



Hong Kong Special Administrative Region
of the People's Republic of China

Infrastructure Bond Framework

The Government of the
Hong Kong Special Administrative Region

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Introduction

The Government of the Hong Kong Special Administrative Region of the People's Republic of China (the "HKSAR Government") is committed to continuously investing in infrastructure and urban development to meet social needs and support economic development.

This Infrastructure Bond Framework ("IBF" or the "Framework") sets out how the HKSAR Government intends to issue infrastructure bonds ("Infrastructure Bonds") under the Infrastructure Bond Programme ("IBP") to fund projects that are conducive to the long-term development of Hong Kong.

The Infrastructure Bond Programme

The Financial Secretary proposed in the 2023-24 Budget the setting up of the IBP to enable better management of the cashflow needs of major infrastructure projects and facilitate their early completion for the good of the economy and people's livelihood. Thereafter, it was set out in the 2024-25 Budget that the HKSAR Government will set a borrowing ceiling of a total of HK\$500 billion for the IBP and the Government Green Bond Programme ("GGBP") to allow more flexibility in quota re-allocation. The sums borrowed will be credited to the Capital Works Reserve Fund ("CWRF") for investment in projects which are conducive to long-term development.

Pursuant to the passage of a Resolution (i.e. Cap 61I) under section 3 of the Loans Ordinance (Chapter 61 of the Laws of Hong Kong) by the Legislative Council on 8 May 2024, the GGBP has been renamed as the Government Sustainable Bond Programme ("GSBP") and the HKSAR Government is authorised to borrow up to a maximum principal amount outstanding at any time of HK\$500 billion or equivalent under the IBP and GSBP. The Resolution was published in the Government Gazette and took effect on 10 May 2024.

The sums borrowed under the IBP are credited to the CWRF to provide funding for HKSAR Government infrastructure projects. The IBP covers projects under the Government's Capital Works Programme of the CWRF (except for those that have been or are expected to be included in the GSBP), including projects under major infrastructure initiatives.

Capital Works Reserve Fund

The CWRF was established with effect from 1 April 1982 by Resolution of the Legislative Council on 20 January 1982 for the purpose of financing the Public Works Programme and the acquisition of land. On 13 January 1988, the Legislative Council passed an amendment to the Resolution which effected the transfer of the financing of capital subventions and major systems and equipment from the General Revenue Account to the CWRF with effect from 1 April 1988. On 6 November 1991, the Legislative Council passed an amendment to the Resolution to include provisions for government borrowings to be credited to the CWRF and for repayments, and payment of interest and expenses relating to such borrowings, to be made from the CWRF.

The Capital Works Programme is financed by the CWRF covering various areas including transportation, environment, health, education, water supply and drainage systems, etc. which are conducive to the development of Hong Kong and improvement of the quality of life. The Capital Works Programme comprises the Public Works Programme and capital subvention works projects. The Public Works Programme is the programme of works through which the HKSAR Government invests in publicly owned facilities and infrastructure, while capital subvention works projects include school buildings for the aided sector and private schools, university teaching and research facilities, public hospitals and other works projects of subvented organisations.

Framework Overview

This Infrastructure Bond Framework sets out how the HKSAR Government intends to issue Infrastructure Bonds under the IBP to fund new financing or the re-financing of infrastructure projects under the IBP.

This Framework will be applicable to the Infrastructure Bond Transactions (“IBT”) launched on or after the date of this Framework.

All IBT will conform to the principles and conditions set out in this IBF.

The IBT may be done in any currency or tenor and with other terms and conditions including covenants to reflect the financing strategy and plan of the HKSAR Government as updated from time to time and the outcome of commercial discussions.

For each IBT, the HKSAR Government asserts that it will comply with the following principles, as set out in this IBF: (i) Use of Proceeds, (ii) Project Evaluation and Selection, (iii) Management of Proceeds and (iv) Reporting and Disclosures.

i. Use of Proceeds

The proceeds of Infrastructure Bonds will be used exclusively to finance or refinance projects under the Government's Capital Works Programme of the CWRP (except for those that have been or are expected to be included in the GSBP). Such projects are defined as "Eligible Projects" under this Framework. The "Eligible Categories" of projects are set out in the table below. The sums borrowed will be invested in Eligible Projects, which are projects that are conducive to Hong Kong's long-term development.

Eligible Category	
1	Port and Airport Development
2	Buildings
3	Drainage
4	Civil Engineering
5	Highways
6	New Towns and Urban Area Development
7	Infrastructure Projects under Capital Subvention Mode
8	Waterworks
9	Housing

ii. Project Evaluation and Selection

The Steering Committee on the IBP and GSBP (the "SC") chaired by the Financial Secretary and comprising the Secretary for Financial Services and the Treasury, the Secretary for Environment and Ecology, the Secretary for Development and Deputy Chief Executive of the Hong Kong Monetary Authority among others has been set up to oversee the implementation of the IBP, to review and approve (a) each IBT under this Framework, (b) the allocation of proceeds of each IBT issued to Eligible Projects, and (c) reports prepared in accordance with the terms of this Framework. Senior officials of relevant Bureaux and Departments may be invited to join the SC on a need basis.

When selecting suitable Eligible Projects for inclusion under the IBP, Bureaux and Departments of the HKSAR Government may submit their recommendations to the SC for consideration. If such project is approved as an Eligible Project by the SC in accordance with this Framework, it may be earmarked for the use of proceeds under this IBF.

The secretariat of the SC will maintain notes and records of all approved Eligible Projects and the allocation of proceeds of any IBT.

iii. Management of Proceeds

The proceeds of each Infrastructure Bond will be credited to the CWRF, administered by the Financial Services and the Treasury Bureau (“FSTB”) pending earmarking to Eligible Projects.

For each IBT issued, FSTB will maintain an internal register to keep track of the following:

(i) Infrastructure Bond Transaction details

Key information including issuer entity, transaction date, principal amount of proceeds, maturity date, and interest or coupon, the International Securities Identification Number (ISIN), etc.;

(ii) Allocation of Proceeds

- Confirmation of SC’s approval that the project is considered to be an Eligible Project;
- Summary detail of Eligible Projects to which the proceeds of the IBT have been allocated in accordance with this Framework;
- Amount of IBT proceeds allocated to each Eligible Project;
- Aggregate amount of proceeds of IBT allocated to Eligible Projects;
- The remaining balance of unallocated proceeds;
- Phase of the Eligible Projects (i.e. construction or operational);
- Look-back period of Eligible Projects under re-financing;
- Other necessary information.

Proceeds pending allocation will remain at the CWRF which, as part of the Operational and Capital Reserves of the fiscal reserves, and under the existing arrangement between the HKSAR Government and the HKMA, is mainly placed with the Exchange Fund at the rate of return determined every year in accordance with the agreed basis.

iv. Reporting and Disclosures

FSTB will provide information on the allocation of the proceeds of IBT via an Infrastructure Bond Report. Such information will be provided on an annual basis. The Infrastructure Bond Report will contain the following details:

(i) Summary

A list of all IBT executed in the reporting period and outstanding at the reporting date and summary terms of each transaction. Key information to be provided will include issuer entity, transaction date, principal amount of proceeds, maturity date, and interest or coupon, the ISIN, etc.

(ii) Allocation Reporting – for each IBT

- Amount of proceeds allocated to the various Eligible Project categories;
- Description of major Eligible Projects;
- Aggregate amount of proceeds earmarked to Eligible Projects;
- The remaining balance of unallocated proceeds yet to be earmarked;
- Percentages of refinancing and financing of Eligible Projects.

(iii) Impact Reporting

Where possible and relevant, FSTB will report on the progress, impact, and/or benefits resulting from Eligible Projects.

Subject to the nature of Eligible Projects, availability of information and feasibility, FSTB will report using relevant impact indicators, calculation methodologies and standards, drawing reference to international best practices.

The Infrastructure Bond Report will be reviewed and approved by the SC. The Infrastructure Bond Report will be available on the HKSAR Government Bonds website.

