

Press Release

LCQ14: iBonds issued by the Government

Wednesday, December 11, 2013

Following is a question by the Hon Sin Chung-kai and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (December 11):

Question:

Regarding the three batches of inflation-linked retail bonds (iBond) which have been issued, will the Government inform this Council of:

- (a) the annual total returns and rates of return on investment, after deduction of the fund management fees and other related costs, in relation to the sum received from each batch of iBond issuance and placed with the Exchange Fund for investment purpose;
- (b) the annual total amount of interests paid by the Government for each batch of iBond and the respective interest rates for each batch of iBond; and
- (c) the total interest payments, proceeds, total management fees and net surplus for each batch of iBond?

Reply:

President,

(a) There is no separate investment arrangement for individual bond issuances. Proceeds from bond issuances (including those from the iBonds) are credited to the Bond Fund, which is placed with the Exchange Fund for investment and attracts investment income on the basis of the "fixed rate" sharing arrangement applicable to fiscal reserves. The Exchange Fund does not charge management fees or other fees for managing the Bond Fund. The investment returns of the Bond Fund (both in actual amounts and in percentage terms) since the first iBond issuance in 2011 were set out in Table 1 of Annex.

(b) The iBonds make half-yearly interest payments that are linked to the

inflation rate of the most recent six-month period. As at end November 2013, the relevant interest payments made for the first two issuances of iBonds were set out in Table 2 of Annex.

The second and third iBond issuances will make their respective third and first half-yearly interest payments on December 23 and 24, 2013. The interest rate per annum of the two payments is 4.72%.

(c) As stated in (a) above, there is no separate investment arrangement for individual bond issuances. The Exchange Fund does not charge management fees for managing the Bond Fund. Hence, we are unable to provide the investment income, management fee and net surplus (i.e. investment income minus interest payments and other issuance-related expenses) for each iBond issuance. Nevertheless, for the Bond Fund as a whole, according to the accounts of Bond Fund audited by the Audit Commission, the yearly investment income, interest payments, other expenses (including issuance-related expenses) and net surplus since the first iBond issuance (i.e. financial year 2011-12) are shown in Table 3 of Annex.

Ends

Ends