

LEGISLATIVE COUNCIL BRIEF

Loans Ordinance
(Chapter 61)

Resolution to Raise the Maximum Amount of Borrowings under the Government Bond Programme

INTRODUCTION

At the meeting of the Executive Council on 25 May 2021, the Council **ADVISED** and the Chief Executive **ORDERED** that the Resolution, at **Annex A**, should be introduced into the Legislative Council (“LegCo”) pursuant to section 3 of the Loans Ordinance (Cap. 61) to approve the Government to borrow for the purposes of the Bond Fund a maximum amount of HK\$300 billion or equivalent that may be outstanding by way of principal at any time to facilitate the implementation of the Government Bond Programme (“GBP”) in a sustainable manner.

JUSTIFICATIONS

2. The GBP was set up in 2009 with the policy objective of promoting sustainable development of the bond market in Hong Kong. It was established pursuant to the passage of a resolution by LegCo in July 2009 under section 29 of the Public Finance Ordinance (Cap. 2) authorising the Government to set up a fund known as the Bond Fund for managing the proceeds raised under the GBP, and a separate resolution under section 3 of the Loans Ordinance authorising 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 by LegCo in May 2013 (i.e. Cap. 61E). The three previous resolutions are appended at **Annex B**.

GBP's Contribution to Bond Market Development

3. Since its establishment, the GBP has been promoting the development of the local bond market through systematic issuances of institutional and retail bonds. Under the institutional part of the GBP, Government Bonds (“GBs”) with tenors ranging from three to 15 years are tendered regularly to ensure a steady supply of public debt paper to satisfy the demand of institutional investors, such as pension funds, banks and insurance companies. Institutional GBs are issued in a systematic and consistent manner with issuance schedule determined and published in advance on a half-yearly basis in order to promote transparency and predictability in the market. While most GBs are denominated in Hong Kong dollar, three tranches of US dollar denominated Islamic bonds (or “sukuk”) were also issued in the past, demonstrating the diversity and viability of Hong Kong’s bond market as a fund-raising platform for the Islamic world.

4. Driven in part by regular government issuances, the Hong Kong dollar debt market has continued to grow since the GBP’s expansion in 2013. The outstanding amount of GBs has increased from HK\$47 billion at the beginning of 2013 to HK\$80.6 billion as at end-2020. Excluding the issuances of GBs and Exchange Fund Bills and Notes, total issuances of Hong Kong dollar debt instruments by the non-public segment increased from HK\$203 billion in 2013 to HK\$875 billion in 2020. Meanwhile, Hong Kong’s public debt market continues to attract attention and recognition by global indices such as the Markit iBoxx ABF Hong Kong Index and the Standard and Poor Hong Kong Government Bond Index.

5. Under the retail part of the GBP, retail government bonds are issued to meet the general public’s demand for stable investments of a high quality and to promote public interest in bond investment. So far, seven batches of iBond, an inflation-linked retail bond, and five batches of Silver Bond have been issued, all met with warm market reception and over-subscription (see **Annex C** for the subscription results). As indicative in the fact that 6-15% of iBond subscribers in each issuance were first-time bond investors who specifically opened an investment account for iBond subscription, the introduction of iBond has broadened the investor base and contributed to the development of a retail bond market in Hong Kong. Silver Bond targets senior residents aged 65 or above who look for stable investment with steady return to support retirement planning. The success of the Silver Bond has not only enhanced the senior population’s interest in bond investment, but also

encouraged the financial industry to tap into the immense potential of the silver market by providing more investment options for senior citizens.

Future Development of GBP

6. As at end-2020, the total outstanding amount of bonds under the GBP was HK\$124.3 billion, comprising 11 institutional issues totalling HK\$80.6 billion, three batches of Silver Bond totalling HK\$20.9 billion, one batch of iBond of HK\$15.0 billion, and one batch of US dollar sukuk with an issuance size of US\$1.0 billion. In the 2021-22 Budget Speech, the Financial Secretary announced the plan to issue at least HK\$15 billion of iBond and HK\$24 billion of Silver Bond in the current financial year. 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. It is therefore necessary to raise the borrowing limit for the 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.

PARAMETERS OF THE ENLARGED PROGRAMME

7. The proposed increase of HK\$100 billion (for the maximum amount of outstanding principal) will provide room for further issuances under the GBP for the next few years and allow flexibility for the Government to adjust the issuance size and tenor of individual tranches in response to prevailing market conditions. When considering the types and other parameters of future issuances under the GBP, our overriding objective will continue to be promoting the further and sustainable development of the local bond market.

Issuance Framework

8. A flexible approach will be taken to ensure that issuance parameters (e.g. choice of issuance size and tenor) of individual bond issuances are conducive to the long-term development of the local bond market. We will not set limits for the proportion of institutional and retail bonds under the GBP. Due consideration will continue to be given to prevailing market conditions such as market demand, interest rates and potential impacts on other prospective bond issuers in Hong Kong, as well as the GBP's capacity to support the development of different segments of the bond market. The Government would also continue to

monitor market conditions with a view to issuing more institutional GBs with longer tenors at the far-end of the yield curve. Furthermore, we would look for opportunity to further diversify the types of GBs that will act as a benchmark for other issuers.

Management of Proceeds

9. The management of funds under the GBP will continue to follow the existing framework. All proceeds raised under the GBP will be credited to the Bond Fund. Expenses including interest payments and principal repayment for bonds issued under the GBP as well as other relevant expenses (e.g. expenses for external services) will be met by the Bond Fund. The Bond Fund does not form part of the fiscal reserves and is managed separately from other Government accounts. The Bond Fund is placed with the Exchange Fund for investment and attracts investment income on the basis of the “fixed rate” sharing arrangement applicable to the fiscal reserves.

THE RESOLUTION

10. The purpose of the proposed Resolution under section 3 of the Loans Ordinance is to approve 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. The Resolution requires that sums borrowed be credited to the Bond Fund, and is to replace the previous resolution passed by LegCo under the Loans Ordinance in May 2013 (i.e. Cap. 61E) prescribing the current borrowing limit of HK\$200 billion or equivalent.

LEGISLATIVE TIMETABLE

11. The tentative legislative timetable is set out below –

Moving the resolution in LegCo	16 June 2021
Publication in the Gazette and commencement	25 June 2021

IMPLICATIONS OF THE PROPOSAL

12. The proposed Resolution has economic and financial implications as set out at **Annex D**. It is in conformity with the Basic Law, including the provisions concerning human rights, and will not affect the current binding effect of the Loans Ordinance. It has no civil service, productivity, environmental, family, or gender implications. It has no sustainability implications other than those set out in the economic implications.

PUBLIC CONSULTATION

13. The proposal was announced in the 2021-22 Budget Speech and positively received. We briefed the LegCo Panel on Financial Affairs on the proposal at its meeting on 9 April 2021. The Panel indicated general support for the proposal.

PUBLICITY

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

ENQUIRIES

15. Enquiries relating to this brief can be directed to Ms Eureka Cheung, Principal Assistant Secretary for Financial Services and the Treasury (Financial Services), at 2810 2067.

Financial Services and the Treasury Bureau
26 May 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.

L.N. 168 of 2009**PUBLIC FINANCE ORDINANCE****RESOLUTION OF THE LEGISLATIVE COUNCIL**

Resolution made and passed by the Legislative Council under section 29 of the Public Finance Ordinance (Cap. 2) on 8 July 2009.

RESOLVED that—

- (a) there is established a fund to be known as the “Bond Fund” in English and “債券基金” in Chinese;
- (b) the Fund is to be administered by the Financial Secretary, who may direct or authorize other public officers to administer the Fund and delegate the power of administration to other public officers;
- (c) the following are to be credited to the Fund—
 - (i) sums borrowed under section 3 of the Loans Ordinance (Cap. 61) that are required to be credited to the Fund by any resolution of the Legislative Council approving the borrowing;
 - (ii) sums received by way of interest, dividends or investment income earned in respect of the sums held in the Fund;
 - (iii) any appropriations from the general revenue that may be approved by the Legislative Council;
 - (iv) any other sums that may be received for the purposes of the Fund;
- (d) earnings from interest or dividends on investments of the Fund are to be retained for the purposes of the Fund;
- (e) the Financial Secretary may expend money from the Fund for the purposes of—
 - (i) repaying or, if appropriate, paying the principal of, interest on, and expenses incurred in relation to, any sums that have been borrowed under section 3 of the Loans Ordinance (Cap. 61) for the purposes of the Fund; and
 - (ii) investing in the manner the Financial Secretary considers appropriate for the prudent management of the Fund, and paying the expenses incurred in relation to the investments;

- (f) the Director of Accounting Services, under the authority of a funds warrant issued by the Financial Secretary, is to pay from the Fund any sums that may be required to meet expenditures from the Fund; and
- (g) the Financial Secretary may transfer from the Fund to the general revenue the balance held in the Fund, if so approved by the Legislative Council, when all financial obligations and liabilities are met in relation to any sums that have been borrowed under section 3 of the Loans Ordinance (Cap. 61) for the purposes of the Fund.

Pauline NG Man-wah
Clerk to the Legislative Council

8 July 2009

Explanatory Note

This Resolution relates to the proposal in the 2009–2010 Budget to promote the further and sustainable development of the bond market in Hong Kong. As mentioned in the Budget Speech, promoting the development of the bond market is important to reinforcing Hong Kong's position as an international financial centre. This can provide more diversified investment products and avenues for financing to attract more overseas capital.

2. This Resolution establishes a fund known as the Bond Fund (“the Fund”). The Fund will be administered by the Financial Secretary or public officers under the Financial Secretary's authority. The Fund will have sums borrowed under section 3 of the Loans Ordinance (Cap. 61) (“the loans”), sums received by the Fund by way of interest, dividends or investment income, appropriations from the general revenue, and any other sums received for the purposes of the Fund. Earnings from interest or dividends on investments of the Fund will be retained in the Fund. The Fund will be used to repay the loans, meet related financial obligations and liabilities, and make investments. If the Fund has a positive balance after all financial obligations and liabilities are met in relation to the loans, the surplus funds may be transferred to the general revenue.

L.N. 169 of 2009**LOANS ORDINANCE****RESOLUTION OF THE LEGISLATIVE COUNCIL**

Resolution made and passed by the Legislative Council under section 3 of the Loans Ordinance (Cap. 61) on 8 July 2009.

RESOLVED that—

- (a) the Government be authorized to borrow from any person from time to time for the purposes of the Bond Fund established by a resolution made and passed under section 29 of the Public Finance Ordinance (Cap. 2) such 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 Bond Fund.

Pauline NG Man-wah
Clerk to the Legislative Council

8 July 2009

Explanatory Note

This Resolution relates to the proposal in the 2009–2010 Budget to promote the further and sustainable development of the bond market in Hong Kong. As mentioned in the Budget Speech, promoting the development of the bond market is important to reinforcing Hong Kong's position as an international financial centre. This can provide more diversified investment products and avenues for financing to attract more overseas capital.

2. This Resolution authorizes the Government to borrow for the purposes of the Bond Fund such sums not exceeding in total \$100 billion or equivalent, being the maximum amount of all borrowings under the authorization that may be outstanding by way of principal at any time, and requires that the sums be credited to the Bond Fund.

L.N. 96 of 2013

Loans Ordinance

Resolution of the Legislative Council

Resolution made and passed by the Legislative Council under section 3 of the Loans Ordinance (Cap. 61) on 22 May 2013.

Resolved that—

- (a) the Government be authorized to borrow from any person from time to time for the purposes of the Bond Fund established by a resolution made and passed under section 29 of the Public Finance Ordinance (Cap. 2) such sums not exceeding in total \$200 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;
- (b) sums borrowed under paragraph (a) are to be credited to the Bond Fund; and
- (c) this Resolution is to replace the Resolution made and passed by this Council on 8 July 2009 and published in the Gazette as Legal Notice No. 169 of 2009.

Kenneth CHEN Wei-on
Clerk to the Legislative Council

22 May 2013

Explanatory Note

This Resolution relates to the proposal in the 2013–2014 Budget to further promote the sustainable development of the bond market in Hong Kong.

2. This Resolution authorizes the Government to borrow for the purposes of the Bond Fund such sums not exceeding in total \$200 billion or equivalent, being the maximum amount of all borrowings under the authorization that may be outstanding by way of principal at any time, and requires that the sums be credited to the Bond Fund.

Annex C

Subscription Results of iBond and Silver Bond

iBond

Year	Number of valid applications	Total valid application amount (HK\$ billion)	Allotment of bonds to valid applications	Percentage of first-time bond investors
2011	155,835	13.2	1 to 45 units	15%
2012	332,467	49.8	1 to 4 units	10%
2013	520,823	39.6	1 to 2 units	13%
2014	488,170	28.8	1 to 3 units	10%
2015	597,895	35.7	1 to 2 units	9%
2016	507,978	22.5	1 to 3 units	8%
2020	456,380	38.4	1 to 4 units	6%

Silver Bond

Year	Number of valid applications	Total valid application amount (HK\$ billion)	Allotment of bonds to valid applications	Percentage of first-time bond investors
2016	76,009	8.9	1 to 5 units	15%
2017	44,842	4.2	1 to 10 units	10%
2018	45,488	6.2	1 to 8 units	6%
2019	56,564	7.9	1 to 6 units	8%
2020	135,243	43.2	1 to 14 units	11%

Implications of the Proposal

Economic Implications

The proposal will further promote the sustainable development of the bond market in Hong Kong. Development of the bond market can enhance the financial intermediation channel to complement the equity market and the banking sector, thereby facilitating more efficient allocation of capital and flow of funds. This will in turn help promote economic development and maintain financial stability of Hong Kong, as well as strengthen Hong Kong's position as an international financial centre and asset management centre.

Financial Implications

2. Given that the Bond Fund is managed separately from the fiscal reserves and other Government accounts, the financial implications of the continued implementation of the GBP should be minimal. Costs incidental to the issuance of government bonds, including interest payments and principal repayment for bonds as well as other relevant expenses (excluding personal emoluments) will be met by the sums raised and investment income generated under the Bond Fund.

3. The work involved in the sustainable implementation of the GBP will continue to be undertaken by the existing staff resources of the Financial Services and the Treasury Bureau as well as the Hong Kong Monetary Authority. No additional personal emoluments are required.