

The shape of things to come - the HKMA and ASTRI chart a course for blockchain in Hong Kong: legal and regulatory implications

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On 11 November, 2016, Hong Kong's Applied Science and Technology Research Institute ("**ASTRI**") published its "Whitepaper On Distributed Ledger Technology" (the "**DLT Whitepaper**"), a substantial research exercise commissioned by the Hong Kong Monetary Authority (the "**HKMA**").

The DLT Whitepaper is a useful and well-informed introduction to blockchain, or distributed ledger technology ("**DLT**"), as it is referred to throughout the paper, with a focus on how DLT may be used to enhance Hong Kong's banking system. Of particular interest is the discussion of a proof of concept project in mortgage loan applications that ASTRI has been developing with a number of Hong Kong's leading banks.

DLT has been widely touted for its potential to revolutionise financial services across a range of applications, from crypto-currencies to digital identity systems to smart contracts to fully automated clearing and settlements systems for payments and securities. The discussions are often expansive, ambitious and high level, making it difficult to bring a legal or regulatory assessment to any particular solution being proposed. The DLT Whitepaper is different. It does much to move forward discussion about Hong Kong's future in blockchain through its sharp focus on a specific proof of concept project, and at the same time recognises that there are legal and regulatory concerns that will need to be addressed in order to see this solution through to fruition.

In this briefing, we:

- provide a brief overview of DLT as a database technology and its perceived benefits over traditional centralised database systems;
- explain ASTRI's proof of concept project in relation to mortgage loan applications;
- summarise the operational benefits, limitations and risks of the proof of concept identified by ASTRI; and
- analyse the key legal issues with the proof of concept, in particular data protection compliance issues, and how these could be addressed.

The DLT Whitepaper is likely to shape the next phase of discussion on the adoption of DLT by financial institutions in Hong Kong. We believe this important publication signifies the development of DLT from a 'futuristic' notion into a real solution that could drastically change many aspects of the banking industry. The DLT Whitepaper also demonstrates the significant investment being made by the financial services industry in the growth of fintech in Hong Kong. As a leading financial hub regionally and globally, Hong Kong has a large stake here and should take this opportunity to push forward as the new era of DLT-based financial services sees first light.

To read the full briefing, please click [here](#).

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