

Article Information

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Blockchain Bites: UK to pilot Digital Gilts, Hong Kong incentivises digital bond issuance, The case for an Australian Strategic Bitcoin Reserve, Ripple riding high as RLUSD stablecoin cleared

Steven Pettigrove, Jake Huang, Luke Higgins and Luke Misthos of the Piper Alderman Blockchain Group bring you the latest legal, regulatory and project updates in Blockchain and Digital Law.

UK to pilot Digital Gilts

On November 18, 2024, the UK government [announced an exciting pilot project to issue a Digital Gilt Instrument \(DIGIT\)](#) using distributed ledger technology (DLT). This initiative, first revealed by the Chancellor of the Exchequer on 14 November, aims to modernise the debt issuance process and maintain the UK's position as a global financial leader.

This pilot aims to issue a digital bond, powered by DLT, with similar features to a conventional gilt. In a statement made by Tulip Siddiq, the Economic Secretary to the Treasury, she describes DLT as

technologies that use networks of ledgers to update and synchronize transactions simultaneously.

She also says DLT has the benefits of

increased efficiency, automation, resilience, and transparency in financial markets.

The UK government is planning to collaborate with industry partners to test DLT across the lifecycle of the DIGIT. This pilot will be conducted within the Digital Securities Sandbox (DSS), a regulatory environment through which firms can use DLT to create, trade and administer securities, while being supervised by the Bank of England and the Financial Conduct Authority. The DSS allows firms to experiment with DLT-based market infrastructures in a controlled setting, ensuring innovation while managing potential risks.

The goal of this pilot is to explore the benefits DLT could bring to the government's debt issuance process, potentially leading to more efficient and transparent transactions. Additionally, this pilot supports the broader development of DLT platforms and infrastructure in the UK capital markets.

To ensure the pilot's independence, the DIGIT pilot will operate separately from the Debt Management Office's current gilt and Treasury Bill operations. The UK government plans to engage with the sector in early 2025 to discuss the issuance details and available technology options.

The initiative marks a significant step towards embracing digital markets and sovereign debt, helping position the [UK as a centre for global digital finance](#).

Written by Jake Huang and Steven Pettigrove

Wen token? Hong Kong incentivises digital bond issuance

In a significant move to promote the development of the digital securities market and encourage broader adoption of tokenisation in capital market transactions, the [Hong Kong Monetary Authority \(HKMA\)](#) recently introduced a [Digital Bond Grant Scheme \(DBGS\)](#) providing up to HKD\$2.5 million (around AUD\$500,000) to each eligible digital bond issuance in Hong Kong.

The DBGS covers 50% of the expenses incurred by a bond issuer in the primary issuance of a eligible digital bond.

HKMA says eligibility of a bond issuance as a “digital bond” will be determined on a case-by-case basis:

In general, “digital bond” refers to a bond that leverages distributed ledger technology (**DLT**) for digital representation of ownership, which could include, for example, legal titles and/or beneficial interests in the bond.

Financial subsidies under the DBGS are structured in two tiers:

1. **Half Grant:** Up to HK\$1.25 million (around AUD\$250,000) for issuances meeting certain Basic Requirements.
2. **Full Grant:** Up to HK\$2.5 million (around AUD\$250,000) for issuances meeting both the Basic and Additional Requirements.

The Basic Requirements to qualify for a half grant are:

1. the digital bond must be issued in Hong Kong; and
2. the team involved in the development and/or operations of the DLT platform and other digital aspects of the issuance (“digital team”) must have substantial Hong Kong presence; or
3. the digital bond must be issued on a DLT platform operated by the Central Moneymarkets Unit.

The Additional Requirements are that the digital bond must be:

1. issued on a DLT platform provided by an entity that is not an associate of the issuer;
2. issued at a minimum size of HK\$1 billion equivalent;
3. issued to five or more investors that are not associate(s) of the issuer or DLT platform provider(s) of the issuance;
4. listed on the Stock Exchange of Hong Kong Limited, or [virtual asset trading platform\(s\) \(VATPs\) licensed by Hong Kong's Securities and Futures Commission](#).

The HKMA will start accepting applications from 28 November 2024, with the scheme initially running for three years. Applications can be made for bonds issued on or after 16 October 2024.

By offering substantial financial incentives to issuers of digital bonds, the DBGS could become a significant step in the evolution of Hong Kong's capital markets, promoting innovation and the adoption of cutting-edge technology. The program is generous and will go some way to offsetting the advisory fees involved in digital bond issuance, encouraging critical mass in the development of digital bond markets. After making [significant strides in the past years in setting up a comprehensive regulatory framework for asset tokenisation](#), the latest announcement underscore [Hong Kong's ambitions to cement itself as a global hub for digital finance](#).

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Digital vaults? The case for an Australian Strategic Bitcoin Reserve

Move over gold and bonds; bitcoin (BTC) is making its way into the virtual vaults at government treasuries.

Earlier this year, the [incoming president of the United States, Donald Trump](#), unveiled a [bold plan to establish a Strategic Bitcoin Reserve](#), consolidating its current holdings mostly accumulated through government seizures of illicit assets. Meanwhile, Republican senator and crypto advocate, Cynthia Lummis, has [proposed the BITCOIN Act](#), aiming to establish a reserve by purchasing no more than 200,000 BTC per year for a period of five years once implemented. The proposal has been advanced as hedge against inflation and to diversify US federal reserves.

The US is just one of several countries exploring the idea of a sovereign BTC reserve – alongside countries like Bhutan, El Salvador, [Poland, Brazil and Russia](#). Is it time for Australia to join the digital asset dance?

The USA: Seize, buy and hodl

The Lummis plan is nothing short of ambitious with the US to hold its BTC in ultra-secure digital vaults for at least 20 years. The plan also contemplates blockchain-based audits and quarterly updates to maintain the integrity of the reserve.

Why BTC? With its capped supply of 21 million coins and a history of (wild) price appreciation, BTC is being positioned as an inflation hedge. Although undoubtedly volatile, advocates for BTC argue its potential gains far outweigh the risks. In an economic environment where fiat currency is volatile in and of its own right, a number of governments and corporates are embracing Bitcoin as a decentralised store of value.

Critics of a BTC reserve however point to some of the potential pitfalls: volatility, security concerns, and the sheer audacity of investing public funds into what many still see as digital Monopoly money.

Meanwhile, there is speculation the [outgoing Biden administration may sell down the country's current Bitcoin holdings](#), perhaps to forestall the Trump plan to establish a strategic reserve.

Bhutan's Himalayan Highs and Germany's Own Goal

While the US dreams big, Bhutan has quietly been stacking [sats](#) (which is BTC, for the uninitiated). [Bhutan has mined and managed](#) its Bitcoin holdings strategically, harnessing ample clean energy reserves, and cashing out USD \$100 million [during recent market peaks](#). Bhutan currently still holds over USD \$1 billion in BTC, placing it among the world's largest sovereign BTC holders.

Germany, on the other hand, is likely regretting the sale of nearly [50,000 BTC in July this year at USD \\$53,000 per coin](#). While it may have seemed like a win at the time, BTC has recently surpassed USD \$100,000 per coin, effectively costing Germany over USD \$1.1 billion in lost profits. The sale, a result of legal constraints on seized assets, highlights the importance of timing when dealing with such a volatile asset. This unfortunate result highlights the benefits of a minimum holding period as suggested by the US in the Bitcoin Act (although, who knows what the price of BTC will be in 20 years!).

Russia's Crypto Pivot: Sanctions and Strategy

Facing crippling sanctions, Russia is turning to blockchain and BTC in an effort to stem the bleeding. Recent leaks reveal State Duma deputy Anton Tkachev [has proposed a strategic BTC reserve to rival traditional currency reserves](#). President Vladimir Putin, meanwhile, has openly praised Bitcoin as a way to sidestep Western financial control, [stating](#):

For example, bitcoin – who can prohibit it? No one.

Russia has also legalised cryptocurrency mining and is preparing to use BTC for international trade. Sanctions intended to isolate the country [may result it in increasingly adopting blockchain as alternative payment rails and pushing further into decentralised financial systems](#). While controversial, Russia's moves highlights potential challenges to traditional SWIFT payment rails after Russia was booted as a member after it was sanctioned over the Ukraine conflict.

Australia: Time to Jump on the Bandwagon?

So, what about Australia? Should we establish our own BTC strategic reserve?

Here's how it could work:

1. Gradual investment: acquire BTC incrementally to mitigate market volatility (while [hodling illicit BTC seized under new asset confiscation powers](#)).
2. Sustainable mining: leverage Australia's renewable energy resources to mine BTC domestically, aligning with green energy goals.
3. Secure custody: the Australian government could collaborate with local crypto custodians and blockchain businesses to ensure security.
4. Transparency: much like the US, any BTC strategic reserve plan would have to be accompanied by a level of transparency.

The potential benefits of a BTC strategic reserve include diversification, inflation hedging, and the chance to position Australia as a tech-savvy financial leader. A strategic reserve would also encourage collaboration between government and industry to the benefit of the digital economy. Finally, with the likes of [El Salvador](#) and Bhutan demonstrating BTC's potential to reduce debt and fund ambitious projects, Australia could use its reserve to fund innovation, infrastructure, or even that super fast train line we've been talking about for decades.

The Final Block

The idea of sovereign BTC reserves might seem far-fetched and risky, but the world is changing fast. From the US strategic

tack to Bhutan's savvy management and Germany's lesson in market timing, there is plenty to learn.

Indeed, when recently pressed on Bitcoin's role in Australia's economy and payment system, [the Governor of the Reserve Bank, Michele Bullock, claimed she didn't understand Bitcoin or consider it to have any such role](#). The comments seem somewhat glib in the context of broader global discussions over the assets' future, it having recently flipped Silver and Saudi Aramco as the world's 7th largest asset by market cap.

So, will Australia take the leap and add a bit of blockchain to its balance sheet? Or will we sit on the sidelines, watching the crypto caravan pass us by? Only time (and perhaps some brave and bold policymakers) will tell. For now, the idea is simply as intriguing as it is revolutionary – just like Bitcoin itself.

Written by Luke Higgins and Steven Pettigrove

Ripple riding high as RLUSD stablecoin cleared

Ripple has reached a significant milestone in its expansion into the \$200 billion global liquidity market, securing final approval from the New York Department of Financial Services (**NYDFS**) to launch its RLUSD stablecoin. Ripple CEO Brad Garlinghouse [announced the regulatory approval](#), confirming that RLUSD will be redeemable 1:1 for U.S. dollars.

Testing and Deployment

Ripple [began testing RLUSD on Ethereum](#) and the XRP Ledger in mid-2024, aiming to integrate with established and proprietary blockchain ecosystems. By October, Ripple announced partnerships with Uphold, Bitstamp, and Bullish to support RLUSD trading.

RLUSD's progress slowed temporarily as Ripple worked to ensure full compliance.

The stablecoin space is competitive, with USDT and USDC dominating market cap and supply. RLUSD's success will hinge on Ripple's established networks and innovation in areas like payments and asset tokenisation.

Stablecoins are seeing strong adoption, attributable to the recent bull run market as well as expectations of increasing penetration into traditional payment flows, [as shown by Stripe's \\$1.1 billion acquisition of Bridge](#).

In its recent [State of Crypto report](#), A16Z Crypto argued Stablecoins have found product market fit.

Regulatory Optimism

The rise of stablecoin development is fuelling hopes for regulatory clarity. A Republican-backed stablecoin bill has advanced in the House Financial Services Committee but awaits a full House vote.

Ripple's entry into the stablecoin market highlights its broader ambitions in global finance. RLUSD's launch is set to drive competition, innovation, and regulatory discussions. Ripple's success may set a precedent for other stablecoin issuers to follow suit.

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