

BOND FUND

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Memorandum Note

The Bond Fund was established by the Resolution of the Legislative Council 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 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 The Resolution 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; and
 - (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) 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
- (f) 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.

3 The Legislative Council passed a Resolution on 8 July 2009, authorizing the Government to borrow from any person from time to time for the purposes of the Bond Fund such sums not exceeding in total \$100 billion or equivalent, being the maximum amount of all borrowings that may be outstanding by way of principal at any time.

4 Payments from the Fund for 2010–11 and 2011–12 are estimated at \$317,246,000 and \$7,468,880,000 respectively. The expected payment items include mainly interest payments and principal repayment for bonds issued and to be issued under the Government Bond Programme as well as other relevant expenses (e.g. expenses for external services procured in the course of implementing the Government Bond Programme).

5 Receipts taking the form of proceeds from issuance of bonds and investment income for 2010–11 and 2011–12 are estimated at \$17,172,266,000 and \$17,880,000,000 respectively.

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(Payments)

Sub-head (Code)	Actual expenditure to 31.3.2010	Revised estimate 2010–11	Estimate 2011–12*
	\$'000	\$'000	\$'000
Head G01—Bond Fund			
100	—	—	7,000,000
120	15,968	313,509	465,714
130	1,031	3,737	3,166
Total (Payments)			
	<u>16,999</u>	<u>317,246</u>	<u>7,468,880</u>

* Estimate for 2011–12 is projected based on the bond issuance size in 2010–11.

BOND FUND

(Receipts)

Sub-head (Code)	Actual receipts to 31.3.2010	Revised estimate 2010–11	Estimate 2011–12*
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Head G01—Bond Fund			
200	Proceeds from issuance of bonds.....	11,498,598	16,189,581
	Investment income.....	100,824	982,685
		<u>11,599,422</u>	<u>17,172,266</u>
	Total (Receipts).....	<u>11,599,422</u>	<u>17,880,000</u>

* Estimate 2011–12 figures are projected based on the bond issuance size for 2010–11.

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Movement of the Account

	Actual	Revised Estimate	Estimate
	2009-10	2010-11	2011-12
	\$m	\$m	\$m
Opening Balance	0	11,582	28,437
Revenue	11,599	17,172	17,880
Expenditure	17	317	7,469
Surplus	11,582	16,855	10,411
Closing Balance	11,582	28,437	38,848

Revenue Analysis

	Actual	Revised Estimate	Estimate
	2009-10	2010-11	2011-12
	\$m	\$m	\$m
Proceeds from issuance of bonds	11,498	16,189	16,000
Investment income	101	983	1,880
Total Revenue	11,599	17,172	17,880

Expenditure Analysis

	Actual	Revised Estimate	Estimate
	2009-10	2010-11	2011-12
	\$m	\$m	\$m
Repayment of Principal for bonds	—	—	7,000
Interest	16	313	466
Others	1	4	3
Total Expenditure	17	317	7,469