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10 June 2022

Mr Eddie Yue, JP
Chief Executive
Hong Kong Monetary Authority
55th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

Dear Eddie,

Re: HKMA Discussion Paper on e-HKD: A Policy and Design Perspective

The Hong Kong General Chamber of Commerce welcomes the opportunity to express views on the subject issue as set out in the attached.

We believe that a digital Hong Kong dollar would, on balance, be advantageous to the SAR in consolidating our standing as an international financial centre. Implementation of a local CBDC would also be consistent with the policy objectives of promoting financial innovation and furthering financial inclusion, while enabling Hong Kong to align with developments on and capture opportunities arising from the Mainland's digital currency and electronic payment system.

As noted in our response, there are certain issues that would have to be addressed should an e-HKD be introduced. These are not necessarily material in nature and could be resolved in partnership with the private sector.

We hope you will find our comments useful to your deliberations.

Yours sincerely,

George Leung
CEO

Encl.

Hong Kong Monetary Authority's Discussion Paper ("the DP")
"e-HKD: a Policy and Design Perspective"
Response by The Hong Kong General Chamber of Commerce ("HKGCC")

HKGCC welcomes this opportunity to respond to the captioned consultation.

We recognize the need for Hong Kong to look into the viability of introducing e-HKD and welcome measures that could add value to the city's role as an international financial hub. At the same time, it should be recognized that retail central bank digital currencies ("rCBDCs") are still at the nascent stage of development[1] and, as such, careful consideration should be given to the design, implementation and regulation of an e-HKD to optimise its benefits while minimising risks.

Our comments on the respective issues raised in the Discussion Paper ("DP") are as follows:

1. *Do you agree that e-HKD can bring potential benefits as described? Do you see other potential benefits?*

   We agree that e-HKD offers a host of advantages associated with rCBDCs as described in the DP, namely, 1) improving the availability and usability of central bank money, 2) positioning for challenges of new forms of money, 3) supporting innovation and meeting future payment needs in a digital economy, 4) improving resilience and efficiency of the payment system, and 5) reinforcing the transmission of monetary policy.

   An e-HKD would also be useful in addressing money-laundering activities by enhancing transparency in transactions, as well as promoting healthy competition in the digital payments space where smaller sized intermediaries are provided with the opportunity to deliver overlay services without the need to create and issue their own payment tokens. This would translate into cost savings otherwise incurred in the storage and distribution of paper notes.

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[1] De Bode, I., Higginson, M., & Niederkorn, M (2021, 11 October), CBDC and stablecoins: Early coexistence on an uncertain road, *McKinsey & Company,* https://www.mckinsey.com/industries/financial-services/our-insights/cbdc-and-stablecoins-early-coexistence-on-an-uncertain-road

An e-HKD could also help reinforce Hong Kong's standing as a smart city and promote tourism by providing users, including visitors, with a convenient and cost saving alternative to traditional payments.

However, and as noted in the DP, the benefits arising from e-HKD are less obvious in the case of mitigating credit risk for commercial entities and promoting financial inclusion[2]. This is due to such factors as the city's mature and well-developed payment ecosystem, a pre-existing and robust Deposit Protection Scheme, and continued demand for physical cash.

2. *How can e-HKD implement the suggested use cases better than the existing e-payment means? Apart from programmability, what other technologies would bring new use cases for e-HKD?*

The DP suggests that e-HKD can be used to promote digital wallet innovations in the private sector for retail purposes, facilitate payments in offline scenarios, and perform AML/CFT compliance checking functions.

In that connection, we believe that programmability would play a central role in facilitating the successful application of e-HKD. Enabling innovative applications such as smart contracts could also potentially reduce the amount of paperwork involved in settling financial transactions, and streamline business operations. If applied to such use cases as the distribution of government subsidies, this could give rise to a significant reduction in administrative costs that would otherwise be incurred in the delivery process. A programmable e-HKD could also increase the efficiency of cross-border payments and reduce transactions costs incurred through currency conversions, which is of particular relevance in the context of e-CNY developments on the Mainland[3].

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[2] Para 3.1.

[3] Chen, J (2021, September 5). E-CNY trials progress, create big confidence. *China Daily*. Retrieved from http://english.www.gov.cn/statecouncil/ministries/202109/11/content_WS613c11c1c6d0df57f98e0089.html

That being the case, given the broad range of payment options that are already available in Hong Kong at the moment, it is unclear whether e-HKD would be able to offer significant advantages over incumbent payment providers for the suggested use cases.

3. *How do you see the demand for e-HKD as a means of payment? What other design features would promote the use of e-HKD?*

As there is already a variety of cash and non-cash payment solutions currently available in Hong Kong, there may be less incentive for the public and businesses to adopt e-HKD as a means of conducting payments. As such, e-HKD should offer a more compelling value proposition and distinct benefits such as convenient usage, reduction or removal of transaction costs and flexibility with adoption. Other features that could enhance the attractiveness of e-HKD as a payment option include exchangeability and usability in cross-border transactions.

4. *Do you agree with the description of challenges brought by e-HKD? Do you see other challenges? Are there any other measures that can mitigate the adverse impacts of e-HKD? How would these measures affect the attractiveness of e-HKD?*

We agree with the potential challenges that e-HKD might pose to financial stability, bank funding, and the role of banks as intermediaries as described in the DP. Widespread adoption of the e-HKD in Hong Kong may also be difficult given the convenience attached to existing cash and digital payment offerings. Although we note that it is not the intention of the Hong Kong Monetary Authority ("HKMA") to substitute existing payment options with e-HKD, there is a risk of unintended competition with existing payment services such as electronic wallets.

5. *How can e-HKD assist in the detection of illicit activities while preserving user privacy at the same time?*

Hong Kong currently has in place a robust anti-money laundering and counter terrorist financing regulatory framework. Should the functionality of e-HKD be expanded to also include the combat of illicit activities while also maintaining user privacy, consideration could be given to a tiered approach to regulating payments – similar to that stipulated under the Stored Value Facility License whereby low value transactions are exempted from KYC/AML measures – which is an approach common to central banks as mentioned

in the DP.[4] Adopting a mechanism whereby transactions conducted with e-HKD do not go through third-party payment providers would also help to protect users' data privacy.

6. *What types of financial institutions should be responsible for distributing e-HKD? Should the functionalities of the e-HKD wallet be allowed to differ among the financial institutions?*

We suggest that all licensed financial institutions be eligible for distributing e-HKD, as e-wallet services provided by such authorized institutions would better safeguard the interests of users. We also suggest that in the interest of maintaining a level playing field, there should be consistency in functionalities with the e-HKD wallet across all participating financial institutions. A standardised approach would also avoid user confusion that would otherwise arise as a result of differences in functionalities.

7. *How should e-HKD be designed to achieve interoperability with existing payment systems? Are there any technological barriers that would prevent the acceptance of e-HKD?*

We believe that individual stakeholders, such as payment providers, would be in a better position to answer this question.

8. *Should there be different types of e-HKD wallets based on the level of personal information required? If so, what should the corresponding transaction/holding limits for each type of wallet be?*

No. Please refer to our response to Question. 5 on the design of the e-HKD wallet.

9. *Are there more design considerations to be included in the e-HKD study? Would you be able to identify some trade-offs around such considerations?*

As Hong Kong already has in place a mature payment infrastructure, we suggest capitalising on this by integrating e-HKD into existing digital payment applications. In particular, consideration could be given to integrating e-HKD into the Faster Payment System, which provides extensive support to local inter-bank electronic transactions.

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[4] Para 5.3.

10. *How could the private sector contribute to the e-HKD journey?*

We believe that public-private sector collaboration is crucial for driving the successful development of e-HKD with the latter contributing to the innovation and delivery of the digital currency. We further suggest that attention be given to enhancing the interoperability of e-HKD with existing payment models based on consultations with and input from operators of stored value facilities.

11. *Are there any other legal considerations, in addition to those discussed in this paper, which should be considered in designing a legally robust e-HKD?*

We do not have any comments on this issue.

12. *Are there any other policy considerations which are relevant to e-HKD but not covered in this discussion paper?*

We suggest that consideration be given to 1) a two-tiered distribution model[5] whereby the HKMA and the designated financial institutions respectively assume regulatory and distributor roles, and 2) an opt-in/opt-out mechanism for the adoption of e-HKD by users and merchants, an approach that is consistent with the free-market principle espoused by Hong Kong. We also suggest that Hong Kong draws on the Mainland's wealth of experience in issuing CBDCs when developing e-HKD.

Public confidence in e-HKD is also a key determinant of success, and to that end, HKMA should provide details on the design and timeline for implementation, as well as details on progress with related projects such as the Multiple CBDC (mCBDC) Bridge, as and when it decides to take forward plans for implementing the digital currency. Public education to raise awareness and promote acceptance of financial technologies would also help achieve such goals.

HKGCC Secretariat
June 2022

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[5] The two-tiered model is a subject of a recent study by the Bank of International Settlements: https://www.bis.org/about/bisih/topics/cbdc/rcbdc.htm