An Assessment on the Benefits of Bond Tokenisation

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Summary

By bringing bond issuance process onto a digital platform, tokenisation can automate the issuance process for bonds, shorten settlement cycles, enable transactions without intermediaries, and fractionalise bond ownership. Given these advantages, bond tokenisation has the potential to boost issuance efficiency and market liquidity. Using a unique dataset, we find that tokenised bonds benefit from a reduction in underwriting fees of 0.22 percentage point (ppt), and lower borrowing costs by 0.78 ppt on average compared to similar conventional bonds by the same issuer. Our estimates show that tokenised bonds exhibit higher liquidity, with a lower bid-ask spread than that on similar conventional bonds by 5.3%. The liquidity gain is even doubled to 10.8% if the bond is open to retail investors. In addition, tokenised bonds may facilitate price discovery of similar conventional bonds, as the latter’s bid-ask spreads are found to be
tighter by 8.5% after issuance of the former. Our findings have two policy implications. First, a wider use of tokenisation in bond issuance may be considered to enhance the efficiency and liquidity of bond markets. Second, policies to broaden the investor base of tokenised bond market would pave the way for unlocking the potential benefits of tokenisation. While our sample size is small, it is representative of the nascent tokenised bond market, and potential small-sample bias has been minimised by the use of the Wilcoxon signed-rank test, which is a commonly used statistical test in small-sample studies. That said, readers should still interpret our results with caution.