From Tracks to Traffic: Scaling Tokenisation in Hong Kong's Capital Markets

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Good afternoon, ladies and gentlemen. It is a pleasure for me to speak to you at the Hong Kong FinTech Week for the first time as a regulator.

For a start, allow me to use railway as an analogy. Over the years, Hong Kong has built a world-class rail network that connects people efficiently and supports our vibrant economy. More importantly, it has set a shining example for other cities worldwide.

With a similar vision, we have more recently been busy laying tracks for a different kind of infrastructure — the digital "rails" for tokenisation.

Tokenisation involves the use of blockchain-based tokens to represent ownership of assets. It has taken centre stage in financial innovation globally. Putting assets on digital rails enables us to redesign transaction workflows and reduce operational frictions; it also improves asset mobility and drives capital efficiency. This remodelling could generate substantial commercial value and economic benefits.

Taking stock of Hong Kong's progress

I am glad to say Hong Kong has already laid much of the groundwork by putting in place the regulatory guardrails and essential infrastructure to support the next phase of tokenisation.

On the **money** side, we have facilitated international banks in Hong Kong to launch regulated stablecoins and tokenised deposits, which serve as essential instruments for on-chain payments.

On the **product** side, the Securities and Futures Commission (SFC) has allowed tokenised retail products since 2023, bringing the total to 17 now, spanning money market funds, gold products and exchange-traded funds (ETFs) with encouraging total assets under management (AUM) of US$1.3 billion. Recently, we also provided guidance to facilitate retail funds to hold and deal in regulated stablecoins and tokenised deposits. This helps integrate tokenised products more closely into the wider Web3 ecosystem.

And in terms of **market infrastructure**, the SFC's licensing regime for virtual asset trading platforms has established regulated venues for digital asset trading in Hong Kong. This consolidates market trust for further innovation.

Note: This is the text of the speech as drafted, which may differ from the delivered version.

At the same time, our settlement infrastructure is levelling up through Project Ensemble. Earlier today, the Hong Kong Monetary Authority announced the introduction of 24/7 interbank settlement in central bank digital currency, allowing tokenised deposits to support round-the-clock real-value transactions.

So, with these building blocks falling into place one by one, Hong Kong's digital rails are ready to go. But tracks alone do not create a thriving network — we need destinations worth travelling to and economic activity to generate traffic that allow the entire system to thrive.

Tokenisation is now reaching that point. The question is: **can we generate real traffic on those digital rails?** For the SFC, we have already started advancing two compelling use cases: namely, secondary trading and treasury management.

Secondary trading

Secondary trading is essential to drive liquidity. Last week, we reached a milestone by approving the first batch of tokenised money market funds for secondary trading on SFC-licensed trading platforms. This showcases tokenisation's potential in enabling an alternative 24/7 secondary marketplace for these assets. This matters because tokenisation becomes much more useful when an asset is not only issued on digital rails, but can also move around efficiently to access liquidity. Together with digital money, proceeds from a secondary trade could become available for immediate redeployment across the digital asset ecosystem.

We also see this as an important test case for a broader proposition: whether the same model can provide secondary liquidity for broader tokenised products over time. The experience gained will help us understand how tokenised products can trade safely and efficiently in a secondary market, and how the regulatory framework may evolve to accommodate other assets. We will therefore closely monitor this first test case and consider how to extend the model progressively. Tokenised gold ETFs may form the next pilot.

Treasury management

Let me now turn to treasury management, which is particularly relevant for Hong Kong.

As a **premier international hub for corporate treasurers**, Hong Kong is already home to multinational companies managing substantial liquidity across different markets.

Corporates often have cash sitting idle for short periods, and money market funds (MMFs) are a traditional tool to help put that cash to productive use. Tokenisation can take this further by connecting tokenised MMFs with digital money. This reduces settlement and reconciliation frictions, enabling liquidity to move more smoothly across borders and between cash and investments.

As the ecosystem develops, the money market instruments underlying MMFs themselves can move on-chain. This not only enables greater automation across the fund lifecycle, but also creates a more connected and programmable treasury management flow.

This also fosters an interesting synergy with Hong Kong's unique position as an **offshore RMB business hub**. Looking ahead, we can explore how e-CNY might interact with the tokenised fund ecosystem. For example, they may cross paths through subscriptions and redemptions of RMB-denominated tokenised MMFs, or MMF investments in government bills settled in e-CNY, subject to applicable regulatory and cross-border arrangements.

Taken together, secondary trading and treasury management illustrate the near-term commercial potential of tokenisation. Both use cases can scale and create positive spillovers across the wider economy.

What's more, tokenisation is a network business in many ways. More useful products and use cases attract more investors and activity. In turn, broader participation strengthens the business case for product and infrastructure providers to invest further. **Liquidity begets liquidity**, and **adoption multiplies adoption**. That is the virtuous cycle we want to unlock. By scaling these two use cases, we hope to build momentum to take tokenisation beyond its tipping point in Hong Kong.

Medium to longer-term aspirations

Looking ahead, the SFC and the industry should work together to explore several promising directions to expand the digital rail network over time.

First, collateral. Tokenisation could allow eligible assets to be transferred or posted as collateral more flexibly, improving capital efficiency and liquidity management. Hong Kong could benefit significantly from this, given the depth and activity of our cash and derivatives markets. We will continue to engage with the industry as these use cases develop.

Second, bringing more assets on-chain. If most of the underlying investments of a tokenised fund remain off-chain, automation can only go so far. Bringing more stocks, bonds and other assets on-chain could fuel interaction between tokenised assets and money.

Third, programmable finance and investment management. As more assets and processes become digital, smart contracts could play a greater role in automating investment decisions and transaction workflows, improving efficiency and reducing operational friction.

So, what is our game plan?

How the SFC will facilitate

For the SFC, we remain a committed partner to the financial industry in fostering innovation while maintaining proper investor guardrails.

Returning to the railway analogy, our role is to help accelerate construction and facilitate traffic, without compromising safety. To this end, we are introducing an **"innovation pathway"** that draws on our existing powers to support responsible innovation.

Where the innovative features of tokenised products deliver meaningful benefits and give Hong Kong a first-mover advantage, the SFC will duly consider providing regulatory flexibility and guidance to support controlled pilots and the timely launch of products. We can then learn from practical experience to inform further refinements to the regulatory framework.

More importantly, this pathway can be extended to product innovation beyond tokenisation.

How the industry can contribute

Clearly, the SFC cannot build this ecosystem on its own. We need the industry's partnership on this journey. With that in mind, let me offer three calls to action.

First, engage with us early on innovative proposals. Come and speak to us while your ideas are taking shape, so that we can explore how to facilitate innovation with safeguards.

Second, help us shape the guardrails. Your practical experience, with new technologies and business models, can help us develop regulations and safeguards that work in practice.

Third, modernise your workflows and infrastructure. Tokenisation cannot deliver end-to-end efficiency if one part of a transaction takes seconds while the next still takes ages with fragmented systems and manual reconciliation.

Think again about the railway analogy: there is little value in a train that crosses the city in 10 minutes if passengers must then spend half an hour to exit the station. *Financial workflows are no different: they are only as fast as their slowest step.*

Therefore, to achieve genuine transformation, participants across the value chain must be ready to operate within an on-chain workflow. These include asset managers, custodians, fund administrators and banks.

Closing

Let me close by returning to where I began: our railway system has long been our pride, and I am confident this will be the case for our digital asset ecosystem too.

The past few years has largely been about building the rails. The key components are now in place and they have promising potential to take us very far.

The next stage is about generating traffic on those rails. We must now connect the dots to enable more use cases and scale the compelling ones, such as secondary trading and treasury management. We must also accelerate the transition from pilots to commercialisation.

Our longer-term ambition extends to the broader financial ecosystem, with more use cases for collateral, more underlying assets on-chain, and more interaction between tokenised assets, digital money and programmable financial services.

I would invite all of you to join us on this new journey to explore the exciting frontier of financial innovation. Let’s take the ride.

Thank you.