HONG KONG MONETARY AUTHORITY
香港金融管理局

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The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Risk management considerations related to the use of distributed ledger technology

I am writing to share with the industry the key risk management considerations that the HKMA has regard to when it reviews proposals of authorized institutions (AIs) involving the use of distributed ledger technology (DLT).

Since the Government published its *"Policy Statement on Development of Virtual Assets (VAs) in Hong Kong"* in 2022, the HKMA has noted growing interest from AIs to explore how they can apply the DLT that underlies the VA ecosystem to traditional financial market operations. As these explorations have gathered pace, an increasing number of AIs have - consistent with the HKMA's supervisory expectations set out in its circular letter of 28 January 2022 - reached out to seek the HKMA's views on their planned initiatives.

The HKMA is supportive of AIs adopting DLT-based solutions so long as they can adequately manage the associated risks. Specifically, it has been encouraging banks to study the potential of taking "tokenised" deposits. To lend further support to these explorations, the HKMA considers it useful to provide more clarity on the key risk management considerations that it has regard to when reviewing the DLT-related proposals of AIs.

In line with its risk-based and technology-neutral approach to supervision, the HKMA's focus when reviewing these proposals is on ascertaining whether an AI has put in place adequate systems and controls to manage those additional risks that may arise due to DLT adoption. Although the HKMA's exact considerations will vary based on the specific solution under review, there are some common risk

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areas that are generally relevant to DLT adoption. Noting AIs may wish to take these into account when designing and developing their DLT solutions, the HKMA has prepared a note setting out these key supervisory considerations **(Annex)**. AIs are encouraged to take into account these considerations when preparing their DLT-related submissions.

In leveraging the guidance, AIs should note that the considerations are non-binding, non-exhaustive and will continue to evolve as the market and related technologies develop. For instance, the considerations currently focus more on those products and activities that are receiving the greatest market attention and interest at present (e.g. tokenisation of traditional assets and liabilities, and the provision of supporting services for these tokenised products) to increase their utility and relevance to AIs today.

Should you have any questions about this circular, please email dlt_supervision@hkma.gov.hk.

Yours faithfully,

Raymond Chan
Executive Director (Banking Supervision)