

Eddie Yue: Opening remarks - launch ceremony for Project Ensemble Sandbox

Opening remarks by Mr Eddie Yue, Chief Executive of the Hong Kong Monetary Authority, at the launch ceremony for Project Ensemble Sandbox, Hong Kong, 28 August 2024.

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Good afternoon everyone, and a warm welcome to you all to the launch ceremony of the Project Ensemble Sandbox. Today's event marks a significant milestone in our journey towards creating a dynamic and innovative digital asset ecosystem in Hong Kong.

I don't think it's an overstatement to say that we are living through a transformative era in the financial industry. The rise of digital money and new technologies is reshaping the financial landscape. The central bank community has responded with its own innovation efforts around central bank digital currencies, or CBDCs, which have the potential to underpin the new digital economy.

Since 2017, the HKMA has been at the forefront of research and innovation on CBDCs, with projects like mBridge, which has recently reached the Minimum Viable Product (MvP) stage, and e-HKD, which will commence its Phase 2 Pilot Programme shortly.

But we recognise that CBDCs will not, and should not, be the only force driving innovation. Tokenisation, which like CBDCs often rides on blockchain technology, also provides the foundation for innovative pilots looking at how financial transactions can be conducted through the tokenisation of commercial bank money and both financial and real-world assets. Tokenisation has the potential to make financial transactions more efficient, more transparent and less costly, and may represent the future of finance.

Today, I would like to outline the role that the Ensemble Sandbox is intended to play within the HKMA's broader vision of cultivating a dynamic digital asset ecosystem in Hong Kong.

Project Ensemble

We launched Project Ensemble in March this year with the aim of supporting and advancing the development of the tokenisation market in Hong Kong.

At the core of Project Ensemble are two key elements: collaboration and the sandbox. As the establishment of the Architecture Community shows, the Project brings together industry participants, regulators and innovators to shape the future of digital assets. Meanwhile, the Ensemble Sandbox is a new financial market infrastructure that facilitates the full life cycle of a tokenised asset transaction: from the creation and trading of tokenised assets, through payment and settlement using tokenised commercial-bank deposits, to final interbank settlement through CBDC issued by the HKMA.

The Sandbox serves four major purpose:

- a. First, it enables industry participants to explore the use case for tokenised assets in a controlled environment;
- b. Second, it allows industry participants to test and review the technical compatibility among digital assets, tokenised deposits and CBDCs;
- c. Third, the technical parameters and design protocols of the pilot use case will serve as important inputs in setting common industry benchmarks for tokenisation; and
- d. And finally, it promotes innovative use cases that contribute to resolving pain points in financing the real economy, including in supply chain financing.

The Sandbox will also cover cross-border payment functionalities. In relation to this, I would like to highlight our recent collaboration with the Banque de France, where our Sandbox and their equivalent system have been successfully connected. Pilots have been done to demonstrate that atomic cross-border settlement can be performed through the linked systems. Under the MoU signed between the two institutions, we will continue to experiment with innovative cross-border pilots in CBDCs and tokenisation.

Central banks are well positioned to lay the foundations for the tokenisation ecosystem. But for the trend to take off, we need industry innovators to actively participate, to try out new use cases, and to assess their commercial viability and scalability. We need to get into this together. Our theme today – "Tokenising Together, Today and Tomorrow" or four "T"s as our team calls it - is more than just a slogan. It embodies the essence of Project Ensemble, and represents a strategic path for collaboration. Allow me to elaborate on how we plan to put these four "T"s into action.

Tokenising Together

"Tokenising Together" captures the spirit of "co-creation", which is central to Project Ensemble. The word "Ensemble" indicates cohesion and unity, which reflects our wish to unite industry efforts to push forward Hong Kong's tokenisation market. In fact, the participation of so many of you today is a clear example of how such an "Ensemble" is already being brought to life.

Since the establishment of the Architecture Community in May, we have been working closely with Community members to co-develop the Sandbox architecture and interoperability standards, which are foundational to the successful launch of the Sandbox.

I would like to congratulate all our banks in the Architecture Community on successfully integrating their tokenised deposit infrastructure with the Sandbox, paving the way for payment-versus-payment (PvP) and delivery-versus-payment (DvP) experiments in the coming months.

Beyond the Sandbox's evolution, Project Ensemble has also drawn the attention of a broad spectrum of stakeholders from the finance and tech areas, including central banks, financial entities, tech corporations, and local startups. Within just five months, we have seen a wave of enthusiastic feedback suggesting innovative use cases that promise to address many of the current operational challenges in finance and trade.

Among these use cases, those involving the tokenisation of investment assets are of particular interest. And here I would like to express our appreciation of the SFC's support in reviewing the legal and regulatory frameworks for asset tokenisation, which has been essential to our tokenisation efforts. I would like to thank Julia and her team for their support and look forward to her sharing in a moment.

Tokenising Today

Let me now turn to the notion of "Tokenising Today". As we embark on a journey that could make transformative changes for the future, it is essential to take decisive steps today.

The launch of the Sandbox is a significant step forward towards harnessing the power of blockchain technology and smart contracts. We see the Sandbox as a pioneering financial infrastructure and a collaborative platform to test and refine different use cases, covering areas ranging from fixed income and investment funds, liquidity management, green and sustainable finance, to trade and supply chain finance.

But the potential of the Sandbox extends far beyond these initial applications. It is designed in a way that will enable it to support various forms of digital money and digital assets, and ensure seamless integration with other financial infrastructures in the future.

Tokenising Tomorrow

And this brings me to the notion of "Tokenising Tomorrow". Our actions today are guided by the vision of cultivating a vibrant digital asset ecosystem in Hong Kong. The pilots under the Sandbox are just the beginning. We envision a future where these initiatives evolve into tangible real-life applications that will potentially transform our financial landscape. In order to prepare for this early, we are already actively working to evolve the Sandbox into a robust, production-ready financial infrastructure that will support real-money tokenised transactions in Hong Kong in the future.

Over the years, the HKMA has built an efficient multi-currency platform with extensive domestic and overseas linkages, which has proved essential to growing our global financial business and underscores our legacy of innovation in financial infrastructures. However, to remain competitive in an ever-evolving landscape, we must continuously build upon this rich heritage.

As financial technology takes centre stage in the future of finance, we invite you to join us in showcasing Hong Kong's innovative mindset and ability to conduct pioneering work in the tokenisation market. By doing so, we not only reinforce Hong Kong's status as a premier international financial centre, but also create an environment for new business opportunities, talent and expertise. Our commitment to innovation will continue to draw global players and skilled professionals to our city, fostering a vibrant digital asset ecosystem. Together, we can position Hong Kong as a leader in the financial technology revolution, ensuring that we remain at the forefront of the global financial landscape.

Thank you.

