

財經事務及庫務局  
(庫務科)

香港下亞厘畢道  
中區政府合署

**FINANCIAL SERVICES AND THE  
TREASURY BUREAU  
(The Treasury Branch)**

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司徒女士：

建議的政府橋樑及隧道證券化計劃

我現附上本局就胡經昌議員本年一月二十日所發出的信件中的問題所作的中文回覆供議員參考。

財經事務及庫務局局長

(袁民忠

代行)

二零零四年一月二十八日

## 對 2004 年 1 月 20 日提出的問題的回應

1. 在其他地區由政府、有關機構或私人機構進行類似的招售例子，請參閱附件 A。

不是所有有關此類交易的資料都可以讓公眾索閱或披露。大致上，基本及持續支出詳情都沒有向公眾披露的，因此我們不能提供淨收入水平的詳情。我們預期建議的持續支出會建基於市場競爭；而基本及持續支出通常會因應選出作為安排行角式的財務機構的競爭投標過程而定；這與目前當局為證券化揀選安排行的過程相似。

有關認購百分比的高低，附件 A 所載的交易一般均有向當地及國際資本市場的投資者銷售。雖然不能取得有關認購水平的詳情，但安排行及發行票據的機構必會先評估投資者的需求及認為有高水平的認購數量後才推出證券化計劃予投資者。由於每次交易均成功完成，故認購額應已達至適當的水平。

由於個別國家或地區的資本市場有其獨特性，我們不可能把香港及這些地方的分銷網絡一起比較。

2. 散戶投資者的需求是建議證券化是否成功的關鍵，我們並預期會有相當規模的散戶招售。我們同意提高所有對本次證券化有興趣的財務中介人的參與會有助確保一個成功的散戶招售。我們已要求被選出的金融機構在提交其作為安排行的技術性建議時，同時提供包括散戶及機構部份建議的發售架構，而此發售架構的成效將會是評選準則之一。
3. 政府收費橋樑及隧道的財政資料均紀錄在由運輸署於每年編印的經營帳目內，此帳目亦可供公眾人士於互聯網溜覽(網址：[www.info.gov.hk/td/chi/aboutus/tunnel\\_index.html](http://www.info.gov.hk/td/chi/aboutus/tunnel_index.html))，附件 B 載列了從該帳目節錄出來的資料。我們並沒有為海底隧道編製經營帳目，但其支出主要是要支付合約經營者的管理及廣告費。
4. 政府向有關將發售的票據需作出的保證現時還未確定，我們會與信貸評級機構、將獲委任的安排行及其律師繼

續討論有關安排。目前，我們預期政府需要向投資者支付某些款項，這包括(i)因政府修改運輸政策而引致有關隧道及橋樑整體淨收入減少；及(ii)當某些阻礙營運的事件發生（例如：某些不可抗拒/避免/預知的事情發生，而該等事情會對散戶或機構投資者造成不公平或不合適的風險），導致這些隧道及橋樑的使用停頓一段時間（請參閱 2003 年 12 月的立法會參考資料摘要）。對於上述(i)而言，最壞但非常不可能發生的情形是因政府修改運輸政策引致收費調整，而令總淨收入跌至零；這時政府的最高的風險是支付證券化債券的所有餘額及相關利息。而就上述(ii)而言，政府的最高風險則是支付受影響的收費道路在不能運作時的收費淨收入，這應會以如常運作時的預期交通流量為計算參考。此外，在不可抗拒/避免的情況下，亦須承擔維修及續期的費用，但這些費用就算在沒有證券化的情況下亦須支付而政府現時亦正承擔此類風險。我們預期在此情況下，立法會需審批有關支出。

5. 議案獲通過後，當局會與獲委任的安排行及其法律顧問預備招售章程/備忘錄，供市民參考，又會把相關資料送交有關規管機構。招售備忘錄一般會概述證券化的詳情。在招售完成後，我們會告知立法會有關的分派結果。信託人/管理人亦會定期準備報告及帳目，讓投資者參考。有關資料亦會供投資界索取，如有需要，或會向立法會提交。若立法會財經事務委員認為政府或有需要就招售結果的個別項目向其報告，當局會樂於安排。
6. 請參閱由庫務署為各局/部門提供如何管理政府基金而編印的「投資指南」（附件 C—只有英文版本）。
7. 在確定有關招售文件前，我們須要與信貸評級機構、獲委任的安排行及其律師進一步商討有關政府因改變政策因而可能須向投資者付款的詳情及程度。我們預期每一個案都會根據既定的原則個別考慮；在制定這些原則時，會盡量確保政府在實施運輸或其他政策時可保留有最大的彈性，而可能間接或有很低機會影響淨收入的全港性政策（如調整薪俸稅或汽車首次登記稅）都可不包括在內，或要影響超出某水平時政府才需付款。

8. 政府選擇建議證券化的財務顧問時，是通過一個已確立的採購過程，而被選的投標者的身份會予以保密，以增加競爭性及確保政府利益。雖然如此，政府已通過公平的篩選過程，按收到的技術及財務建議完成評審。技術方面的評審包括機構對本港及/或海外類似證券化交易的認識及經驗、建議委派進行工作的成員的經驗和知識、機構背景、財務狀況和對香港的承擔。收費建議則會根據其建議的最高收費進行獨立評審。香港上海滙豐銀行獲得最高的收費及技術總分，故被選為財務顧問。

財經事務及庫務局  
2004 年 1 月

## ATTACHMENT A

### Lane Cove Tunnel Finance Pty Ltd. (Australia) (澳洲)

Securitisation Bonds issued by Lane Cove Tunnel Finance Pty Ltd, a special purpose issuer, backed by toll revenues from the Lane Cove Tunnel in Sydney, Australia.

特別目的發行人 Lane Cove Tunnel Finance Pty Ltd 所發的證券化債券，由澳洲悉尼 Lane Cove Tunnel 的收費收入所支持。

A	<b>Total Proceeds Raised</b> 總籌集款額	<b>Gross</b> 總數	AUD 1.3 billion 澳元 13 億
B	<b>Units Issued</b> 發行單位		Toll revenue backed bonds 有收費支持債券
C	<b>Ratings by Credit Agencies</b> 信貸評級		<b>S &amp; P</b> 標普 <b>Moody's</b> 穆迪 <b>Fitch</b> 惠譽
	Class 級別	1	AAA      Aaa      AAA
	Class 級別	2	AAA      Aaa      AAA
	Class 級別	3A	AAA      Aaa      AAA
	Class 級別	3B	AAA      Aaa      AAA
D	<b>Maturity Date</b> 到期日		
	Class 級別	1	2028
	Class 級別	2	2020
	Class 級別	3A	2013
	Class 級別	3B	2013
E	<b>Interest Rates</b> 利率		
	Class 級別	1	Indexed annuity bond (沒有中譯)
	Class 級別	2	Capital indexed bond (沒有中譯)
	Class 級別	3A	6.8%
	Class 級別	3B	Floating Rate Note 浮息票據
F	<b>Currency of Issue</b> 發行貨幣單位		AUD 澳元
G	<b>Year of Issue</b> 發行年份		2003
H	<b>Allocations to Investor Types (and if more than one type, the %age of each)</b> 獲分配債券的投資者類別 (如多於一種的話，每一類別所獲分配的百分率)		Institutional investors (mostly insurance companies and banks) 機構投資者 (多數為保險公司及銀行)
J, K, L	<b>Details of any guarantee/undertaking by the Government or Authority. Details of any recourse obligations by / actions against the Government or Authority. Details of risk coverage by Government and by insurance agencies</b> 政府或有關機構所提供的保證/擔保、作出協助的責任或可向政府或有關機構提出的行為及政府或保險公司所提供風險保障的詳情		Principal and interest on the bonds are guaranteed by a AAA rated insurance company, MBIA Insurance Corporation. 債券的本金和利息獲有「AAA」評級的保險公司保證 (MBIA Insurance Corporation)  Guarantee/Undertaking/Recourse obligations of the Government of New South Wales on: 新南威爾斯政府的保證/擔保/作出的協助責任： <ul style="list-style-type: none"> <li>• level of tolls;</li> <li>• 收費水平</li> <li>• material adverse events including uninsurable events, change in traffic restrictions; and</li> </ul>

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- 重要的不利事件，包括未能承保事件及改變交通管制；及
  - transport policy, including no new competing tunnels.
  - 運輸政策，包括不會有新隧道競爭。

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M **Names of advisor(s)/arranger(s)**  
顧問或安排行

ABN AMRO

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Q **Transaction Structure**  
交易架構

33 year concession granted to private operator  
私人營運商獲發 33 年經營權

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## Atami Beach Line Funding Ltd. Atami Beach Line Mezzanine Funding Ltd. (Japan) (日本)

Securitisation Bonds issued by Atami Beach Line Funding Ltd. and Atami Beach Line Mezzanine Funding Ltd., both special purpose issuers, backed by toll revenues from the Atami Beach Line toll road located in Atami City, Shizuoka Prefecture in Japan.

特別目的發行人 Atami Beach Line Funding Ltd. 及 Atami Beach Line Mezzanine Funding Ltd. 所發的證券化債券，由日本靜岡縣熱海市的 Atami Beach Line 收費道路的收費收入所支持。

A	<b>Total Proceeds Raised</b> 總籌集款額	<b>Gross</b> 總數	JPY 8.5 billion (senior bonds) 日圓 85 億 (高級債券) JPY 3.5 billion (mezzanine bonds) 日圓 35 億 (次級債券) JPY 600 million (Originator took Yen equity position) 日圓 6 億 (為發行人以日圓所發股本)
B	<b>Units Issued</b> 發行單位		Toll revenue backed bonds 有收費支持債券
C	<b>Ratings by Credit Agencies</b> 信貸評級		<b>S &amp; P 標普</b> <b>Moody's 穆迪</b> <b>Fitch 惠譽</b>
	Class 級別	A-1	Aaa
	Class 級別	A-2	Aaa
	Class 級別	B	Aa2
	Class 級別	C	A2
	Mezzanine Bond 次級債券		Baa2
D	<b>Maturity Date</b> 到期日		
	Class 級別	A-1	2007
	Class 級別	A-2	2007 + (3 years tail) (另外 3 年)
	Class 級別	B	2007 + (3 years tail) (另外 3 年)
	Class 級別	C	2007 + (3 years tail) (另外 3 年)
	Mezzanine Bond 次級債券		2027 + (3 years tail) (另外 3 年)
E	<b>Interest Rates</b> 利率		
	Class 級別	A-1	0.60%
	Class 級別	A-2	1.10%
	Class 級別	B	1.25%
	Class 級別	C	1.46%
	Mezzanine Bond 次級債券		4.00%
F	<b>Currency of Issue</b> 發行貨幣單位		JPY 日圓
G	<b>Year of Issue</b> 發行年份		2002
H	<b>Allocations to Investor Types (and if more than one type, the %age of each)</b> 獲分配債券的投資者類別 (如多於一種的話，每一類別所獲分配的百分率)		Institutional investors (insurance companies, regional banks and savings banks) 機構投資者 (保險公司、地方銀行及儲蓄銀行)

J, K, L	<p><b>Details of any guarantee/undertaking by the Government or Authority. Details of any recourse obligations by / actions against the Government or Authority. Details of risk coverage by Government and by insurance agencies</b></p> <p>政府或有關機構所提供的保證／擔保、作出協助的責任或可向政府或有關機構提出的行為及政府或保險公司所提供風險保障的詳情</p>	<p>Government undertaking does not come into effect as toll roads are privately owned.</p> <p>因收費道路為私人擁有，政府擔保並不適用</p>
M	<p><b>Names of advisor(s)/arranger(s)</b></p> <p>顧問或安排行</p>	Nikko Citigroup
Q	<p><b>Transaction Structure</b></p> <p>交易架構</p>	<p>Ownership of land and toll roads transferred to private operator.</p> <p>私人營運商獲轉授土地及收費道路的擁有權</p>



## Triborough Bridge and Tunnel Authority (TBTA) (United States of America) (美國)

Securitisation Bonds issued by the Triborough Bridge and Tunnel Authority, backed by net toll revenues collected on various state-owned tolled tunnels and bridges in the New York Metropolitan Area of the United States of America.

美國 Triborough Bridge and Tunnel Authority (TBTA) 所發的證券化債券，由美國紐約市範圍的收費隧道和橋樑所得的淨收費收入所支持。

A	<b>Total Proceeds Raised</b> 總籌集款額	<b>Gross</b> 總數	USD 500 million 美元 5 億		
B	<b>Units Issued</b> 發行單位		Toll revenue backed bonds 有收費支持債券		
C	<b>Ratings by Credit Agencies</b> 信貸評級		<b>S &amp; P</b> 標普	<b>Moody's</b> 穆迪	<b>Fitch</b> 惠譽
	Ambac Insured 2038 Term Ambac 承保 2038 年		AAA	Aaa	AAA
	Uninsured 2030 Term 沒有承保 2030 年		AAA	Aaa	AAA
	FGIC Insured 2032 Term FGIC 承保 2032 年		AAA	Aaa	AAA
D	<b>Maturity Date</b> 到期日				
	Ambac Insured 2038 Term Ambac 承保 2038 年		2028		
	Uninsured 2030 Term 沒有承保 2030 年		2030		
	FGIC Insured 2032 Term FGIC 承保 2032 年		2032		
E	<b>Interest Rates</b> 利率				
	Ambac Insured 2038 Term Ambac 承保 2038 年		5.00%		
	Uninsured 2030 Term 沒有承保 2030 年		5.25%		
	FGIC Insured 2032 Term FGIC 承保 2032 年		5.00%		
F	<b>Currency of Issue</b> 發行貨幣單位		USD 美元		
G	<b>Year of Issue</b> 發行年份		2003		
H	<b>Allocations to Investor Types (and if more than one type, the %age of each)</b> 獲分配債券的投資者類別（如多於一種的話，每一類別所獲分配的百分率）		Institutional investors (primarily insurance companies, mutual funds and banks) 機構投資者（主要為保險公司、互惠基金及銀行）		
J, K, L	<b>Details of any guarantee/undertaking by the Government or Authority. Details of any recourse obligations by / actions against the Government or Authority. Details of risk coverage by Government and by insurance agencies.</b> 政府或有關機構所提供的保證／擔保、作出協助的責任或可向政府或有關機構提出的行為及政府或保險公司所提供風險保障的詳情		<ul style="list-style-type: none"> <li>Principal and interest on some of the bonds are guaranteed by AAA rated insurance companies, Ambac Assurance Corporation and Financial Guaranty Insurance Company.</li> <li>債券的本金和利息獲有「AAA」評級的保險公司保證（Ambac Assurance Corporation 及 Financial Guaranty Insurance Company）</li> <li>The Issuer of the bonds – TBTA – is a public authority that owns and operates the tunnels and bridges.</li> <li>債券發行人（TBTA）是一公營機構，擁有及營</li> </ul>		

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運有關隧道和橋樑

- Insurance on the tunnels and bridges are provided by a subsidiary of the Metropolitan Transportation Authority, a public authority responsible for all mass transportation policy for New York City.
- 隧道和橋樑的保險由負責紐約市集體運輸政策的公營機構 (Metropolitan Transportation Authority) 的附屬公司提供

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M **Names of advisor(s)/arranger(s)**  
顧問或安排行

JPMorgan, Bear Stearns, Lehman Brothers

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Q **Transaction Structure**  
交易架構

Ownership of toll roads and bridges held by the issuer of the bonds, TBTA.  
債券發行人 (TBTA) 擁有收費道路及橋樑

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## Tribasa Toll Road Trust (Mexico) (墨西哥)

Securitisation Bonds issued by the Tribasa Toll Road Trust, backed by toll revenues from the Ecatepec-Piramides and the Armaria-Manzanillo toll roads in Mexico.

墨西哥 Tribasa Toll Road Trust 所發的證券化債券，由墨西哥 Ecatepec-Piramides 及 Armaria-Manzanillo 收費道路所得的收費收入所支持。

A	<b>Total Proceeds Raised</b> 總籌集款額	<b>Gross</b> 總數	USD 110 million 美元 1 億 1 千萬	
B	<b>Units Issued</b> 發行單位		Toll revenue backed bonds 有收費支持債券	
C	<b>Ratings by Credit Agencies</b> 信貸評級	<b>S &amp; P</b> 標普	<b>Moody's</b> 穆迪	<b>Fitch</b> 惠譽
		Not Rated 沒有評級	Not Rated 沒有評級	Not Rated 沒有評級
D	<b>Maturity Date</b> 到期日		2011	
E	<b>Interest Rates</b> 利率		10.5%	
F	<b>Currency of Issue</b> 發行貨幣單位		USD 美元	
G	<b>Year of Issue</b> 發行年份		1993	
H	<b>Allocations to Investor Types (and if more than one type, the %age of each)</b> 獲分配債券的投資者類別（如多於一種的話，每一類別所獲分配的百分率）		Institutional only. 機構投資者	
J, K, L	<b>Details of any guarantee/undertaking by the Government or Authority. Details of any recourse obligations by / actions against the Government or Authority. Details of risk coverage by Government and by insurance agencies.</b> 政府或有關機構所提供的保證／擔保、作出協助的責任或可向政府或有關機構提出的行為及政府或保險公司所提供風險保障的詳情		Sponsor of the transaction: 交易的贊助人： <ul style="list-style-type: none"><li>guarantees performance of the toll road operator; and</li><li>保證收費道路營運者的表現</li><li>is liable for certain insurance liabilities</li><li>負責某些保險</li></ul>	
M	<b>Names of advisor(s)/arranger(s)</b> 顧問或安排行		Salomon Brothers	
Q	<b>Transaction Structure</b> 交易架構		Concessions of over 10 years granted to private operator. 私人營運商獲發超過 10 年的經營權	

## Connect M77/GSO PLC (United Kingdom) (英國)

### Securitisation Bonds backed by shadow toll revenue from the M77 road project in the UK.

由英國 M77 公路「影子收費」收入（與道路收費等同的收入）所支持的證券化債券

A	<b>Total Proceeds Raised</b> 總籌集款額	<b>Gross</b> 總數	GBP 152.429million 英鎊 1 億 5 千 2 百 42 萬 9 千		
B	<b>Units Issued</b> 發行單位		Toll revenue backed bonds		
C	<b>Ratings by Credit Agencies</b> 信貸評級		<b>S &amp; P</b> 標普 AAA	<b>Moody's</b> 穆迪 Aaa	<b>Fitch</b> 惠譽
D	<b>Maturity Date</b> 到期日		2034		
E	<b>Interest Rates</b> 利率		5.4%		
F	<b>Currency of Issue</b> 發行貨幣單位		GBP 英鎊		
G	<b>Year of Issue</b> 發行年份		2003		
H	<b>Allocations to Investor Types (and if more than one type, the %age of each)</b> 獲分配債券的投資者類別（如多於一種的話，每一類別所獲分配的百分率）		Institutional (mostly insurance companies) 機構投資者（多數為保險公司）		
J, K, L	<b>Details of any guarantee/undertaking by the Government or Authority. Details of any recourse obligations by / actions against the Government or Authority. Details of risk coverage by Government and by insurance agencies.</b> 政府或有關機構所提供的保證／擔保、作出協助的責任或可向政府或有關機構提出的行為及政府或保險公司所提供風險保障的詳情		<ul style="list-style-type: none"><li>Principal and interest on the bonds are guaranteed by a AAA rated insurance company, XL Capital Assurance (U.K.) Ltd.</li><li>債券的本金和利息獲有「AAA」評級的保險公司保證（XL Capital Assurance (U.K.) Ltd.）</li><li>A local government authority, East Renfrewshire Council (ERC), together with the Scottish Ministers are obligated to make “shadow toll” (linked to both the availability of the toll road and actual traffic volume) and other payments to the Issuer.</li><li>East Renfrewshire Council (ERC) 及 Scottish Ministers 承擔向發行人支付「影子收費」（與收費道路及實質交通流量掛鉤）及其他款項。</li><li>ERC is also obligated to meet part of the costs in relation to insurance for the toll roads.</li><li>ERC 亦會負責收費道路的部分保險費用。</li></ul>		
M	<b>Names of advisor(s)/arranger(s)</b> 顧問或安排行		Royal Bank of Scotland		
Q	<b>Transaction Structure</b> 交易架構		Concession of 30 years granted to private operator 私人營運商獲發 30 年的經營權		

## Toll Road Funding PLC (Italy) (意大利)

Securitisation Bonds issued by Toll Road Funding, a special purpose issuer, backed by toll revenues from various tolled roads in Italy, operated by Autostrade.

特別目的發行人 Toll Road Funding 所發的證券化債券，由 Autostrade 營運的意大利收費道路所得的收費收入支持

A	<b>Total Proceeds Raised</b> 總籌集款額	<b>Gross</b> 總數	EUR 1.23 billion 歐羅 12 億 3 千萬
B	<b>Units Issued</b> 發行單位		Toll revenue backed bonds 有收費支持債券
C	<b>Ratings by Credit Agencies</b> 信貸評級	<b>S &amp; P</b> 標普	<b>Moody's</b> 穆迪 <b>Fitch</b> 惠譽 AAA                      Aaa
D	<b>Maturity Date</b> 到期日		2014
E	<b>Interest Rates</b> 利率		Euribor + 0.45% until May 2004 Euribor +0.45% (直至 2004 年 5 月) Euribor + 0.90% thereafter Euribor+0.90% (2004 年 5 月後)
F	<b>Currency of Issue</b> 發行貨幣單位		EUR 歐羅
G	<b>Year of Issue</b> 發行年份		2003
H	<b>Allocations to Investor Types (and if more than one type, the %age of each)</b> 獲分配債券的投資者類別 (如多於一種的話，每一類別所獲分配的百分率)		Institutional (mostly banks and insurance companies) 機構投資者 (多數為銀行及保險公司)
J, K, L	<b>Details of any guarantee/undertaking by the Government or Authority. Details of any recourse obligations by / actions against the Government or Authority. Details of risk coverage by Government and by insurance agencies.</b> 政府或有關機構所提供的保證／擔保、作出協助的責任或可向政府或有關機構提出的行為及政府或保險公司所提供風險保障的詳情		Principal and interest on the bonds are guaranteed by a AAA rated insurance company, MBIA Assurance S.A.  本金及利息獲有「AAA」評級的保險公司保證 (MBIA Assurance S.A.)
M	<b>Names of advisor(s)/arranger(s)</b> 顧問或安排行		Barclays Capital, Goldman Sachs, Unicredit Banca Mobilaire
Q	<b>Transaction Structure</b> 交易架構		Concession granted to private operator. 私人營運商獲發經營權

## ALIS Finance (France) (法國)

Securitisation Bonds issued by Alis Finance, a special purpose issuer, backed by toll revenues from the A28 toll road in France.

特別目的發行人 Alis Finance 所發的證券化債券，由法國 A28 收費道路的收費收入支持

A	<b>Total Proceeds Raised</b> 總籌集款額	<b>Gross</b> 總數	EUR 460.5 million 歐羅 4 億 6 千 50 萬		
B	<b>Units Issued</b> 發行單位		Toll revenue backed bonds 有收費支持債券		
C	<b>Ratings by Credit Agencies</b> 信貸評級		<b>S &amp; P</b> 標普	<b>Moody's</b> 穆迪	<b>Fitch</b> 惠譽
	Class 級別	A1	AAA	Aaa	AAA
	Class 級別	A2	AAA	Aaa	AAA
	Class 級別	A3	AAA	Aaa	AAA
D	<b>Maturity Date</b> 到期日				
	Class 級別	A1	2017		
	Class 級別	A2	2027		
	Class 級別	A3	2032		
E	<b>Interest Rates</b> 利率				
	Class 級別	A1	3.99% (index-linked)	3.99%	(指數掛鈎)
	Class 級別	A2	4.25% (index-linked)	4.25%	(指數掛鈎)
	Class 級別	A3	4.30% (index-linked)	4.30%	(指數掛鈎)
F	<b>Currency of Issue</b> 發行貨幣單位		EUR 歐羅		
G	<b>Year of Issue</b> 發行年份		2002		
H	<b>Allocations to Investor Types (and if more than one type, the %age of each)</b> 獲分配債券的投資者類別（如多於一種的話，每一類別所獲分配的百分率）		Institutional investors (mostly insurance companies) 機構投資者（多數為保險公司）		
J, K, L	<b>Details of any guarantee/undertaking by the Government or Authority. Details of any recourse obligations by / actions against the Government or Authority. Details of risk coverage by Government and by insurance agencies.</b> 政府或有關機構所提供的保證／擔保、作出協助的責任或可向政府或有關機構提出的行為及政府或保險公司所提供風險保障的詳情		Principal and interest on the bonds are guaranteed by a AAA rated insurance company: Financial Security Assurance Inc.  本金和利息獲有「AAA」評級的保險公司保證（Financial Security Assurance Lnc.）		
M	<b>Names of advisor(s)/arranger(s)</b> 顧問或安排行		CDC IXIS Capital Markets		
Q	<b>Transaction Structure</b> 交易架構		Concession of over 60 years granted to private operator. 私人營運商獲發超過 60 年的經營權		

## Autoroute du Sud de la France (Initial Public Offering) (France) (法國)

Securitisation by way of an IPO of Autoroute du Sud del la France (ASF), in relation to various government owned toll-road facilities in France.

ASF 以首次公開招股方式將法國的政府收費道路證券化

A	<b>Total Proceeds Raised</b> 總籌集款額	<b>Gross</b> 總數	EUR 1,340,224,825 歐羅
B	<b>Shares Issued</b>		44,994,932 (domestic offering) (國內發售) 62,121,562 (international offering) (國際發售)
C	<b>Ratings by Credit Agencies</b> 信貸評級		N/A 不適用
D	<b>Maturity Date</b> 到期日		N/A 不適用
E	<b>Interest Rates</b> 利率		N/A 不適用
F	<b>Currency of Issue</b> 發行貨幣單位		EUR 歐羅
G	<b>Year of Issue</b> 發行年份		2002
H	<b>Allocations to Investor Types (and if more than one type, the %age of each)</b> 獲分配債券的投資者類別 (如多於一種的話, 每一類別所獲分配的百分率)		Retail 零售 : 42% Institutional 機構 : 58%
J, K, L	<b>Details of any guarantee/undertaking by the Government or Authority. Details of any recourse obligations by / actions against the Government or Authority. Details of risk coverage by Government and by insurance agencies.</b> 政府或有關機構所提供的保證/擔保、作出協助的責任或可向政府或有關機構提出的行為及政府或保險公司所提供風險保障的詳情		ASF has financed a number of construction projects through long-term loans extended by <i>Caisse Nationale des Autoroutes</i> , a public administrative agency of the French Government. A number of these loans have been guaranteed by the French Government.  ASF 獲法國政府轄下的一個行政部門 (Caisse Nationale des Autoroutes) 長年期的貸款用作建築工程的資金。該等貸款部份獲法國政府所保證。
M	<b>Names of advisor(s)/arranger(s)</b> 顧問或安排行		HSBC, Crèdit Lyonnais
Q	<b>Transaction Structure</b> 交易架構		Concession (expiring in 2026 and 2032) granted to private operator. 私人營運商獲發經營權 (2006 及 2032 年到期)

## Sociedad Concesionaria Autopista Central (Chile) (智利)

Securitisation Bonds backed by toll revenues from the Autopista urban toll road in the capital city of Santiago, Chile.

由智利首都聖地牙哥 Autopista 市區收費道路所得的收費收入所支持的證券化債券

A	<b>Total Proceeds Raised</b> 總籌集款額	<b>Gross</b> 總數	USD 250 million 美元 2 億 5 千萬 UF 13 million 智利貨幣 1 千 3 百萬	
B	<b>Units Issued</b> 發行單位			
C	<b>Ratings by Credit Agencies</b> 信貸評級	<b>S &amp; P</b> 標普	<b>Moody's</b> 穆迪	<b>Fitch</b> 惠譽
	Class 級別	AAA	Aaa	
	Class 級別	AAA	Aaa	
D	<b>Maturity Date</b> 到期日			
	Class 級別	2026		
	Class 級別	2026		
E	<b>Interest Rates</b> 利率			
	Class 級別	6.223%		
	Class 級別	5.69%		
F	<b>Currency of Issue</b> 發行貨幣單位			
	Class 級別	USD 美元		
	Class 級別	UF (Chilean Unidades de Fomento) 智利貨幣		
G	<b>Year of Issue</b> 發行年份			
		2003		
H	<b>Allocations to Investor Types (and if more than one type, the %age of each)</b> 獲分配債券的投資者類別（如多於一種的話，每一類別所獲分配的百分率）			
		Institutional (mostly insurance companies) 機構投資者（多數為保險公司）		
J, K, L	<b>Details of any guarantee/undertaking by the Government or Authority. Details of any recourse obligations by / actions against the Government or Authority. Details of risk coverage by Government and by insurance agencies.</b> 政府或有關機構所提供的保證／擔保、作出協助的責任或可向政府或有關機構提出的行為及政府或保險公司所提供風險保障的詳情			
		Principal and interest on the bonds are guaranteed by a AAA rated insurance company: MBIA Assurance S.A. 債券的本金和利息獲有「AAA」評級的保險公司保證（MBIA Assurance S.A.）		
M	<b>Names of advisor(s)/arranger(s)</b> 顧問或安排行			
		Citigroup		
Q	<b>Transaction Structure</b> 交易架構			
		Concession granted to private operator. 私人營運商獲發經營權		



## CTRL Section 1 Finance PLC (United Kingdom and France) (英國及法國)

Securitisation Bonds backed by track access charges payable in connection with use of a rail link relating to the Channel Tunnel between the UK and France.

由英法海峽隧道鐵路路軌使用費支持的證券化債券

A	<b>Total Proceeds Raised</b> 總籌集款額	<b>Gross</b> 總數	GBP 747.989 million 英鎊 7 億 4 千 7 百 98 萬 9 千 (conventional) (傳統) GBP 500.0 million (index linked) 英鎊 5 億 (指數掛鈎)		
B	<b>Units Issued</b> 發行單位	Access charge backed bonds 有使用費用支持債券			
C	<b>Ratings by Credit Agencies</b> 信貸評級		<b>S &amp; P</b> 標普	<b>Moody's</b> 穆迪	<b>Fitch</b> 惠譽
	Class 級別	<b>A1</b>	AAA	Aaa	AAA
	Class 級別	<b>A2</b>	AAA	Aaa	AAA
D	<b>Maturity Date</b> 到期日				
	Class 級別	<b>A1</b>	2035		
	Class 級別	<b>A2</b>	2051		
E	<b>Interest Rates</b> 利率				
	Class 級別	<b>A1</b>	5.234%		
	Class 級別	<b>A2</b>	2.334% (index linked) (指數掛鈎)		
F	<b>Currency of Issue</b> 發行貨幣單位	GBP 英鎊			
G	<b>Year of Issue</b> 發行年份	2003			
H	<b>Allocations to Investor Types (and if more than one type, the %age of each)</b> 獲分配債券的投資者類別 (如多於一種的話, 每一類別所獲分配的百分率)	Institutional investors 機構投資者			
J, K, L	<b>Details of any guarantee/undertaking by the Government or Authority. Details of any recourse obligations by / actions against the Government or Authority. Details of risk coverage by Government and by insurance agencies.</b> 政府或有關機構所提供的保證/擔保、作出協助的責任或可向政府或有關機構提出的行為及政府或保險公司所提供風險保障的詳情	Government of the United Kingdom guarantees the track access charges payable to the transaction. 英國政府保證路軌使用費可獲支付予本項交易			
M	<b>Names of advisor(s)/arranger(s)</b> 顧問或安排行	Arrangers 安排行: Citigroup, UBS, Barclays Capital. Financial Advisor to the UK Government 英國政府的顧問: Citigroup.			
Q	<b>Transaction Structure</b> 交易架構				

**Attachment B 附件 B**

**Extract from Operating Accounts published  
by Transport Department**

**節錄自運輸署所公佈的《經營帳目》**

<b>Government Toll – Tunnels*</b>		<b>政府收費隧道*</b>								
<b>Financial Statistics</b> 財務統計數字	<b>Statistical Highlights</b> 主要統計數字									
	1994 \$M	1995 \$M	1996 \$M	1997 \$M	1998 \$M	1999 \$M	2000 \$M	2001 \$M	2002 \$M	2003 \$M
Revenue <sup>1,2</sup> 收入 <sup>1,2</sup>	338.0	410.3	441.8	460.8	478.5	473.2	537.6	552.3	550.2	542.6
Expenditure <sup>1</sup> 開支 <sup>1</sup>	203.7	216.1	226.6	226.6	239.2	247.9	263.4	249.3	261.8	255.7
Operating surplus after taxation 稅後經營利	152.0	162.7	179.7	195.6	200.7	193.0	230.3	254.6	242.1	234.6
Average net fixed Assets (ANFA) 固定資產平均淨值	1,826.9	1,765.9	1,714.8	1,652.9	1,586.2	1,529.1	1,489.1	1,461.6	1,461.8	1,472.1
Return on ANFA(%) 按固定資產平均淨值 計算的回報率	8.3	9.2	10.5	11.8	12.7	12.6	15.5	17.4	16.6	15.9

\* Does not include Cross-Harbour Tunnel \* 不包括海底隧道

<b>Lantau Link</b>		<b>青嶼幹線</b>				
<b>Financial Statistics</b> 財務統計數字	<b>Statistical Highlights</b> 主要統計數字					
	1998 \$M	1999 \$M	2000 \$M	2001 \$M	2002 \$M	2003 \$M
Revenue <sup>1,2</sup> 收入 <sup>1,2</sup>	52.9	221.4	251.6	258.1	260.4	288.5
Expenditure <sup>1</sup> 開支 <sup>1</sup>	374.9	442.1	459.6	466.9	415.1	404.9
Operating surplus After taxation 稅後經營利	(322.0)	(220.7)	(208.0)	(208.8)	(154.7)	(116.4)
Average net fixed Assets (ANFA) 固定資產平均淨值	10,648.0	10,402.6	10,139.8	9,875.4	9,613.4	9,359.6
Return on ANFA(%) 按固定資產平均淨值計算的 回報率	(3.0)	(2.1)	(2.1)	(2.1)	(1.6)	(1.2)

1. 包括非隧道費/幹線使用費的收入及名義的收支。
1. Includes non-toll revenue and notional receipts and expenditures.
  
2. 從收取隧道費/幹線使用費所得的收入約佔總收入百分之 98。其他收入包括從政府車輛收取的隧道費/幹線使用費、從殘疾人士隧道券/幹線使用所得的隧道費/幹線使用費和雜項收入(例如移走費及廣告收入)。於二零零四年一月五日向立法會提交的收入數字僅為從收取隧道費/幹線使用費所得的收入。
2. Collected toll revenue is approximately 98% of the total revenue. Other revenues include toll charges from Government vehicles, sale of tunnel tickets for people with disabilities and other miscellaneous receipts (e.g. removal fee and advertising income). Revenue figures provided to the Legislative Council on 5 January 2004 are revenue from toll collection only.

# *Investment Guide*



The Treasury  
Hong Kong

March 1999  
*[updated January 2004]*

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- B. Second Schedule of the Trustee Ordinance on “Authorized Investments”**
- C. Some Other Useful References**

## **CHAPTER 1 - INTRODUCTION AND OVERVIEW**

### **1.1 Purpose of the Guide**

1.1.1 There are an increasing number of funds being managed by government departments. They may be in the form of :-

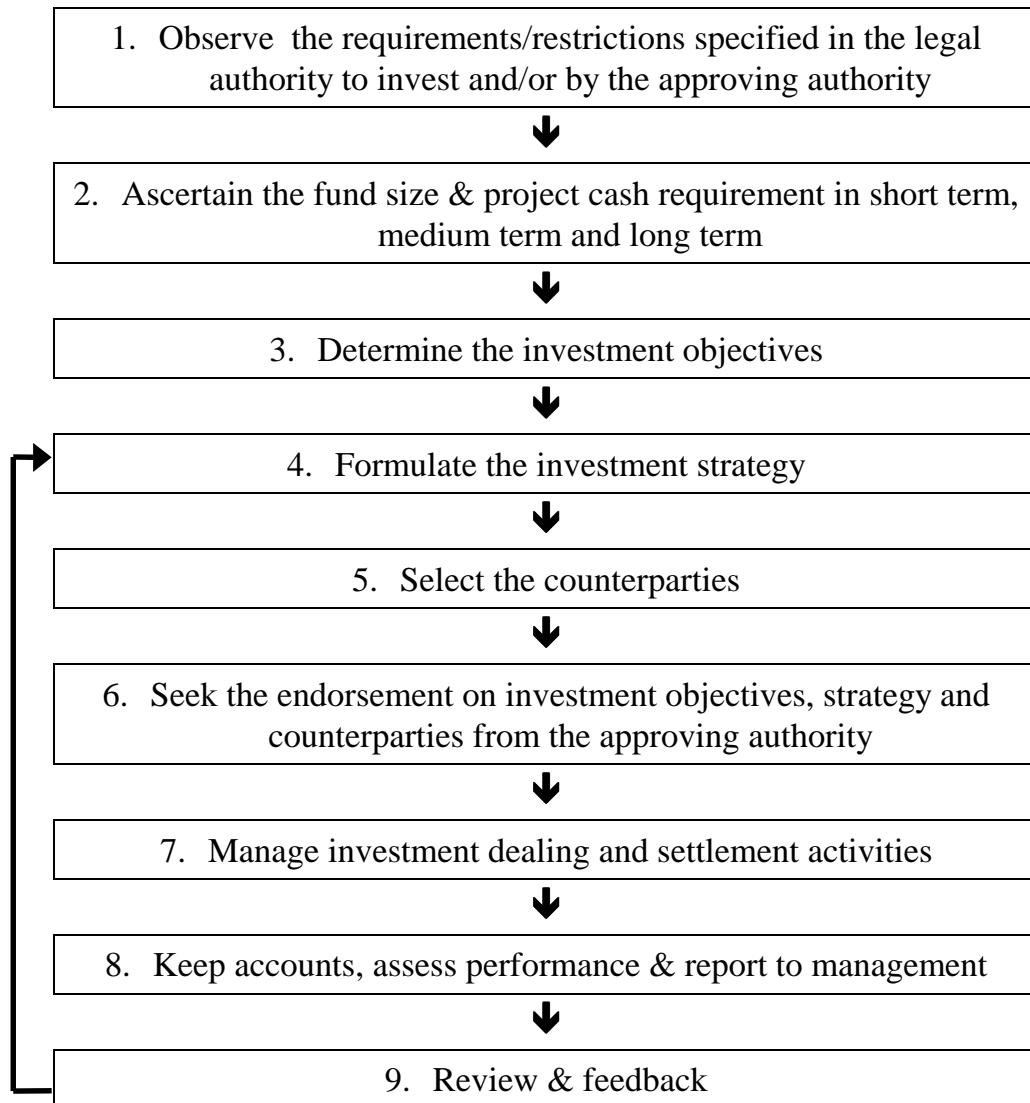
- donations,
- funds set up for schemes of special/designated purposes,
- money of general public held for administrative or legal proceeding purposes, or
- operating surplus of trading funds or financially autonomous bodies.

1.1.2 This Guide prepared by the Treasury aims at providing a handy reference for government departments who are required to set up and manage funds. It outlines the key steps in investment planning and the necessary controls for investment dealing activities in departments. In addition, specific features of funds managed by government departments, such as statutory requirements, and some other useful investment references are highlighted for attention. They are, however, by no means exhaustive.

1.1.3 Funds managed by government departments may differ in nature and in size, and are mostly subject to different authority to invest. This Guide is not intended to dictate the investment operations in departments. Taking into account the guidelines and references given in this Guide, departments are advised to formulate their own investment strategies and guidelines to meet their specific requirements and environments. The approval from the respective authorities to invest should always be sought and observed and the responsibility to comply with the requirements of the relevant authorities and to ensure accountability remains with the controlling officers.

## 1.2 Basic Steps in Funds Management

1.2.1 The basic steps in funds management by departments are summarized in the following chart, which will be elaborated in the subsequent chapters.





## CHAPTER 2 - KEY AREAS FOR INVESTMENT PLANNING

### 2.1 Authority to Invest

2.1.1 The authority for investment of funds by government departments is usually given by a statutory provision. The related Ordinance stipulates the approving authority for investment matters and may give specific investment directions. For example,

<i><u>Types of funds</u></i>	<i><u>Examples</u></i>	<i><u>Related statutory provisions on investment of funds</u></i>
Donation	Agricultural Products Scholarship Fund of the AFCD	S 9D of Agricultural Products (Marketing) Ordinance “The trustee may invest any of the moneys of the fund in investments of any kind whether such investments are permitted for the investment of trust funds or not, subject, in the case of investments which are not so permitted, to the prior approval of the Financial Secretary.”
Fund for specific scheme	Traffic Accident Victims Assistance Fund of the SWD	S 8 of Traffic Accident Victims (Assistance Fund) Ordinance “The Director may invest any moneys of the fund in such investments as the Financial Secretary may direct, whether or not such investments are investments authorized under the Trustee Ordinance.”
Money held on behalf of third parties	Bankruptcy Estates Account of the ORO	S 128A (1) of Bankruptcy Ordinance “Whenever the cash balance standing to the credit of .....(the Bankruptcy Estates Account) is in excess of the amount which, in the opinion of the Official Receiver, is required for the time being to answer demands in respect of debtor’s estates, the Official Receiver may deposit the whole or any part of that excess with a bank.”
Surplus Fund	Surplus fund of the Housing Authority	S 13 (1) of Housing Ordinance “Any moneys in the hands of the Authority which are not immediately required for the purposes of the Authority may be invested in such securities as may be approved by the Financial Secretary: Provided that, during such time as any moneys are due by the Authority to the Government, no such investment shall be made without the prior approval of the Financial Secretary.”

2.1.2 The approving authority is usually the Financial Secretary, Secretary for Financial Services and the Treasury, Director of Bureau, Permanent Secretary or Head of Department. It normally :-

- sets direction for investment objectives,
- approves/selects investment vehicles & counterparties,
- monitors funds performance, and
- approves any change in investment strategy.

2.1.3 The approving authority may be assisted by an independent Investment Advisory Board/Committee to perform regular supervision on the investment activities.

## **2.2 Investment Objectives**

2.2.1 The following factors should be considered in setting investment objectives for a fund :

- a) ***Specific directions or requirements, if any, laid down in the relevant statutory provisions***
- b) ***Target Return required*** - it may be
  - to earn a better than cash rate of return,
  - to protect principal/capital against inflation,
  - to earn a return relative to the market indices e.g. return not lower than the Hang Seng Stock Index, or
  - to earn a specific strategic level of return e.g. 10% of the capital per annum.
- c) ***Risk level involved*** - Inevitably, investing involves a degree of risk. Risk is broadly defined here as the uncertainty of future net returns and includes :-
  - credit risk - risk of loss because of inability of counterparty to meet its obligations. In a mark to market context, credit risk refers to the uncertainty or volatility of value as a result of changes in the credit quality of an investment.

- market risk - risk that prices of securities fluctuate in value due to changes in market conditions e.g. interest rate environment (interest rate risk), currency fluctuations (currency risk).
- d) **Cashflow requirements** - It is a common requirement for funds to maintain a reasonable level of liquidity so as to have sufficient available fund in meeting expenditure on capital projects and for operational needs.
- e) **Time horizon** - This would provide investors with a clearer definition of the investment horizon in accordance with the investment objectives.

2.2.2 If more than one objective is identified after considering all relevant factors, departments may need to assign the relative priority and decide the prime objective. It should be recognized that **risk normally correlates positively with return**. Investments producing the highest returns are usually those which are the most risky. If there are tight & immediate fund requirements from time to time, the prime investment objective may be to generate sufficient return to meet operational needs and risk avoidance would be the main criterion while only a reasonably good yield could be expected. Therefore, in setting the financial objectives, **departments may need to strike a balance between return, liquidity & the tolerable risk level** that best fit the financial & legal requirements of the funds.

2.2.3 For example, after considering all relevant factors, the investment objective for the Schools Provident Funds managed by the Treasury is defined as to provide contributors with a target return equal to C.P.I. + x% subject to the following risk constraints :

- to minimize a chance of requiring a Government loan, and
- to minimize a chance of achieving a return less than 5 % over any 2 years or a negative return in any one year.

Another example is the Beat Drugs Fund. Its long-term investment objective is to achieve a target return equal to C.P.I. + x% in order to maintain the real value of the fund and generate recurrent income to finance anti-drug projects.

## 2.3 Investment Strategy

### 2.3.1 Formulation of Strategy

Having defined the investment objectives, departments may formulate the investment strategy by considering :-

- the appropriate types of investment vehicle/instrument and currency that meet the objectives,
- the appropriate asset allocation model if more than one type of investment instrument is selected, and
- whether to manage the funds by in-house or external fund managers.

### 2.3.2 Investment Vehicle/Instrument

The investment objectives generally dictate the choice of investment vehicles/instruments. Some common types of investment vehicles and the risk associated are described briefly in the following table :-

	<i><u>Particulars</u></i>	<i><u>Reward</u></i>	<i><u>Risk level</u></i>	<i><u>Risk associated</u></i>
<b>Bank deposit</b>	<ul style="list-style-type: none"><li>• the most common type of investment</li></ul>	<ul style="list-style-type: none"><li>• low</li></ul>	<ul style="list-style-type: none"><li>• low</li></ul>	<ul style="list-style-type: none"><li>• default by bank</li></ul>
<b>Negotiable certificate of deposit (CD)</b>	<ul style="list-style-type: none"><li>• purchase from secondary market or direct issue from bank</li></ul>	<ul style="list-style-type: none"><li>• low</li></ul>	<ul style="list-style-type: none"><li>• low</li></ul>	<ul style="list-style-type: none"><li>• default by CD Issuer (Bank)</li></ul>
<b>Exchange Fund bills or notes</b>	<ul style="list-style-type: none"><li>• bills with a minimum denomination of HK\$500,000 and a life of up to a year,</li><li>• notes can be bought in unit of HK\$50,000 with maturity ranging from 1 to 10 years</li><li>• normal dealing size: HK\$1m to 2m</li></ul>	<ul style="list-style-type: none"><li>• low</li></ul>	<ul style="list-style-type: none"><li>• low</li></ul>	<ul style="list-style-type: none"><li>• fall in market value on sale before maturity</li></ul>

	<u>Particulars</u>	<u>Reward</u>	<u>Risk level</u>	<u>Risk associated</u>
<b>Placement with the Exchange Fund</b>	<ul style="list-style-type: none"> <li>• normal dealing size : HK\$100m</li> <li>• maturity normally not shorter than 1 month</li> <li>• interest rates based upon the prevailing interbank rates</li> </ul>	• low	• low	• nil
<b>Other Debt instrument</b>	<ul style="list-style-type: none"> <li>• purchase from market or direct placement from the institution</li> <li>• coupon rate: the periodic interest payment</li> <li>• yield to maturity: the IRR</li> <li>• minimum dealing size: HK\$500,000 usually</li> </ul>	• low to medium	• low to medium	<ul style="list-style-type: none"> <li>• fall in market value on sale before maturity</li> <li>• default by bond issuer</li> </ul>
<b>Equities</b>	<ul style="list-style-type: none"> <li>• primary market: direct placement of the shares from the company to the public</li> <li>• secondary market: trading of shares in the Stock Exchange</li> </ul>	• high	• medium to high	<ul style="list-style-type: none"> <li>• fall in market value</li> <li>• reduction in dividend payment</li> <li>• collapse of company</li> </ul>
<b>Unit Trust / Mutual funds</b>	<ul style="list-style-type: none"> <li>• investment in Funds that holds securities</li> <li>• diversification</li> </ul>	• high	• medium to high	• fall in market value
<b>All the above investments in foreign currencies</b>	<ul style="list-style-type: none"> <li>• should be in currencies freely convertible to HK\$</li> <li>• hedging need to be considered to protect against currency loss</li> </ul>	• can be better or worse than HK\$ investment	• slightly higher than equiv. HK\$ investment	<ul style="list-style-type: none"> <li>• same as HK\$ investments above</li> <li>• fall in currency exchange</li> </ul>

### 2.3.3 Diversification & Hedging

In general, the risks in investments can be properly reduced by ways of diversification and hedging :-

- a) As markets do not all normally move in tandem, and there are periods when one investment will perform better than another, therefore, diversification by investment, by maturity, by counterparty, and/or by geographical location will help to spread the risk.
- b) Hedging is a strategy designed to reduce investment risk using certain financial instruments. A hedge can help lock in existing profits. Its purpose is to reduce the volatility of a portfolio, by reducing the risk of loss. For example, financial instruments that could be held to manage interest rate and foreign currencies exposures for hedging purposes include interest rate swap agreements, forward exchange contracts, foreign currency swap agreements and options.

### 2.3.4 Asset Allocation

A key area of risk management is asset allocation, which involves defining the proportions of the fund to be placed in different types of investment vehicles, such as equities, bonds, deposits, etc., and/or different currencies in order to balance risk & return and to meet the overall investment objective of the fund.

- a) In general,
  - the portfolio of a long term growth and risk-taking fund, which can tolerate volatility of returns, may include a large percentage of equities and mutual funds and a relatively small portion of bonds and cash deposits, and
  - for a short term fund with high cash flow requirement, equities will likely be excluded and the portfolio may consist of bonds, certificates of deposit and cash deposits only.

However, if the fund managed by a department is small, diversification by investment type to reduce risk may not be practicable and the choice of investment is likely limited to fixed income instruments only.

- b) **Four typical asset allocation models** and the types of fund for which these models could be assigned are illustrated below. The 4 models, which are not exhaustive, could be used for different types of fund and of course could be used with some modifications:-

- Model A (“Growth”) :-

<i>Investment Types</i>	<i>Target Weighting</i>	<i>Tactical Range</i>
Equities, Mutual Funds	60%	45% to 75%
<u>Long term : one year or over</u> Bonds, CDs, Deposits	30%	22% to 38%
<u>Short term : less than one year</u> Bonds, CDs, Deposits, Cash	10%	Any

It would be suitable for a fund which has long term objectives, and which uses investment income to supplement other forms of income, or for one reason or another does not need immediate return from the investments. Where investment is successful, the fund could perhaps improve its activities in quantity or quality at some time in the future. The investment approach here may be considered more ‘risk-taking’.

- Model B (“Growth and Income”) :-

<i>Investment Types</i>	<i>Target Weighting</i>	<i>Tactical Range</i>
Equities, Mutual Funds	40%	30% to 50%
<u>Long term : one year or over</u> Bonds, CDs, Deposits	40%	30% to 50%
<u>Short term : less than one year</u> Bonds, CDs, Deposits, Cash	20%	Any

It would be suitable for a fund which has similar long term objectives, but which is likely to be more dependent on investment income. The fund needs some income in the early years to fulfil its primary purpose. This demands an investment approach which generates some growth in the value of the fund to ensure it can perform in the long term whilst producing some current income as well. Obviously, this income yield cannot be very high.

- Model C (“Income”) :-

<i>Investment Types</i>	<i>Target Weighting</i>	<i>Tactical Range</i>
Equities, Mutual Funds	20%	15% to 25%
<u>Long term : one year or over</u> Bonds, CDs, Deposits	40%	30% to 50%
<u>Short term : less than one year</u> Bonds, CDs, Deposits, Cash	40%	25% to 55%

It would suit a fund whose activities are shorter term, say, seven to ten years. Here, inflation is of less concern, and maximizing current yield is the important investment criterion. A small amount of the fund is allocated for growth.

- Model D (“Cash”) :-

<i>Investment Types</i>	<i>Target Weighting</i>	<i>Tactical Range</i>
<u>Long term : one year or over</u> Bonds, CDs, Deposits	40%	30% to 50%
<u>Short term : less than one year</u> Bonds, CDs, Deposits, Cash	60%	50% to 70%

It would suit a short-term fund, say up to seven years. Risk avoidance is the main criterion and a reasonably good yield is required.



- c) Departments should note that asset allocation may change, either accidentally due to changing market values, or deliberately to reflect changing circumstances. Models need to be reviewed on a yearly basis.
- d) The **currency exposure** should also be considered carefully. As a guideline, no more than 30% of the fund assets should be exposed to currencies other than HK\$/US\$. Exposure to any individual currency other than HK\$/US\$ should not exceed 5% of the fund assets and exposure to currencies not freely convertible should be zero.

### 2.3.5 General Guidance on Management of Risk

To reduce risk relating to over-exposure and over-concentration, the then **Secretary for Financial Services (SFS) has given a general guidance on the choice of bank counterparties** (Appendix A), which will be discussed in more detail in para. 2.4.3. In addition, **the Second Schedule of the Trustee Ordinance on ‘Authorized Investments’** (Appendix B) lays down restrictions for selecting certificates of deposit, bonds, equities, etc. for trust funds. For example, it is stipulated that equities should be listed on a recognized stock market or specified stock exchange as defined in section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance, with a 5 year dividend history and a minimum market capitalization of HK\$10 billion or equivalent in foreign currency. The Second Schedule could also serve as a good reference for non-trust funds managed by departments. As a general guideline, fund managers should avoid investing in companies and mutual funds that invest in derivatives and/or deal in currency speculations.

### 2.3.6 In-house vs. External Fund Managers

If the funds to be managed are considerable, departments may consider appointing external fund managers for portfolio management if internal expertise or resources, i.e. professional staff with expertise in funds management, are not available. However, this does not affect the responsibilities of the department to the approving authority. The benefits and costs of appointing external fund managers include :-

- a) the benefits :-
- they are professionals in the investment industry with experience and technical back-up in selecting the most appropriate investment and risk diversification,
  - they have access to market information more readily and would likely be able to capitalize on the growth opportunities in overseas investment,
  - they can provide research support and training for in-house managers, and
  - the performance of external managed portfolio can be served as a meaningful comparison for investment being managed in-house.
- b) the costs :-
- annual management fee which is usually expressed as a percentage of the fund size, and
  - internal resources deployed and/or cost of appointing independent party for monitoring the compliance and performance of external fund managers.

Owing to the relatively high costs involved, usually only funds with large size (say, greater than HK\$100m) and frequent trading activities would be considered suitable for appointing external fund manager. In any event, the Investment Division of Financial Services and the Treasury Bureau should be consulted when a department is faced with the choice of using the “Growth” or “Growth and Income” models. Advice will be given as to whether it may be appropriate to manage the funds internally or appoint external fund manager.

## **2.4 Counterparties**

2.4.1 Counterparties are defined in this Guide as persons, agents or organizations with which departments deal in the management of funds. They include :-

- **Banks/financial institutions** - the most common investment counterparties of departments as most funds managed by departments are invested in bank deposits.

- **Brokers/Investment bankers** - for securities trading or investment in bonds.
- **Fund managers** - invest and manage funds for departments if departments decide to use them.
- **Custodians** - safekeeping of investment assets such as documents of title and of certificates evidencing title to investments under the fund for departments/fund managers. The custodian may sometimes be assigned the responsibility for coordinating/consolidating the performance of fund managers. Custodians facilitate trade settlement and should be independent from the fund manager. Custodians could be custodian banks or trust companies capable of providing asset custody services. For funds managed either by an in-house or external fund manager, it is advisable for the custodian to be an organization separated from the fund manager in order to segregate the investment function from custodian function. A global custodian can be appointed for all assets or different custodians for different type of assets.
- **Settlement agents** - usually appointed to undertake the settlement process for department to ensure that investment transactions involving exchange of moneys and investment assets are properly and successfully conducted before payments are effected.

2.4.2 Departments are advised to consider the selection criteria for building up an authorized list of investment counterparties, and the appropriate exposure limits.

#### 2.4.3 Selection of Counterparties

In general, credit ratings from approved credit rating agencies (which, at present, include Standard & Poor's, Moody's Investors Service, Rating & Investment Information, Inc., Fitch Ratings, and the list may be expanded from time to time), total assets and shareholder's equity, and/or other information about the capability, stability and performance of a counterparty would form the basis of selection criteria. In particular, departments may note the following guidance :-

a) *Selection of bank counterparties*

- (i) The circular memo from the then SFS dated 12 February 2001 (Ref. : G6/33C II) gives a general guidance on the choice of bank counterparties. (Please see Appendix A for details). The key points include :-
- Departments should not conduct financial business of a banking nature with an institution which has not been granted Authorized Institution status by the Hong Kong Monetary Authority (HKMA).
  - Maximum exposure to any one institution should be kept within set limits, preferably in the region of
    - ◇ 1% of the overall deposit base of that institution, and
    - ◇ 10% of the capital base of that institution.
  - Funds with any one institution should be subject to a maximum exposure equivalent to 20% of the total funds under management. For fund under HK\$100m in size, the exposure to any one institution could be limited to 50% of the total fund.
  - Departments transacting HK\$ debt securities business are advised to consider institutions designated as Recognized Dealers and Market Makers in Exchange Fund Paper by the HKMA.
  - As an alternative, funds may be placed either in Exchange Fund Paper or directly with the Exchange Fund.
- (ii) Information on capital base or deposit base of individual banks is public information and departments, as the customers, can ask for copies from individual banks.
- (iii) In addition, departments should note the Accounting Circular No. 3/96 which stipulates that departments should obtain the approval of the Director of Accounting Services before any banking, security or safe custody accounts are opened for the purposes of S25 of the Public Finance Ordinance (PFO). (See also para. 3.4). Departments

dealing with non-PFO funds may also consult the Treasury on the placement of deposits with banks.

b) ***Selection of fund managers*** - If an external fund manager is appointed, the selection should be carried out through a competitive process. The following areas may need to be considered :-

- type of mandate (balanced or specialist),
- complementary of investment styles with investment objectives,
- past performance and experience in fund management,
- the investment process,
- regular reporting of the investment transactions, and
- support services provided (such as performance evaluation, market commentary, training).

If no in-house resources/expertise is available for the above assessment, departments may consider hiring consultants.

c) ***Selection of asset custodians*** - Similar to fund managers, custodians, if appointed, should be selected through a competitive process. The following aspects may need to be considered :

- credit rating and financial position,
- insurance coverage and indemnity available,
- sub-custodian network (global custodian only),
- reporting requirements,
- segregation of the fund's and the custodian's asset,
- internal controls, and
- availability of other support service such as performance analysis.

## **CHAPTER 3 - NECESSARY CONTROLS IN INVESTMENT OPERATIONS**

### **3.1 Investment Guidelines and Operational Manual**

3.1.1 To maintain effective control over fund management, departments are advised to develop comprehensive investment guidelines and an operational manual for the benefit of all levels of staff who are responsible for investment operations. The manual/guidelines generally include :-

- the investment objectives, strategies and policies approved by the Authority,
- a list of approved investment vehicles/instruments,
- a framework of risk management e.g. policy of diversification, asset allocation model adopted,
- a list of approved counterparties and related exposure limits, including the criteria for selecting or evaluating counterparties,
- the organizational chart setting out clearly the responsibility of each party concerned and the reporting lines,
- operational procedures for cash forecast, investment dealing, settlement and reconciliation,
- benchmarking or standards for measuring investment performance,
- accounting procedures and policies, and
- scope and approach of internal audit.

3.1.2 In preparing guidelines/manuals to meet the specific needs of the funds, departments may also wish to refer to the Guidelines for Corruption Prevention on “Investment of Surplus Funds in Fixed Income Instruments” issued by the ICAC in 2001.

### **3.2 Segregation of Duties**

Adequate segregation of duties will provide a high level of protection against malpractice. Typical functions which are normally performed by different parties include :-

- setting of investment objectives, strategies and policies,
- maintenance and evaluation of the approved list of counterparties,
- investment dealing,
- settlement, confirmation and reconciliation,
- safe custody,
- evaluation of investment performance, and
- internal audit.

### **3.3 Conflict of Interest**

Conflict of interest may arise when officers who have the responsibility for approving/assessing the offers or choosing the counterparties in dealing have any personal or related financial interest which might affect the objectivity of their actions and decisions. Departments should remind all officers concerned to declare their own investments regularly or report any investments which may give rise to conflict of interest between their investments and official duties in accordance with the Civil Service Regulations (CSRs) 461-466 and Civil Service Bureau Circular No. 9/2001.

### **3.4 Operation of Bank Accounts**

- 3.4.1 Effective controls over the operation of bank accounts will reduce the risk of misappropriation.
- 3.4.2 As promulgated in Accounting Circular No. 3/96, the approval of the Director of Accounting Services must be obtained before any banking, security or safe custody accounts are opened for the purposes of S 25 of the Public Finance Ordinance.

3.4.3 Instructions on the operation of bank accounts are laid down in Standing Accounting Instructions 1610-1690. In particular, payment from a bank account should be effected only by cheques, which must be signed by 2 authorized signatories.

3.4.4 In addition, departments may consider the following in operating bank accounts :-

- open separate investment accounts which are independent of operational accounts,
- set appropriate financial limits for different levels of authorized signatories to effect transfer of funds,
- instruct banks to accept instructions to transfer funds only when they are made to other bank accounts in the same name as the account holder and the instructions are properly signed by 2 authorized signatories, and
- arrange to check the accounting and bank accounts independently by senior staff.

### **3.5 Quotations**

3.5.1 The seeking of quotations for investments such as deposits and fixed interest securities is normally done by telephone and the quotations are subject to change until the deals are confirmed. To enhance control over the quotation procedures, departments may consider obtaining quotations from all approved investment counterparties. However, if it is not practicable, departments should formulate a rotation system and decide the minimum number of quotations to be obtained each time in advance. The selection can be done on a random, sequential or other basis. For example, in placing a bank deposit a department may get quotations from the 2 banks which gave the best rates last time, and select another 2 from the approved list in sequence. The formulated basis should be clearly laid down and followed consistently by the staff concerned.



3.5.2 To ensure that the quotations are fairly obtained, departments may consider the following :-

- assign at least 2 staff to call different counterparties for quotations,
- use telephones with recording system to get quotations if the volume justifies, or use conference calls to enable 2 staff to listen to telephone calls simultaneously during the quotation process, and/or
- random check the quotations against other sources and confirm the best rate by a separate officer.

3.5.3 Details of quotations (including the rates and officer-in-charge) should be properly documented to facilitate subsequent verification and checking.

### **3.6 Settlement, Recording and Accounting**

3.6.1 Departments are advised to devise appropriate procedures for the settlement arrangements to ensure proper segregation of duties and authorization of transactions. For example, banking instructions for fund transfers and/or confirmation letters should be checked by appropriate level of officers to ensure that the details match with the data contained in the approved quotation sheets and comply with the laid down departmental guidelines. Instructions/confirmation letters should be delivered to the counterparties concerned promptly before deadline. Any discrepancy or late delivery should be followed up by senior officers.

3.6.2 There should be procedures for reconciling the confirmation notes and bank statements received from counterparties. Procedures for proper follow-up of any outstanding confirmation notes and monthly statements not received within a specified period must be laid down. The reconciliation should be reviewed by management on a timely basis to ensure that any differences are adequately resolved or appropriate action is being taken.

3.6.3 The investment transactions should be properly recorded onto the general ledger on a timely basis. The accounting policies for investment will be discussed in Chapter 4.

### **3.7 Controls on External Fund Managers**

To maintain effective control over fund managers and to prevent possible abuse, departments may consider the following precautions:

- setting financial limits on the aggregate level of funds placed with each fund manager,
- clear documentation of the investment objectives, policies and strategies on investments for the compliance of the fund managers and regular review of such guidelines,
- use of a separate custodian to safekeep assets managed by the manager,
- close monitoring of fund managers' performance and regular review of their performance against pre-defined benchmarks and criteria, and
- appointment or re-appointment of fund managers subject to regular review based on performance. There should be provision in the Fund Manager Agreement for termination in the event of poor performance and a mechanism to ensure the consideration of new fund managers.

### **3.8 Controls on Custodians**

To maintain effective control, departments may consider the following prudent steps :-

- setting financial limits on the aggregate level of assets placed with each custodian,
- stipulating clearly the duties and responsibilities in the custodian agreement,
- regular reporting by custodians in respect of the investment transactions,
- obtaining evidence/information of the operation of specific internal controls in relation to safeguarding of assets and recording of transactions by the custodians,

- reconciling custodians' records with fund managers' records and/or internal records at periodic intervals, and
- making provisions for regular review and termination in the event of poor performance in the custodian agreement. There should also be a mechanism to ensure the consideration of new custodians.

### **3.9 Internal Audit**

3.9.1 Internal audit is a vital part of the overall control system. It is an independent appraisal service provided to the management by measuring and evaluating the effectiveness, efficiency and economy of the internal control system.

3.9.2 The internal audit functions must be carried out by officers independent from the investment functions. If the fund exceeds \$100 million, the head of the internal audit should be a qualified accountant.

3.9.3 The scope of services generally include :-

- ongoing evaluation of management and operational controls to ensure that they are appropriate and effective to the level of operations,
- compliance testing to ensure that all controls are operating in accordance with the established procedures and guidelines,
- physical and substantive checks of individual transactions to ensure that all funds are safeguarded and the accounts are properly recorded, and
- investigations of non-compliance or other odd situations, and reporting to independent senior management on a timely basis.

3.9.4 The internal audit work may cover investment operations conducted by both in-house and external fund managers.

## CHAPTER 4 - ACCOUNTING, MONITORING & REVIEW

### 4.1 Accounting

#### 4.1.1 Departments are advised to :-

- maintain proper books of accounts and supporting documents for each fund under their management in order to provide audit trails for subsequent reviews and audits,
- select proper accounting policies for accounting and disclosure of investments, in particular, for reporting the carrying value of investments and for recognition of investment income and expenditures of their funds. For example :-
  - ◇ investments may be carried in the balance sheet at :-
    - ⇒ historical cost, or
    - ⇒ market value, or
    - ⇒ the lower of cost and market value
  - ◇ investment income and expenditure may be recognized on :-
    - ⇒ a cash basis, or
    - ⇒ an accrual basis
- prepare annual financial statements reporting the financial position and the performance of the funds to the relevant committee and/or approving authority.
- comply with the disclosure requirements promulgated in the Statement(s) of Standard Accounting Practice issued from time to time by the Hong Kong Society of Accountants.

4.1.2 In considering the accounting policies, departments may refer to the Hong Kong Society of Accountants' Statement of Standard Accounting Practice No. 24 on 'Accounting for Investments in Securities', International Accounting Standard No. 32 on 'Financial Instruments: Disclosure and Presentation' and International Accounting Standard No. 39 on 'Financial Instruments: Recognition and Measurement'.

## **4.2 Performance Measurement**

4.2.1 Departments are advised to evaluate the performance of the investment portfolio to determine whether the investment objectives are met on a regular basis. The performance can be measured against some benchmarks that can reflect the investment objectives of the fund. Common benchmarks include :-

- a fixed rate of return,
- a three-month Hong Kong Interbank Offer Rate,
- an inflation related index, and
- an equity/bond index related measure.

4.2.2. In particular, the investment performance in mutual funds should be reviewed against the performance of similar funds in the industry.

## **4.3 Reports to Management**

4.3.1 Regular management reports should be submitted to the department head, Investment Advisory Committee, and/or approving authority from time to time. The frequency and details may be specified by the approving authority or its delegates as appropriate. The reports generally include :-

- the consolidated funds position,
- the investment results for the period,
- comparison of the current performance with the targets or benchmarks already set, and explanations/comments on significant differences,
- projections and/or market outlook, and
- highlight of exceptions or confirmation of full compliance to the approved Investment Guidelines.

#### **4.4 Audit**

4.4.1 Departments should appoint an external auditor, who may be the Director of Audit or other auditors as appropriate, to carry out audit of the annual financial statements. The audit will enable the department to :-

- comply with the requirements laid down by the approving authority or the relevant statutory provisions, and
- enhance the credibility of the financial statements.

4.4.2 The auditor would, based on the audit conducted, express an independent opinion on whether the financial statements, in all material respects, are properly presented and whether they have been prepared in accordance with the provisions laid down in relevant ordinance or by the approving authority.

4.4.3 Subject to the requirements laid down in the relevant ordinances or by the approving authority, departments are usually required to submit the audited financial statements, together with a report by the Director on the administration of the fund during the period.

#### **4.5 Review & Feedback**

4.5.1 To better monitor the investment operations and provide feedback, departments are advised to carry out :-

- reviews on the investment objectives and strategies when there are changes in statutory provisions, fund flow requirements, and/or the investment environment,
- reviews on the current status of counterparties on the approved list on a regular basis to ensure that the established selection criteria are being met and the exposure limits, if applicable, are still appropriate, and
- continuous assessment of the internal controls built in the operational procedures to ensure that they are effective and relevant to the changing circumstances.

4.5.2 Departments are advised to take immediate action to update the investment strategies and/or improve the operational procedures whenever appropriate.

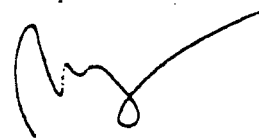
## Circular Memorandum

<i>From</i>	Secretary for Financial Services	<i>To</i>	Bureau Secretaries Heads of Departments
<i>Ref.</i>	in G6/33C II	<i>(Att. :</i>	)
<i>Tel. No.</i>	2527 3974	<i>Your Ref.</i>	in
<i>Fax No.</i>	2527 0790	<i>Dated</i>	<i>Fax No.</i>
<i>Date</i>	12 February 2001	<i>Total Pages</i>	8

**The Choice of Bank Counterparties  
In the Investment of Public Assets**

I refer to this Bureau's circular memorandum dated 2 April 1996 (copy without attachment at Annex A).

2. I enclose at Annex B the HKMA Guidance on the choice of bank counterparties in the investment of public assets updated as at February 2001. Updates have been made to the contact details and technical terms therein. The Guidance remains the same in substance.



( Edward Mak )

for Secretary for Financial Services /

## Circular Memorandum


<i>From</i>	<u>Secretary for Financial Services</u>	<i>To</i>	<u>Branch Secretaries</u> <u>Heads of Departments</u>
<i>Ref.</i>	<u>in G6/33C (96) II</u>	<i>(Attn. :</i>	<u>)</u>
<i>Tel. No.</i>	<u>2528 9076</u>	<i>Your Ref.</i>	<u>in</u>
<i>Fax No.</i>	<u>2528 3345</u>	<i>Dated</i>	<u>Fax No.</u>
<i>Date</i>	<u>2 April 1996</u>	<i>Total Pages</i>	<u></u>

**The choice of bank counterparties  
in the investment of public assets**

Branches and departments are from time to time required to open bank accounts in the course of discharging their official duties. This involves credit exposure, and the choice of the bank with which to do business is an important decision. The Hong Kong Monetary Authority (HKMA) has prepared a general guidance on the choice of banks for use by branches and departments when the need to operate bank accounts arises. A copy of the guidance is attached.

2. Enquiries concerning the guidance should be referred to the HKMA direct (see section 7 for telephone numbers). Enquiries on new applications for the opening of bank accounts should be directed to the Director of Accounting Services who has been designated the authority to approve the opening of bank accounts under section 25 of the Public Finance Ordinance with effect from 29 March 1996. Financial Circular No. 7/96 of 29 March 1996 refers.

3. This memorandum supersedes the circular memorandum of 1 October 1991 by the Secretary for Monetary Affairs on the placement of bank deposits.

  
(David Leung)  
for Secretary for Financial Services



**THE CHOICE OF BANK COUNTERPARTIES  
IN THE INVESTMENT OF PUBLIC ASSETS:  
GUIDANCE FROM THE HONG KONG MONETARY AUTHORITY**

1.            ***Introduction***

1.1           Those responsible for the management of public money are also responsible for the choice of suitable bank counterparties for the conduct of their management of public assets. There are two areas where this is particularly important: first the opening of current accounts for the handling of transactions, and secondly the choice of banks for fixed term deposits and other financial investments. Both of these involve credit exposure, and the choice of the bank with which to do business is therefore an important one.

1.2           The Hong Kong Monetary Authority (HKMA), as the supervisor of all banks and other authorised institutions in Hong Kong, is in receipt of privileged information on those institutions the disclosure of which is prohibited in law save in certain specified circumstances. The HKMA will therefore never be in a position to comment on any particular institution by name, or answer any direct request on the suitability of a particular institution. This includes requests from other areas of the Government and public sector. The advice that follows is therefore necessarily of a more general nature.

1.3           As an alternative to investments with or through bank counterparties, the HKMA continues to offer managers of public assets the option of placing money direct with the Exchange Fund. This guidance note therefore concludes with a section setting out some of the terms and conditions under which such placements can be made (see section 6).

2.            ***The status of Authorised Institutions***

2.1           The HKMA supervises three types of financial institutions in Hong Kong. These are licensed banks, restricted licence banks and deposit-taking companies. Taken together the institutions are known as Authorised Institutions (AIs). The status of AI indicates that the institution has been authorised to conduct banking or deposit-taking business in Hong Kong and is supervised by the HKMA. **It does not imply any statement or guarantee from the HKMA as to the institution's solvency or financial health.**

2.2           Despite the limited nature of the assurances that can be drawn from an institution's status as an AI, the HKMA advises that in general, and unless

there are very sound overriding reasons, Government and public sector bodies should not conduct financial business of a banking nature with an institution which has not been granted AI status. A full list of AIs can be obtained from the Public Registry of the HKMA (for contact telephone number see section 7 below).

3. Over-exposure to an institution

3.1 In managing banking relationships, it is unwise for any creditor to become too large a part of its banking counterparties' business. Such a position carries with it two risks. The first is liquidity risk. This is the risk that, when the creditor requests repayment of its deposit or call balance, the institution cannot supply the cash due to a lack of liquidity. The second is insolvency risk, which is the risk that the institution becomes insolvent and cannot repay the creditor in full or even at all.

3.2 These risks apply to all depositors, both large and small and both private and institutional/professional. Managers of public assets should be aware that in any liquidation of a bank or deposit taking company, they will be treated the same way as other depositors, and will not be given special treatment because of their public status. They would be treated equally with other "professional investors", who are deemed able to control their own exposure themselves to the two risks outlined above. It is important that the investment guidelines that managers of public assets operate under address these two risks.

3.3 This is best achieved by ensuring that exposures are in general spread amongst several counterparties, with the exposure to any one institution kept within set limits. In the case of liquidity risk, such a limit will refer most commonly to the size of the institution's overall deposit base. In the case of credit risk, it is more appropriate to refer the limit to the institution's capital base, out of which, ultimately, losses are funded and depositors repaid in times of stress.

3.4 There is no one correct answer as to what figure is appropriate in each case, but the HKMA would feel comfortable with guideline limits for managers of public assets that were in the region of :

- (a) a maximum exposure to an institution of 1% of the overall deposit base of that institution;

- 3 -
- (b) a maximum exposure to an institution of 10% of the capital base of that institution.

Both the deposit base and the capital base of AIs are publicly available data.

#### 4. Concentration of exposures

4.1 Because of the risk of a delay in receiving good value for one's assets, or even an outright default, it is equally unwise for an investment manager in charge of significant assets to concentrate all of his deposit business with too small a number of banks. To do so exposes him to **concentration risk**, and just as a manager will not wish to be a large part of any one bank's business, he will not wish any one bank to dominate his deposit placement activities, for then a failure by the bank will have very damaging consequences for the investment fund that he is responsible for.

4.2 Concentration of bank exposures via e.g. deposits should be controlled by making each exposure subject to an overall limit which refers to the size of the fund of assets under management. For small funds, it may be inappropriate to divide up the assets under management into too many very small parcels, and for funds under \$100 million in size, it may be sufficient merely to ensure that deposit exposures are split between two or three banks, with the exposure to any one bank not exceeding say 50% of the assets in the fund. For larger funds the HKMA would draw more comfort from a wider distribution of banking deposit risk, and managers of large funds may wish therefore to establish guidelines that specify a smaller maximum percentage for deposits with any one bank. A suitable guideline would be that **funds with any one institution should be subject to a maximum exposure equivalent to 20% of the total funds under management.**

4.3 This figure should be used in conjunction with the two figures referred to in section 3 above (i.e. limits derived as a percentage of a bank's deposit base and capital base). In the first place they should be used to ensure that the institution being considered is suitable for the level and magnitude of business being proposed. If the implied limits derived from the formulae in section 3 for a certain institution are very much smaller than that derived from paragraph 4.2 above, managers should consider whether it is either appropriate or administratively worthwhile to conduct business with that institution. Secondly, after the accounts have been opened or deposits have been entered into, the three limits in sections 3 and 4 form ongoing credit limits to ensure the level of exposures stay appropriate as circumstances change (both the size of the funds under management and the size of the bank counterparties).

5. The suitability of the AI chosen

5.1 Adequate size to handle the proposed business is not the only criterion that managers should use in assessing the suitability of an AI counterparty. Not all AIs will be active in every sphere, and those managing public assets also have the responsibility of ensuring that the counterparties selected are competent to carry out the business offered to them. It can be assumed that all banks will offer current or call account facilities, and that all AIs will take deposits at market-related rates (though it should be noted that restricted licence banks and deposit-taking companies have restrictions on their deposit taking activities in terms of size and maturity of deposits). But for other transactions, such as loans, foreign exchange (spot and forward), securities settlements etc, it is necessary to ensure not just that the institution chosen *can* perform the tasks requested, but that it is sufficiently familiar with them to do so to a high degree of accuracy and competence in all instances.

5.2 A particular area where this is relevant is investment in securities. In such investments, it is important to ensure that the counterparty with whom the business is conducted is fully competent in the required fields. In the particular field of debt securities, managers of public assets will be able to draw comfort from a proven capability in handling Exchange Fund paper. This has the advantage that those banks which are active participants in the Exchange Fund bills and notes markets can by using their holdings of Exchange Fund paper have access to the HKMA's Discount Window, thus offering them an extra guaranteed source of liquidity. This in turn will enable those institutions to be in a position to offer the finest terms and tightest bid-offer spreads to large professional investors.

5.3 For these reasons, Government and public sector bodies wishing to transact HKS debt securities business would be advised to consider the merits of doing so through those institutions designated as Recognised Dealers and Market Makers in Exchange Fund paper by the HKMA. Such institutions are regularly supervised by the HKMA to ensure that they maintain the appropriate commitment to the markets (including for market makers the commitment to making two-way prices in securities), and that they operate in a suitable and appropriate manner to preserve the integrity and stability of the market. A list of these institutions can be obtained from Mr Francis Chu, Head of Monetary Operations Division at the HKMA (for contact telephone number see section 7 below).

6. Investments with the Exchange Fund

6.1 Managers of public assets can as an alternative way of investing monies place funds either in Exchange Fund paper or directly with the Exchange Fund. Both methods are particularly suitable for those managers of public assets of reasonable size who wish to diversify their portfolio by investing a proportion of it in lower risk assets.

6.2 The market for Exchange Fund Bills and Notes is the premier debt market in Hong Kong dollars. As overseer of the market, the HKMA welcomes the participation of Government and public sector bodies as investors in these instruments, provided that those managing the assets can demonstrate that the fund under their control is authorised to hold these instruments; that they understand the risks inherent in the instruments; and that they are satisfied that the risks are appropriate for the fund in question.

6.3 Exchange Fund paper is available as either Bills, which have a minimum denomination of \$500,000 and a life of up to a year, or Notes, which can be bought in units of \$50,000 and carry maturities ranging up to 10 years. They are issued by the HKMA on behalf of the Government for the account of the Exchange Fund, and as they carry the credit risk of the Government's Exchange Fund, their yields will tend to be slightly below that of the corresponding wholesale interbank rates and yields of other HK\$ debt securities. However, there is an active and liquid market for Exchange Fund paper which can be sold easily at any time before their maturity. Exchange Fund paper can be purchased at the regular tenders or in the secondary market through Recognised Dealers or Market Makers who would normally provide custodian/nominee service to hold such paper on behalf of investors. As mentioned in section 5 above, a full list of such institutions is available on request from Mr Francis Chu, Head of Monetary Operations Division (for contact telephone number see section 7 below). As from 16 August 1999 Exchange Fund Notes have been listed on The Stock Exchange of Hong Kong.

6.4 The second option open to managers of public assets is the Scheme of Placements direct with the Exchange Fund. Under this scheme, managers of public assets may place funds amounting to \$100 mn or more with the Exchange Fund. The placements may be for any maturity of not shorter than one month, and the Exchange Fund will offer interest rates based upon the prevailing interbank rates. In some circumstances smaller sums or placements for shorter periods may be accepted, subject to different conditions and to the availability of HKMA staff resources. Further information on the Scheme, and the necessary arrangements for participating in it, can be obtained from the HKMA from Mr Francis Chu, Head of Monetary Operations Division, or

Mr Barry Yip, Senior Manager (Monetary Operations) (for contact telephone numbers see section 7 below).

7. Contact telephone numbers at the HKMA

HKMA Public Registry :

Mr Jimmy Ko 2878 1641

Advice on Exchange Fund paper and Market Makers/Recognised Dealers :

Mr Francis Chu, Head (Monetary Operations) 2878 8169

Advice on the Scheme of Placements with the Exchange Fund :

Mr Francis Chu, Head (Monetary Operations) 2878 8169

Mr Barry Yip, Senior Manager (Monetary Operations) 2878 8104

Hong Kong Monetary Authority  
February 2001

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Chapter:	29	Title:	TRUSTEE ORDINANCE	Gazette	L.N. 12 of
				Number:	2003
Schedule:	2	Heading:	<b>AUTHORIZED INVESTMENTS</b>	Version Date:	01/04/2003

[section 4]

1. Any shares or debentures which are issued or allotted by a company and which satisfy the following conditions at the date the investment is made-

(a) in the case of shares-

- (i) the shares are listed on a recognized stock market or specified stock exchange as these terms are defined in section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap 571); (Replaced 5 of 2002 s. 407(2))
- (ii) the market capitalization of the company issuing the shares is not less than \$10 billion (\$1000000000) or its equivalent in foreign currency; and
- (iii) the company has paid, in each of the 5 years immediately preceding the calendar year in which the investment is made, a dividend wholly in cash (except to the extent that any shareholder may have opted to accept it other than wholly in cash) on all the shares issued by the company, excluding any shares issued after the dividend was declared and any shares which by their terms of issue did not rank for the dividend in that year; (b) in the case of debentures, the security meets the credit rating as specified in the Table.

For the purposes of subparagraph (a)(iii) a company formed-

- (i) to take over the business of another company or other companies; or
- (ii) to acquire the securities of, or control of, another company or other companies,

or for either of those purposes and for other purposes shall be deemed to have paid a dividend as mentioned in that subparagraph in any year in which such a dividend has been paid by the other company or all the other companies, as the case may be.

2. Any debt security which is issued by, or the payment of principal and interest on which is guaranteed by-

- (a) in Hong Kong, the Government of Hong Kong, the Exchange Fund established by the Exchange Fund Ordinance (Cap 66) or a company 100% of the shares in which are owned beneficially by the Government of Hong Kong; or
- (b) outside Hong Kong, the government, the central bank or an equivalent agency of a country which qualifies for the credit rating specified in the Table; or

(c) any multilateral agency specified in Part 4 of Schedule 1 to the Securities and Futures Ordinance (Cap 571) which qualifies for the credit rating specified in the Table. (Amended 5 of 2002 s. 407(2))

3. Any unit trust or mutual fund authorized as a collective investment scheme under section 104 of the Securities and Futures Ordinance (Cap 571). (Replaced 5 of 2002 s. 407(2))
4. Any deposit (as defined in section 2 of the Banking Ordinance (Cap 55)) with an authorized institution.
5. Certificates of deposit, bills of exchange, promissory notes or short-term (i.e. less than 1 year) debt securities issued or guaranteed by an authorized institution or by an exempted body.
6. First legal mortgages of any property, including an undivided share in property, which is situated in Hong Kong and held under a Government lease of which the unexpired term at the time of investment is not less than 50 years, excluding any term for which the lease can be renewed. (Amended 29 of 1998 s. 105)
7. Any derivatives which are traded on a recognized stock market, specified stock exchange, recognized futures market or specified futures exchange as these terms are defined in section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap 571); except that an investment under this paragraph- (Amended 5 of 2002 s. 407(2))

(a) shall be made for hedging purposes only, that is to say, the derivatives acquired shall be of a type and specification suitable for reducing the impact on the trust fund of a diminution in the value of specific assets already held by the trust fund or which are to be acquired at the same time as the derivatives; and  
(b) shall not be made except in accordance with the written advice of a corporation licensed to carry on, or an authorized financial institution registered for carrying on, a business in advising on securities, advising on futures contracts, advising on corporate finance or asset management under Part V of the Securities and Futures Ordinance (Cap 571) expressly obtained as to- (Amended 5 of 2002 s. 407(2))

- (i) the nature and extent of the risk of diminution in the value of the assets in question, the type and specification of the derivatives suitable to reduce the impact of such diminution in value, and generally the strategy to be adopted in acquiring, holding and disposing of the derivatives;
- (ii) the potential loss that could result from acquiring and holding the derivatives and the risk of such occurring; and
- (iii) the nature and extent of the various risks of diminution in the value of the trust fund and the suitability of using derivatives to protect against those risks.

8. In this Schedule-

"authorized institution" (認可機構) has the meaning assigned to it in section 2 of the Banking Ordinance (Cap 155);

"bill of exchange" (匯票) and "promissory note" (承付票) have the same meanings as in the Bills of Exchange Ordinance (Cap 19);

"certificate of deposit" (存款證) means a document relating to money, in any currency, which has been deposited with the issuer or some other person, being a document-

- (a) which recognizes an obligation to pay a stated amount to bearer or to order, with or without interest; and
- (b) by the delivery of which, with or without endorsement, the right to receive that stated amount, with or without interest, is transferable;

"company" (公司) means a body corporate-



- (a) incorporated under the Companies Ordinance (Cap 32);
- (b) incorporated under any other enactment; or
- (c) incorporated or established outside Hong Kong;

"debentures" (債權證) includes debenture stock, bonds and any other securities of a company whether or not constituting a charge on the assets of the company;

"debt security" (債務證券) means-

- (a) debenture or loan stock;
- (b) debentures, bonds, notes and other securities or instruments acknowledging, evidencing or creating indebtedness, whether secured or unsecured;
- (c) options, warrants or similar rights to subscribe to or purchase any of the foregoing; and
- (d) convertible loan stock;

"derivative" (衍生工具) means any right in or to a financial contract or financial instrument the value of which is determined by reference to the value of or any fluctuation in the value of a share, index, rate of exchange or rate of interest either individually or in the aggregate;

"exempted body" (豁免團體) means a body specified in Part 3 of Schedule 4 to the Securities and Futures Ordinance (Cap 571) but does not include a body referred to in item 11 of that Part; (Replaced 5 of 2002 s. 407(2))

"shares" (股份) means shares in the capital of a company and includes the stock or any part of the stock of a company;

(Amended 5 of 2002 s. 407(2))

#### TABLE

##### CREDIT RATINGS

- |     |   |                |
|-----|---|----------------|
| (a) | For long-term debt (one year or over)-<br>Given by<br>Moody's Investors Service Inc.<br>Standard & Poor's Corporation<br>or an equivalent rating given by any recognized credit rating agency approved by the Secretary for Financial Services and the Treasury. (Amended L.N. 106 of 2002)   | A3<br>A-       |
| (b) | For short-term debt (less than one year)-<br>Given by<br>Moody's Investors Service Inc.<br>Standard & Poor's Corporation<br>or an equivalent rating given by any recognized credit rating agency approved by the Secretary for Financial Services and the Treasury. (Amended L.N. 106 of 2002)<br>(Second Schedule replaced L.N. 177 of 1995) | Prime-1<br>A-1 |

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**Some Other Useful References :-**

- Accounting Circular No. 3/96 on ‘Opening & Operation of Bank Accounts’ (3 May 1996)
- Civil Service Bureau Circular No. 9/2001 on ‘Declaration of Investments by Civil Servants’ (15 May 2001)
- Guidelines for Corruption Prevention issued by the ICAC -- Investment of Surplus Funds in Fixed Income Instruments (2001)
- Hong Kong Society of Accountants’ Statement of Standard Accounting Practice No. 24 -- Accounting for Investments in Securities (April 1999)
- International Accounting Standard No. 32 – Financial Instruments: Disclosure and Presentation
- International Accounting Standard No. 39 – Financial Instruments: Recognition and Measurement
- List of Licensed Banks, Restricted Licence Banks, Deposit-taking companies, etc from the Web Site of the Hong Kong Monetary Authority (HKMA) (<http://www.info.gov.hk/hkma>)
- SFC Publications and Advice to Investors, etc. from the Web Site of the Hong Kong Securities and Futures Commission (<http://www.hksfc.org.hk>)
- “Ratings Definitions”, etc. from the Web Site of Standard & Poor’s (<http://www.standardpoors.com>)
- “Rating Definitions”, etc. from the Web Site of Moody’s Investors Service (<http://www.moodys.com>); Moody’s Global Ratings Guide by Moody’s Investors Service