

Tokenized Products of SFC-Authorized Investment Products Can Be Offered to Retail Customers in Hong Kong

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The Securities and Futures Commission of Hong Kong (SFC) will now allow tokenized authorized investment products to be offered to retail investors. Recognizing the growing interest in the tokenization of investment products in Hong Kong, on 2 November 2023, the SFC issued a circular outlining the public offering scheme and requirements of tokenized authorized investment products under the Securities and Futures Ordinance for primary dealings. However, secondary trading of such tokenized investment products is not allowed yet.

The public offering scheme is subject to certain investor protections and safeguard requirements, which are summarized below.

Tokenization Arrangement

Tokenization of investment products involves the creation of blockchain-based tokens representing ownership in an investment product, which can be recorded digitally and offered directly to investors or through licensed intermediaries.

The SFC requires the product providers of tokenized SFC-

authorized investment products (Product Providers) to:

- ~~be authorized to offer investment products to investors through digital distribution channels~~

The SFC may also specifically request a Product Provider to:

- ~~maintain a robust internal control system, including a robust risk management system, and~~

Prior consultation with the SFC is required for the launch of new investment products that have tokenization features and the tokenization of existing SFC-authorized investment products.

Disclosure

The offering documents of tokenized SFC-authorized investment products should clearly set out:

- ~~the risks associated with the investment products, including the risks of digital distribution~~

Intermediaries

Distributors of tokenized SFC-authorized investment products must be regulated intermediaries, adhering to existing rules and regulations, and conducting client onboarding and suitability assessments.

Staff Competence

Product Providers must demonstrate to the SFC that they have competent staff with relevant experience and expertise to oversee the tokenization arrangement, manage ownership-related risks, and handle the technology appropriately.

Conclusion

The issuance of this circular has also reflected the SFC's efforts to

ensure appropriate safeguards are in place to mitigate risks associated with this emerging technology. The clear requirements as to tokenization arrangement and disclosure in offering documents are anticipated to further promote investor protection, market integrity, and innovation in Hong Kong's financial industry.

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