HONG KONG MONETARY AUTHORITY
香 港 金 融 管 理 局

Our Ref.: B1/15C

8 January 2025

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Supervisory Incubator for Distributed Ledger Technology (DLT)

The Hong Kong Monetary Authority (HKMA) announced today[1] the launch of the Supervisory Incubator for Distributed Ledger Technology (the Incubator). I am writing to provide more details on the Incubator's one-stop supervisory platform, including how Authorized Institutions (AIs) may apply for access.

The Incubator is a new supervisory arrangement designed to help banks maximise the potential benefits of DLT adoption by effectively managing the associated risks. Under a one-stop supervisory platform, the HKMA will provide banks with access to a dedicated team for obtaining supervisory feedback on their DLT-related proposals and the option to conduct live trials to validate and refine specific aspects of their risk management implementation, under a hands-on and iterative approach as needed.

Noting AIs will likely leverage on the live trials in a phased manner to gradually fine-tune their risk management capabilities, the HKMA is prepared to provide a certain amount of supervisory flexibility to AIs that access the Incubator (e.g. in terms of compliance with supervisory requirements). This is on the understanding and premises that AIs will endeavour to manage the associated risks, and in a way that is commensurate with the scale, scope and nature of a given trial. The amount of supervisory flexibility that can be offered will be assessed on a case-by-case basis, taking into consideration the aforementioned factors, as well as whether an AI is able to comply with similar operating principles as those currently stipulated for Fintech pilot trials conducted under the HKMA's Fintech Supervisory Sandbox (FSS)[2].

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[1] https://www.hkma.gov.hk/eng/news-and-media/press-releases/2025/01/20250108-3/
[2] Including those in relation to boundary setting, customer protection measures, risk management controls, readiness, and monitoring. For more details, please see the HKMA circular "Fintech Supervisory Sandbox (FSS)" issued on 6 September 2016.

The HKMA is aware of certain aspects of DLT adoption that might not be fully compatible with existing regulatory and legal constructs, the latter of which may not have been designed with innovative technological developments in mind. Where such incompatibility is inadvertent or inconsistent with the general principle of "same activity, same risk, same regulation", the HKMA will give due consideration to the need for regulatory adaptations or flexibility, taking into account the latest international standards and developments. Questions of this nature may also be discussed through the Incubator.

In the longer term, the Incubator will, building on successful pilot cases through the Incubator, run initiatives to broaden overall industry awareness and enhance risk management capacity related to DLT. These initiatives will be arranged with regard to the latest technological developments and market needs and may include, amongst others, the issuance of supervisory guidance, hosting of industry sharing sessions, and conduct of forward-looking research projects in conjunction with partners to identify emerging areas of risk management interests. The HKMA will announce further details in due course, and AIs are encouraged to actively participate in and contribute to these, so as to support the industry's wider efforts to unlock the transformative potential of this novel technology in a prudent and responsible manner.

AIs that would like to learn more about or access the Incubator are welcome to contact us at supervisory_incubator_DLT@hkma.gov.hk.

Yours faithfully,

Carmen Chu
Executive Director (Banking Supervision)