DIGITAL TOKEN IDENTIFIER FOUNDATION

Digital Token Identifier Foundation (DTIF)
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To: Financial Services and the Treasury Bureau

Hong Kong Monetary Authority

Re: Consultation Paper on Legislative Proposal to Implement the Regulatory Regime for Stablecoin Issuers in Hong Kong

The Digital Token Identifier Foundation (DTIF)[1] and its Product Advisory Committee (PAC) welcome the opportunity to respond to the Financial Services and the Treasury Bureau (FSTB) and the Hong Kong Monetary Authority (HKMA)'s consultation paper on '*Legislative Proposal to Implement the Regulatory Regime for Stablecoin Issuers in Hong Kong*' (hereafter referred to as the 'consultation paper') to introduce legislation to implement a licensing regime for fiat-referenced stablecoin (FRS) issuers.

The DTIF is the Registration Authority for the International Organization for Standardization (ISO) 24165 Digital Token Identifier (DTI) standard[2], an ISO standard that enables the unique identification of all fungible digital assets which use distributed ledger technology (DLT) for token issuance, storage, exchange, a record of ownership, or transaction validation. The DTI itself comprises a code - a random, unique combination of nine alphanumeric characters allocated to a digital token - and a record of data relevant to that token (the reference data), which is held by the DTIF. The reference data provides information about the DLT on which the token is deployed, as well as token technical attributes (such as address, name(s) and any external identifiers).

The DTIF's mission is to provide the golden source reference data for the unique identification of digital tokens. The DTIF issues and maintains DTIs on a non-profit basis, to increase transparency in the digital

[1] The DTI Foundation is a non-profit division of Etrading Software Limited: https://etradingsoftware.com/
[2] ISO 24165-1:2021 and ISO 24165-2:2021, Digital token identifier (DTI)

asset space by creating a core reference data set based on open data principles and made available as a public good.

The DTIF welcomes the objectives of the proposed regime for regulating the issuance of FRSs to mitigate risks to consumer protection and market integrity while following a risk-based and proportionate approach. The DTI ISO standard was established to enhance efficiencies within crypto and digital asset markets, assisting regulators and market participants in managing risks through greater transparency. In particular, the use of the DTI, a globally consistent identification standard for digital tokens, could be integrated within the proposed regulatory regime to provide additional consistency and transparency to regulators and market participants.

The DTIF also welcomes the objective to align Hong Kong's regulatory regime for FRS issuers with international regulatory recommendations. Internationally recognised ISO standards, such as ISO 6166, ISO 17442, and ISO 10383 for defining ISINs, LEIs, and MICs respectively, have proven effective in establishing a harmonised framework of identification for regulators, market participants and infrastructure providers across financial markets. The ISO 24165 DTI standard is recognised as the global standard for the identification of digital tokens, including stablecoins, and is being increasingly adopted by market stakeholders and recognised by regulators. For instance, the European Securities and Markets Authority (ESMA) has proposed the use of the DTI to identify crypto-assets under the European Union's Markets in Crypto Assets Regulation (MiCA) for order books, record-keeping, disclosure and reporting requirements.[3] In addition, the Canadian Securities Administrators (CSA) requires the use of DTIs for data reporting of crypto-asset trading platforms.

We have confined our specific responses to question 6 which relates to the section on Licensing criteria and conditions sections as this is directly relevant to the DTIF's remit.

We are available to answer any questions you may have and would welcome the opportunity to discuss the ISO 24165 DTI standard further with the FSTB and HKMA. Please do not hesitate to contact us at secretariat@dtif.org.

[3] ESMA Consultation Paper on the Technical Standards specifying certain requirements of MiCA (2nd package)

Q6. Do you have any comments on the proposed licensing criteria and conditions?

The DTIF supports the proposed licensing criteria and conditions set out within the consultation paper. The DTIF would like to highlight to the FSTB and HKMA the advantages of leveraging the DTI to support the objectives and requirements of the proposed licensing regime. The following sections outline how the DTI facilitates various objectives set out within the consultation paper, specifically in addressing disclosure requirements through (i) the identification of DLT networks and digital tokens and (ii) the assessment of risks associated with crypto-asset technology.

DTI supports identification of digital tokens and DLT networks

A standardised form of identification will facilitate the consistent identification of digital tokens and DLT networks across all stakeholders involved in digital asset markets. The DTI is a globally recognised ISO standard that provides guaranteed uniqueness of digital tokens and DLT networks based on objective and verifiable technical data across different platforms, systems, and jurisdictions.

- *Digital Tokens:* Crypto-asset names are not standardised or unique across crypto exchanges, therefore, any disclosures should relate to a global standard, such as the DTI, to ensure clarity and avoid confusion. As an example, names such as “USDT” or “Tether USD” lack clarity as numerous tokens share these designations. By uniquely identifying each token through its technical specifications, the DTI can assist market participants in verifying that they are holding and comparing the same crypto-asset. A DTI alongside general information as set out within section *6.2.17.* on *Disclosure requirements* would provide more accurate and consistent identification of the stablecoin within any white paper. DTI as a disclosure requirement within stablecoin white papers has already been proposed by ESMA for asset-referenced and e-money token issuers under MiCA. Additionally, a standardised token identifier would support the accuracy and usefulness of any central register for all licensees and their issued FRSs as set out in section *6.3.6. Register of licensees and licensing fee* of the consultation paper.
- *DLT networks*: In the crypto-asset market, a digital asset such as a stablecoin may be issued on multiple DLTs and traded or settled on multiple DLT market infrastructures. The 2017 BIS CPMI report on distributed ledger technology in payment, clearing and settlement identified several DLT-specific risks[4] - each DLT network has a different combination of these risks. The DTI uniquely identifies and links crypto-assets with their respective DLT network, allowing market participants

[4] BIS CPMI report (2017). DLT-specific risks: operational and security risks, settlement issues, legal risks, governance, data management and protection

and regulators to understand and monitor network risks for each crypto-asset. For example, the TetherUSD DTI on the Ethereum network (2QWSBDMNC) links to the Ethereum ledger identifier, and the TetherUSD DTI on the TRON network (C9N6ZVN7S) links to the TRON ledger identifier. The FSTB and HKMA for these reasons may consider the benefits of requiring FRS issuers to report DTIs within any relevant disclosure or reporting on FRSs.

In the case of multiple DLT financial instruments across different DLT networks that are deemed to be functionally fungible (not technically compatible, but considered equivalent), can be issued a Functionally Fungible Group (FFG) DTI to represent the group of tokens. To date, fourteen unique DTIs have been allocated to different token implementations of the TetherUSD stablecoin. All token implementations are linked at the asset level to FFG DTI L09Q657BK and cross-referenced with ISIN XTL09Q657BK6. The DTI in this case can enhance market transparency by enabling aggregation of the order and market data across multiple chains across the functionally fungible tokens.

DTI supports crypto-asset risk assessments

Reference data linked to the DTI can help FRS users and regulators assess risks associated with specific stablecoins. IOSCO has previously highlighted the importance of crypto-asset firms being able to identify relevant operational and technological risks within its *Policy recommendations for Crypto and Digital Asset Markets*. The DTIF considers the ISO 24165 DTI to be an important tool for both institutional and retail customers to understand unique risk profiles associated with digital tokens, including stablecoins. Technical information captured by the DTI Registry on stablecoins to support such assessments includes, among others:

- *Protocols:* The mechanism/protocol used to create a digital token, such as ERC-20 used for Ethereum.
- *Distributed Ledger Identifier:* Unique identification of the distributed ledger/DLT Network where the stablecoin is implemented.
- *Public distributed ledger indicator*: Whether access to reading the distributed ledger is unrestricted (versus private/permissioned) – whether the data elements specified in the DTI Registry are accessible for independent verification by the general public.
- *Additional non-technical information*: Informative attributes are captured to provide additional reference to the token, such as long/short names, reference implementation URLs and any DTI validation status, if applicable.

The DTIF would note that it is open to capturing additional details based on market and regulatory demand. In summary, the DTIF supports the proposed licensing criteria and conditions outlined in the consultation paper. We propose the use of the DTI to bolster the objectives and requirements of the proposed licensing regime, particularly in enhancing transparency and risk management within the digital asset ecosystem. The DTI's ability to facilitate the consistent identification of digital tokens and DLT networks, along with its support for crypto-asset risk assessments, underscores its value as a globally recognised standard for digital asset identification across jurisdictions.