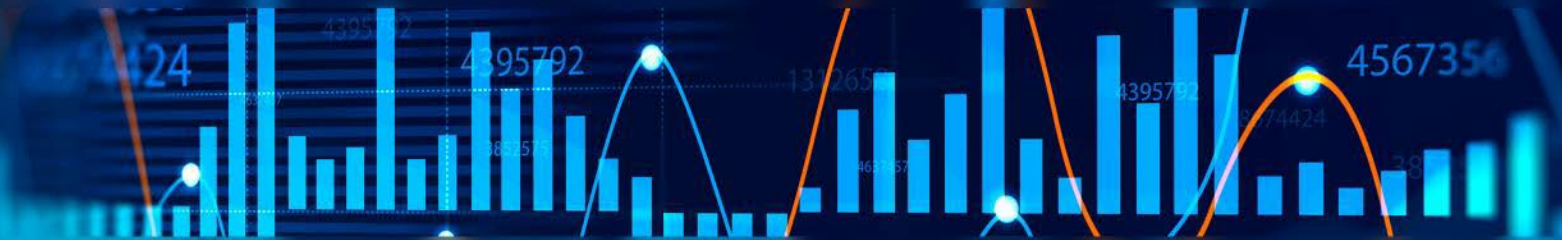


C L I F F O R D  
C H A N C E



**FUNDAMENTALS OF FINANCIAL MARKETS**  
SINGAPORE | MONDAY, 2 SEPTEMBER 2024

**C L I F F O R D**  
**C H A N C E**



**INTRODUCTION TO TOKENISATION**

BRIAN HARLEY & YARU CHIA

SINGAPORE | MONDAY, 2 SEPTEMBER 2024

# INTRODUCTION TO TOKENISATION



**BRIAN HARLEY**  
COUNSEL

**T** +852 2826 2412  
**E** brian.harley  
@cliffordchance.com



**YARU CHIA**  
SENIOR ASSOCIATE

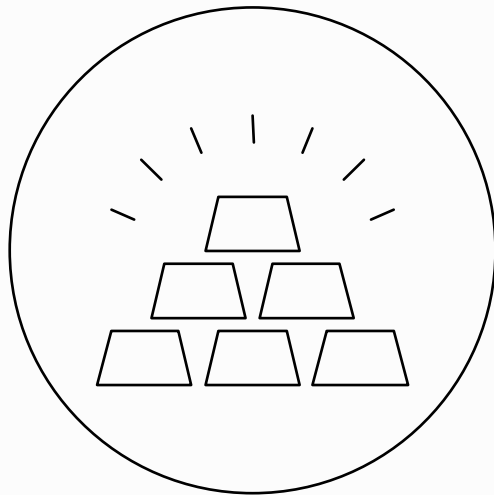
**T** +65 6410 2223  
**E** yaru.chia  
@cliffordchance.com



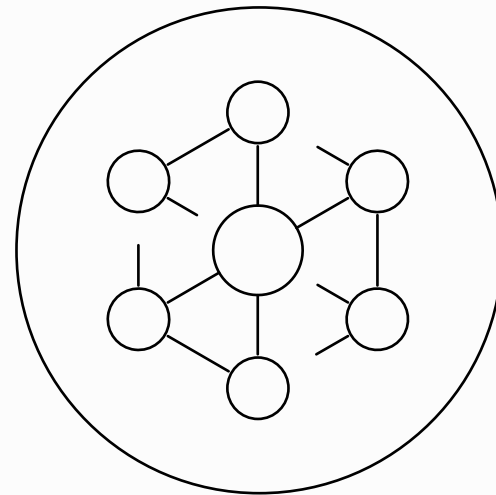
## **TOKENISATION: AN OVERVIEW**

# WHAT IS TOKENISATION OF ASSETS?

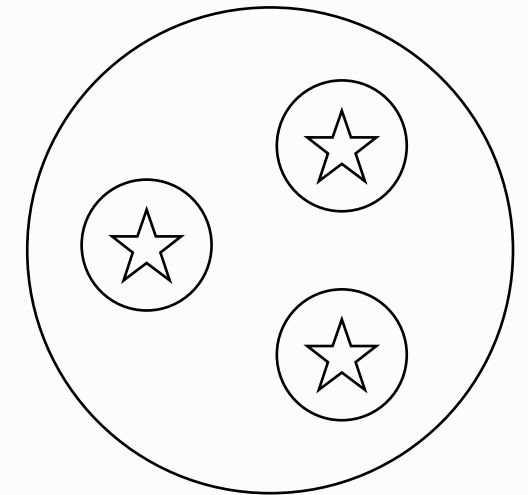
Tokenisation is the process of issuing digital tokens which serve as representations of other assets.



**Traditional asset**

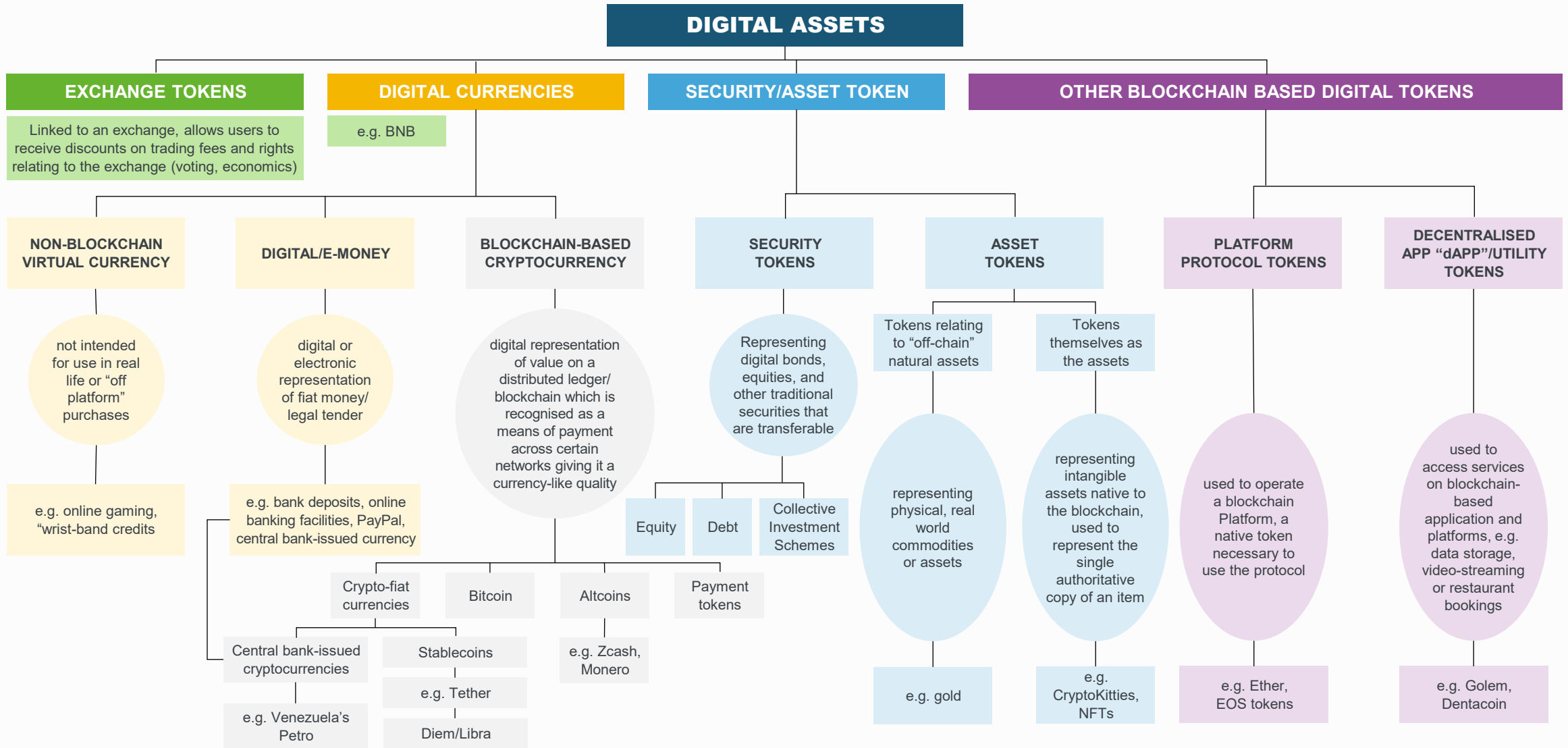


**DLT/blockchain network**

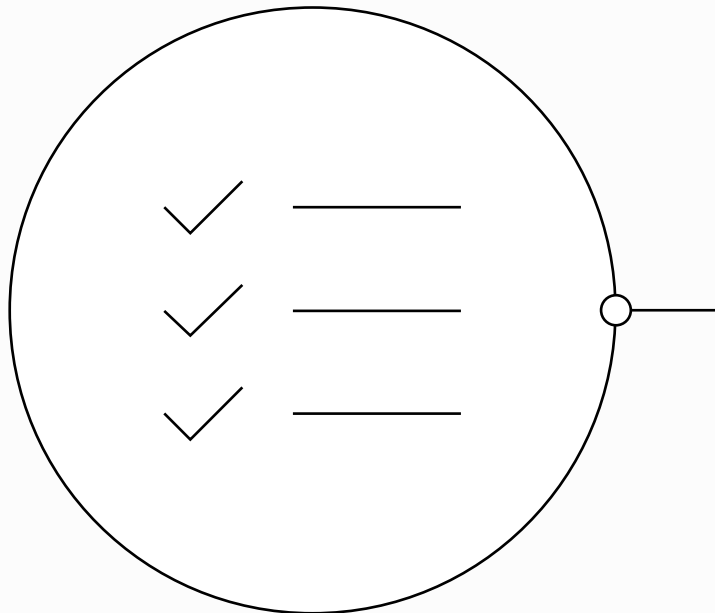


**Digital tokens**

# THE LANDSCAPE OF TOKENS



# THE BENEFITS OF TOKENISATION



Distributed ledgers offer decentralised, transparent records of ownership

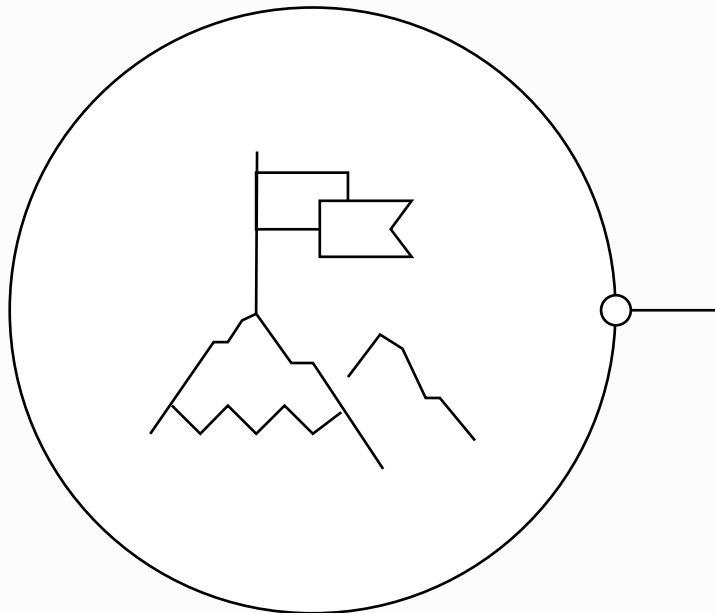
Tokenised transactions should in principle be faster and cheaper than transactions involving the source asset

Allows for asset divisibility, e.g. issuing multiple tokens to represent partial ownership of a single “real” asset

Allows greater geographic reach

Increased liquidity

# CHALLENGES AND RISKS OF TOKENISATION



Creating a lock-step between transactions on the distributed ledger and effect transfer of ownership

Security

Transparency has its downsides

Uncertainty of regulation

Crossborder transferability heightens the regulatory uncertainty



# SMART CONTRACTS VS CONTRACTS

“Code is law”

Smart contracts, as code,  
are not contracts

Does it matter?

Evidence of the intentions  
of the parties and the  
content of a contract

Rules of contract formation  
still apply

Problem of the  
second owner

How can legal obligations  
be tied to a token?

- Keeping it “on-platform”
- Marketplaces
- Metadata
- Website terms

# TOKENS AS AN ALTERNATIVE TO EQUITY

Equity and token investments complementary rather than substitutes.

## Equity

- About ownership of the common enterprise.
- Tried-and-tested legal framework, which is broad in scope (courts can potentially rule on anything).
- Illiquid, slow and expensive.
- Rank last on a distribution.

## Tokens

- An opportunity to offer an economic interest in an ecosystem, rather than an ownership interest in a business per se.
- Flexibility of design, although functionality will be narrow.
- Potentially: highly liquid, fast and low marginal cost once set up.
- Could rank ahead on distribution.

# HSBC GOLD TOKEN

**First-in-market tokenisation project involving structuring, documenting and obtaining regulatory approval for the launch of a digital token linked to underlying physical gold that is authorized by the SFC and sold to retail investors in Hong Kong.**

- First retail tokenised SFC authorised investment product in Hong Kong
- First tokenised real-world asset issued by a bank for retail investors.
- Tokenisation refers to the creation of blockchain-based tokens that represent ownership of traditional financial instruments/assets (gold in this case).
- The actual ownership will be recorded digitally on the blockchain leveraging the distributed ledger technology (DLT).

## **Product design:**

- ownership in gold will be fractionalised which requires specific legal structure to support this. This means each investor may co-own a small portion of a whole gold bar with other investors;
- this provides liquidity to a traditional asset class that is otherwise less liquid/mobile (i.e. physical gold sitting in a vault);
- the hurdle to ownership of gold is lowered, e.g. the minimum investment amount will be much lower than other products offering ownership currently in the market;
- investors will be entitled to own the gold legally and therefore it offers protection against bankruptcy of the bank, which stands out from the other existing investment products in the Hong Kong market (i.e. paper gold schemes), which are synthetic and entail credit risks of the banks.

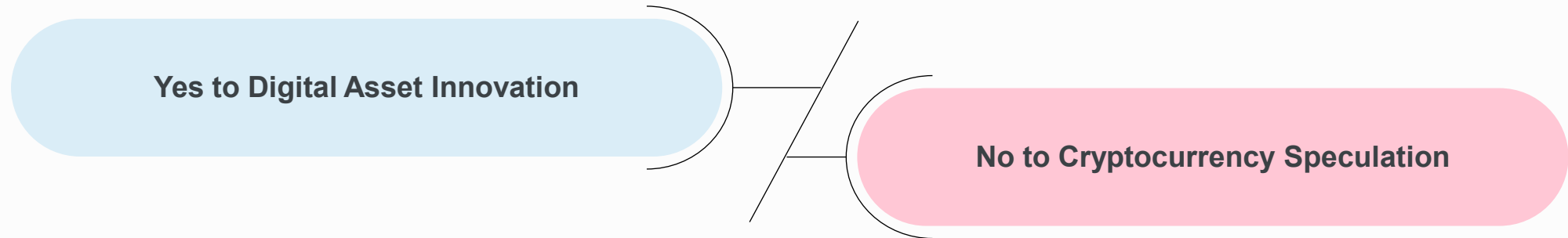
## **Regulatory:**

- complex product regulatory categorisation – tokenised gold is a hybrid regulated product. It shares similarities with different types of investment products (e.g. virtual assets and collective investment schemes), and this entails substantive discussion with the SFC on the regulatory categorisation of this product;

The background of the slide features a dark blue, semi-transparent overlay of financial market data. It includes several candlestick charts and a grid of vertical and horizontal lines in shades of blue and red. The charts show price fluctuations, with some peaks and troughs visible. The overall aesthetic is modern and professional, typical of a financial or regulatory presentation.

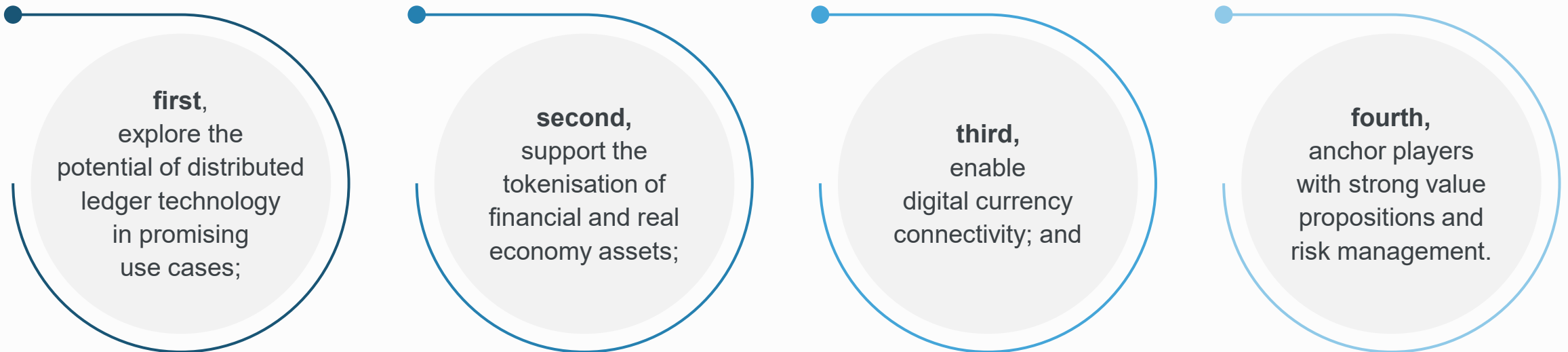
# **OVERVIEW OF THE SINGAPORE FINANCIAL REGULATORY FRAMEWORK**

# OVERVIEW OF THE SINGAPORE FINANCIAL REGULATORY LANDSCAPE



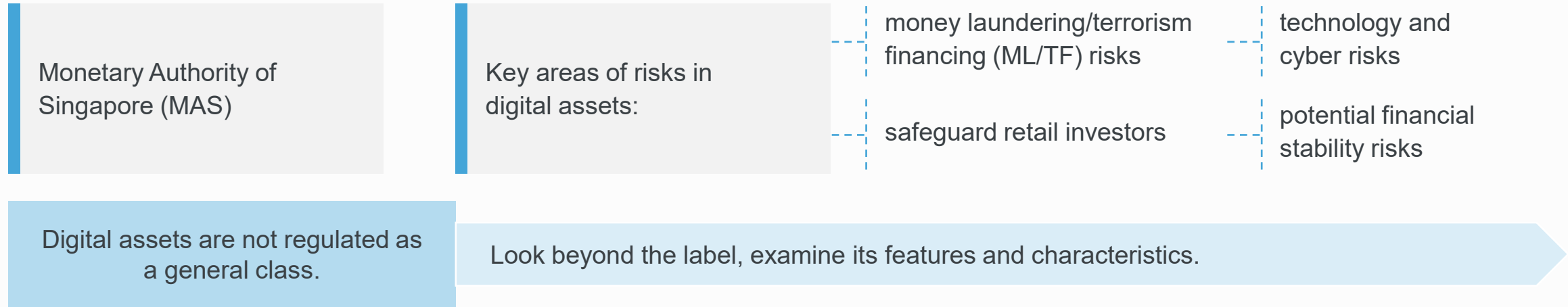
Responsible digital asset innovation while managing risks to financial stability and integrity

**MAS is taking a four-pronged approach to building the digital asset ecosystem:**



# OVERVIEW OF THE SINGAPORE FINANCIAL REGULATORY LANDSCAPE

(CONTINUED)



If its features and characteristics fall within an existing regulatory framework, the digital asset will be subject to regulation under that existing framework.



# A QUESTION OF CHARACTERISATION

**Security token** →  
regulatory regime  
governing  
securities under the  
Securities and  
Futures Act 2001  
(SFA)

Includes complying  
with the offering  
regime for an offer  
of securities and  
the licensing  
requirements for  
dealing in  
securities

An exchange  
dealing in such  
digital assets may  
also need to be  
regulated under the  
SFA as an  
organised market

# A QUESTION OF CHARACTERISATION

Payment token →  
Payment Services Act 2019  
(PS Act)

The scope of regulation for “*DPT service*” includes the ***dealing in*** (i.e. buying and selling) DPTs, facilitating the exchange of DPTs, facilitating the transmission of DPTs, and safeguarding of DPTs

A person who **carries on business** in such activities triggers the licensing requirements under the PS Act, unless an exemption applies.



# SINGAPORE

## CENTRAL BANK DIGITAL CURRENCIES AND STABLECOINS

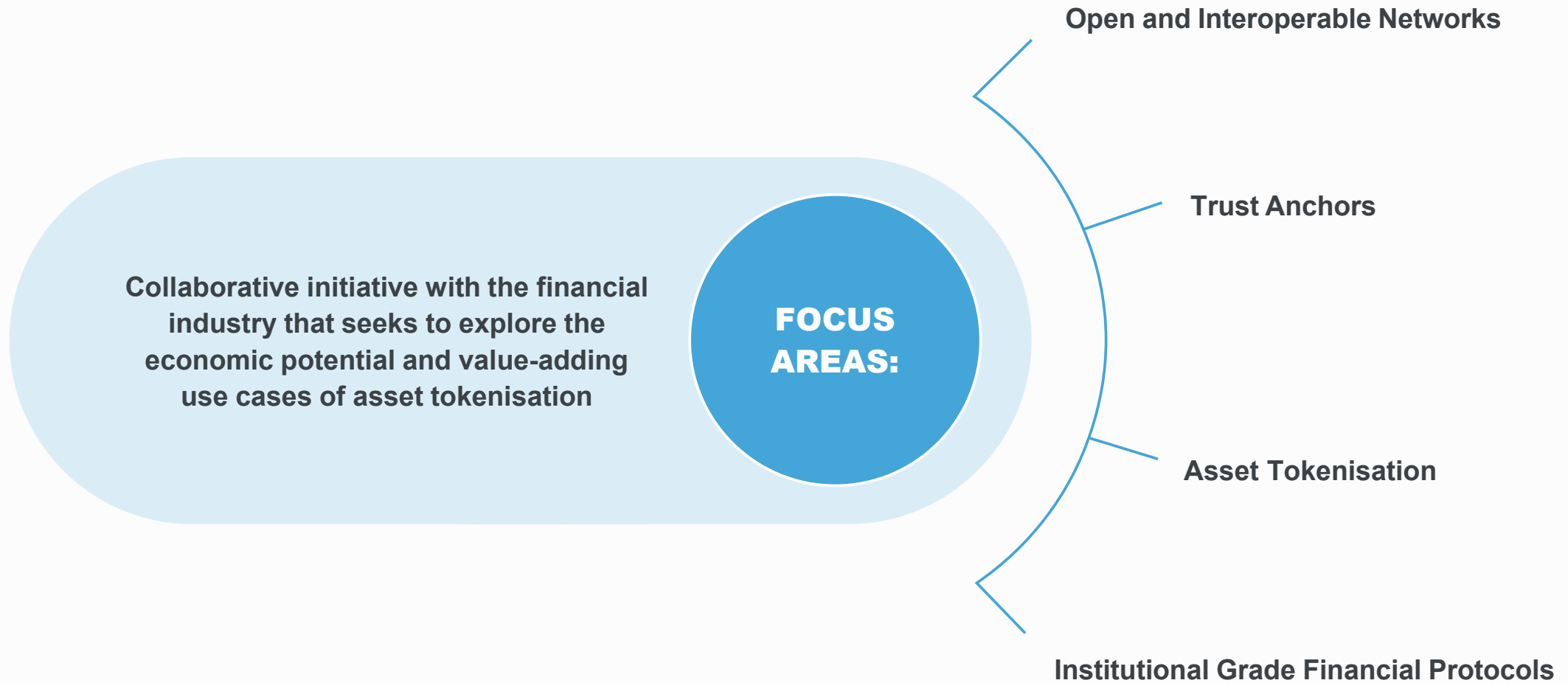


- **Central bank digital currencies or CBDCs**
  - MAS sees good potential for wholesale CBDCs.
  - MAS does not see a compelling case for retail CBDCs yet, but it is building the technology infrastructure that would permit issuance of retail CBDCs.
- **Stablecoins** – new regulatory regime finalised by the MAS in August 2023
  - “*Stablecoin issuance service*” to be added as a new regulated activity under PS Act
  - Will apply to single-currency stablecoins (SCS) pegged to the Singapore Dollar or any G10 currency that are issued in Singapore
  - Issuers of such SCS will have to fulfil certain requirements relating to value stability, capital, redemption at par, and disclosure
  - MAS is working on the necessary legislative amendments to implement the stablecoin framework, and will consult on those amendments in due course

A financial candlestick chart with a dark blue background. The chart features several vertical blue lines representing price movements. A prominent red horizontal line is drawn across the chart, likely representing a support or resistance level. A blue diagonal line with a downward slope is also visible, possibly indicating a trend or moving average. The overall aesthetic is technical and data-driven.

**MONETARY AUTHORITY OF SINGAPORE'S PROJECT GUARDIAN**

# PROJECT GUARDIAN



# PROJECT GUARDIAN

(CONTINUED)

## Clifford Chance advises on Singapore's first industry pilot for cross-currency transactions on tokenised deposits

10 November 2022

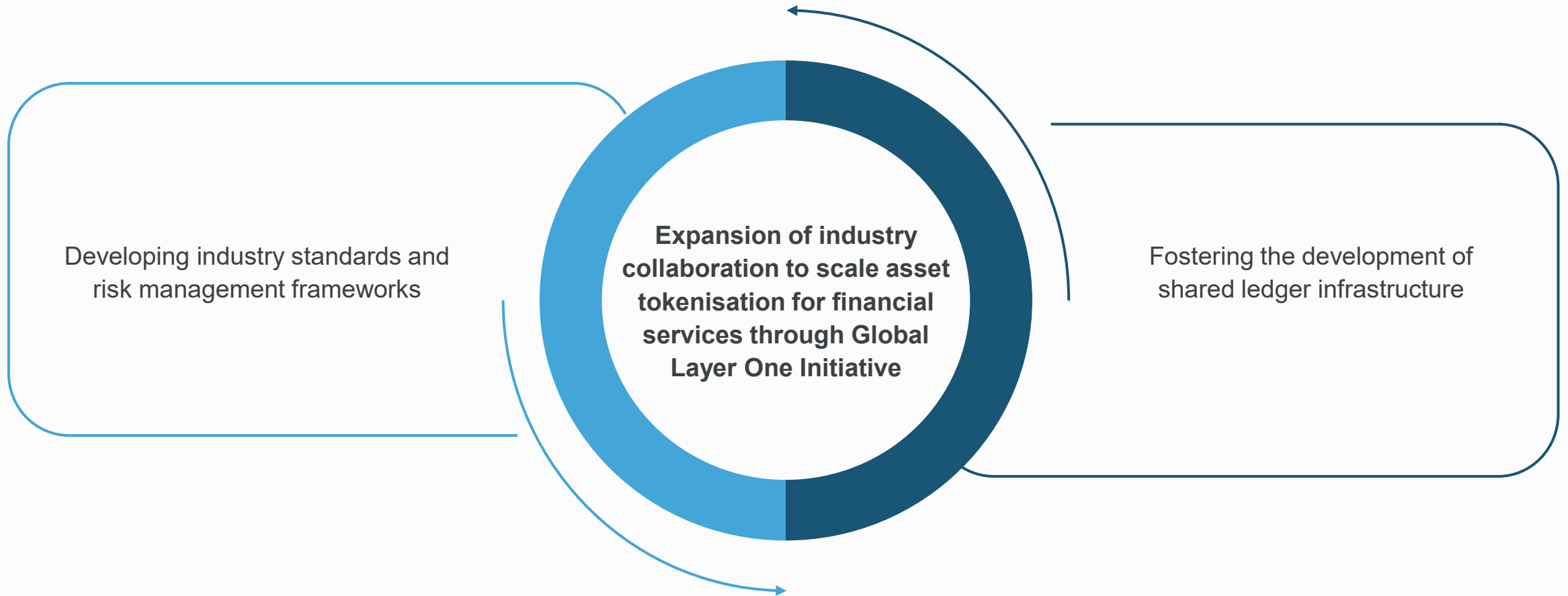
- ◆ [Lena Ng, Yaru Chia](#)
- ◆ [Singapore](#)

Leading international law firm Clifford Chance has advised JP Morgan and SBI Digital Asset Holdings on its successful first industry pilot under the Monetary Authority of Singapore's Project Guardian, a collaborative initiative with the financial industry which explores the potential of applications in asset tokenisation, including deposit tokenisation, and decentralised finance. JP Morgan and SBI conducted a live foreign exchange transaction with tokenised Japanese Yen and Singapore Dollar deposits.

A background image of a financial candlestick chart with technical indicators. The chart is rendered in a dark blue color scheme with white and light blue lines. It features a grid of vertical and horizontal lines, with several horizontal lines intersecting the candlesticks. The overall aesthetic is futuristic and data-driven.

## **SCALING TOKENISATION FOR FINANCIAL SERVICES**

# SCALING TOKENISATION FOR FINANCIAL SERVICES



**Cross-border collaboration among policymakers and regulators**

# PLEASE GET IN TOUCH AND CONTINUE THE CONVERSATION

*Feedback Survey*



*Client Portal Subscription*



**C L I F F O R D**  
**C H A N C E**

Clifford Chance Pte Ltd, 12 Marina Boulevard, 25th Floor Tower 3,  
Marina Bay Financial Centre, Singapore 018982  
© Clifford Chance 2024  
Clifford Chance Pte Ltd

**[WWW.CLIFFORDCHANCE.COM](http://WWW.CLIFFORDCHANCE.COM)**