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Digital currencies – An institutional payments toolkit

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From stablecoins to tokenised deposits, treasurers can enjoy the benefits of digital currencies while meeting the needs of regulatory compliance and risk management.

- Digital currencies present opportunities for treasurers to enjoy 24/7 access to liquidity, automation, and broad efficiency gains.
- Different types of digital currencies have their own use cases, with tokenised deposits well-suited to whole transfers and stablecoins for retail payments.
- Realising interoperability is essential for overcoming fragmentation and achieving institutional scale.

The conversation around digital currencies has matured significantly. It is no longer defined by discussions over which kind of token will ultimately prevail, as the financial industry increasingly recognises that tokenised money represents a diverse toolkit, with different instruments suited to different functions.

Among institutions, there is growing interest in currencies that exist on distributed ledger technology (DLT or “blockchain”) like Central Bank Digital Currencies (CBDCs) and regulated stablecoins.



There is more clarity on the use cases of digital currencies than ever before. More treasurers are realising that they can enjoy the benefits of digital currencies, while maintaining the highest levels of regulatory compliance and risk management.”

Lewis Sun | Global Head of Digital Currencies, HSBC

And the benefits are numerous. Tokenised deposits, for instance, are a form of commercialised bank money that allow for 24/7 access to liquidity.

This can be illustrated by the real-life example of a company that has weekend payout obligations. When using traditional forms of money, the corporate treasury has to prefund the account on the Friday, based on forecasted needs. Transfer too little and the payment could fail. Transfer too much and the excess liquidity will lay idle.

But tokenised deposits remove the need for pre-funding, as just-in-time funding can come out of an operational account whenever demand arises, even if that is during non-office hours.

Beyond speed, digital currencies also allow for money to be automated to an unprecedented degree via the use of programmability via smart contracts – digital contracts on a DLT that automatically executes when the conditions of a transaction are met.

What programmability mean in practice is that conditional payments can be easily integrated into a treasury's workflows. Or an institutional investor can use a smart contract to conduct atomic delivery-vs-payment settlement of a digital asset so that the transfer of an asset and the payment happen simultaneously. Both these use cases result in greater efficiency in processing, reporting, and dispute handling.

The digital currency spectrum

Each kind of digital asset has its own architecture, risk profile, and purpose. Treasurers looking to realise the benefits of tokenised money should familiarise themselves with the different kinds of currency on offer and how they relate to their business needs.

1. CBDCs – state-backed digital money

The most secure form of digital currency is CBDCs, as they are anchored by sovereign power and issued directly by a central bank, these digital currencies have the full credit of state money.

There has been a sharp rise in CBDC initiatives across the world, as the governments look to take part in shaping the future of money. There are currently 146 countries and currency unions, representing over 98% of global GDP, that are exploring CBDCs¹, compared with just 87 in 2022.

One of the most interesting developments in the CBDC space is their use in large cross-border payments. Project mBridge is an international payment platform – backed by major central banks in Asia and Middle East – that aims to offer cost-efficient cross-border payments. It has already been used to process more than 4,000 transactions with a cumulative value of around USD 55.5 billion, up from USD 22 million in its 2022 pilot².

HSBC has been involved in mBridge since its inception in 2021³, working with the central banks driving the project to enable 24/7 payments and reduce the time and costs associated with cross-border payments⁴. We are also bringing our technical and commercial insight into the potential design options of an e-HKD in Hong Kong, helping one of the world's leading financial centres explore the potential of digital money⁵.

Beyond China, HSBC is involved in CBDC and industry initiatives projects with several other central banks, including those of the UK, France, Canada, Singapore, Thailand and the UAE, acting as a trusted adviser on policy, operating models and technology decisions.

2. Tokenised deposits – digitised fiat bank money

Tokenised deposits occupy a different position on the spectrum. Rather than replacing commercial bank money, they represent it in a new form: a digital token on a DLT that corresponds one-for-one with a conventional deposit held at a regulated bank.

The currency risk and credit risk remain the same. The change is in the underlying infrastructure, which creates a range of improvements in the payments space. Settlement, for example, becomes a single operation where transfer and payment happen simultaneously. In addition, the value proposition of digital money for 24/7 and near-instantaneous movement of value stays as operational constraints created by cut-off points and time zones today in the banking world disappear.

Tokenised deposits are well suited to wholesale transfers. As commercial bank money on a DLT, they have the same legal status as a standard deposit, providing a treasurer with the level of certainty towards counterparty risk and finality as they would in a traditional transfer.

Tokenised deposits are already being used by large companies to conduct instant settlement for remittance and payments. HSBC worked closely with Ant International as a strategic co-creation partner in the development and launch of the Tokenised Deposit Service (TDS), helping to validate the solution against the operational, scalability and resilience requirements of a global treasury environment.

The partnership has already resulted in the successful production launch for the cross-border transfer of tokenised deposits using ISO 20022 standards in 2025 – a landmark on the path to create a connected, always-on currency ecosystem, which provides companies with greater choice when managing liquidity globally⁶.

“Our collaboration with HSBC goes beyond adopting a new payment capability. Together, we have helped demonstrate how tokenised deposits can be applied in a real-world treasury environment with the resilience, governance and operational robustness required for institutional use. The Tokenised Deposit Service supports our ambition to enable real-time payments and liquidity

management on a global basis, while helping shape the future of digital treasury infrastructure.” said Kelvin Li, General Manager of Platform Tech, Ant Financial.

HSBC's Tokenised Deposit Service offering already covers the world's major treasury centres, with Hong Kong, Luxembourg, Singapore, the UK, and the US, all part of our global network – supporting EUR, HKD, GBP, SGD, USD. And in June, the AED was added to list, following the launch of tokenised deposits in the United Arab Emirates⁷.

3. **Stablecoins – regulated private money**

Moving further along the digital currency spectrum, there are privately issued tokens, such as stablecoins. These are tokens that are pegged to a reference currency, typically the USD.

Stablecoins are an important part of cryptocurrency markets, with the value of these tokens in circulation around USD 315 billion⁸. But the lack of regulatory oversight has limited institutional adoption in more conventional payment settings.

The situation is changing rapidly, as regulators introduce detailed frameworks to govern stablecoins. The new rules aim to protect users by imposing strict reserve requirements, while at the same time preventing illicit activity with rules related to Know Your Customer (KYC) and anti-money laundering (AML).

Last summer, the US signed into law the GENIUS Act⁹, its first federal regulatory framework for stablecoins. Hong Kong has a new stablecoin ordinance¹⁰ and there is a stablecoin consultation taking place in the UK¹¹.

HSBC is also active in this area, as it was recently granted a license by the Hong Kong Monetary Authority (HKMA) to issue a stablecoin in Hong Kong¹².

The stablecoin will be launched in the second half of 2026 and will be used for everyday transactions, like peer-to-peer payments and subscribing to tokenised investments. Furthermore, they will be fully backed at all times by high-quality

liquid assets held in segregated accounts, while meeting the highest standards of financial compliance.

Stablecoins are designed for reach – to move freely between wallets without a bank as an intermediary. This openness is especially suitable for retail payments, as individuals can easily sign up to an app and transact across platforms with merchants or other individuals.

Promoting interoperability

Each of the digital currencies considered so far solves a problem in isolation, with many products running on distinct blockchains that could be specific to a particular bank, asset class, or currency.

The next step is to reduce this fragmentation and make sure that different solutions can work together. In fact, achieving interoperability is a necessary requirement for reaching institutional scale.

HSBC is already exploring multi-chain strategies to ensure that tokenised money can go where clients need it to be. The bank recently completed a simulation of the issuance, transfer, and settlement of tokenised deposits on the Canton Network – a public DLT designed for use by regulated institutions¹³. The successful pilot showed that the Tokenised Deposit Service is fully functional on an external DLT network, paving the way for interoperability across different institutions and use cases.

This is just one of a number of industry initiatives underway that aim to increase connectivity in the emerging digital currency ecosystem. Project Agora is a public-private collaboration that looks to reduce inefficiencies associated with wholesale cross-border payments by developing a solution where tokenised bank deposits and tokenised central bank reserves operate on a single platform¹⁴. And in the US, The Clearing House has announced a project to connect on-chain activity with traditional payment rails¹⁵.

An important aspect of interoperability is creating a link between digital currencies and digital assets so that the purchase of tokenised securities can take place

seamlessly on digital rails, without the need for any manual settlement and reconciliation. For example, the latest stage of Hong Kong's Project Ensemble, Ensemble^{TX}, aims to improve allocation of tokenised deposits in tokenised money market funds¹⁶.

The future of payments

The evolution of payments is well underway, as tokenisation and programmable money become increasingly central to how value moves around the world. But this new technology will be a layer on top of existing infrastructure rather than a replacement.

Progress will be driven by client demand. Treasurers will adopt new forms of money to solve the real problems that they face – such as slow settlement, idle liquidity, or payments that have to go through multiple intermediaries before they reach the recipient.

There will be a learning curve across the industry, as the payment ecosystem continues to change faster than at any time in recent memory. Staying abreast of what is both possible and practical will become be a core competency for treasurers, and not just an area of focus for tech specialists.

For HSBC, leadership in digital currencies is about more than technology. It is about building on trust that the bank has built with clients over generations. Treasurers need a partner that can cut through complexity, separate the transformative from the novel, and ensure that innovation always serves their interests.

“Matching treasurers with the tools they need to address their payment pain points will be a banking partner's key responsibility,” said Lewis Sun, Global Head of Digital Currencies, HSBC. “It is important to remember that the best solution might not require the most sophisticated technology.”

Digital currencies are no longer a question of if, but when. And HSBC is here to help our partners navigate the future of payments.

References

¹ Atlantic Council

² ibid

³ HSBC

⁴ HSBC

⁵ HSBC

⁶ Ant International

⁷ HSBC

⁸ CoinMarketCap

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¹⁰ HKMA

¹¹ Bank of England

¹² HSBC

¹³ Trade Treasury Payments

¹⁴ BIS

¹⁵ The Clearing House

¹⁶ HKMA