

China Financials

China moves from a blanket ban on crypto-related to tailored rules for tokenized RWAs

On 6 Feb, eight Chinese regulatory authorities jointly issued a notice on further preventing and addressing risks relevant to digital currencies ([Yinfa No.42](#)), reaffirming China's restrictive stance on crypto trading and tightening oversight on tokenized real-world asset (RWA) and overseas issuance of RMB-referenced stablecoin. The CSRC then followed with new practical regulatory guidelines for the tokenization of domestic assets issued overseas as asset-backed securities ([link](#)). **We believe the highlight of the notice lies in its first official definition of RWA by Chinese regulators and the establishment of a clear regulatory framework for domestic companies in pursuit of overseas RWA issuance.** Under the purview of new guidelines, the offshore tokenization for onshore real-world assets (RWA) will no longer operate in a legal grey zone. This new set of rules categorize the overseas RWA issuance of onshore assets into four types: 1) foreign debt-based RWA, 2) asset-backed securitization RWA, 3) equity-based RWA and 4) other forms of RWA, which will be all subject to the regulatory principle of "same business, same risk, same rules" similar to its corresponding traditional finance counterparts to be supervised by different regulatory entities.

- **Decoupling framework for tokenized RWAs from cryptocurrencies.** The regulatory notice on 6 Feb reaffirmed China's blanket ban on cryptocurrency-related activities in trading, issuing, and facilitation of transactions as illegal. Despite with continued crypto crackdown, Chinese regulators introduced an approval-based regulatory framework for tokenization of real-world assets for compliant domestic entities and overseas branches of domestic companies to issue overseas tokenization for onshore assets. **We see this move as a pivot for China's policy stance on virtual assets transitioning from a blanket ban to a nuanced framework, decoupling rules for tokenization of RWAs from a general concept of "virtual asset-related business"**. The compliant RWA operations can now be incorporated into the formal financial regulatory system, opening the window for offshore financing of eligible onshore assets.
- **Entity-based regulation by nature of the tokenized assets.** The regulatory framework categorizes overseas tokenization of real-world assets into four main types including foreign debt-based RWA, asset-backed securitization RWA, equity-backed RWA, and other forms of RWA. Among which, equity-based and asset-backed securitization RWAs fall under the purview of the CSRC while foreign debt-based RWA is subject to the purview of the NDRC. Overseas issuance of tokenized RWAs that involves the repatriation of funds raised abroad back to the onshore markets will be subject to the oversight by the State Administration of Foreign Exchange (SAFE), similar to the traditional ways of overseas financing activities. This entity-based regulation rule is a key principle in the new guidelines tailored for risk prevention for every participant.
- **Two-tiered beneficiaries from the expansion of overseas RWA financing.** We believe that the potential beneficiaries from the clear regulatory framework and expansion of overseas RWA financing channel will include two tiers. **First tiered thematic stocks include 1) RWA-related infrastructure providers** i.e. Yuxin Technology (300674 CH, NR); Longshine Technology (300682 CH, NR) and SZ Sunline Technology (300348 CH, NR); **2) overseas subsidiaries of Chinese brokerages with experience in cross-border securitization business**, i.e. CITIC Securities (6030 HK/600030 CH, NR), Huatai Securities (6886 HK/ 601688 CH), BOCHK (2388 HK, NR) and GTJA International (1788 HK, NR). **Second-tiered beneficiaries mainly comprise licensed VAP platforms in HK**, as Futu Holdings (FUTU US, BUY, TP: HK\$228), Up Fintech (TIGR US, NR), HASHKEY (3887 HK, NR) and OSL (863 HK, NR) in our view.
- **Downside risks:** 1) tightening regulatory oversight on the progress of offshore RWA tokenization; 2) lower-than-expected domestic enterprise engagement; 3) excessive compliance costs for infrastructure and technology build-ups; 4) slower-than-expected RWA-related policy advancement in HK; and 5) risk-off sentiments amid heightened virtual asset volatilities, etc.

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