



DIGITAL BOND MARKET IN HONG KONG

Background of Hong Kong Digital Asset Development

In 2021, the Hong Kong Monetary Authority (HKMA) partnered with the Bank for International Settlements Innovation Hub (Hong Kong Centre) to initiate concept-testing for tokenised bonds, marking the start of its tokenisation journey. This initiative demonstrated how distributed ledger technology (DLT) can be applied to real capital market transactions within Hong Kong's legal framework.

In 2023 and 2024, the HKMA supported the HKSAR Government in issuing digital green bonds. Following the successful issuance of government bonds, the first corporate bond was successfully issued in Sep 2024. The CMU has altogether issued around HK\$7.8 billion equivalent worth of digital bonds in multiple currencies, including HKD, RMB, USD and EUR, for these three bonds. These issuances underscored the flexibility and robustness of Hong Kong's legal and regulatory environment, fostering innovation in bond markets. Moreover, the bonds highlighted the potential of DLT to enhance efficiency, liquidity, and transparency in the market.

Proven Features of Digital Bond in Hong Kong Supporting Settlement

Secondary Market

The CMU facilitates seamless secondary market transactions using digital asset for global investors. Similar to traditional bonds, trading of beneficial interests occurs via traditional OTC trading outside the digital platform, while settlements and transfers are executed on the digital platform. Through its existing linkages with ICSDs, the CMU digital bonds can be under custody of the CMU and/ or ICSD, which enables global investors to easily access.

Settlement Finality

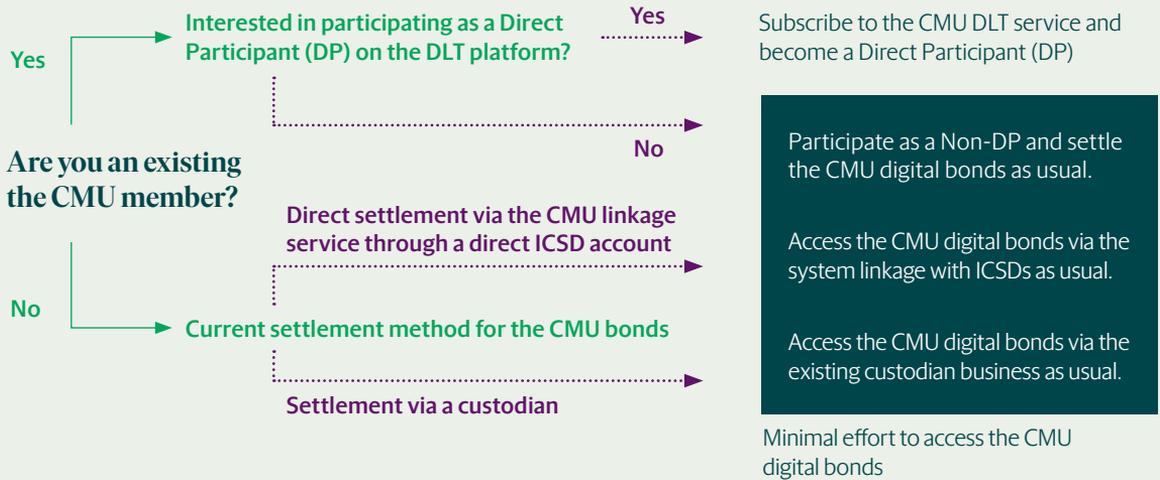
The CMU ensures settlement finality for digital bond issuances by fulfilling the necessary statutory requirements under the PSSVFO or through contractual agreements. By adhering to these regulations, the CMU offers a secure and reliable

settlement infrastructure for digital bonds, enhancing trust among global investors.

Regulation and Legal Framework

The CMU enables international investors to securely take custody of digital bonds that comply with The Securities and Futures Ordinance (the SFO), Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) (C(WUMP)O), and Payment Systems and Stored Value Facilities Ordinance (PSSVFO) regulations. The SFO's existing licensing regime regulates activities including the issuance and distribution of digital bonds. For corporate issuers, prospectus of digital bonds must meet the requirements under the C(WUMP)O. Adhering to international standards and Hong Kong's regulations, custody of digital bonds under ICSDs were enabled.

Participation Models of the CMU Digital Bonds (Linkages with ICSDs available)



Benefits of Innovative Forms of Digital Assets

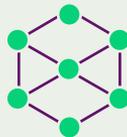
Paperless Creation

No more physical certificates required



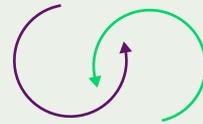
Single Platform

Immutable single source of truth to support multi-party workflows



Atomic DvP Settlement

Real-time transfer of bond and cash



E2E DLT Adoption Across Bond Lifecycle

Enhanced operational efficiency



Enhanced Transparency

Real-time data synchronisation and consistency across parties



Looking Ahead

To reduce settlement fragmentation and support the future of digital assets, the HKMA and international committees will drive innovation by exploring the wider use of currency types in digital transactions. This includes the viability of DLT technology, cross-platform inter-operability, and the tokenisation of repo transactions to further enhance efficiency and security in financial markets.

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 HONG KONG MONETARY AUTHORITY
 香港金融管理局

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