

What's inside?

The Bank of International Settlements publishes report on use of central bank digital currencies in cross-border projects	1
Discussion paper on e-HKD from policy and design perspective	2
2022 Benchmark Module to the ISDA 2021 Fallbacks Protocol	3
Market guidance issued by ISDA for SOFR swap effective dates	3
Regtech Knowledge Hub	3
HKMA's sixth issue of the Regtech Adoption Practice Guide	4

The Bank of International Settlements publishes report on use of central bank digital currencies in cross-border projects

Simon Deane and Chris Wong

On 21 June 2022, the Bank of International Settlements (“**BIS**”) published a report on the use of central bank digital currencies (“**CBDCs**”) in cross-border projects conducted by the BIS Innovation Hub (“**BISIH**”) through its centres around the world.

In the last few years, central banks have been exploring the feasibility of issuing their own digital currencies, having the status of legal tender in their economies. The introduction of CBDCs brings its own unique benefits and represents a potential solution to existing problems and inefficiencies in the economy. In particular, several central banks have identified cross-border payments as an area in which CBDCs can be utilised to facilitate a more efficient, faster, cheaper and transparent method of transferring funds.

The BISIH highlighted four “experiments” it conducted with various central banks around the world where CBDCs were proposed as a way of attaining such efficiencies in cross-border payments.

1. Project Inthanon-LionRock2: A project conducted in September 2021 between the Hong Kong Monetary Authority (“**HKMA**”) and the Bank of Thailand, as well as the BISIH Hong Kong Centre, building on the previous Inthanon-LionRock project first discussed in 2016. Inthanon-LionRock2 explored the use of distributed ledger technologies and digital currencies for facilitating real-time cross-border funds transfers. It was demonstrated that such platforms could complete payments safely and cheaply within seconds, instead of the usual days.
2. Project Jura: A project conducted and completed by December 2021, between BISIH Swiss Centre, the Bank of France, Swiss National Bank, and a private sector consortium, Project Jura explored the direct transfer of euro and Swiss franc wholesale CBDCs between French and Swiss commercial banks on a single distributed ledger platform operated by a third party.

3. Project Dunbar: A project between BISIH Singapore Centre, the Reserve Bank of Australia, the Bank Negara Malaysia, the Monetary Authority of Singapore and the South African Reserve Bank, exploring the potential for a common platform for multiple CBDCs to facilitate cross-border payments between the participants on the platform.
4. Project mBridge: A follow-up to Project Inthanon-LionRock, involving the HKMA and the Bank of Thailand, as well as the People's Bank of China and the Central Bank of the United Arab Emirates, building on the platform and findings of Inthanon-LionRock. The proposed platform envisages that central banks will issue their own CBDCs and distribute them to the participants on the platform, and is built adopting a modular approach, allowing for the implementation of features that can apply across all participating members. This project is ongoing.

The projects highlighted many benefits of such platforms (including efficiency, speed, and transparency) and their feasibility, but issues still remain, including the need to create a commonly agreed governance framework for platforms, systemic issues in relation to the economic implications for such ease of transfer and any spill-over issues.

The various projects highlight the growing focus by central banks on developing systems to facilitate the use of CBDCs, both within their own jurisdictions and across the world. Further collaborations are expected, although competing regulatory policies and views of the various central banks may ultimately fragment any such plans for a common platform or a global solution.

The paper from the BISIH can be found [here](#).

Discussion paper on e-HKD from policy and design perspective

Simon Deane and Crystal Choi

On 27 April 2022, the Hong Kong Monetary Authority (“**HKMA**”) issued a discussion paper entitled “e-HKD: A policy and design perspective” (the “**Paper**”), inviting views from the public and the industry on key policy and design issues for introducing a retail central bank digital currency (rCBDC), i.e. e-HKD, in Hong Kong.

After announcing the “Fintech 2025” strategy in June 2021, the HKMA started a project to study the introduction of an e-HKD in Hong Kong. The initial findings of the first part of the study, which focused on the technical aspects, were published in October 2021 in the form of a technical whitepaper for comments. The whitepaper “e-HKD: A technical perspective” is available [here](#).

The second part of the study focused on the policy and design aspects of introducing the e-HKD, the initial findings of which are set out in the Paper. The issues examined in the study include the potential benefits and challenges, design considerations such as an issuance mechanism, interoperability with other payment systems, privacy and data protection and legal considerations, as well as use cases. To help stakeholders share their views, the HKMA has highlighted the issues for comment in the form of twelve discussion questions in the Paper.

The Paper is available [here](#).

2022 Benchmark Module to the ISDA 2021 Fallbacks Protocol

Simon Deane and Natalie Chan

On 15 June 2022, ISDA published the June 2022 Benchmark Module (“**2022 Benchmark Module**”) to the 2021 Fallbacks Protocol. The 2022 Benchmark Module allows parties to incorporate the fallbacks into all legacy derivatives contracts incorporating the 2000 ISDA Definitions, the 2006 ISDA Definitions or the 2021 ISDA Interest Rate Derivative Definitions with counterparties that also adhere to the ISDA 2021 Fallbacks Protocol. In practice, this means that the amendments contemplated by the 2022 Benchmark Module will be included in Protocol Covered Documents (i.e. ISDA documents which incorporate or reference the USD LIBOR Swap Rate as defined in a Covered ISDA Definitions Booklet) entered into between parties that have both adhered to the 2022 Benchmark Module.

The relevant benchmark included in the 2022 Benchmark Module is the USD LIBOR Swap Rate (i.e. the swap rate for US dollar swap transactions with a floating leg of US dollar LIBOR), which is not a LIBOR benchmark. As such, the 2022 Benchmark Module will only enable parties to include new fallbacks for the USD LIBOR Swap Rate, but will not amend contracts referencing LIBOR in any currency. To amend existing ISDA contracts that reference LIBOR, parties should adhere to the ISDA 2020 LIBOR Fallbacks Protocol.

To access a full copy of the 2022 Benchmark Module, please see [here](#).

Market guidance issued by ISDA for SOFR swap effective dates

Simon Deane and Ruby Hui

ISDA has released a market practice note (“**MPN**”) relating to the effective dates for SOFR swaps using different payment or reset date calendars. The effective date for SOFR swaps is usually two business days following the trade date in the market. Historically, it has been seen that these two business days could be “New York Business Days”, “U.S. Government Securities Business Days” or both in the market, and this inconsistency has caused confusion. For instance, 15 April 2022 was a New York Business Day but not a U.S. Government Securities Business Day.

In response to this discrepancy, ISDA suggests that market participants refer to both of “U.S. Government Business Days” and the “New York Business Days” for the purposes of determining the effective dates for SOFR swaps. Therefore, only a day which is both a “U.S. Government Securities Business Day” and a “New York Business Day” could potentially become an effective date for a SOFR swap. However, it is totally at the discretion of market participants as to whether such a recommendation should be adopted.

The MPN is available [here](#).

Regtech Knowledge Hub

Simon Deane and Chris Wong

The HKMA announced the launch of the Regtech Knowledge Hub on its website on 26 April 2022. The Hub collects a wealth of material from across the HKMA’s website in relation to Regtech and the use of Regtech by banks, including the Regtech Practice Guides that the HKMA has released over the last few months, use cases on Regtech, circulars on the use of Regtech and other fintech products and services for regulatory compliance, and various pronouncements and papers from the HKMA himself. It is hoped that the Hub will encourage the sharing of experience, insights and expertise of various industry players and entities within the Regtech ecosystem in Hong Kong, including banks, providers of Regtech services, and of course the HKMA.

The establishment of this Hub is another step in the HKMA's plans (Fintech 2025 and the HKMA's Regtech roadmap) to encourage the adoption by authorised institutions, including banks, of the wide number of technological solutions, products and services from Regtech and fintech. In encouraging and promoting the adoption of these products and solutions, it is hoped that Hong Kong's banking industry can provide a more efficient and customer-friendly service and products to their customers in Hong Kong, bringing the banking industry forward into the future.

The Regtech Knowledge Hub can be accessed by the public [here](#).

HKMA's sixth issue of the Regtech Adoption Practice Guide

Simon Deane and Sally Lau

Staying with the Regtech theme, on 28 April 2022, the HKMA issued a circular ("**Circular**") in relation to the sixth issue of the Regtech Adoption Practice Guide ("**Guide**").

The Guide focuses on the adoption of "Artificial Intelligence-based ("**AI-based**") Regtech solutions" in banking. When applied to the banking industry, Artificial Intelligence ("**AI**") technology can facilitate the automation of business processes, detect patterns, generate insights and drive engagement with customers and employees through targeted communications.

The Guide explains how AI-based Regtech solutions can be used to support risk management and regulatory compliance and provides practical implementation guidance to banks on the adoption of AI-based Regtech solutions. Experience of how others have addressed the challenges successfully to adopt Regtech solutions in their organisations is also shared in the Guide.

For more information on the Circular, please see [here](#). To access a full copy of the Guide, please see [here](#).

Want to know more?

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