





Our second but equally important function is to strengthen Hong Kong's competitiveness as an international financial centre and develop it as a global asset management hub. We recognise it is desirable to facilitate innovation in the products and services we regulate.

Broadening the range of investment products offered in Hong Kong, especially those offered to retail investors, forms





For some proposals of tokenised products submitted to us, we note that they operate in a way very similar to a conventional open-ended retail fund. Others may go further by proposing secondary trading of a tokenised retail product on a VATP, which makes it similar to a listed product like an ETF.

As I said at the beginning, the SFC has always adopted a technology-neutral regulatory approach and the “same business, same risks, same rules” principle where we seek to see through the “substance” of any new proposals to analyse the key risks involved and how our regulations should apply.

One may ask: what are the main differences between tokenised and traditional investment products authorised by the SFC? We believe the answer lies in ownership representation and record keeping.

This is because we regard tokenisation as a “wrapper” of a product in the form of a smart contract using blockchain technology. Adopting a “see-through” approach, the underlying product itself must meet all the applicable product authorisation requirements of the SFC—be it unit trusts, mutual funds, structured products, investment-linked insurance schemes or paper gold schemes, in terms of the product provider’s eligibility requirements, in addition to other structural, investment, disclosure and ongoing compliance requirements.

However, tokenisation would certainly bring new risks as well as legal, regulatory and supervisory issues with the use of new technology, potential new service providers, new distribution process and mode of dealing in the product, both at the primary dealing level of subscription, issuance and redemption, and the secondary trading level, which have to be properly considered and addressed so that we could provide a substantially similar level of investor protection as those investing in a non-tokenised product.

The SFC is currently working on more detailed guidance on tokenisation of SFC-authorized investment products and will issue it in the near term. Our current thinking is that in principle, primary dealing of tokenised SFC-authorized products would be more appropriate to be allowed first at this stage in view of the nascent state of development of the VATP regime in Hong Kong.

On the other hand, secondary trading of tokenised SFC-authorized products on VATPs would warrant more caution and careful consideration. First, secondary trading would magnify some of the risks that might be much more manageable in primary dealing, but not so in a 24/7 trading setup. For example, secondary market trading takes place by the second. This means proper token ownership records will have to be maintained instantly. Any business continuity plans would have to match that speed according

