

# Newsletter

## Banking and Finance - Digital assets news

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## HKMA releases a position paper on e-HKD

Simon Deane and Jennifer Lok

As part of the Hong Kong Monetary Authority's ("HKMA") "Fintech 2025" strategy, announced in June 2021, the HKMA has started a project to study the prospects of issuing retail Central Bank Digital Currency (rCBDC) in Hong Kong, i.e. e-HKD, and conducted two rounds of market consultations, one on high-level technical design and one on key policy and design issues. The technical whitepaper "e-HKD: a technical perspective" published in October 2021 by the HKMA can be accessed [here](#), and the policy discussion paper "e-HKD: A policy and design perspective" published in April 2022 by the HKMA can be accessed [here](#).

Following the two rounds of market consultations, the HKMA released a position paper titled "e-HKD: Charting the Next Steps" ("**Paper**") recently on 20 September 2022 to set out its policy stance on e-HKD, and introduced a three-rail approach for possible implementation of e-HKD in the future:

- [Rail 1](#) focuses on establishing the technology and legal foundations for supporting the implementation of e-HKD, including the formulation of a system development plan in respect of the wholesale layer of the two-tier distribution structure and preparation for relevant legislative amendments.
- [Rail 2](#), which will run in parallel with Rail 1, involves deepening research on application, implementation, and design issues relating to e-HKD, as well as conducting a series of pilot programmes in close collaboration with various stakeholders (including banks and the industry) to gain actual experience on use-cases.
- [Rail 3](#) concerns the launching of e-HKD, and its timeline will be subject to actual progress of the work under Rail 1 and Rail 2 and the pace of relevant local and international market developments.

The Paper is available [here](#).

# White House releases First-Ever Comprehensive Framework for Responsible Development of Digital Assets

Simon Deane and Chris Wong

Following up on the Executive Order in March 2022, US President Joe Biden's White House has released a framework for the responsible development of digital assets. The framework, consisting of a series of reports from government departments and summarised in a Fact Sheet issued by the White House on 16 September 2022 ([here](#)), represents the culmination of the work by various government departments, regulators, industry, and other stakeholders in the US as they highlight the way forward in the digital asset industry. Of particular note:

- 1) The Fact Sheet highlighted the need for adequate and appropriate regulatory oversight and frameworks to ensure that consumers, investors, and businesses are not exposed to undue risks and volatility, as well as the possibility of fraud. In addition, plans to extend existing anti-money laundering requirements to the digital asset industry will be considered to ensure that digital assets are not used as a means to facilitate illicit finance.
- 2) Recognising that fintech companies provide an important means for individuals to access finance and financial services, the Fact Sheet also noted the need for the digital economy to work for all, and to develop financial services that are "secure, reliable, affordable and accessible to all". Plans include developing instantaneous interbank clearing systems to facilitate payments (similar to the FPS in Hong Kong), encouraging innovative financial technologies, and creating regulatory frameworks that align with global standards.
- 3) The need to ensure that new financial technologies and digital assets will not create volatility and instability in the wider economy was also noted. To that end, it is proposed that government departments will work with financial institutions to identify vulnerabilities and track strategic risks in digital asset markets.
- 4) The US intends to implement strategies to promote responsible innovation in digital asset industries, including encouraging research and development in fundamental areas, developing regulatory best practices, and so forth.
- 5) The US will explore the implementation of a US central bank digital currency, taking advantage of the technology's ability to facilitate efficient payments and transactions, and promote financial inclusion. The development of this CBDC will take time and is not expected for some years, but represents another player in the growing field of CBDCs being developed around the world.

As a global leader in finance and digital assets, it is likely that developments in the US will have ramifications across the world. In particular, regulatory requirements in the US as regards digital assets are likely to compete with regulatory standards from other economies, and may in the medium term create compliance issues for participants in the industry. Hong Kong too is about to introduce a modicum of regulation as regards virtual assets, with a regime for virtual asset service providers being introduced in March 2023. Although at the moment it only covers virtual assets exchanges, the regime is flexible enough to cover other virtual asset services in due course, and is indicative of the growing trend for governments to regulate an increasingly large and important part of the financial sector.

We would expect such regulatory developments to create compliance issues for some participants in the digital assets industry, and it will be increasingly important for players to take appropriate advice and action to make sure that they satisfy the requirements, as the regulatory spotlight moves at pace towards them.

## Want to know more?

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