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

Background Brief

Purpose

This paper provides background information on the two proposed resolutions under section 3(1) of the Loans Ordinance (Cap. 61) ("LO") ("the two Proposed Resolutions") to raise the current maximum amount of borrowings under the Government Bond Programme ("GBP") and the Government Green Bond Programme ("GGBP"). It also summarizes the major views and concerns expressed by Members when related issues were discussed by the relevant subcommittee when scrutinizing the proposed resolution to set up GGBP in 2018 ("GGBP Resolution 2018") and the Panel on Financial Affairs ("FA Panel") at the meeting on 9 April 2021.

Background

Government Bond Programme

2. GBP was set up in 2009 with the policy objective of promoting the further and sustainable development of the Hong Kong bond market. On 8 July 2009, the Legislative Council ("LegCo") passed a resolution under section 29 of the Public Finance Ordinance (Cap. 2) authorizing the Government to set up a fund known as the Bond Fund for managing the proceeds raised under GBP, and a separate resolution under section 3 of LO authorizing the Government to borrow up to a maximum principal amount outstanding at any time of HK\$100 billion or equivalent for the purposes of the Bond Fund. The borrowing limit of the Bond Fund was raised from HK\$100 billion to HK\$200 billion following the passage of a resolution under section 3(1) of LO by LegCo in May 2013.

3. The Financial Secretary ("FS") announced in the 2021-2022 Budget the Government's plan to issue at least HK\$15 billion of inflation-linked bonds ("iBond") and HK\$24 billion of Silver Bond in the current financial year. According to the

Administration, the Bond Fund's position is projected to reach HK\$191.5 billion, near its borrowing limit, by end-2022 if the current issuance pattern of institutional and retail bonds continues. The Administration therefore considers it necessary to raise the borrowing limit for GBP to operate in a sustainable manner to meet growing demand from institutional and retail investors and promote the further development of the Hong Kong bond market.

Government Green Bond Programme

4. GGBP was set up in 2018 with the policy objective of promoting the development of green finance in Hong Kong and signifying the Government's support for sustainable development and determination to combat climate change by financing projects with environmental benefits under the Public Works Programme. The sums borrowed under GGBP would be credited to the Capital Works Reserve Fund ("CWRP") to provide funding for green public works projects of the Government. On 15 November 2018, LegCo passed a resolution under section 3(1) of LO authorizing the Government to borrow under GGBP, for the purposes of CWRP, sums not exceeding in total HK\$100 billion or equivalent. The Administration has developed a Green Bond Framework ("GB Framework") which sets out how it intends to issue green bonds to fund projects that will improve the environment and facilitate the transition to a low carbon economy. In accordance with the GB Framework, the proceeds of issuances will be used exclusively to finance or refinance public works projects of the Government that fall under one or more of the eight eligible categories¹ set out in the Framework.

5. FS announced in the 2021-2022 Budget the Government's plan to issue green bonds regularly and expand the scale of GGBP by doubling the borrowing ceiling of GGBP from HK\$100 billion to HK\$200 billion to allow for further issuance of green bonds totaling HK\$175.5 billion within the next five years. According to the Administration, the total outstanding amount of green bonds is projected to reach the current borrowing ceiling around 2023, in light of the total outstanding amount of US\$3.5 billion green bonds as at March 2021 and the aforementioned expanded issuance plan. The Administration therefore considers it necessary to double the borrowing limit to HK\$200 billion in order to provide enough flexibility to continue with regular green bond issuances and adjust the issuance size and tenor of individual tranches as needed in response to the prevailing market conditions.

¹ The eight eligible categories are renewable energy; energy efficiency and conservation; pollution prevention and control; waste management and resource recovery; water and wastewater management; nature conservation/biodiversity; clean transportation; and green buildings.

The two Proposed Resolutions

The proposed resolution to raise the maximum amount of borrowings under the Government Bond Programme

6. The proposed resolution on GBP to be moved by the Secretary for Financial Services and the Treasury ("SFST") under section 3(1) of LO seeks LegCo's approval to authorize the Government to borrow for the purposes of the Bond Fund sums not exceeding in total HK\$300 billion or equivalent, being the maximum amount of sums borrowed under the approval that may be outstanding by way of principal at any time under GBP. The proposed resolution requires that sums borrowed be credited to the Bond Fund, and is to replace the previous resolution passed by LegCo in May 2013 (i.e. Cap. 61E) prescribing the current borrowing limit of HK\$200 billion or equivalent. The wording of the proposed resolution is at **Appendix I**.

The proposed resolution to raise the maximum amount of borrowings under and expand the scope of the Government Green Bond Programme

7. The proposed resolution on GGBP to be moved by SFST under Section 3(1) of LO seeks LegCo's approval to authorize the Government to borrow for the purposes of CWRP sums not exceeding in total HK\$200 billion or equivalent, being the maximum amount of all sums borrowed under the approval that may be outstanding by way of principal at any time. The proposed resolution requires that the sums borrowed be credited to CWRP, and is to replace the resolution passed by LegCo under LO on 15 November 2018 (i.e. Cap. 61F) prescribing the current maximum amount of borrowings of HK\$100 billion or equivalent. Moreover, the Administration proposes to expand the scope of GGBP so that the green bond proceeds can be used to fund a wider variety of green projects under CWRP, covering minor works projects, major systems and equipment, and capital subventions. The wording of the proposed resolution is at **Appendix II**.²

Major views and concerns expressed by Members

8. A subcommittee was formed to scrutinize the proposed resolution for setting up GGBP in 2018 ("Subcommittee on GGBP Resolution 2018"). The Administration briefed the FA Panel on the two Proposed Resolutions at the meeting

² The Administration has explained that it is mentioned in the explanatory note of the proposed resolution that the Government Green Bond Programme will provide funding for green projects funded by the Capital Works Reserve Fund. The previous resolution under section 3(1) of the Loans Ordinance passed by the Legislative Council on 15 November 2018 (Cap. 61F) also adopted similar drafting and did not expressly provide for the scope of the projects or "green projects".

on 9 April 2021. The major views and concerns expressed by members of the subcommittee and FA Panel are summarized in the ensuing paragraphs.

Parameters of the Government Bond Programme

9. Noting that most government bonds issued under GBP were denominated in Hong Kong dollar, Panel members enquired whether the Administration would consider issuing government bonds denominated in other currencies including the US dollar and renminbi ("RMB"). Members considered that the issuance of RMB bonds under GBP could complement the financial development in the Mainland.

10. The Administration advised that 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 a host of factors including the market appetite and the sustainability of the local bond market. Hong Kong had developed a vibrant market for RMB bonds. Apart from the issuance of dim sum bonds by private entities, the Ministry of Finance and the People's Bank of China had been issuing RMB sovereign bonds in Hong Kong on a regular basis. It was observed that such developments could establish not only a comprehensive benchmark yield curve for offshore RMB bonds in Hong Kong but also meet the current market demand for such bonds.

Recognition of green projects under the Government Green Bond Programme

11. Panel members enquired whether the GB Framework developed by the Administration was recognized by international investors, and about Administration's plans to review and update the Framework.

12. The Administration advised that in developing the GB Framework, reference had been drawn from the Green Bond Principles 2018 ("the GB Principles 2018 ") of the International Capital Market Association ("ICMA") (which was a green bond standard widely recognized by the international community). Under the existing mechanism, the green projects would only be considered eligible if they had met the eligibility criteria outlined in the GB Framework. The Administration would also publish a green bond report annually setting out the details and quantifiable positive environmental impacts of the green projects funded by GGBP. Information contained in the green bond reports would be certified by the Hong Kong Quality Assurance Agency, an organization providing third-party conformity assessments for green finance issuers in Hong Kong. Besides, 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 aimed to adopt CGT with a view to aligning Hong Kong's requirements with those of these major markets.

Development of green finance

13. Panel members considered that Hong Kong could play a key role in assisting the Mainland in the development of green finance. There was also a suggestion for the Administration to examine the feasibility of using proceeds raised under GGBP to finance more types of green projects, such as those relating to the development of electric vehicles.

14. The Administration pointed out that all eligible green projects under GGBP had to comply with the relevant requirements set out in the GB Framework developed by the Administration, and various government bureaux/departments would review whether and how their existing/future projects would comply with the relevant requirements. As the Mainland and Hong Kong had plans to achieve carbon neutrality before 2060 and 2050 respectively, the Environment Bureau would update the existing Hong Kong Climate Action Plan in mid-2021 and work with the Financial Services and the Treasury Bureau to identify works projects under CWRF that complied with the GB Framework and could be funded by green bonds issued under GGBP.

15. Panel members noted the Administration's plan to set up the Green and Sustainable Finance Grant Scheme ("GSFSGS") (through consolidating the Pilot Bond Grant Scheme and the Green Bond Grant Scheme) for providing subsidies to eligible bond issuers and loan borrowers to cover their expenses relating to bond issuance and external review services, and asked whether the Administration would implement other measures to promote the development of green finance in Hong Kong. For instance, introducing tax incentives with reference to similar practices of overseas jurisdictions.

16. The Administration responded that it would announce the details of GSFSGS in due course. As regards tax incentives, tax relief would be provided for qualifying debt instruments that had met the relevant eligibility criteria under the Inland Revenue Ordinance (Cap. 112).

Development of the retail bond market

17. Panel members noted that both iBond and Silver Bond had provided attractive investment alternatives for the general public under the current extremely low interest rate environment. However, many members of the public found it difficult in purchasing bonds owing to their relatively low liquidity and high investment thresholds. Panel members considered that the Administration should increase the issuance sizes of future batches of iBond and Silver Bond, and suggested that the Administration should formulate measures to promote the development of local retail bond market including encouraging multinational entities to issue bonds with lower investment thresholds.

18. The Administration advised that since the establishment of GBP, the Administration had issued seven batches of iBond and five batches of Silver Bond, which had met with warm market reception and over-subscription. The Administration planned to issue green bonds for retail investors. FS had also announced in the 2021-2022 Budget of the formation of a steering committee to formulate strategies and a roadmap for promoting the diversified development of Hong Kong's bond market and reinforcing its position as a global bond centre. That said, in promoting the development of a retail bond market, the Administration had to be mindful of the need to strike a proper balance between market development and investor protection.

Wording of the proposed resolution on the Government Green Bond Programme in 2018

19. Some members of the Subcommittee on GGBP Resolution 2018 noted that the proposed resolution, as drafted, appeared to be wide enough to allow the Government to use the amount of borrowings for the purposes of any public works programme as stated in paragraph (c) of CWRP (Cap. 2A). In particular, these members were concerned that in the absence of definitions of key terms including "green", "green bonds" and "green public works projects" in the text of the proposed resolution, the Administration might deviate from the intended purpose of promoting green finance in green bond issuances. These members therefore called for the inclusion of "green public works projects" as purposes of borrowings and a comprehensive set of green bond principles or framework in the wording of the proposed resolution.

20. The Administration explained that the concept of green finance, as well as the underlying principles and mechanisms for assessment and evaluation, were evolving. There were different international organizations issuing green bond standards and guidelines which served as reference for green bond issuers and investors. For instance, the Green Bond Principles 2018 introduced by ICMA³ were guidelines for issuing green bonds, and the Climate Bonds Standard ("CBS")⁴ sponsored by the

³ According to the Green Bond Principles 2018, eligible green project categories include, but are not limited to, renewable energy, energy efficiency, pollution prevention and control, environmentally sustainable management of living natural resources and land use, terrestrial and aquatic biodiversity conservation, clean transportation, sustainable water and wastewater management, climate change adaptation, eco-efficient and/or circular economy adapted products, production technologies and processes, and green buildings which meet regional, national or internationally recognized standards or certifications.

⁴ The Climate Bonds Standard version 2.1 requires that projects financed by an issuance should fall into one or more of the investment areas contained in the Climate Bonds Taxonomy which for the time being include energy, low carbon building, industry and energy intensive commercial, waste and pollution control, transport, information technology and communications, nature based assets and water.

Climate Bonds Initiative was another set of commonly-known international green bond criteria. These organizations frequently update their standards and guidelines as the market evolved, and other standards/guidelines might adopt different project categories and/or criteria. Meanwhile, many jurisdictions had developed their own domestic standards and guidelines. Hence, the Administration considered that as a market development initiative, GGBP should 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.

21. The Administration also advised that in order to keep abreast of the global development of green finance, it was necessary and justified to adopt a practical approach by making clear the Government's policy intention but without attempting to define "green" in the proposed resolution. In proposing the present practical approach, the Administration had regard to the common approach adopted by other issuers who issued green bonds with reference to standards/guidelines under the Green Bond Principles 2018, CBS, etc., which typically set out the types of projects or investment areas supported by green bonds. The Administration added that under the existing mechanism, all public works projects funded by CWRP, including green public works projects, would require the approval of the Finance Committee and thus there was no question of the Government circumventing the scrutiny of LegCo.

Council questions

22. LegCo Members raised questions relating to government bonds and green bonds at the Council meetings on 8 November 2017, 9 May 2018 and 3 February 2021. The questions cover issues including standards and guidelines on the issuance of green bonds, inclusion of green bonds issued in Hong Kong in the scope of tradable products of Bond Connect, implementation of the Green Finance Certification Scheme, the objective of GBP and the benefits brought by issuing iBond and Silver Bond to Hong Kong. Details of the questions and the Administration's responses are provided in the hyperlinks in **Appendix III**.

Latest development

23. At the House Committee meeting on 4 June 2021, Members agreed to form a subcommittee to study the two Proposed Resolutions.

References

24. A list of relevant papers is in the **Appendix III**.

Council Business Division 1
Legislative Council Secretariat
18 June 2021

Loans Ordinance

Resolution of the Legislative Council

Resolution made and passed by the Legislative Council under section 3(1) of the Loans Ordinance (Cap. 61) on 2021.

Resolved that—

- (a) the Government be approved to borrow from any person from time to time for the purposes of the Bond Fund established by the Resolution passed on 8 July 2009 (Cap. 2 sub. leg. S) sums not exceeding in total \$300 billion or equivalent, being the maximum amount of all sums borrowed under this paragraph that may be outstanding by way of principal at any time;
- (b) sums borrowed under paragraph (a) are to be credited to the Bond Fund; and
- (c) this Resolution is to replace the Resolution passed on 22 May 2013 (Cap. 61 sub. leg. E).

Clerk to the Legislative Council

2021

Explanatory Note

This Resolution relates to the proposal in the 2021–22 Budget to promote the sustainable development of the bond market in Hong Kong.

2. This Resolution—
 - (a) gives approval to the Government to borrow for the purposes of the Bond Fund sums not exceeding in total \$300 billion or equivalent, being the maximum amount of all sums borrowed under the approval that may be outstanding by way of principal at any time; and
 - (b) requires that the sums be credited to the Bond Fund.

Loans Ordinance

Resolution of the Legislative Council

Resolution made and passed by the Legislative Council under section 3(1) of the Loans Ordinance (Cap. 61) on 2021.

Resolved that—

- (a) the Government be approved to borrow from any person from time to time for the purposes of the Capital Works Reserve Fund established by the Resolution passed on 20 January 1982 (Cap. 2 sub. leg. A) sums not exceeding in total \$200 billion or equivalent, being the maximum amount of all sums borrowed under this paragraph that may be outstanding by way of principal at any time;
- (b) sums borrowed under paragraph (a) are to be credited to the Capital Works Reserve Fund; and
- (c) this Resolution is to replace the Resolution passed on 15 November 2018 (Cap. 61 sub. leg. F).

Clerk to the Legislative Council

2021

Explanatory Note

This Resolution relates to the proposal in the 2021–22 Budget to promote green finance in Hong Kong through the Government Green Bond Programme, which will provide funding for green projects funded by the Capital Works Reserve Fund.

2. This Resolution—

- (a) gives approval to the Government to borrow for the purposes of the Capital Works Reserve Fund sums not exceeding in total \$200 billion or equivalent, being the maximum amount of all sums borrowed under the approval that may be outstanding by way of principal at any time; and
- (b) requires that the sums be credited to the Capital Works Reserve Fund.

List of relevant papers

Date	Event	Papers/Minutes of meeting
4 May 2009 and 11 May 2009	Meeting of the Panel on Financial Affairs ("FA Panel")	<p>Administration's Paper (LC Paper No. CB(1)1469/08-09(01))</p> <p>Administration's supplementary information (LC Paper No. CB(1)1507/08-09(02))</p> <p>Minutes for meetings on 4 May 2009 (LC Paper No. CB(1)2092/08-09) and 11 May 2009 (LC Paper No. CB(1)2519/08-09)</p>
May to June 2009	The Subcommittee on Proposed Resolutions under Section 29 of the Public Finance Ordinance (Cap. 2) and Section 3 of the Loans Ordinance (Cap. 61)	<p>Proposed resolution under Section 29 of the Public Finance Ordinance (Cap.2)</p> <p>Proposed resolution under Section 3 of the Loans Ordinance (Cap.61)</p> <p>Legislative Council Brief (G6/123/5C)</p> <p>Report of the Subcommittee (LC Paper No. CB(1)2049/08-09)</p>
8 July 2009	The Legislative Council ("LegCo") passed the proposed resolutions under Section 29 of the Public Finance Ordinance (Cap. 2) and Section 3 of the Loans Ordinance (Cap. 61) moved by the Financial Secretary	Hansard

Date	Event	Papers/Minutes of meeting
8 April 2013	Meeting of the FA Panel	Administration's paper (LC Paper No. CB(1)781/12-13(07)) Administration's supplementary information (LC Paper No. CB(1)953/12-13(02)) Minutes (LC Paper No. CB(1)1654/12-13)
22 May 2013	LegCo passed the proposed resolution under Section 3(1) of the Loans Ordinance (Cap. 61) moved by the Secretary for Financial Services and Treasury	Hansard
10 July 2013	LegCo passed the Inland Revenue and Stamp Duty Legislation (Alternative Bond Schemes) (Amendment) Bill 2012	Hansard The Bill passed Report of the Bills Committee
2 December 2013	Meeting of the FA Panel	Administration's paper (LC Paper No. CB(1)390/13-14(05)) Background Brief (LC Paper No. CB(1)390/13-14(06)) Minutes (LC Paper No. CB(1)981/13-14)
26 March 2014	LegCo passed the Loans (Amendment) Bill 2014	Hansard The Bill passed Report of the Bills Committee

Date	Event	Papers/Minutes of meeting
8 November 2017	Oral question raised by Hon Kenneth LEUNG on "Development of green finance"	Hansard
9 May 2018	Written question raised by Hon CHAN Chun-ying on "Promotion of green bonds"	Hansard
May to October 2018	The Subcommittee on Proposed Resolution under section 3(1) of the Loans Ordinance (Cap. 61)	Proposed resolution under section 3(1) of the Loans Ordinance (Cap.61) Legislative Council Brief (B&M/3/1/4C) Report of the Subcommittee (LC Paper No. CB(1)83/18-19)
15 November 2018	LegCo passed the proposed resolution under section 3(1) of the Loans Ordinance (Cap. 61) moved by the Secretary for Financial Services and Treasury	Hansard
3 February 2021	Written question raised by Hon CHAN Hak-kan on "Government bonds"	Hansard
9 April 2021	Meeting of the FA Panel	Administration's paper (LC Paper No. CB(1)737/20-21(05)) Administration's paper (LC Paper No. CB(1)737/20-21(06))

Date	Event	Papers/Minutes of meeting
June 2021	The Subcommittee on Two Proposed Resolutions under section 3(1) of the Loans Ordinance (Cap. 61)	<p><u>Proposed resolution under section 3(1) of the Loans Ordinance (Cap. 61) (Government Bond Programme)</u></p> <p><u>Legislative Council Brief (B&M/3/1/2C)</u></p> <p><u>Proposed resolution under section 3(1) of the Loans Ordinance (Cap. 61) (Government Green Bond Programme)</u></p> <p><u>Legislative Council Brief (B&M/3/1/4C)</u></p> <p><u>Legal Service Division Report (LC Paper No. LS76/20-21)</u></p>