

14 February 2022

Digital Asset Developments



Hong Kong's Securities and Futures Commission and the Hong Kong Monetary Authority have issued [new rules that restrict trading of spot crypto ETFs to professional investors only](#). They prohibit virtual asset intermediaries from offering crypto spot exchange-traded funds (ETFs) to retail investors. Their motives have been questioned by some analysts given that the restrictions do not extend to the distribution of futures-based crypto ETFs which expose investors to the similar levels of volatility. Under the rules, only investors with portfolios of HKD 8.0 million (USD 1.03 million) or greater are permitted to invest in crypto spot ETFs. In order to support enforcement, the Hong Kong government will require the mandatory licensing of local crypto exchanges. This action has not been viewed favourably by all in the market, particularly by the Hong Kong Cryptocurrency Exchange advocacy group, which has argued this will drive retail investors towards unregulated platforms.



Cryptocurrency Exchanges are increasingly nervous about the [US Securities and Exchange Commission's \(SEC\) desire to broaden its regulatory scope following a recent amendment to its rules](#). Outlined in a 654-page report, the SEC has stated it is looking to fill a regulatory gap, suggesting that many cryptocurrency exchanges and solutions in the digital asset space (among other currently unregulated trading platforms) could fall under an expanded definition of an exchange. While most industry participants are in favour of greater regulatory clarity, the definition offered under the new guidance is considered very broad and would include platforms and communication protocols "through which buyers and sellers can interact and agree to the terms of a transaction." Cryptocurrency exchanges operate primarily on open-source software, and in the case of decentralised exchanges do not have central points of control, thereby enabling participants to trade tokens without a trusted intermediary and therefore a single identifiable legal entity to subject to regulation.



Fnality, the financial DLT payments consortium, has [successfully completed a proof of concept \(PoC\)](#) to settle a trade of a tokenised security, showcasing the benefits of using DLT for settlement in capital markets and payments. The transaction was considered a landmark in technological development as it was the first project to execute a cross-chain debt transaction on the public Ethereum blockchain with the payment leg run on Fnality's own DLT-enabled Payment System (FnPS). The PoC was conducted with Nivaura and Adhara, two UK FinTechs, as well as NatWest and Santander who assumed the roles of dealer/issuer and investor respectively. The mechanism provides for the ability to structure, execute and settle trades in a near real-time basis, i.e. T+0. Fnality expects this will offer several benefits to the market, especially for intraday liquidity savings, end-to-end repurchase agreements, and interbank intraday FX swaps. On the back of this latest initiative, the consortium is hoping to launch its DLT-enabled payment system in October 2022, which will also benefit from the Bank of England's new Omnibus Accounts (established April 2021) which enable payments using central bank money.



In an effort to align global practices, [SETL and Digital Assets have joined forces to create a regulated network for tokens](#). The partnership is expected to create a new protocol which both parties anticipate will be used by regulated institutions to launch interoperable tokens, thereby enabling superior

interoperability amongst financial and market infrastructures such as banks, Central Banks, and other regulated institutions on behalf of their customers. The offering, partly modelled on Citi's Tony McLaughlin's [Regulated Liability Network \(RLN\) initiative](#), will mint, transfer and burn tokens between counterparties on behalf of their underlying customers. The new network will enable the transfer of tokens in a coordinated single operation in order to achieve real-time settlement, which is hoped will scale to sustain volumes enabled by Amazon Web Services of over 1 million transactions per second.

News Links

	Russia Moves to Recognize Crypto as a Form of Currency (Blockworks)
	Global Regulator Mulls Cryptocurrency Framework (Pymnts)
	Two Arrested for Alleged Conspiracy to Launder \$4.5 Billion in Stolen Cryptocurrency (US Department of Justice)
	MAS Raises DBS' Capital Requirement Following Two-Day Outage (Finextra)
	UK's HMRC Seizes NFT for the First Time in £1.4m Fraud Case (Reuters)
	Kazakhstan Floats 500% Tax Increase on Bitcoin Miners, Leading Some to Eye Relocation (The Block)
	Digital Euro Bill Due Early 2023 (Politico)
	NY Fed: Stablecoins Are Not the Future of Payments (CoinDesk)
	17 Crypto Exchanges Pledge Safe Markets, Cooperation with Regulators (Pymnts)
	Taurus and Coinfirm Collaborate for Enhancing Trust in Digital Assets (Confirm)
	Private Sector Project Makes Bitcoin Play (Finextra)
	Digital Asset Custodian Komainu Adds Yield Generating Platform to Custody Solution (PR Newswire)
	BlackRock Planning to Offer Crypto Trading, Sources Say (CoinDesk)
	Top Japanese Bank MUFG Introduces New Stablecoin Platform (Cointelegraph)
	Fitch Downgrades El Salvador to 'CCC' Weeks Before Bitcoin Bond Issue (CoinDesk)
	KPMG in Canada Adds BTC and ETH to its Corporate Treasury (The Block)

Key:

Regulation



Technology



Ecosystem



Markets



CBDC Corner

[Behind the Scenes of Central Bank Digital Currency](#) – the IMF has published learnings from 6 advanced CBDC projects (International Monetary Fund); they are described here: [Central Banks May Take Additional Time to Explore CBDCs](#) (Pymnts)

Following the [recent publication](#) by the Board of Governors of the Federal Reserve System of a largely descriptive, rather than policy-oriented, paper on CBDCs, the US Congressional Research Service has issued its own paper titled [Central Bank Digital Currencies: Policy Issues](#) setting out the areas of policy and design choices for consideration (US Congressional Research Service)

CBDC Think Tank to launch [OpenCBDC Sandbox](#) for Central Banks and ‘official institutions’ demonstrating the [first proof-of-concept stage of Project Hamilton](#) completed recently by the Federal Reserve Bank of Boston and Massachusetts Institute of Technology, simulating up to 1.7 million transactions per second by omitting DLT (CBDC Think Tank)

[Kenya Releases CBDC Discussion Paper While Seeking Public Input](#) (Pymnts)

[Zambia Climbs Aboard the CBDC Train but Hits the Brakes on Crypto](#) (Pymnts)

[Zimbabwe's Central Bank Exploring CBDC, Reiterates Opposition to Cryptocurrencies](#) (Bitcoin.com)

[China's e-CNY Pilot to Boost Hong Kong as Offshore Yuan Trading Center](#) (Forkast)

[Innovation Key to the Future of Money and Cash](#) – New Zealand begins designing a proof-of-concept to explore retail and wholesale CBDC applications (Reserve Bank of New Zealand)

[Nepal Initiates Study on Digital Currency](#) (The Phnom Penh Post)
