

HSBC becomes First Global Bank to offer Tokenised Gold

Mr Paul Voller, HSBC



HSBC recently announced the first institutional trades tokenising the ownership of physical gold held in HSBC's London vault, using distributed ledger technology (DLT).

Earlier this year, HSBC also went live with HSBC Orion, its platform for issuing digital assets, and the bank recently announced plans to launch its digital assets custody service in 2024.

These complementary capabilities will help HSBC's customers enter the world of digital assets in a safe and secure manner.

The combined power of distributed ledger technology (DLT) and tokenisation are seen as having the potential to revolutionise financial markets. While the adoption of the technology is still in its early stages, key initiatives are emerging that present a preview of the future.

Investors are increasingly looking to add digital assets to their portfolio, with tokenisation often sighted as a key area of innovation. Not only does the use of distributed ledger technology bring about operational efficiencies, streamlining clearing and settlement flows, but the innovation of tokenisation also provides the opportunity for the 'democratisation' of traditional asset classes, driving growth through increased accessibility and adoption.

HSBC recognises the benefits that can arise from an efficient, targeted use of this technology and is paving the way in the digital asset space – already utilising distributed ledger technology (DLT) and tokenisation in production solutions.

HSBC's FX Everywhere solution, for example, uses DLT to orchestrate payments across HSBC's internal balance sheets as well as with US bank, Wells Fargo, reducing FX settlement risk, optimising cash flows and providing efficiencies to existing back-office processes. FX Everywhere has been live for five years and has settled more than 13 million FX trades worth over US\$7 trillion.

First Global bank to offer tokenised gold

As one of the world's largest precious metals custodians and one of four clearers of the loco London market, HSBC has become the first global bank to offer tokenised physical gold, bringing tokenisation to the \$31bn a day loco London precious metals market. HSBC developed this capability by creating a 'digital twin' of an existing physical asset – specifically loco London gold that is custodied in HSBC's vault. Tokenised physical gold can be traded on demand between HSBC and institutional investors through the HSBC Evolve single dealer platform, or through an application programming interface (API).

Why DLT?

The use of DLT can provide significant benefits, streamlining clearing and settlement process while ensuring an immutable record of ownership is maintained.

HSBC's approach to gold tokenisation generates a permissioned digital representation of clients' physical gold holdings, which is integrated into HSBC's operational infrastructure. This provides a digital overlay for clients to see their tokenised gold trades and positions that correspond with their physical holdings, including bar serial numbers, brands, and even assay amounts.

Tokenisation, therefore, allows for an automated and more efficient and cost-effective way for investors to keep track of their physical gold. The approach enables an automatic allocation of gold bars, which meet investors' criteria, and then tokenises them.

Institutional investors with allocated bar holdings do not have credit risk to HSBC as the DLT ensures the link between tokenised assets and physical assets remains and is immutable. They are also able to request physical delivery of their bars, should they wish to move gold outside of the network.

While loco London gold bars are 400 troy ounces, one token on HSBC's gold tokenisation platform is

equivalent to 0.001 troy ounce. In due course, this could enable fractionalisation of loco London gold bars and direct investment by retail investors, depending on the jurisdiction and regulatory framework of where the retail investor is based.

Future Use Cases

HSBC's tokenised physical gold offering has the potential to increase the use of gold as collateral. Traditionally, using gold as collateral requires the collateral holder to allocate gold at their clearing bank after receiving an unallocated credit from the collateral provider. Tokenised physical gold would, however, allow for immediate recognition of ownership by the collateral receiver of the full amount of collateral received, making the whole process much more efficient.

There are also many potential future use cases for the tokenisation of physical assets outside of gold. The most immediate would be to extend HSBC's platform to other precious metals such as silver, platinum and palladium to provide a complete digital precious metals offering. Last but not least, a key factor in the growth of digital assets will continue to be the development of the legal and regulatory frameworks across jurisdictions, with standardisation essential for the full benefits of the technology to be realised.



John O'Neill, Global Head of Digital Assets Strategy, HSBC, said: "In addition to demand for native digital assets, we are seeing appetite for tokenisation solutions that can maintain a link to specific real-world use cases, such as gold."

Richard Bibbey, Global Head of FX, Emerging Market Rates & Commodities, HSBC, said: "As one of the earliest adopters of DLT, we are pleased to reinforce our leadership position in the gold market by tokenising physical gold. We continue to pave the way for improving the post-trade market infrastructure of capital markets."