



HONG KONG MONETARY AUTHORITY
香港金融管理局



CENTRAL MONEYMARKETS UNIT
債務工具中央結算系統

CMU REFERENCE MANUAL SUPPLEMENT - CLEARING AND SETTLEMENT OF DIGITAL NATIVE NOTES

VERSION 1.1

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AMENDMENT SUMMARY

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1 *Background*

Following the launch of the inaugural Hong Kong dollar tokenised government green bond in early 2023 (Project Evergreen 1), the Government of the Hong Kong Special Administrative Region of the People's Republic of China has plans for another tokenised (digitally native) government bond (Digital Native Notes or in short the DN Notes) issuance in HK dollar, US dollar, euro and renminbi under its Government Green Bond Programme, and the issuance and trading of the DN Notes and associated payment obligations are to be cleared and settled through the CMU. Hong Kong Monetary Authority (the HKMA) wishes to incorporate the use of an online platform using Distributed Ledger Technology, used for the issuance, settlement and lifecycle of digitally native securities (the "Platform") developed by The Hongkong and Shanghai Banking Corporation Limited ("HSBC") into the CMU for the issuance, clearing and settlement of the DN Notes and certain related payment and asset servicing obligations (Project Evergreen 2).

The HKMA and HSBC has entered or will enter into a Platform Services Agreement. The HKMA appointed HSBC to provide the Platform, that will serve as an extension of the CMU service and enable CMU to provide necessary services to CMU Members permitted by the HKMA to access and use the Platform (Participating CMU Members) in connection with Project Evergreen 2. The DN Notes, which are digitally native and operationally/technologically represented by digital bond tokens, will be cleared and settled through the Platform as an extension of the CMU. Clearing and settlement of the DN Notes in certain on-Platform transfers will involve Settlement Tokens. The Platform serves and functions as an integral extension to the Central Moneymarkets Unit. Accordingly, transactions and settlements effected on the Platform will achieve settlement finality in accordance with applicable provisions of the PSSVF Ordinance. For clarity, the Platform in this Supplement refers to the part of the Platform in respect of Project Evergreen 2 only.

This CMU Reference Manual Supplement (Supplement) is applicable to Participating CMU Members during the lifecycle of the DN Notes. It supplements the CMU Reference Manual, and sets out the off-platform operational arrangements for the clearing and settlement of digital bond tokens. Unless otherwise defined herein or the context otherwise requires, the terms defined in the CMU Reference Manual shall have the same meanings when used in this Supplement. For other operational procedures regarding the CMU that are not specified herein, please refer to the relevant clauses of the latest CMU Reference Manual available via the following hyperlink for further details:

<https://www.cmu.org.hk/en/reference-materials>

For the operational arrangement, functionalities and characterisation of the Platform, please refer to the Platform Rulebook Supplement.

2 *Creating a connection between the Platform and CMUP*

As part of the CMU Service, besides Participating CMU Members (known as Direct Participants), which can settle digital bond tokens directly on the Platform, the HKMA offers all CMU Members access to settlement of these DN Notes by virtue of the HKMA's Digital Securities Intermediary (DSI) Account on the Platform, notwithstanding that these non-Participating CMU Members will not have direct access to the Platform. Where DN Notes are credited to the DSI account, the HKMA, as a holder of these DN Notes will have legal title to the DN Notes. Holdings in this DSI Account represent total holdings of the DN Notes held by CMU Members in the CMUP. CMU Members' corresponding interests in the DN Notes will be beneficial interest in nature. Bonds issued on the Platform are digital native notes and legal title is recorded in the name of the owner of the relevant Digital Token Account on the Platform.

3 *Clearing and Settlement of Digital Bond Tokens*

The Platform is a private and permissioned Distributed Ledger Technology (DLT) platform, whereby DN Notes and payment settlements are processed and recorded on separate and distinct networks through the use of smart contracts. It comprises a DvP settlement interface that connects with digital bond tokens on the Platform and automated processes linked with HSBC's cash system.

As an extension of the CMU, the Platform is an online platform using Distributed Ledger Technology (DLT) operated by the HKMA acting as operator of the CMU, used for including, but not limited to, the issuance, settlement, transfer, redemption and cancellation of the DN Notes.

CMU Members admitted for participation on the Platform i.e. Direct Participants (DPs) and the Issuer Agent will be able to use features on the Platform depending on the Platform functionalities they have elected to and have been granted access to use by the CMU of the HKMA as the Platform Operator.

DvP transactions occurring on the Platform are handled through updates in the record of entitlement to digital bond token as recorded on the Digital Token Accounts of the Platform, thereby achieving against a simultaneous exchange of Settlement Tokens against digital bond token in DvP settlement. DPs can purchase or hold DN Notes on behalf of their clients. Digital bond tokens and Settlement Tokens are automatically settled via the DvP process on the Platform which is instant and atomic.

For CMU Members who are DPs, settlement of DN Notes may take place on the Platform, on the CMUP, or both, depending on whether the holdings and counterparties are on the Platform or on the CMUP or whether it is a transfer across the Platform and the CMUP. CMU Members, regardless of whether they have direct access to the Platform, would be able to hold the DN Notes for themselves or on behalf of their clients. More detailed operational flow will be described in clause 9 of this Supplement.

3.1 Role of the CMU

As an extension of the CMU which is a designated system under the Payment Systems and Stored Value Facilities Ordinance (Cap. 584 of the Laws of Hong Kong) (the “PSSVFO”), CMU is the sole system operator (SO) and settlement institution (SI) of the Platform. CMU may carry out discretionary actions on the Platform in relation to the primary issuance, delivery, redemption and secondary transfers of the DN Notes, through its roles as Platform Operator and its DSI function (described in the next paragraph) on the Platform. CMU has access to Participating CMU Member (DPs’) accounts and holdings as regards to the digital bond tokens. Settlement Tokens represent a contractual claim by the DP in whose name the Settlement Tokens are recorded, against the HKMA.

The CMU will have access to DP functionality in connection with its CMU DSI role. The CMU DSI function will fall within the scope of its Platform Operator role as an internal operational mechanism, to effect (i) the settlement and holding of DN Notes on behalf of non-DPs on the Platform, and (ii) certain payment obligations such as coupon payment related to the DN Notes, in connection with securities accounts held on the CMUP.

3.2 Role of HSBC

HSBC is appointed by the HKMA as the Platform Provider under a Platform Service Agreement to make the Platform functionalities available to the HKMA and Participating CMU Members (DPs) on the Platform. In addition, HSBC provides certain support and infrastructure services in connection with the Platform such as the use of the HSBC email server and HBAP BIC/SWIFT identifier. The HKMA has control over the operation of the Platform and the provision of the Platform services to Participating CMU Members(DPs).

4 Participant Setup on the Platform

4.1 Participant

A Participant is a CMU Member having duly executed the “Enrolment Form for the Platform” at Annex 1 to access the Platform to perform certain designated

functions on the Platform. In general, a Participant can be a Direct Participant or an Issuer Agent.

4.1.1 Direct Participants

For a CMU Member which would like to carry out transfers of relevant DN Notes directly on the Platform, it may join as a DP on the Platform. To apply to become a DP, the CMU Member is required to submit to the CMU a completed “Enrolment Form for the Platform” at Annex 1. To allow sufficient time for the CMU to process the application and for administrative setup, the completed enrolment form must reach the CMU through email, authenticated facsimile or by post at least 7 Hong Kong business days before the effective date of the DP’s account on the Platform.

Approval of applications to become a DP on the Platform is at the sole and absolute discretion of the HKMA. Upon admission, the DP will be subject to the Platform Rulebook Supplement and this reference manual supplement which form part of the wider CMU membership rule framework.

4.1.2 Issuer Agent (role on the platform)

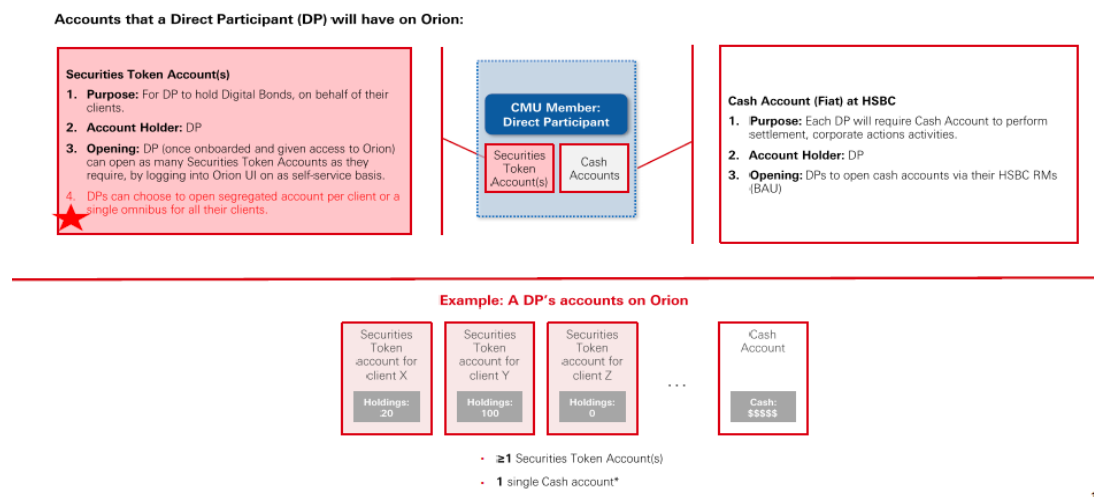
For a CMU Member which would like to or is appointed to perform the Issuer Agent functionalities on the Platform, it may join as the Issuer Agent on the platform. To apply to become an Issuer Agent, the CMU Member is required to submit to the CMU a completed “Enrolment Form for the Platform” at Annex 1. To allow sufficient time for the CMU to process the application and for administrative setup, the completed enrolment form must reach the CMU through email, authenticated facsimile or by post at least 7 Hong Kong business days before the effective date of the account on the Platform. Upon admission, the Issuer Agent will be subject to the Platform Rulebook Supplement and this reference manual supplement which form part of the wider CMU membership rule framework.

Approval of Issuer Agent on the Platform is at the sole and absolute discretion of the HKMA.

4.2 Non-Direct Participants

If a CMU Member does not want to become DP but wishes to buy and hold DN Notes for itself or hold on behalf of its clients, it could use its existing CMU Securities Account in CMUP, the traditional settlement system, for clearing and settlement of the DN Notes. No prior registration for the service is required in the CMUP. Please refer to clause 9 below for detailed description of operational arrangement.

4.3 Account Structure



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4.4 Account Setup for DP

4.4.1 Digital Token Account

Each DP will need to open at least one Digital Token Account on the Platform (self-service) but may open multiple Digital Token Accounts to segregate its proprietary holdings from its clients' holdings or to maintain segregated accounts for each of its clients on platform. Credit balances of the Digital Token Account constitute definitive legal entitlement of the DP interest in the legal title of the DN Notes.

4.4.2 Setup of Digital Token Account

The CMU is the account administrator for Digital Token Accounts (as Platform Operator), and will be responsible for approving the account opening requests on the Platform for DPs, and monitoring the execution of post trade settlement activity on the platform.

Once the enrolment form (per Annex1) of a DP is approved by the HKMA, CMU will set up the entity on the Platform. The DP can then log into the Platform UI on as self-service basis to create its own Digital Token Account(s) for themselves and/or for its client(s) (as custodians). A DP can choose to open segregated account per client or a single omnibus accounts for all its clients.

Omnibus account (in the name of a DP) and clients' accounts under a DP's account on the Platform are the responsibility of and maintained by the DP itself. It is the DP that is responsible for managing the activities in such accounts, as

they are accounts maintained by the DP for its clients, and it is the DP that has a legal relationship with such clients.

4.4.3 Setup of User Account

In addition to be the account administrator, CMU is also the user account administrator to grant user access to DPs to login to the Platform. The user information provided in the enrolment form will be used by the CMU for user account creation during production launch of the platform.

4.5 Accounts Opened by the HKMA for Operation of the Platform

4.5.1 CMU Digital Securities Intermediary (DSI) Account

To facilitate non-DPs to buy and hold the DN Notes in CMUP, CMU has set up a Digital Token Account called the "CMU DSI" account which is an omnibus account on the Platform to hold DN Notes for and on behalf of non-DPs / DPs holding DN Notes via the CMUP. It services as an intermediary or "bridge" between the Platform and CMUP. From system perspective, CMU DSI account functions like a DP's Digital Token Account. However, it does not function as a commercial DP's Digital Token Account from a business perspective. A DP may transfer its DN Notes from the Platform to its Securities Account via the CMU DSI Account in CMUP where transactions in the DN Notes can be settled like any other CMU securities today. The CMU DSI Account cannot be used as a proprietary account by CMU.

In the context of the CMU DSI account, the HKMA will be the legal title holder to the relevant DN Notes and holds the relevant interest in the DN Notes for and on behalf of the non-DPs/ DPs holding DN Notes via the CMUP who do not "hold" their entitlements directly on the Platform. Accordingly, non-DPs/ DPs holding DN Notes via the CMUP with Securities Accounts in CMUP will hold the beneficial title in the DN Notes, with corresponding legal title held by the HKMA in the CMU DSI account on the Platform.

DPs hold legal title to the DN Notes on the Platform via its own Digital Token Account maintained on the Platform or hold the beneficial interest of the DN Notes in Securities Accounts maintained on the CMUP (intermediated through the CMU DSI account). Non-DPs shall hold beneficial interests in the DN Notes exclusively via a Securities Account on the CMUP (intermediated through the CMU DSI account).

4.5.2 DvP Securities Operational Account

The HKMA manages DvP Securities Operational Account on the Platform to facilitate DvP settlement of DN Notes for the DPs. The account serves as an omnibus intermediate step between the seller's Digital Token Account and the

buyer's Digital Token Account (similar to an escrow account). The legal title to the DN Notes is held in the DvP Securities Operational Account by the CMU (on behalf of the relevant DP) for a very short time during the instantaneous settlement process. The legal title to the DN Notes in the DvP Securities Operational Account is held for the benefit of specific DPs.

4.5.3 DvP Cash Operational Account

The HKMA opens a DvP Cash Operational Account for each relevant currency at HSBC to facilitate the settlement of fiat cash for DvP purposes. The account serves as an intermediate step between the buyer's fiat cash account and the seller's fiat cash account (similar to an escrow account). Fiat money is held in the CMU's DvP Cash Operational Account for a very short time during the instantaneous settlement process. The fiat money in the DvP Cash Operational Account is held for the benefit of specific DPs, where such DPs have a contractual claim against the HKMA (rather than HSBC as bank account provider) for relevant cash amounts.

4.5.4 Cash Coupon Account

CMU opens the following cash coupon accounts at HSBC for the paying agent to remit income proceeds to this account for onward income distribution to DPs and DSI on the payment date.

HKD:

A/C name : Hong Kong Monetary Authority (CMU)
A/C no. : 741-650147-001

CNY:

A/C name : Hong Kong Monetary Authority (CMU)
A/C no. : 741-650147-209

EUR:

A/C name : Hong Kong Monetary Authority (CMU)
A/C no. : 741-650147-220

USD:

A/C name : Hong Kong Monetary Authority (CMU)
A/C no. : 741-650147-201

4.6 Securities Issuance Account

The Securities Issuance Account is to hold the issuance token which records all the DN Notes. It is used to automatically reconcile the number of DN Notes outstanding from time to time on the Platform. One issuance token represents

one issuance on platform. The issuance token serves as an operational record of the entire issuance.

4.7 Holding Structure

When a DP holds the digital bond tokens which represent legal title to the DN Notes on the Platform, there is a second level account structure on the CMUP system with CMU Securities Accounts whose records represent beneficial title to the DN Notes. CMU DSI account would hold the DN Notes on the Platform on behalf of (1) Non-DPs (for their own account and as custodians for their clients); and (2) DPs who choose to hold the beneficial title to the DN Notes on CMUP level (for their own account and as custodians for their clients). Custodial chains may extend beyond the CMUP via a CMU member holding on the CMUP. Such custodial books and records will be maintained off the CMUP by the relevant non-CMU member custodian. Noting, all interests in the DN Notes held away/off-Platform will be beneficial interest in nature.

The Platform is the DN Notes issuance record, i.e. the definitive legal record for the legal title of the DN Notes denotes legal title ownership of the Digital Bond. The record is composed of aggregated credit balances representing the DN Notes of all DPs' Digital Token Account. The records show transfers of the legal title to the DN Notes by entry changes.

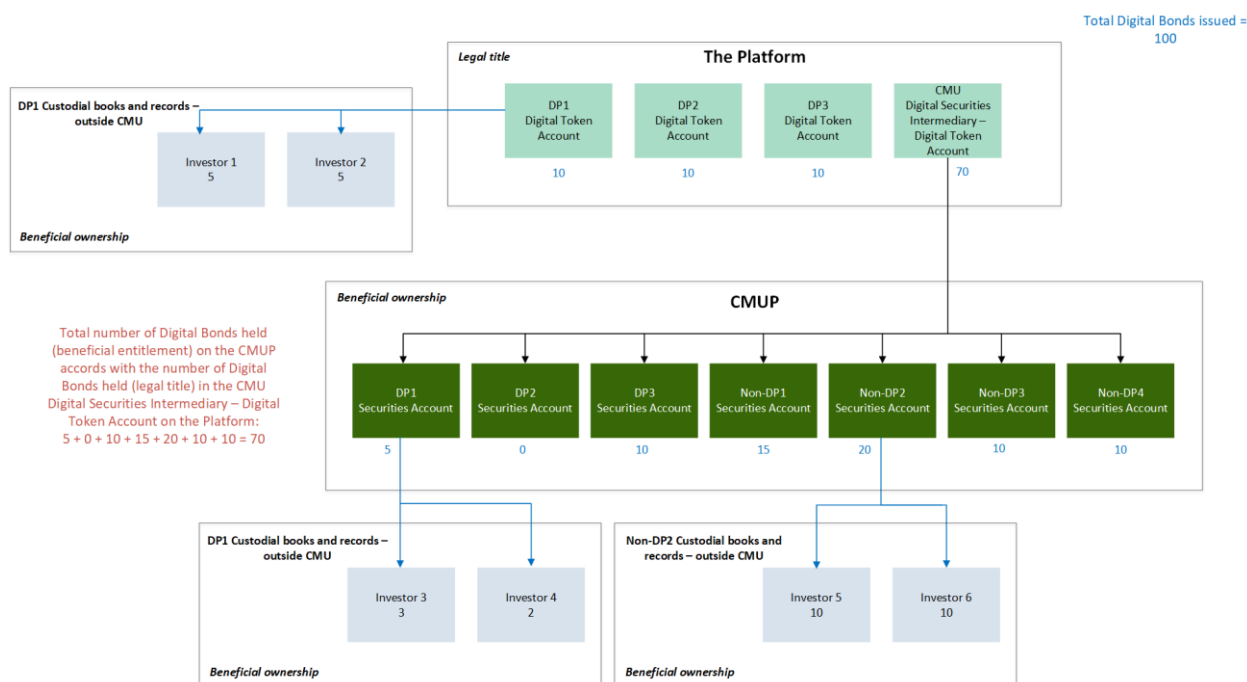


Fig. 1 Illustrated example of account holdings of digital bond issuance of CNY100mm

4.8 Technical Requirements for DP to Access the Platform

DPs should arrange with the Platform Provider for the necessary technical setup and on-boarding arrangement. The Platform can be accessed via a front-end system (node-hosting by HSBC) and also supports SWIFT messaging such as MT54X series for transfer& settlement of DN Notes. Service fees in respect of any technical setup may be made due and payable directly to such third parties (e.g. Platform Provider) from time to time.

4.9 Roles on the Platform

Each party participating on the Platform will have pre-defined roles linked to specific Platform functionality which will determine the scope of their specific rights and obligations in connection with their participation on the Platform. The pre-defined roles for each party will be created by the CMU (as Platform Operator) when they on-board the platform in accordance with the information provided in the enrolment form (per Annex 1).

The high level pre-defined roles of the parties involved are as follows:

<u>Parties</u>	<u>Roles and responsibility</u>
Platform Operator / CMU	<ul style="list-style-type: none">• Access to the Platform Operator platform functionality• Access to the DP platform functionality in connection with the CMU DSI function• System operator and settlement institution of the Platform• Facilitate the opening of Digital Token Accounts operationally on the Platform• As Platform Operator to approve the account opening requests of Digital Token Accounts for DPs, issue and redeem digital bond token• Has full access to all data on the Platform (including transfer and settlement activities, and DPs' holdings of digital bond token)• Has the right to instruct HSBC to effect emergency function powers
Platform Provider	<ul style="list-style-type: none">• The platform provider of the Platform is HSBC.• Responsible for providing daily maintenance services and technical support for the platform including administrative functioning and assigning roles to users of the platform

Issuer Agent
(role on
platform)

- Access to the Issuer Agent platform functionality.
- A CMU Member which is appointed, authorised and instructed by the issuer and represents it to input bond shell data for the creation of DN Notes on the Platform.
- As the agent of the issuer, and having been authorised and instructed by the issuer to input the Issuer's account details for receipt of the bonds proceeds of the relevant bond issue on the Platform
- As the agent of the issuer, which is appointed, authorised and instructed to upload related DN Notes data documentation, as provided by the issuer onto the Platform.
- For avoidance of doubt, this Issuer Agent role is specific to the Platform. It refers to an agent of the issuer or the issuer themselves whose role is to make a new bond issuance request to the CMU via the Platform by keying in all the required bond-related information into the Platform.

DPs

- Access to the DP platform functionality
- CMU Members which are admitted for participation to the Platform by CMU as DPs, and which may also be lead managers/B&D/ syndicate banks/dealers of a primary issuance of the DN Notes (under relevant deal documentation, rather than as a matter of Platform role designation) to be cleared and settled through the Platform
- They may act on a proprietary basis (i.e. holding the DN Notes for their own account) and also be acting as the custodians for their respective clients, and will be holding for and on behalf of their clients' their respective entitlement to digital bond tokens, and will be able to administer or manage their clients' interests in digital bond token through Digital Token Accounts maintained by a DP for its clients.

Paying agent

- Process income payments such as coupon, redemption and relay corporate action on behalf of the issuer

4.10 Operational Contact

All requests for business information relating to the Platform must be directed to:

The Central Moneymarkets Unit,
Monetary Authority,
55th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

Telephone : (852) 2878 8148; (852) 2878 1465; (852) 2597 0978
Facsimile : (852) 2878 1676 – 1677
e-mail : cmuenquiry@hkma.gov.hk

5 *Cash Account with HSBC*

All DPs will need to have cash accounts for the relevant currency at HSBC for the Platform to perform settlement, and coupon and redemption payments. The cash account is omnibus per DP, regardless of the number of Digital Token Accounts the DP has opened on the Platform. DPs must have these cash accounts set up in place prior to on-boarding to the Platform. Once opened, CMU will link this cash account to the DPs profile on the Platform.

As for non-DP, there is no need to have fiat cash account with HSBC to associate with settlement. The cash leg of a DvP transaction and any income proceeds will be settled in the non-DP's usual settlement account in accordance with CMU's record when it first joined the CMU as CMU Member.

5.1 Settlement Token

Whenever there is a DvP transaction between DPs on the Platform, the fiat money will be debited from the buyer's fiat cash account at HSBC. The equivalent amount will then be transferred to the CMU DvP Cash Operational Account. Settlement Tokens will then be minted and notionally recorded under the buyer's name and ready for settlement. Where the seller becomes entitled to cash in the CMU DvP Cash Operational Account, the Settlement Token will be updated to record the seller's name. Please note, Settlement Tokens cannot be owned or held by any person nor are they stored in a digital account/wallet.

Settlement Tokens act as a CMU internal record keeping function. Settlement Tokens do not in themselves represent contractual claim against the HKMA or have any intrinsic value. They are merely an operational tool to effect DvP on the Platform. Settlement Tokens have legal significance only in the context of the relationship between HKMA and the DPs, and has no direct legal relationship with the deposit held by CMU in the CMU DvP Cash Operational Account.

Settlement Tokens will not be used in any other transfer or settlement flow other than detailed in this clause 5.1 nor for asset servicing.

6 *Native Issuance of DN Notes on the Platform*

6.1 Form of the Constitution of the DN Notes

Debt securities eligible for native issuance on the Platform, and which are approved by the HKMA to be cleared and settled in tokenised form, are eligible securities. DN Notes are issued in dematerialised book entry form without a global certificate and shall be validly issued when the initial recording of the aggregate nominal amount of the notes has been duly recorded in the B&D Bank's (or its appointed DP's) Digital Token Account(s). Being the settlement institution and system operator of the Platform, CMU acts as record keeper and does not act as an agent of the issuer or any party.

The Platform itself acts as a digital record of the legal titles of the DN Notes, upon which each DP's legal title to its bond holding is recorded. Electronic ledger records on the Platform as the record of legal title will be evidence of each DP's legal title to the DN Notes.

For Project Evergreen 2 there will not be a lodging agent nor will there be a lodging of a lodgement slip submitted to the CMU as part of the valid constitution and creation of the DN Notes. Instead, securities information is created by the Issuer Agent on the Platform first. To facilitate DN Notes settlement by non-DPs, securities information is also created by the CMU in the CMUP with its unique CMU instrument number, common code and ISIN number. Such data information will then be available to non-DPs to facilitate the post-trade settlement process in the CMU traditional clearing system, CMUP.

6.2 Issuer Agent's Authority from the Issuer

Since an issuer is not a CMU Member or DP on the Platform, where the debt securities are serviced by a CMU Member as the appointed and authorised agent of an issuer (e.g. Issuer Agent), such Issuer Agent must have obtained an appropriate authorisation and instruction from the issuer authorising it to request/instruct the CMU to accept the DN Notes on its behalf by signing and

returning an “Issuer Letter of Authority” and “Undertaking by Issuer Agent” to the CMU. In order to carry out the duty and responsibility of an Issuer Agent, it must be a CMU Member or a Participant on the Platform.

The Issuer Agent, acting on behalf of the issuer, must issue DN Notes in accordance with statutory and other requirements in force at the time covering the issue of the debt securities.

7 Settlement Finality

The Platform is an integral extension to the CMU, which is a designated system under the Payment Systems and Stored Value Facilities Ordinance (PSSVFO) (Cap. 584 of the Laws of Hong Kong). The PSSVFO provides the legal basis for settlement finality regarding transactions settled in the CMU (including on the Platform).

7.1 Transfer of DN Notes between Two DPs on the Platform

All transfers of to or from Digital Token Accounts effected through the Platform between a DP to another DP (on a DvP or free of payment (FoP) basis) shall be deemed to have been delivered as of the moment the updated balances resulting from the transfer is recorded in the buyer Digital Token Account. Such transfers shall be deemed to be made on the Platform as an integral extension to the CMU and is thereby completed, irrevocable and final. For clarity, settlement finality under the PSSVFO applies to the Platform only in connection with the Project Evergreen-2 issuance.

For completeness, this applies in FoP transfers from the DP's Digital Token Account to (i) another of its own DP Digital Token Account, or (ii) CMU DSI Digital Token Account, and vice versa.

Clause 9.1 below applies to this transfer.

7.2 Transfer of DN Notes between a DP on the Platform and a non-DP in CMUP

All transfer of to or from Digital Token Accounts/Securities Accounts effected through the Platform and CMUP between a DP and a non-DP shall be deemed to have been delivered as of the moment the updated balances resulting from the transfer are recorded on the Platform and CMUP accordingly. Such transfer shall be deemed to be made on the CMU and is thereby completed, irrevocable and final. Settlement finality is counted at the point when the DN Notes are typically available to the receiving member.

7.2.1 Transfer of DN Notes from a DP on the Platform to a non-DP in the CMUP/DP holding via CMUP (i.e. cross-Platform to CMUP transfer)

Settlement is effected as a FoP transaction as follows:

- (i) DP transfers DN Notes to the CMU DSI Digital Token Account on the Platform i.e. a debit from the DP's Digital Token Account on the Platform and credit to the CMU DSI Digital Token Account on the Platform. This results in the CMU (performing the CMU-DSI function) holding the DN Notes on behalf of seller at the CMUP layer, until the DN Notes are credited to the buyer.
- (ii) The buyer's securities account on the CMUP is credited with the transfer amount (beneficial title) of the DN Notes.

Settlement finality occurs at the conclusion of (ii) above.

7.2.2 Transfer of DN Notes from a non-DP in CMUP/DP holding via CMUP to a DP on the Platform (i.e. cross-CMUP to Platform transfer)

Settlement is effected as FOP transactions as follows:

- (i) The CMU debits the seller's CMUP securities account (beneficial title). This is a notional step and a change of beneficial ownership would not have happened at this point.
- (ii) The CMU transfers the corresponding DN Notes (legal title and beneficial title) from the CMU DSI digital account to the buyer's Digital Token Account on the Platform. i.e. credit of DN Notes into the buyer's Digital Token Account.

Settlement finality occurs at the conclusion of (ii) above.

7.3 Transfer of DN Notes between Two non-DPs in CMUP

All transfers of to or from Securities Accounts effected through CMUP between a non-DP to another non-DP shall be deemed to have been delivered as of the moment the updated balances resulting from the transfer are recorded. Such transfers shall be deemed to be made in the CMUP and is thereby completed, irrevocable and final. Settlement finality occurs once the buyer's securities account on the CMUP has been credited with the transfer amount of (beneficial title) to the DN Notes.

8 Primary Issuance of DN Notes

8.1 Issuing Procedure

Before digital bond tokens can be created on the Platform, the Issuer Agent has to provide CMU the issue details by completing the Securities Information sheet (per Annex 3) that the new issue of DN Notes is to be allotted and cleared and settled through the Platform. This is used to verify against the bond shell information inputted manually by the Issuer Agent on the Platform. CMU will allocate a CMU Instrument no., common code and ISIN to the DN Notes.

The HKMA reserves the right at the HKMA's sole discretion not to accept any DN Notes to be allotted, cleared or settled through the Platform.

The issuer and other relevant parties will need to comply with the following:

- (a) DN Notes must comply with the terms and conditions set out in information memorandum, trust deed and or other relevant legal documents relating to the issue(s);
- (b) the documentation mentioned in (a) above must be executed by all relevant parties before the issuance of the DN Notes;
- (c) each issue of the DN Notes will be represented by a CMU Instrument, common code and ISIN; and
- (d) submission of the Security Information Sheet to the CMU by the issuer or the issuing and paying agent (where appropriate) must be at least one business day before the issue date.

8.2 Creation of Bond Shell Information by the Issuer Agent

At least one day before the issue day

- (a) the Issuer Agent creates / compiles bond shell information of the DN Notes in accordance with the the Securities Information sheet (per Annex 3) or the pricing supplement or any equivalent document;
- (b) informs the CMU by phone call at 2878 8148 or email at cmuenquiry@hkma.gov.hk upon completion of (a) above; and
- (c) CMU reviews and checks the bond information in accordance with the Securities Information sheet or the pricing supplement provided by the issuer or Issuer Agent and accepts the creation of the DN Notes shell on-platform. If there is any discrepancy on the bond information so created, CMU will approach the issuer or the Issuer Agent to clarify further.

8.3 Primary Issuance and Distribution

8.3.1 Return of Subscription Money to the Issuer by the B&D Bank

On settlement day, the B&D Bank (directly or via its DP if the B&D Bank has appointed a DP) is responsible for funding the cash account associated with the Platform with the subscription money payable to the issuer.

8.3.2 Issuance / Securities Issuance Account

A Securities Issuance Account for the Issuer is created by the CMU for the purpose of holding Issuance Tokens to enable the CMU to reconcile the total number/amount of DN Notes in circulation on the Platform.

The Issuer Agent (having received written instructions and authorisation from the issuer) inputs the data relevant for bond shell creation onto the Platform and inserts the issuer's relevant cash account details (provided by the issuer in the aforementioned written instructions) for the receipt of bond proceeds.

The B&D Bank transfers fiat money from an off-platform account into its DP fiat cash account associated with the Platform. The fiat money is paid from the B&D Bank's own fiat account to B&D Bank's DP cash account associated with the Platform.

On settlement date, fiat cash is transferred from B&D Bank's DP Cash account associated with the Platform to the Issuer's fiat cash account (as part of the Platform acting on, i.e., settling the B&D bank DP's trade instruction MT541). As part of this settlement, digital bond tokens are simultaneously minted into the B&D bank's DP Token Account and the Issuance Token is minted into the Securities Issuance Account.

The Issuance Token reflects the value of the DN Notes during its entire life cycle on the Platform. The Securities Issuance Account is created by the CMU (as Platform Operator) [for the issuer] as a reconciliation mechanism for the DN Notes.

Thereafter, the B&D Bank will carry out the subsequent takedown trade settlement for the DN Notes with relevant DPs who has initially subscribed those DN Notes (for themselves, or as custodian for their clients) – see Distribution Process Flow below. If there is any failed settlement, digital bond tokens will remain at the B&D Bank DP's Digital Token Account at the end of the day.

8.3.3 Distribution Process Flow

Settlement of transactions in a primary issuance is effected in real time and on a gross basis on the Platform. For DvP allotment in a primary issuance i.e. the takedown trades, both transfers of digital bond token and Settlement Tokens are effected on the Platform on the settlement date via automated settlement. The process flow for distribution is as follows:

- (a) The issuing and paying agent or the B&D Bank (each of which must be a DP or through an appointed DP) is required to send DvP instructions to deliver (via SWIFT MT543 or the Platform UI) and the relevant DPs are also required to send DvP instructions to receive (via SWIFT MT541 or the Platform UI) the DN Notes on or before the settlement date. Upon receipt of both instructions, automated matching takes place immediately on the Platform. Illustrated examples of MT54X are attached at Annex 2 for your easy reference.
- (b) On settlement day, if the relevant Joint Lead Manager ("**JLM**")/DPs have sufficient cash in fiat cash accounts associated with the Platform, atomic settlement takes place on the Platform with digital bond tokens and cash (via Settlement Tokens which act as a notional record of entitlement for the purposes of effecting settlement). Atomic settlement flow of tokens occurs as described below:
 - i) The Platform debits the fiat money from the relevant JLM/DPs' fiat cash accounts connected to the Platform and credits the same to the CMU Cash Operational Account. Settlement Tokens are minted and recorded under the relevant JLM/DPs' name as a notional record of entitlement to fiat cash monies.
 - ii) Digital bond tokens are then debited from the B&D Bank DP's Digital Token Account and transferred to the CMU's DvP Securities Operational Account held on behalf of the B&D Bank DP.
 - iii) Settlement monies are flagged in favour of B&D Bank DP in CMU's DvP Cash Operational Account (this is reflected as an update in entitlement records of the Settlement Token representing the transfer to the B&D Bank DP).
 - iv) Simultaneously, digital bond tokens move from CMU's DvP Securities Operational Account to the relevant JLM/DPs' Digital Token Accounts.
 - v) The equivalent amount of cash will be transferred from CMU's DvP Cash Operational Account to the B&D Bank's fiat cash account. Settlement Tokens will be burnt.
- (c) Delivery versus Payment occurs when the Settlement Token is updated in the name of the B&D Bank DP and simultaneously the digital bond tokens are credited to the JLM/DP's Digital Token Account, reflecting the transfer of legal title to the DN Notes.

- (d) Following completion of the transactions, fiat cash and digital bond tokens reflected as being credited to the relevant participants' fiat cash accounts and Digital Token Accounts on the Platform (as applicable) are immediately available for use by the relevant DPs for carrying out subsequent transactions in the DN Notes through the platform.

The B&D Bank can move out the fiat cash out of its cash account if no further bond transactions are to be settled for the day.

9 Secondary Market Transactions

9.1 Transactions between two DPs on the Platform

9.1.1 Settlement Window

Settled across the book of the HKMA on the Platform at real-time window starting from 00:00 to 23:30 except Saturdays, Sundays and public holidays in Hong Kong.

9.1.2 Settlement Means

Settlement of secondary market transactions on the Platform is effected in real time and on a gross basis. Trading of DN Notes is conducted off-Platform and transfer instructions can be sent via SWIFT MT54X or create via the front-end terminal of the Platform. Illustrated examples of MT54X are attached at Annex 2 for your easy reference.

9.1.3 Settlement Process Flow

The real-time DvP settlement process flow is as follows:

- (a) Both the seller and buyer are required to send DvP instructions on or before the settlement date. Upon receipt of the instructions, matching takes place on the Platform.
- (b) On settlement day, if the buyer has sufficient cash in its fiat cash account at HSBC associated with the Platform, and the seller has sufficient digital bond tokens in its Digital Token Account, atomic settlement takes place on the Platform with digital bond tokens and fiat cash monies. The Settlement Token acts as a notional record of entitlement for the purposes of effecting settlement. Atomic settlement flow of tokens occurs as described below:
 - i) The Platform debits fiat cash from the buyer's fiat cash account associated with the Platform and credits the same to the CMU

Cash Operational Account. Settlement Tokens are minted and recorded against the buyer;

- ii) Digital bond tokens corresponding to the transfer amount will then be debited from the seller's Digital Token Account and transferred to the CMU's DvP Securities Operational Account held on behalf of the seller;
 - iii) Settlement monies are flagged in favour of the seller in CMU's DvP Cash Operational Account (this is reflected as an update in entitlement records of the Settlement Token representing the transfer to the seller).
 - iv) Simultaneously, digital bond tokens move from the CMU's DvP Securities Operational Account to the buyer's Digital Token Account.
 - v) The equivalent amount of cash will be transferred from the CMU's DvP Cash Operational Account to the seller's fiat cash account. Settlement Tokens will be burnt.
- (c) Delivery versus Payment occurs when the Settlement Token is updated in the name of the seller and simultaneously the digital bond tokens are credited to the buyer's Digital Token Account, reflecting the transfer of legal title to the DN Notes.
- (d) Following completion of the transaction, fiat cash and digital bond token reflected as being credited to the relevant participant's cash account at HSBC associated with the Platform and Digital Token Account on the Platform (as applicable) are immediately available for use by the relevant participant for carrying out subsequent transactions in the DN Notes through the Platform.

DPs can move the fiat cash out of its cash account if no further bond transactions to be settled for the day.

Note that after a settlement instruction for a secondary market transaction is generated on the Platform, if any participant to the transaction does not have sufficient digital bond tokens or fiat cash (as the case may be) to settle the trade, the transaction will be in pending settlement status until otherwise cancelled by the buyer and seller.

A transaction that is pending settlement will not be cancelled by the system until it has sufficient digital bond token or fiat cash for settlement. However, if the buyer and seller agree not to proceed with the trade, they can cancel their respective instructions manually on the Platform.

9.2 Transaction between a DP and a Non-DP

For the avoidance of double, a DP who is holding the DN Notes through CMUP is also a non-DP.

9.2.1 Settlement Window

Settled across the book of the HKMA in CMUP's real-time window from 8:30 a.m. to 6:30 p.m. Hong Kong time except Saturdays, Sundays and public holidays in Hong Kong.

9.2.2 Settlement Means

The transactions are settled in real-time DvP or real-time FoP basis. For DvP transactions, money settlement is effected through the RTGS systems in Hong Kong. For CMU Members who are not direct participants of the respective RTGS systems, they can appoint a settlement bank to handle the money settlement arising from CMU transactions.

DPs can send transfer instructions via SWIFT MT54X or create via the front-end terminal of the Platform. Non-DPs can send instructions via CMT or SWIFT. Illustrated examples of MT54X are attached at Annex 2 for your easy reference.

9.2.3 Settlement Process Flow

9.2.3.1 For DP who is a seller and non-DP a buyer

Before settlement with a non-DP can take place, the DP who is a seller is required to transfer the DN Notes to the CMU's DSI Digital Token Account on the Platform by way of FoP before transferring the DN Notes to a non-DP in CMUP. DvP will not be supported for the transfers of DN Notes to/from the Platform to the CMUP.

On the Platform

If the DP is a seller, the real-time FoP process flow is as follows:

- (a) On or before settlement day, for a DP who is a seller, it is required to send a FoP instruction for the transfer of DN Notes to CMUP (via SWIFT MT542 or input via the front-end terminal of the Platform). Once the instruction is sent out, the DP is required to inform the CMU via email or phone call if immediate attention by the CMU is required.
- (b) Upon receipt of the FoP deliver instruction, the Platform will convert the counterparty of the FoP deliver instruction to that of the CMU DSI account

such that a receipt of DN Notes instruction will be pending for matching by the CMU. CMU will then input a FoP receipt instruction to match with that on the Platform.

- (c) On settlement day, if the DP has sufficient digital bond tokens in its Digital Token Account, atomic settlement takes place on the Platform. Digital bond tokens will be debited from the seller's Digital Token Account and transferred to the CMU's DSI Digital Token Account held by CMU on behalf of the seller DP.

On CMUP

- (d) The receiving party of the DN Notes is also required to send a FoP receipt instruction (via SWIFT MT540 or input via CMT) to the CMUP before the specified input cut-off time as stipulated in clause 12 (operational timetable) below.
- (e) CMU will then credit the DN Notes to the receiving party's Securities Account at CMUP upon completion of steps (a) to (d) referred to in this clause 9.2.3.1
- (f) The process flow on transfer of DN Notes between two non-DPs should be referred to clause 9.3 below.

9.2.3.2 For non-DP as seller to DP (on the Platform) as buyer

If a non-DP wishes to sell the DN Notes to a DP, it is required to settle the DvP or FoP transaction with the DP in CMUP first. The process flow on transfer of DN Notes between two non-DPs should be referred to clause 9.3 below. Upon completion, the buyer who is a DP can FoP transfer the DN Notes back to its own Digital Token Account on the Platform or retain it in its Securities Account in CMUP at its own discretion.

On CMUP

- (a) Upon completion of the transaction in CMUP, if the DP wishes to deliver the DN Notes back to its Digital Token Account on the Platform, the DP is required to send a FoP deliver instruction (via SWIFT MT542 or input via CMT) to the CMUP before the specified input cut-off time as stipulated in clause 12 (operational timetable) below. DvP will not be supported for digital bond token transfer to/from the CMU DSI account.
- (b) CMU will then debit the DN Notes from the seller's Securities Account at CMUP upon completion of step (a) above and deliver the transfer amount of DN Notes to the buyer's Securities Account at CMUP.

On the Platform

- (c) On or before settlement day, the DP is required to send a FoP receipt instruction for the transfer of DN Notes from CMUP (via SWIFT MT540 or input via the front-end terminal of the Platform). Once the instruction is sent out, the DP is required to inform the CMU via email or phone call if immediate attention by the CMU is required.
- (d) Upon receipt of the FoP receipt instruction, the Platform will convert the counterparty of the FoP receipt instruction to that of the CMU DSI Digital Token Account such that a delivery of DN Notes instruction will be pending for matching in CMU DSI Digital Token Account. CMU will then input a FoP deliver instruction to match with that on the Platform.
- (e) Once the instruction is matched, atomic FoP settlement takes place on the Platform. Digital bond tokens will be debited from CMU's DSI Digital Token Account and transferred to the DP's Digital Token Account.

9.3 Transaction Between Two non-DPs in CMUP

For the avoidance of double, a DP who is holding the DN Notes through CMUP is also a non-DP.

9.3.1 Settlement Window

Settled across the book of the HKMA in CMUP's real-time window from 8:30 a.m. to 6:30 p.m. Hong Kong time except Saturdays, Sundays and public holidays in Hong Kong.

9.3.2 Settlement Means

Transactions from CMUP to CMUP are settled in real-time DvP or real-time FoP basis in CMUP. For DvP transactions, money settlement is effected through the RTGS systems in Hong Kong. For CMU Members who are not direct participants of the respective RTGS systems, they can appoint a settlement bank to handle the money settlement arising from CMU transactions.

Non-DPs can send instructions via CMT or SWIFT of which illustrated examples of MT54X are attached at Annex 2 for your easy reference

9.3.3 Settlement Process Flow

The clearing and settlement of DN Notes between two non-DPs (i.e. between two CMU Members) in the CMUP system are described in clause 4 in Part II of

the CMU Reference Manual. Please refer to the clause for the detailed processing flow. Non-DPs can send instructions via CMT or SWIFT of which illustrated examples of MT54X are attached at Annex 2 for your easy reference.

Specifically, for a DP who wishes to deliver the DN Notes to its account in Euroclear or Clearstream, it has to transfer the DN Notes to its Securities Account in CMUP first in accordance with the procedure as described in clause 9.2 above. Upon receipt of the DN Notes in its CMUP account, onward delivery can be made to HKNE000 for Euroclear and CIHK008 for Clearstream in the CMUP system. For receipt of the DN Notes in Euroclear or Clearstream, CMU Members have to refer to the respective ICSD system's business scope and operating procedure manuals.

10 Contingency Arrangement

HSBC has system failover arrangement and backup & recovery process in place to cater for system disruption. In case there is prolonged disruption to the access to the Platform, with prior approval from the HKMA, HSBC will provide the point-in-time balance and transactional information regarding transfers of the digital bond tokens to CMU for reconciliation with DPs. The HKMA will then issue email notice to DPs to announce the triggering of the Business Continuity Procedure termination events (BCP Termination Event) arrangement.

In the event of the occurrence of a BCP Termination Event and following the giving of the BCP Notice in relation thereto by the Issuer, the CMU shall upon the Issuer's instructions, in accordance with the Platform related documentation, without consultation with any party and without any DPs' approval, commence the bond migration by transferring the record of legal title to the DN Notes determined by the HKMA from the Platform to the CMUP, where the HKMA will record such legal title as beneficial interests in the CMU Securities Accounts of the DPs (other than the CMU-DSI).

Following such bond migration, the DPs will no longer hold legal title to the DN Notes and instead will holding beneficial interests in the DN Notes in the respective CMU Securities Accounts of the relevant CMU Members. The CMU-DSI will also no longer hold legal tile to the DN Notes, although beneficial interests held by CMU Members through the CMU-DSI as intermediary will remain in the respective CMU Securities Accounts of the relevant CMU Members.

Upon a BCP Notice in relation to a BCP Termination Event being given to DPs, all DPs (whether for their own account or acting as intermediary or custodian for investors) will be deemed to consent to such bond migration and shall assist the Platform Operator as it directs in such bond migration.

By confirmation of the balance information from DPs to the HKMA, all DPs agreed that the HKMA is deemed to have been authorised by the DPs to move their entire DN Notes holdings to the CMU DSI Digital Token Account for immobilisation into their own Securities Accounts in CMUP. Upon receipt of confirmation, CMU will migrate the DN Notes holdings to the CMUP accordingly.

Upon the migration, CMUP will serve as the legally definitive database of the legal title entitlements of the DN Notes.

All unsettled trades on the Platform will be disregarded and DPs will be required to re-submit instructions on CMUP.

Continuity arrangements for the Platform, including a Business Continuity Plan, are set out in the Platform Rulebook Supplement.

11 General Custody Operations

11.1 Corporate Actions (CA) Announcement

(a) Issuer (or its agent)

Currently, the Platform does not support distribution of CA¹ information or announcement on the platform itself. When the issuer or its agent wishes to make CA announcement, the CMU will send to DPs/non-DPs via email.

The HKMA is not responsible for verifying the accuracy or completeness of information and reports the CMU receives for dissemination to CMU Members and users / participants of the Platform. As such, the HKMA accepts no liability for any inaccuracy or incompleteness of such information. Neither does the HKMA accept liability for the timely delivery of the reported information to CMU Members and users / participants of the Platform.

(b) Entitled DN Notes holders on the Platform

Once a CA event notification is announced, DPs will be notified of the upcoming CA applying to the DN Notes which they hold on the Platform. The entitled holding is fixed on record date or on actual date, according to the terms and conditions of the relevant CA.

(c) Holders of the bonds in CMUP

¹ Please refer to Part II clause 5.5.1 of the CMU Reference Manual for the meaning of CA (i.e. Corporate Action).

Non-DPs which are CMU Members will also be notified of the upcoming CA events via email or any communication means as advised by the HKMA from time to time.

11.2 Coupon/Redemption Payments

On announcement notification date (before the payment day)

The paying agent is responsible for updating the Platform (based on the coupon/redemption payment information specified in the issuance documents) the upcoming coupon/redemption amount before the coupon payment dates. Upon completion of the update, it is required to inform the CMU to review and accept it. Income notification report or SWIFT MT564 will then be generated by the platform and sent to the relevant DPs.

The CMU will also notify non-DPs who hold the DN Notes in CMUP Digital Token Account via email of the upcoming payment.

On the payment date

Income distribution will be effected on the Platform by way of distribution of the relevant amount to the relevant DPs' fiat cash accounts with HSBC.

To make available the required amount for income distribution on the Platform, the paying agent is required to credit CMU's the relevant coupon account at HSBC as stipulated in clause 4.9 of this supplement as soon as possible on the payment day. Upon receipt of funds, the Platform will distribute the income proceeds automatically to DPs' fiat cash accounts at HSBC in accordance with the holding records in their Digital Token Accounts at the closing of record date.

There will be no Settlement Tokens involved in the entire coupon or redemption processes, only fiat cash movement will be involved.

As for non-DPs, CMU will distribute the income proceeds to their Settlement Accounts at CHATS or at their settlement bank in accordance with their settlement instructions record maintained at CMUP when they first joined CMU as members. For redemption, the DN Notes will be marked with "fully redeemed" in the respective DP's Digital Token Accounts. The Issuance Token representing the issuance held in the Issuer's Securities Issuance Account will also be marked as "bond fully redeemed".

In the event that a Securities Account in CMUP or a Digital Token Account on the Platform or a DP's fiat cash account with HSBC is suspended due to whatever reason (e.g. sanction, bankruptcy event etc.) rendering the CMU's

inability to distribute income payments to it, CMU will return the said entitled proceeds to the paying agent.

12 Operational Timetable

The following timetable summarizes the cut-off times for various services on the Platform on a normal settlement day. In general, as long as the CMU is open for business (see Part I clause 8 of the CMU Reference Manual), the services on the Platform will generally be supported as well.

Time	Event
00:00	Start time for DvP/FoP settlement between two DPs for the current value date
08:30	Start time for DvP/FoP settlement between DPs and non-DPs for the current value date
Before 12:00	Primary issuance for Digital Bond
17:00	Cut-off time for FoP instructions sent to CMU's DSI account on the Platform and CMUP
18:30	Cut-off time for digital bond token transfer, DvP/FoP settlement between 2 non-DPs for the current value date
23:30	Cut-off time for digital token transfers, DvP/FoP settlement between 2 DPs for the current value date

13 Fees

The current prevailing CMU tariff schedule with respect to CMU Members' use of the CMU service (see Part I clause 6 of the CMU Reference Manual for further details) also applies to the use of transfer of DN Notes on the Platform. However, the operation and use of the Platform may incur infrastructure charges by third parties in accordance with the "Platform Rule Book Supplement" which shall include the Platform Provider.

Fee structure arrangements for the Platform are detailed in the Platform Rulebook Supplement.

14 *Reporting*

DPs can login to the Platform to check their holdings of digital tokens for reconciliation purpose after value date cut-off of the Platform. They can also subscribe to receive SWIFT MT535 (statement of holdings) from the Platform. As for non-DPs, they have to login to CMT to get the relevant reports and real-time transaction information from time to time.

15 *Termination of DP on the Platform*

If a DP no longer wishes to be a DP, it is required to give at least 30 business days' notice in writing to the HKMA. By the close of business on the date of termination, all the Digital Token Account(s) in the name of the CMU Member will be closed. The DP is required to transfer out all the digital bond tokens in the Digital Token Account(s) before 6:00 p.m. on that day.

16 *Suspension/Termination of CMU Membership*

In general, suspension or termination of CMU membership on the Platform due to member default follows the terms of the CMU Membership Agreement. Please refer to Part I clause 3.5 of the CMU Reference Manual for further details.