

# HONG KONG INTRODUCES REGULATORY REGIME FOR STABLECOIN ISSUERS

## Key takeaways

- A licensing regime will be introduced for those who: (i) issue an FRS in Hong Kong; (ii) issue an HKD-referenced stablecoin; or (iii) actively market its FRS issuance to the Hong Kong public.
- Key licensing criteria will include: (i) the full backing of issued FRS by reserve assets; (ii) minimum paid-up share capital of HK\$25 million or 1% of par value of issued FRS (whichever is higher); and (iii) certain localisation requirements.
- Offering of FRS in Hong Kong can only be conducted by a specified group of regulated entities (including authorized institutions, licensed corporations and licensed virtual asset trading platforms).
- Detailed drafting has not yet been issued. The bill is expected to be introduced into the Legislative Council later this year.

## Background

The Financial Services and the Treasury Bureau (FSTB) and the Hong Kong Monetary Authority (HKMA) issued a [consultation paper](#) in December 2023 on a proposal to regulate fiat-referenced stablecoin (FRS) issuers in light of the potential monetary and financial stability risks posed by FRS (e.g. the TerraUSD collapse) and the policy objective of fostering a sustainable virtual asset ecosystem in Hong Kong. The [consultation conclusions](#) were recently issued confirming the features of the regime.

## Scope

### What FRS-related activities will be regulated?

Broadly speaking, activities related to FRS issuance, marketing of the issuance and offering of FRS may be regulated. In particular, an FRS issuer will require a licence from the HKMA (**FRS Licence**) in certain circumstances.

### What is an FRS?

The regime will only be triggered if the product in question is an FRS, which is defined as a stablecoin where the specified asset is one or more fiat currencies. Commodity-linked stablecoins will therefore be excluded from the regime.

A “stablecoin” is a cryptographically secured digital representation of value that, among other things:

- (i) is expressed as a unit of account or store of economic value;
- (ii) is used (or intended to be used) as a medium of exchange accepted by the public for payment for goods or services, discharge of a debt and/or investment;
- (iii) can be transferred, stored or traded electronically;
- (iv) is operated on a decentralised distributed ledger or similar technology; and
- (v) purports to maintain a stable value with reference to a specified asset, or a pool or basket of assets.

Deposits, certain securities and futures contracts, float stored in stored value facilities (SVF), SVF deposits, central bank digital currencies, limited purpose digital representations of value (i.e. those that can only be used as a means of payment for goods or services provided by the issuer) will be excluded from the definition.

## What triggers the requirement for an FRS Licence?

- (i) Issuing or holding oneself out as issuing an FRS in Hong Kong;
- (ii) Issuing, or holding oneself out as issuing, a stablecoin that purports to maintain a stable value with reference to the value of the Hong Kong dollar; or
- (iii) Actively marketing its issuance of FRS to the public of Hong Kong.

Whether an FRS is “issued in Hong Kong” will depend on the facts and circumstances of each case, including factors such as place of incorporation, location of operations and use of Hong Kong bank accounts. Further guidelines will be released to clarify this.

The issuance of HKD-referenced stablecoin whether in or outside Hong Kong will be caught.

The scope of “actively market” to the Hong Kong public will take reference from the SFC’s existing approach<sup>1</sup>, including factors such as the language used in marketing, whether it is targeted at a group of people residing in Hong Kong and whether a Hong Kong domain name is used. Agents or intermediaries actively marketing a *licensed* entity’s FRS issuance will not generally be considered as issuers themselves and would not require an FRS licence. However, it will be an offence for any person to advertise the FRS issuance of an unlicensed issuer.

## FRS licensing regime

### Who is eligible to become licensed as an FRS issuer?

All entities would be eligible to apply for an FRS Licence provided they demonstrate they meet the applicable licensing criteria.

### What are the licensing criteria?

The table below sets out some of the key licensing criteria and conditions. Authorized institutions<sup>2</sup> (AIs) are not subject to the criteria shaded in grey below to avoid overlap with existing banking regulations.

Management of reserves and stabilisation mechanism	
1.	<b>Full backing:</b> the value of the reserve assets backing an FRS must be at least equal to the par value of the FRS in circulation at all times.
2.	<b>Investment limitations:</b> the reserve assets must be of high quality and high liquidity <sup>3</sup> with minimal market, credit and concentration risk. Reserve assets should be held in the referenced currency, with flexibility allowed on a case-by-case basis.
3.	<b>Segregation and safekeeping of reserve assets:</b> an effective trust arrangement to ensure segregation of the reserve assets from other assets. Segregated accounts for reserve assets must be established with licensed banks or, subject to putting in place arrangements satisfactory to the HKMA, other asset custodians.
4.	<b>Risk management and controls:</b> adequate policies and controls for the proper management of all investment activities associated with the management of the reserve assets.

<sup>1</sup> See SFC’s [FAQ](#) on “actively markets”.

<sup>2</sup> An authorized institution means a licensed bank, a restricted licence bank or a deposit-taking company under the Banking Ordinance.

<sup>3</sup> In general, these may include (a) coins and banknotes, (b) deposits placed with licensed banks, (c) marketable securities representing claims on or guaranteed by governments, central banks or qualified international organisations with high credit quality, (d) overnight reverse repurchase agreements with minimal counterparty risk backed by these securities and (e) tokenised versions of the above assets.

5.	<b>Disclosure and reporting:</b> the total amount of the FRS in circulation, the market-to-market value of reserve assets and the composition of reserve assets must be disclosed regularly to the public. A qualified and independent auditor must be engaged to perform regular attestation.
6.	<b>Prohibition on paying interest:</b> interest must not be paid to FRS users.
7.	<b>Effective stabilisation:</b> the FRS issuer must be ultimately responsible for ensuring the effective functioning of the stabilisation mechanism of the FRS it issues, even if third parties are engaged.
<b>Redemption requirements</b>	
8.	<b>Right of redemption:</b> FRS users should have the right to redeem their FRS at par value with the FRS issuer and have a claim on the reserve assets. Redemption requests must be processed without undue costs on a timely basis (usually within one business day).
<b>Restrictions on business activities</b>	
9.	<b>New lines of business:</b> the FRS issuer must seek the HKMA's approval before it commences any new lines of business.
10.	<b>Permitted activities:</b> the FRS issuer will be permitted to conduct activities that are ancillary or incidental to its issuance of FRS, such as providing wallet services for the FRS it issues to facilitate the issuance and redemption processes. The FRS issuer should not carry on lending and financial intermediation or other regulated activities.
<b>Physical presence in Hong Kong</b>	
11.	<b>Incorporation:</b> the FRS issuer must be a company incorporated in Hong Kong and have a registered office in Hong Kong.
12.	<b>Key personnel:</b> the chief executive, senior management team and key personnel <sup>4</sup> of the FRS issuer must be based in Hong Kong and exercise effective management and control of its FRS issuance and related activities.
<b>Financial resources requirements</b>	
13.	<b>Minimum paid-up share capital:</b> either HK\$25,000,000 or 1% of the par value of FRS in circulation, whichever is higher.
<b>Disclosure requirements</b>	
14.	<b>White paper:</b> the FRS issuer must publish a white paper to disclose, among others, the mechanism and procedures for issuance, distribution and redemption, rights of potential FRS users, and applicable conditions and fees for redemption.

<sup>4</sup> Key personnel include the functional heads of operations, IT systems, financial management, control and risk management, compliance and internal audit.

15. **Controllers, chief executives and directors:** must be fit and proper persons, and their appointment, together with any changes in ownership or management of the FRS issuer, require the prior consent of the HKMA.

Certain other criteria, including requirements on risk management, audit and anti-money laundering controls, will also apply.

### Offering of FRS

#### Who can offer an FRS?

The offering<sup>5</sup> of an FRS does not itself require an FRS Licence. However, only “specified licensed entities” can offer an FRS in Hong Kong or advertise their offering of FRS to the public of Hong Kong, and such entities would need to comply with the relevant regulatory requirements applicable under their respective regimes.

The “specified licensed entities” are HKMA-licensed FRS issuers (but only in relation to the offer of its own FRS), SFC licensed corporations and licensed virtual asset trading platforms. Licensed virtual asset OTC (VA OTC) service providers may be included in the future after the VA OTC regime is established.

#### Can FRS be offered to retail investors?

FRS of FRS Licensed entities can be offered to retail investors.

FRS issuance by non-FRS Licenced entities which do not trigger the FRS licensing regime (e.g. a non-HKD FRS issuance outside Hong Kong which is not being actively marketed to the Hong Kong public) can be offered to professional investors but not retail investors. In the future, Hong Kong may consider retail access under a passporting or similar arrangement to recognise non-HKMA licensed FRS issued outside Hong Kong that is subject to equivalent regulation.

### Next Steps

A sandbox was launched in March 2024 which so far includes **three participants**. Through the sandbox, the HKMA allows institutions with plans to issue stablecoin in Hong Kong to conduct testing on their operational plans. Those who are interested to join the sandbox can submit their enquiries and applications to the HKMA.

Upon the effective date of the new regime, pre-existing FRS issuers that are conducting FRS issuance activities with a substantial and meaningful presence in Hong Kong may continue to operate for 6 months, on condition they have submitted a licence application to the HKMA within the first three months of the commencement of the new regime. Pre-existing FRS issuers that do not submit a licence application within this timeframe must close down its business in an orderly manner by the end of the 4<sup>th</sup> month of the commencement of the regime.

The commencement date is not yet confirmed, but a bill to implement the regime is expected to be introduced into the Legislative Council later this year. The HKMA will issue further guidelines to facilitate understanding of and compliance with the requirements.

## CONTACT



VINCENT CHAN  
PARTNER  
T: +852 2901 7220  
E: [vincent.chan@slaughterandmay.com](mailto:vincent.chan@slaughterandmay.com)

<sup>5</sup> Offering an FRS means communication to the public, in any form or any means, presenting sufficient information on the term of the offer and channels through which the FRS is to be offered so as to enable a person to decide whether to acquire the FRS.