

LEGISLATIVE COUNCIL BRIEF

Loans Ordinance
(Chapter 61)

RESOLUTION TO IMPLEMENT THE GOVERNMENT GREEN BOND PROGRAMME

INTRODUCTION

At the meeting of the Executive Council on 5 June 2018, the Council **ADVISED** and the Chief Executive **ORDERED** that the Resolution, at **Annex A**, should be introduced into the Legislative Council (“LegCo”) to authorise the Government to borrow, under section 3(1) of the Loans Ordinance (“the Ordinance”), for the purposes of the Capital Works Reserve Fund (“the Fund”), sums not exceeding in total HK\$100 billion or equivalent, being the maximum amount of all borrowings under the Government Green Bond Programme (“the Programme”) that may be outstanding by way of principal at any time, with the sums borrowed under the authorisation to be credited to the Fund.

JUSTIFICATIONS

Frameworks of the Programme

2. The primary objective of the Programme is to promote the development of green finance in Hong Kong by encouraging issuers to arrange financing for their green projects through our capital markets and growing the local green investor base. The Programme also signifies the Government’s support for sustainable development and determination to combat climate change by financing projects with environmental benefits under the Public Works Programme (“PWP”)¹. To achieve these objectives, the overall issuance size of the Programme should take account

¹ PWP projects relating to renewable energy, energy efficiency, pollution prevention and control, waste management, water and wastewater management, and green/low carbon building, are potential projects to underpin issuance under the Programme.

of the long-term nature of the Programme such that it can better attract issuers and investors to help promote development of green finance, in particular the green bond market, in Hong Kong.

3. We propose that the borrowing ceiling, which refers to the maximum amount of outstanding principal (i.e. principal amount of bonds issued minus that of bonds matured) at any time under the Programme, be set at HK\$100 billion. The proposed ceiling represents a long-term target over a long period of time (e.g. at least ten years). Given the on-going nature of the Programme, the proposed ceiling should give the Government the flexibility required for making necessary adjustments to the issuance size and tenor of individual tranches in response to the prevailing market conditions and the financing needs of the PWP projects funded by the Programme. Approval will be sought from LegCo for a resolution to be made under section 3(1) of the Ordinance that authorises the Government to borrow up to the proposed ceiling of HK\$100 billion.

4. To demonstrate the credibility of the Programme, every issuance under the Programme will comply with issuance frameworks that align with guidelines/standards² widely accepted by global investors (“Guidelines/Standards”) 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. To follow the best market practice and set a good example for other potential green issuers, we are inclined to engage independent external reviewers to verify and/or certify alignment of issuance frameworks with the Guidelines/Standards. Besides, all PWP projects under the Programme must be approved by the Finance Committee of LegCo under the existing mechanism. Relevant bureaux and departments will establish internal guidance/guidelines and procedures to implement the issuance framework.

5. Bonds issued under the Programme are more sophisticated when compared to their conventional counterparts including government bonds issued under the Government Bond Programme (“GBP”) such as iBond and Silver Bond. As we understand it, most of the green issuances in Hong Kong were made to institutional investors. For the sake of prudence, issuances for the initial tranches of the Programme will target institutional investors with tenors of three to five years. We will review the arrangements when we have gained more experience in green finance and

² For example, the Green Bond Principles and the Climate Bonds Standard promulgated by the International Capital Market Association and the Climate Bonds Initiative respectively.

will consider introducing other arrangements, such as retail issuance and issuances with longer tenor.

6. The Hong Kong Monetary Authority (“HKMA”) has been tasked to assist in implementing bond issuance under the GBP with efficiency and success. Having regard to the experience gained by HKMA in its role under the GBP and the potential synergy in implementing the two programmes, HKMA will also be tasked to assist in implementing bond issuance under the Programme. In so doing, it will engage banks and/or financial institutions as well as other service suppliers needed, such as an external reviewer, to provide the necessary assistance in implementing the Programme.

7. Sums raised under the Programme will be credited to the Fund for funding selected PWP projects. Repayments of principals and payments of interest and expenses arising from the procurement of the relevant services by the HKMA mentioned in paragraph 6 above will be met by the Fund. Having regard to the uniqueness and special requirements pertaining to the Programme, similar to the arrangement under the GBP, we will adopt the HKMA’s procurement rules and relevant tendering arrangements, which are comparable to the government procurement regulations in terms of fairness, openness and transparency.

Oversight of the Programme

8. To oversee the implementation of the Programme, a steering committee (“SC”) with representatives from the Financial Services and the Treasury Bureau, the Environment Bureau and the HKMA will be set up. The SC will monitor and review the implementation of the Programme with a view to considering whether any adjustment to the Programme is required and may establish a subcommittee and instrumentality to help carry out its purposes and functions.

THE RESOLUTION

9. The purpose of the Resolution under section 3(1) of the Ordinance is to authorise the Government to borrow for the purposes of the Fund sums not exceeding HK\$100 billion or equivalent, being the maximum amount of all borrowings made under the authorisation that may be outstanding by way of principal at any time. The Resolution requires the sums borrowed to be credited to the Fund.

LEGISLATIVE TIMETABLE

10. Subject to deliberation within the LegCo over the legislative process, the tentative legislative timetable is set out below -

Moving the Resolution in LegCo	27 June 2018
Publication in Gazette and commencement	6 July 2018

IMPLICATIONS OF THE PROPOSAL

11. The proposed Resolution is in conformity with the Basic Law, including provisions concerning human rights. It will not affect the current binding effect of the Ordinance. It has no civil service, productivity, family or gender implications. Additional workload, if any, arising from the administration of the Programme will be absorbed by relevant bureaux/departments with existing resources.

12. The economic, environmental, financial and sustainability implications of the proposed Resolution are set out in **Annex B**.

PUBLIC CONSULTATION

13. The proposal was widely discussed among the public and LegCo Members after its announcement in the 2018-19 Budget. We also briefed the LegCo Panel on Financial Affairs on the Programme among other initiatives to develop green finance in Hong Kong on 3 April 2018. We will take into account their views in hammering out the relevant details of the Programme.

PUBLICITY

14. We will issue a press release upon the issuance of this brief. A spokesperson will be available to answer media and public enquiries.

BACKGROUND

15. The Chief Executive announced in her 2017 Policy Address that the Government would take the lead in arranging the issuance of a green bond in the 2018-19 financial year to demonstrate the Government's support for sustainable development and determination to combat climate change, and to promote the development of green finance. The Financial Secretary further announced in the 2018-19 Budget that the Government will launch the Programme with a borrowing ceiling of HK\$100 billion. The sums borrowed under the Programme will be credited to the Fund to provide funding for green public works projects of the Government.

ENQUIRIES

16. Enquiries relating to this brief can be directed to Ms Estrella Cheung, Principal Assistant Secretary for Financial Services and the Treasury (Financial Services), at 2810 2150.

Financial Services and the Treasury Bureau
6 June 2018

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 2018.

Clerk to the Legislative Council

Resolved that—

2018

- (a) the Government be authorized to borrow from time to time, from any person for the purposes of the Capital Works Reserve Fund established by the Resolution published in the Gazette as Legal Notice No. 18 of 1982, sums not exceeding in total \$100 billion or equivalent, being the maximum amount of all borrowings made under this paragraph that may be outstanding by way of principal at any time; and
- (b) sums borrowed under paragraph (a) are to be credited to the Capital Works Reserve Fund.

Explanatory Note

This Resolution relates to the proposal in the 2018–19 Budget to promote green finance in Hong Kong through a green bond issuance programme, which will provide funding for green public works projects of the Government.

2. This Resolution—
- (a) authorizes the Government to borrow, for the purposes of the Capital Works Reserve Fund, sums not exceeding in total \$100 billion or equivalent; and
 - (b) requires that the sums be credited to the Capital Works Reserve Fund.

Economic Implications

The Government Green Bond Programme (“the Programme”) will help promote the development of green finance especially green bond market in Hong Kong. It will also enhance Hong Kong’s development as a regional green finance hub.

Environmental Implications

2. The Programme will help demonstrate the Government’s support for sustainable development and determination to combat climate change by financing projects with environmental benefits under the Public Works Programme (“PWP”). The proposal would not affect the established mechanism to assess environmental implications in taking forward individual PWP projects.

Financial Implications

3. The financial implications to be brought about by the implementation of the Programme should be minimal. Costs incidental to the issuance of bonds, annual payment of interest and repayment of principal will be met by the Capital Works Reserve Fund (“the Fund”). The amount originally earmarked for the concerned PWP projects under the Fund will be retained for other purposes of the Fund including placing the amount with the Exchange Fund as part of the fiscal reserve for investment. Any shortfall of funds for fulfilling the financial obligations and liability under the Fund may be financed through appropriation from the general revenue.

Sustainability Implications

4. In addition to the environmental implications set out above, the Programme could help promote the development of green finance and the green bond market in Hong Kong.