The Global Tokenization Association for Banking and Capital Markets (GTABCM)

The Global Tokenization Association for Banking and Capital Markets (GTABCM) is focused on enhancing the development of tokenization within capital markets, particularly in Hong Kong and the surrounding region. This initiative aims to foster collaboration among various market participants, including corporate and investment banks, asset managers, private wealth management, market infrastructure providers, fintech platforms, law firms, professional service providers and regulators.

1. **Mission & Objectives:**

- Promote Development: GTABCM seeks to advance the tokenization of banking and capital markets, recognizing its potential to transform financial transactions and asset management.
- Drive Collective Efforts: The association emphasizes the importance of an unified approach among diverse stakeholders to establish a robust ecosystem for capital market tokenization.

2. **Key Asset Classes for Tokenization:**

Tokenized Securities: GTABCM is promoting the tokenization of traditional securities, which simplifies the issuance and trading processes. This approach reduces administrative burdens and costs, enabling 24/7 trading on digital asset exchanges. The use of smart contracts enhances investor protection and automates compliance, making the market more efficient and accessible.

- **Digital Bonds**: Initiatives like the Hong Kong Monetary Authority (HKMA)'s Project Evergreen have demonstrated the potential for tokenized bonds, allowing for faster issuance and improved liquidity in fixed income markets. This includes innovations such as multicurrency bond issuances.
- **Tokenized Funds and Indices:** The creation of tokenized funds or indices expands investment options for investors by allowing them to invest in diversified portfolios with lower minimum investment requirements. This can lead to greater participation from retail investors who previously faced barriers to entry. Tokenized Money Market Funds (MMFs) have gained significant traction, surpassing $1 billion in total assets under

management with notable examples across UBS Asset Management built on Ethereum Blockchain, BlackRock, Franklin Templeton and web3 native Ondo Finance and more.

- **Private Credit Tokenization:** The tokenized private credit market represents a new frontier in financial innovation, offering potential solutions to longstanding challenges in the private credit sector by enhancing liquidity for traditionally illiquid assets, improving efficiency through smart contract automation and Increased transparency via real-time settlement and shared ledger.
- **Real Estate Tokenization**: By enabling fractional ownership of properties, tokenization in real estate allows a broader range of investors to participate in this traditionally high-barrier market. This democratizes access to real estate investments and enhances liquidity by making it easier to buy and sell fractional shares.
- **Commodities and Precious Metals:** GTABCM is also exploring tokenization in commodities, which facilitates easier allocation of capital across different asset classes. This diversification helps mitigate risks and improve returns for investors.
- **Collateral Management:** The association is interested in how tokenization can streamline collateral management processes. By moving these functions onto blockchain platforms, institutions can maximize asset utilization, reduce settlement failures, and enhance operational efficiencies in trading environments.

These use cases illustrate GTABCM's commitment to leveraging tokenization to transform capital markets by increasing efficiency, reducing costs, and broadening access for a diverse range of investors. As the landscape evolves, these initiatives are expected to play a crucial role in shaping the future of financial transactions and investment opportunities.

3. **Proposed Activities for GTABCM**

- **Educational Workshops and Seminars**
  - Objective: To enhance understanding of tokenization, its benefits, and challenges.
  - Format: Conduct regular workshops and seminars featuring industry experts to discuss topics such as legal implications, technological advancements, and market trends related to digital assets.
- **Webinars and Online Training**
  - Objective: To provide accessible training on tokenization technologies and practices.

- Format: Host webinars that cover various aspects of tokenization, from digital bond's end-to-end issuance processes, key markets regulatory frameworks update, and sharing of successful case studies of tokenization projects.

- **Industry Conferences**
  - Objective: To facilitate networking and collaboration among stakeholders in capital markets.
  - Format: Organize annual conferences that bring together market participants, regulators, technology providers, and legal experts to share insights and best practices in tokenization as well as actively participating worldwide industry conferences.
- **Research and Publications**
  - Objective: To contribute to the body of knowledge on capital markets tokenization.
  - Format: Produce white papers, reports, and guidelines that analyze trends, challenges, and opportunities in the tokenization space.
- **Regulatory Advocacy**
  - Objective: To engage with regulators to shape a favourable environment for tokenized assets.
  - Format: Act as a liaison between market participants and regulatory bodies to advocate for policies that support innovation while ensuring compliance with legal standards.
- **Networking Events**
  - Objective: To foster collaboration among diverse stakeholders in the financial ecosystem.
  - Format: Host networking events that allow members to connect with potential partners, investors, and clients interested in tokenization.
- **Pilot Projects and Sandbox Initiatives**
  - Objective: To encourage experimentation with tokenized products in a controlled environment.
  - Format: Collaborate with regulators to establish sandbox programs where participants can test digital bond issuances or other tokenized assets without facing full regulatory burdens initially.
- **Best Practices Sharing**
  - Objective: To promote standardization and interoperability in tokenization efforts.
  - Format: Create forums or working groups where members can share experiences, challenges, and solutions related to implementing tokenization technologies.

By implementing these activities, GTABCM can effectively support the growth of the capital markets tokenization ecosystem while fostering collaboration among various stakeholders in the industry.

4. **Focus Group: Digital Bond Working Group**

Digital bond issuance in Hong Kong is undergoing significant transformation, primarily driven by the HKMA initiatives, particularly the recently launched Digital Bond Grant Scheme (DBGS) in November 2024.

- **Digital Bond Grant Scheme (DBGS):**
  - Launch Date: The DBGS was launched on November 28, 2024, following its announcement in the 2024 Policy Address.
  - Financial Support: The scheme offers subsidies of up to HK$2.5 million (approximately US$320,000) for eligible digital bond issuances, covering up to 50% of the expenses incurred during the issuance process.
  - Eligibility Requirements: To qualify, issuances must occur on or after October 16, 2024, and be conducted on a distributed ledger technology (DLT) platform with substantial presence in Hong Kong or through the Central Moneymarkets Unit (CMU).
- **Recent Developments:**
  - Innovative Issuances: HKSAR Government has seen its first multi-currency digital green bonds in February 2024, which were issued directly on a digital assets platform without prior traditional issuance. This marked a significant milestone as it was the first digitally native bond issuance globally. In December on the same year, a Chinese corporate issuer, Zhuhai Huafa Group has through its subsidiary also issued its first 3Y digitally native bonds CNY$1.4 billion (US$192 million). The Bank of Communication Hong Kong Branch has also issued its first floating rate digitally native bond USD 300 million and it has brought the settlement date to T+2.
  - Focus on Tokenization: The HKMA is actively promoting tokenization technology in capital markets to enhance efficiency and streamline processes. The DBGS is part of this broader strategy to encourage financial institutions to adopt digital solutions for bond issuance.
- **Market Implications**
  - Increased Participation: The financial incentives provided by the DBGS are expected to stimulate interest among corporate issuers and their underwriters, leading to a greater number of digital bond offerings in the market.

- Streamlined Processes: By leveraging DLT, the digital bond issuance process can reduce transaction costs and improve operational efficiencies. This shift is anticipated to attract more investors and broaden access to capital markets.
- Regulatory Support: The HKMA's initiatives align with global trends towards digital finance and sustainable investment, positioning Hong Kong as a leader in integrating fintech with traditional finance practices.
- Innovation and Competitiveness: The initiative supports Hong Kong's goal of becoming a leading hub for green and sustainable finance by leveraging innovations in fintech. This aligns with recent successful digital green bond issuances that have showcased Hong Kong's capabilities in this space.
- Interoperability and Integration: The DBGS encourages integration with existing financial systems and platforms, enhancing interoperability across different digital assets platforms and traditional central securities depositories. This could lead to a more cohesive financial ecosystem.

The Digital Bond Grant Scheme (DBGS) launched by the Hong Kong Monetary Authority (HKMA) aims to foster the development of the digital securities market in Hong Kong. When comparing it to similar initiatives in other countries, several key aspects emerge:

Comparison of Digital Bond Initiatives Globally:

- Financial Support and Incentives
  - Hong Kong: The DBGS HKMA introduced since November 2024 provides grants of up to HK$2.5 million (approximately US$321,000) per eligible digital bond issuance, covering up to 50% of eligible expenses. This financial support encourages issuers to adopt digital bond technology.
  - European Union: The European Central Bank (ECB) has initiated programs that facilitate on-chain settlements for digital bonds, but without direct financial incentives for issuers. Instead, the focus is on regulatory frameworks and technological integration, such as the use of wholesale central bank money for settlements.
  - Singapore: Monetary Authority of Singapore has also just introduced Global-Asia Bond Digital Grant Scheme (G-ADBGS) to support digital bonds from 16 Jan 2025.
- Technological Integration
  - Hong Kong: The DBGS emphasizes the use of Distributed Ledger Technology (DLT) for digital bonds, aiming to streamline issuance and trading processes while ensuring compliance with regulations.

- Switzerland: The SIX Digital Exchange has implemented DLT for issuing digital bonds, allowing traditional custodians to manage these assets alongside conventional securities. This integration supports a hybrid model that combines both digital and traditional financial systems.
- Singapore: OCBC Bank has developed a proprietary asset tokenization platform using blockchain for its bespoke tokenized bonds. The solution allows for the fractional ownership of bonds, with tokens available in denominations as low as S$1,000, enabling better portfolio diversification for corporate investors.

- Market Development Focus
  - Hong Kong: The DBGS specifically targets the growth of the digital securities market and aims to enhance liquidity and participation through financial incentives and a supportive regulatory framework.
  - Japan: Initiatives such as the Financial Services Agency's (FSA) efforts focus more on establishing regulatory clarity and frameworks for tokenized assets rather than direct financial support for issuances5.
- Environmental Sustainability
  - Hong Kong: The HKMA's initiatives are aligned with broader goals of promoting green finance through digital bonds, although specific green bond incentives are not detailed in the DBGS.
  - Global Examples: Projects like the BIS Innovation Hub's Project Genesis in collaboration with HKMA explore tokenization specifically for green bonds, focusing on improving transparency and efficiency in funding environmentally friendly projects through blockchain technology.

The Digital Bond Grant Scheme represents a proactive approach by the HKMA to stimulate the digital bond market through financial support and technological integration. In contrast, other countries' initiatives often focus on regulatory frameworks or technological advancements without providing direct financial incentives. As global interest in digital bonds grows, these varying approaches will likely influence how markets evolve and adapt to new technologies.

Key Participants to join the focus group:

- Issuer: Corporations or entities looking to raise capital through bond issuance, including both traditional and digital bonds.
- Underwriter: financial institutions that facilitate the issuance of bonds, providing expertise in pricing, marketing, and selling the securities.

- Investor: Institutional investors (e.g., pension funds, insurance companies) and retail investors interested in purchasing digital bonds.
- Legal Counsel: Legal experts specializing in securities law, compliance, and regulatory issues related to digital assets and tokenization.
- Rating Agency: Rating agencies evaluate the credit risk associated with digital bonds, enhance market confidence and assist issuers in demonstrating compliance with regulatory requirements.
- Issuance Platform: Technology providers that offer platforms for the issuance and trading of digital bonds, such as blockchain-based solutions.
- Regulatory Bodies: Representatives from financial regulatory authorities to provide insights into compliance requirements and regulatory frameworks affecting digital bond markets.
- Market Infrastructure Providers: Organizations that support the trading, clearing, and settlement of bonds, including central securities depositories (CSDs) and payment systems.
- FinTech Companies: Startups and established firms focused on financial technology innovations that can enhance the bond issuance process through tokenization.
- Academic Institutions: Researchers and educators specializing in finance, technology, or law who can provide theoretical insights and empirical research on tokenization trends.
- Industry Associations: Representatives from other financial industry associations that can share best practices and collaborative opportunities.
- Data Analytics Firm: Companies that provide data solutions for market analysis, investor behaviour, and transaction analytics related to digital bonds.
- Advisory Firm : Consultants with expertise in capital markets who can advise on strategies for implementing tokenization in bond issuance.

Topics to be covered but not limited to:

- The regulatory update and market opportunity
- Guidelines for DBSG
- The market opportunity of tokenized securities and assets
- Case study of bond tokenization
- Tokenization of bonds: What issuer should prepare for
- Tokenization of bonds: Investor Insights
- Tokenization of bonds: Underwriter Insights
- The stablecoin development and the impact for tokenization of capital markets

- The stablecoin development and the impact for treasury management
- The on-chain and off-chain ecosystem and major hurdle