

LCQ14: Use of Exchange Fund for investment purpose

Following is a question by the Hon James To and a written reply by the Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (May 16):

Question:

The Hong Kong Monetary Authority (HKMA) established the Infrastructure Financing Facilitation Office (IFFO) in 2016. One of the functions of IFFO is to facilitate infrastructure investments and their financing in countries and regions along the Belt and Road. It was reported in the press in August last year that the Chief Executive of HKMA had said that plans were being made to establish a mechanism through IFFO under which HKMA would take the lead in identifying infrastructure projects in countries and regions along the Belt and Road, and then it would collaborate with other IFFO partners to conduct investment. On the other hand, HKMA signed an agreement in September last year with International Finance Corporation (IFC), a member of the World Bank Group, committing US\$1 billion to the innovative Managed Co-lending Portfolio Programme (MCP) debt mobilisation platform for emerging markets to support IFC in financing projects across more than 100 countries. In this connection, will the Government inform this Council:

(1) of the number of infrastructure investment and financing projects facilitated by IFFO since its establishment, and set out by project name the regions in which the proposed infrastructure facilities are to be located, the investment and financing amounts, and the names of proponents and investors;

(2) whether HKMA has (i) deployed the Exchange Fund, or (ii) collaborated with IFFO partners upon identification of infrastructure projects through IFFO, to invest in projects in countries and regions along the Belt and Road; if so, set out by project name the regions in which the proposed infrastructure facilities are to be located, the forms of investment, the amount of investment and its percentage in the investment portfolio, the amount of profit or loss recorded to date, and the names of investment partners (if any);

(3) of the amount of money paid to MCP by HKMA, the usage of such funds and the amount of profit or loss recorded to date; and

(4) whether HKMA has established any mechanism to monitor the implementation of those infrastructure projects in countries and regions along the Belt and Road in which HKMA has invested; if so, of the details; if not, the reasons for that; of the measures HKMA has in place to ensure that for infrastructure projects in which it intends to invest, the proponents will fulfill their environmental and social obligations in the regions concerned?

Reply:

President,

Our replies to the four parts of the question are as follow:

(1) The HKMA Infrastructure Financing Facilitation Office (IFFO) was established in July 2016 to facilitate infrastructure investments and financing by working with a cluster of key stakeholders. IFFO is not an investor and does not provide deal-matching services. IFFO puts in place a platform for interested partners to collaborate in identifying infrastructure investment and financing opportunities.

(2) to (4) The Hong Kong Monetary Authority (HKMA) actively sources and reviews investment opportunities globally as appropriate, including Belt and Road related investments, while taking into consideration evolving market conditions and available investment opportunities.

Infrastructure is a key asset class of the Long Term Growth Portfolio (LTGP) of the Exchange Fund. The HKMA has put in place the same robust mechanisms and rigorous procedures for pre-investment due diligence and post-investment monitoring for every infrastructure investment, regardless of whether being along the Belt and Road. Prior to making an investment decision, each investment shall be evaluated based on, among other things, its commercial merits, expected investment returns, and its complementarity to the LTGP's overall portfolio construction. Preparatory studies and appropriate measures to diversify risks will also be carefully conducted for all investments.

The pre-investment due diligence on the HKMA's General Partners (GP) and the investment proposal is conducted in a prudent and critical manner. Its scope covers a wide range of topics, including capability and stability of the investment team, and financials and risk factors of the investment proposal, etc. The HKMA will also review the GP's ability to integrate environmental, social and governance (ESG) factors into their investment decision-making process. Priority will be accorded to jurisdictions and projects with proper governance and environment protection framework.

As for ongoing post-investment follow-up work, the HKMA maintains close contact with the GPs and monitors the pace and usage of the capital drawdowns throughout the process of its post-deal monitoring work. Regular reports will be made to the Exchange Fund Advisory Committee and its Investment Sub-Committee.

Noting the potential market sensitivities pertaining to the investment of the Exchange Fund, the HKMA does not reveal specific details thereof.