# Hong Kong unveils blockchain initiative to empower local banks



Hong Kong’s central bank, the Hong Kong Monetary Authority (HKMA), has recently unveiled an innovative initiative aimed at empowering local banks to develop blockchain products, with a significant emphasis on tokenization. This initiative, referred to as the Supervisory Incubator for Distributed Ledger Technology (DLT), represents a strategic effort by the HKMA to assist banks in navigating the complexities of adopting blockchain technology while effectively managing associated risks.

Set against the backdrop of a rapidly evolving digital asset landscape, the incubator is designed to facilitate a smoother transition for banks moving from experimental phases to full-scale production of blockchain services. As outlined by HKMA, tokenization will be a pivotal area of focus once the incubator becomes operational. This move is part of a broader suite of initiatives the HKMA has introduced recently, including a stablecoin sandbox launched in March, which features collaborations with major entities such as Standard Chartered, metaverse firm Animoca Brands, and a subsidiary of Chinese e-commerce giant JD.com.

Moreover, the HKMA's sandbox programme, initiated last August, supports its Project Ensemble tokenization initiative, attracting notable players like Microsoft, Standard Chartered, and HSBC. A key differentiator of the current incubator is its focus on enabling banks to conduct self-assessments regarding the effectiveness of their blockchain risk management controls. This includes opportunities for live trials that aim to refine these controls with supervision and feedback provided by HKMA’s dedicated team.

Arthur Yuen, chief executive of HKMA, highlighted the importance of fostering a supportive environment for innovation, stating, “As the banking industry continues to evolve, it is essential that we provide a supportive environment for innovation to thrive. The Supervisory Incubator for DLT is a key component of our strategy to foster the development of DLT-based banking solutions that are safe, efficient, and beneficial to the industry and the wider community.”

The incubator will also serve as a platform for promoting best practices within the banking sector, facilitating industry-sharing sessions, supervisory guidance, and collaborative research efforts. This initiative aligns with Hong Kong’s ambition to solidify its position as a global leader in tokenization, with local banks such as Standard Chartered and HSBC at the forefront. Notably, HSBC made headlines last October for issuing the first digitally native bond by a Hong Kong private entity, valued at HK$1 billion (approximately US$130 million), and earlier this year, it anchored a significant $750 million digital bond.

Carmen Chu, banking supervision director at HKMA, commented on the transformative potential of asset tokenization, stating, “Asset tokenisation offers a game-changing opportunity to facilitate more secure and transparent value exchange by enabling new forms of financial transactions.” She further encouraged banks to engage with the incubator, regardless of their current stage in the DLT adoption journey, remarking, “After all, as the saying goes, achieving big goals starts with small habits.”

In a parallel development, El Salvador is amplifying its tokenization initiatives through a new partnership between Ditobanx, a prominent fintech in El Salvador, and Tokeny, a tokenization firm based in Luxembourg. This collaboration is aimed at establishing a standardised framework for tokenised regulated assets, pivotal for the Central American nation's inclusion in the growing digital asset market.

Ditobanx, which is licensed to offer digital asset services, intends to leverage Tokeny’s infrastructure to issue, manage, and distribute tokenised assets, projecting a release of up to $300 million in tokenised assets within the year. The company currently has 22 clients ready to embrace this offering. Guillermo Contreras, the CEO of Ditobanx, acknowledged the challenges inherent in launching tokenised assets but underscored the importance of sharing experiences and providing established solutions to ease this complex process.

He emphasised the necessity of standardisation for fostering a more integrated and innovative market, stating, “Standardization is critical for creating a more connected, liquid, and innovative market, and we are committed to making this vision a reality for El Salvador and beyond.”

El Salvador has been internationally noted for its decision to accept Bitcoin as legal tender, and alongside this, the nation is making strides to leverage tokenization for further economic growth. The recent passage of the Digital Assets Law has facilitated the issuance and management of tokens, offering favourable tax incentives for digital asset firms, thus positioning El Salvador as an emerging hub for tokenisation in the region.

Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

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