LEE invited the Administration to consider increasing the proportion of retail bonds under GBP to meet the general public's demand, and offering higher interest rates for retail bonds if possible having regard to the investment return of the Bond Fund. She sought information on –</p> <ul style="list-style-type: none">(a) the utilization of proceeds raised under GBP and GGBP and the investment returns from the proceeds in the past; and(b) a comparison of the proportion of institutional and retail bonds issued under GBP with that of overseas jurisdictions. <p>The Administration and HKMA advised that –</p> <ul style="list-style-type: none">(a) the policy objective of GBP was to promote the sustainable development of Hong Kong's bond market through the systematic issuance of Government bonds,(b) all proceeds raised under GBP would be credited to the Bond Fund. The Bond Fund did not form part of the fiscal reserves, and was placed with the Exchange Fund for investment and managed separately from other Government accounts;(c) expenses including interest payments and principal repayment for bonds issued under GBP as well as other relevant expenses would be met by the Bond Fund;(d) on retail bonds, eight batches of iBond and five batches of Silver Bond had been issued so far, which had broadened the investor base and contributed to the development of the retail bond market in Hong Kong;(e) the Administration planned to issue at least HK\$15 billion of iBond and | |

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| | | <p>HK\$24 billion of Silver Bond in the current financial year;</p> <p>(f) the Administration would continue to determine the terms (such as sizes, interest rates, tenors, etc.) for each batch of retail bond and institutional bond in the light of prevailing market conditions and needs;</p> <p>(g) the policy objective of GGBP was to promote the development of green finance in Hong Kong and signify the Government's support for sustainable development and determination to combat climate change;</p> <p>(h) the green bond proceeds raised by GGBP would be credited to Capital Works Reserve Fund ("CWRF"), and were used to finance or re-finance green public works projects meeting the eligibility criteria outlined in the Government's Green Bond Framework ("GBF"); and</p> <p>(i) green bonds were mainly issued for institutional investors in the past and the Administration planned to issue green bonds for retail investors within the current financial year.</p> <p>In response to Ms LEE's further enquiry on the public works projects financed by GGBP, the Administration said that –</p> <p>(a) the inaugural Government green bond of US\$1 billion had financed seven public works projects that fell under four categories, namely energy efficiency and conservation, waste management and resource recovery, water and wastewater management and green buildings; and</p> <p>(b) the seven public works projects were: Integrated Waste Management Facilities Phase 1, O • PARK1, West Kowloon Government Offices, Inland Revenue Tower in the Kai Tak Development, Upgrading of San Wai Sewage Treatment Works – Phase 1, Additional Sewage</p> | |

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| | | <p>Rising Main and Rehabilitation of the Existing Sewage Rising Main between Tung Chung and Siu Ho Wan, and District Cooling System at the Kai Tak Development.</p> | |
| <p>003905 – 004705</p> | <p>Chairman Mr CHAN Hak-kan Administration</p> | <p>Mr CHAN enquired about the mechanism for determining the funding for Government's green public works projects, including whether such projects were required to be approved by the Finance Committee ("FC"), and the proposed three new types of green projects to be covered by GGBP.</p> <p>The Administration responded that –</p> <ul style="list-style-type: none"> (a) currently the green bond proceeds raised by GGBP were used to finance or re-finance green public works projects under CWRF, and all these projects included in CWRF had already been approved by FC; (b) all eligible green projects for funding by the proceeds of GGBP had to comply with the relevant requirements set out in GBF; (c) the Steering Committee on the Government Green Bond Programme, chaired by the Financial Secretary ("FS"), would review and approve each project based on the eligibility criteria outlined in GBF; (d) the proceeds of each green bond issuance would be allocated to the expenditure of eligible green projects within the last two or next two financial years from the issuance date. It was expected that more than half of the proceeds would be allocated to the future expenditure of such projects; and (e) the Administration would publish a Green Bond Report every year setting out the allocation of the proceeds and the expected environmental benefits of the green projects funded by the green bond proceeds. | |

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| 004706 – 005256 | Chairman Administration | <p>The Chairman asked whether the Administration would consider issuing more Government bonds to finance large infrastructure works under the current extremely low interest rate environment. He also suggested that the Administration should publish the quantifiable positive environmental impacts of the green projects funded by GGBP on an on-going basis.</p> <p>The Administration reiterated that –</p> <ul style="list-style-type: none"> (a) all proceeds raised by GBP would be credited to the Bond Fund which was managed separately from other Government accounts and did not form part of the fiscal reserves; (b) the green bond proceeds would provide another source of funding for the eligible green public works project under CWRP, which could help relieve Government's fiscal pressure in meeting the expenditure of capital works projects; and (c) the Green Bond Report to be published annually would set out the environmental benefits of the green projects funded by GGBP. | |
| 005257 – 005939 | Chairman Mr Christopher CHEUNG Administration | <p>Mr CHEUNG was of the view that the Administration should issue more retail bonds with a view to providing an investment option for retail investors looking for stable investment returns. He enquired about –</p> <ul style="list-style-type: none"> (a) details (e.g. terms, issuance size, etc.) of the green bonds the Administration planned to issue to retail investors within the current financial year, in particular if investors could make applications through securities brokers; (b) whether the Administration would consider issuing Government bonds denominated in renminbi ("RMB"); and (c) whether the Administration would consider measures to encourage | |

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| | | <p>securitization of bonds for public offering through the trading platform of the Hong Kong Stock Exchange.</p> <p>The Administration advised that –</p> <ul style="list-style-type: none"> (a) it was expected that investors could subscribe retail green bonds through securities brokers; (b) FS announced in the 2021-2022 Budget the setting up of a steering group to further promote the development of the bond market in Hong Kong. To encourage more investors to participate in the bond market, securitization of bonds would be among the issues to be discussed; (c) there was no restriction on the currency denomination of bonds to be issued under GBP, and the feasibility of issuing bonds denominated in other currencies, including RMB, would hinge on factors like the market appetite and the sustainability of the local bond market; (d) the Ministry of Finance and the People's Bank of China had been issuing RMB sovereign bonds in Hong Kong on a regular basis, in addition to the issuance of dim sum bonds by private entities; and (e) Hong Kong was currently the world's largest RMB offshore centre, and the Administration would continue to facilitate the internationalization of RMB and promote the development of RMB business in Hong Kong. | |
| 005940 – 010402 | Chairman Ms Starry LEE Administration | Ms LEE suggested that the Administration/HKMA should offer more retail investment products with reasonable and stable returns to the general public. She requested the Administration to provide information on the pre-announced fixed interest rate and the actual interest rate payment on the retail bonds, including iBond and Silver Bond, issued under GBP in the past years. | The Administration to take action as per paragraph 5 of the minutes |

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| | | <p>The Chairman shared Ms LEE's view, and considered that the Administration should increase the proportion of retail bonds under GBP to meet the demand of the general public.</p> <p>The Administration took note of Ms LEE's and the Chairman's suggestions and undertook to provide the requested information after the meeting.</p> | |
| 010403 – 010523 | Chairman Ms Starry LEE | Invitation of written views | |
| Clause-by-clause examination of the two Proposed Resolutions | | | |
| 010524 – 011325 | Chairman Administration Assistant Legal Adviser 4 ("ALA4") HKMA Mr Christopher CHEUNG | <p>Resolution under section 3(1) of the Loans Ordinance (Cap. 61) (Government Bond Programme)</p> <p><i>Explanatory Note</i></p> <p>Resolution under section 3(1) of the Loans Ordinance (Cap. 61) (Government Green Bond Programme)</p> <p><i>Explanatory Note</i></p> <p>Members raised no question on the two Proposed Resolutions.</p> <p>ALA4 sought clarification from the Administration for not setting out the proposed expansion of the scope of GGBP or "green projects" in the proposed resolution on GGBP.</p> <p>The Administration explained that –</p> <p>(a) it was mentioned in the explanatory note of the proposed resolution and the relevant LegCo Brief that GGBP would provide funding for green projects under CWRF;</p> <p>(b) the previous resolution under section 3(1) of the Loans Ordinance (Cap. 61) passed by LegCo on 15 November 2018 also adopted similar drafting;</p> <p>(c) the purpose was to provide flexibility in view of the evolving concept of green</p> | |

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| | | <p>finance, as well as the underlying principles and mechanisms for assessment and evaluation;</p> <p>(d) the Administration and HKMA would make reference to the green bond standards and guidelines issued by international organizations, and update GBF as the market evolved; and</p> <p>(e) for example, the International Platform on Sustainable Finance had set up a working group led by the European Union Commission and the relevant Mainland authorities to formulate a Common Ground Taxonomy ("CGT"). The Administration planned to adopt CGT with a view to aligning Hong Kong's requirements with those of these major markets.</p> <p>The Chairman opined that the Administration should expressly mention in the speech of the Secretary for Financial Services and the Treasury when moving the proposed resolution on GGBP at the relevant Council meeting that the policy intent of GGBP was to provide funding for green projects under CWRP.</p> <p>The Administration took note of the Chairman's views.</p> <p>In response to Mr CHEUNG's enquiries, the Administration advised that –</p> <p>(a) green bond standards and guidelines were issued by various international organizations which served as reference for green bond issuers and investors; and</p> <p>(b) in accordance with GBF, the proceeds raised under GGBP would be used exclusively to finance or re-finance green projects that fell under one or more of the eight eligible categories set out in GBF, namely renewable energy, energy efficiency and conservation, pollution prevention and control, waste management and resource recovery, water</p> | |

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| | | and wastewater management, nature conservation/biodiversity, clean transportation, and green buildings. | |
| Agenda item III — Any other business | | | |
| 011326 – 011440 | Chairman | Legislative timetable and concluding remarks | |

Council Business Division 1
Legislative Council Secretariat
29 July 2021