

# **BOND FUND**

## BOND FUND

### Memorandum Note

The Bond Fund was established by the Resolution passed by the Legislative Council under section 29 of the Public Finance Ordinance (Cap. 2) on 8 July 2009 in connection with the implementation of the Government Bond Programme to promote the further and sustainable development of the bond market in Hong Kong. The Programme can provide more diversified investment products and avenues for financing to attract more overseas capital, and reinforce Hong Kong's position as an international financial centre. The Programme consists of an institutional part and a retail part. The Fund does not form part of the fiscal reserves and is managed separately from other Government accounts. The Fund is placed with the Exchange Fund for investment purposes and attracts investment income on the basis of the "fixed rate" sharing arrangement applicable to the fiscal reserves.

2 On 26 March 2014, the Loans (Amendment) Ordinance 2014 was enacted by the Legislative Council putting in place a legal framework for the issuance of alternative bonds under the Government Bond Programme. The enactment amends the Loans Ordinance (Cap. 61) so that money raised by the Government by alternative bonds issued under a specified alternative bond scheme set up by the Government is treated as money borrowed by the Government and may be credited to the Fund. Amendments were also made to the Resolution passed under section 29 of the Public Finance Ordinance (Cap. 2) so that money can be expended from the Fund for making redemption payments and periodic distribution payments under the scheme and for paying the expenses in relation to the borrowing.

3 The Resolution passed under section 29 of the Public Finance Ordinance (Cap. 2) provides, inter alia, that—

- (a) 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;
- (b) 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;
- (c) earnings from interest or dividends on investments of the Fund are to be retained for the purposes of the Fund;
- (d) 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;
- (e) for sums borrowed in the manner mentioned in section 2A of the Loans Ordinance (Cap. 61), the power under sub-paragraph (d) above includes—
  - (i) paying the sums referred to in subsection (1)(e) of that section; and
  - (ii) paying the expenses incurred in relation to the borrowing;
- (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.

4 The Legislative Council also passed a Resolution under section 3 of the Loans Ordinance (Cap. 61) on 22 May 2013, replacing the relevant Resolution passed on 8 July 2009, authorising the Government to borrow from any person from time to time for the purposes of the Bond Fund such sums not exceeding in total \$200 billion or equivalent, being the maximum amount of all borrowings that may be outstanding by way of principal at any time.

5 In September 2014, the Government made an inaugural issuance of alternative bonds under the Government Bond Programme. The proceeds and periodic distribution payments of alternative bonds are recorded in the Bond Fund under the subheads "receipts representing proceeds from issuance of alternative bonds" and "payments representing periodic distribution payments for alternative bonds" respectively.

6 In 2014, under the institutional part of the Government Bond Programme, the Government introduced two measures to enhance the liquidity of relevant bonds, namely, bond swap facility (which involves the early redemption of certain bonds for issuance of other bonds of the same monetary value for a short period and the reversal of these transactions on a later date) and switch tender (which involves the early redemption of certain bonds in market value for issuance of other bonds at tender prices). These measures entail additional issuances and early redemptions of relevant

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bonds. They have been recorded in the Bond Fund as proceeds from issuance of bonds, as well as repayments for bonds, under bond swap facility and switch tender as appropriate.

**7** Payments from the Fund for 2016–17 and 2017–18 are estimated at \$30,269,057,000 and \$28,907,593,000 respectively. The expected payment items include mainly payments representing periodic distribution payments for alternative bonds issued, interest payments and repayments for bonds issued and to be issued under the Government Bond Programme (including repayments for bonds under tender or subscription, switch tender and bond swap facility) as well as other relevant expenses (e.g. expenses for external services procured in the course of implementing the Government Bond Programme).

**8** Receipts taking the form of proceeds from issuance of bonds (including issuance of bonds under tender or subscription, switch tender and bond swap facility), receipts representing proceeds from issuance of alternative bonds and investment income for 2016–17 and 2017–18 are estimated at \$42,733,240,000 and \$25,591 million respectively.

**BOND FUND****(Payments)**

Sub-head (Code)	Actual expenditure 2015-16	Revised estimate 2016-17	Estimate 2017-18			
	\$'000	\$'000	\$'000			
<b>Head G01—Bond Fund</b>						
100	Repayments for bonds under tender or subscription .....	28,000,000	27,015,630	<b>24,466,000</b>		
101	Repayments for bonds under switch tender.....	—	—	<b>800,000</b>		
102	Repayments for bonds under bond swap facility.....	—	1,000,000	<b>1,000,000</b>		
120	Interest payments for bonds .....	1,978,456	1,906,167	<b>2,072,220</b>		
125	Payments representing periodic distribution payments for alternative bonds.....	228,898	302,977	<b>548,886</b>		
130	Others .....	35,296	44,283	<b>20,487</b>		
<b>Total (Payments).....</b>				<b>30,242,650</b>	<b>30,269,057</b>	<b>28,907,593</b>

**BOND FUND**  
**(Receipts)**

Sub-head (Code)	Actual receipts 2015-16	Revised estimate 2016-17	<b>Estimate 2017-18</b>	
	\$'000	\$'000	<b>\$'000</b>	
<b>Head G01—Bond Fund</b>				
200	Proceeds from issuance of bonds under tender or subscription.....	24,155,712	29,600,141	<b>19,600,000</b>
201	Proceeds from issuance of bonds under switch tender.....	—	—	<b>800,000</b>
202	Proceeds from issuance of bonds under bond swap facility....	—	1,000,000	<b>1,000,000</b>
210	Receipts representing proceeds from issuance of alternative bonds .....	7,752,600	7,800,000	—
	Investment income .....	6,688,483	4,333,099	<b>4,191,000</b>
<b>Total (Receipts) .....</b>		<b>38,596,795</b>	<b>42,733,240</b>	<b>25,591,000</b>

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### Movement of the Account

	Actual				Revised Estimate	Estimate
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m	\$m
Opening Balance	52,019	75,293	100,678	120,058	128,412	<b>140,876</b>
Revenue	31,541	34,320	42,612	38,597	42,733	<b>25,591</b>
Expenditure	8,267	8,935	23,232	30,243	30,269	<b>28,908</b>
Surplus/(Deficit)	23,274	25,385	19,380	8,354	12,464	<b>(3,317)</b>
Closing Balance	75,293	100,678	120,058	128,412	140,876	<b>137,559</b>

### Revenue Analysis

	Actual				Revised Estimate	Estimate
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m	\$m
Proceeds from issuance of bonds under tender or subscription	28,160	30,094	30,364	24,156	29,600	<b>19,600</b>
Proceeds from issuance of bonds under switch tender	—	—	719	—	—	<b>800</b>
Proceeds from issuance of bonds under bond swap facility	—	41	—	—	1,000	<b>1,000</b>
Receipts representing proceeds from issuance of alternative bonds	—	—	7,751	7,753	7,800	—
Investment income	3,381	4,185	3,778	6,688	4,333	<b>4,191</b>
<b>Total Revenue</b>	<b>31,541</b>	<b>34,320</b>	<b>42,612</b>	<b>38,597</b>	<b>42,733</b>	<b>25,591</b>

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### Expenditure Analysis

	Actual				Revised Estimate	Estimate
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m	\$m
Repayments for bonds under tender or subscription	7,000	7,000	20,000	28,000	27,016	<b>24,466</b>
Repayments for bonds under switch tender	—	—	847	—	—	<b>800</b>
Repayments for bonds under bond swap facility	—	40	—	—	1,000	<b>1,000</b>
Interest	1,242	1,869	2,274	1,979	1,906	<b>2,072</b>
Payments representing periodic distribution payments for alternative bonds	—	—	78	229	303	<b>549</b>
Others	25	26	33	35	44	<b>21</b>
<b>Total Expenditure</b>	<b>8,267</b>	<b>8,935</b>	<b>23,232</b>	<b>30,243</b>	<b>30,269</b>	<b>28,908</b>