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## Hong Kong's Proposed Regulation of Fiat-referenced Stablecoin Issuers

On 17 July 2024, the Financial Services and the Treasury Bureau (**FSTB**) and the Hong Kong Monetary Authority (**HKMA**) jointly published the [Consultation Conclusions](#)<sup>1</sup> on their legislative proposal to implement a regulatory regime for fiat-referenced stablecoin issuers in Hong Kong (**Proposed Fiat-referenced Stablecoin Regulatory Regime**) as proposed in their December 2023 [Consultation Paper](#).<sup>2</sup>

Chief Executive, John Lee, has since announced in his [2024 Policy Address](#)<sup>3</sup> delivered on 16 October 2024 that the HKMA and FSTB are planning to introduce a bill to the Legislative Council this year to implement the proposed regulatory regime. For further details of the Chief Executive's 2024 Policy Address, please see our [October 2024 newsletter](#).

## Background to Hong Kong's Proposed Fiat-referenced Stablecoin Regulatory Regime

In line with Hong Kong's development as a virtual asset hub, the FSTB and HKMA are collaborating with other Hong Kong financial regulators to provide a comprehensive framework regulating a wide-range of virtual asset related activities. The FSTB and HKMA are of the view that stablecoins, and fiat-referenced stablecoins in particular, present a potential risk to monetary and financial stability due to the potential for them to serve as a channel for risks to spill over from the virtual asset sector to the traditional financial system and vice versa. The initiative to regulate fiat-referenced stablecoins was first muted in the HKMA's January 2022 [Discussion Paper on Crypto-assets and Stablecoins](#)<sup>4</sup> and the January 2023 [Conclusion Paper](#).<sup>5</sup> The December 2023 Consultation Paper and July 2024 Consultation Conclusions referred to above give further details of the proposed regulatory regime.

## Current Regulatory Framework in Hong Kong

Under the current regulatory framework in Hong Kong, the licensing regime:

- for virtual asset service providers (**VASPs**) is overseen by the Securities and Futures Commission (**SFC**)

1 Financial Services and the Treasury Bureau/ Hong Kong Monetary Authority. July 2024. Legislative Proposal to Implement the Regulatory Regime for Stablecoin Issuers in Hong Kong – Consultation Conclusions

2 Financial Services and the Treasury Bureau/ Hong Kong Monetary Authority. December 2023. Legislative Proposal to Implement the Regulatory Regime for Stablecoin Issuers in Hong Kong – Consultation Paper

3 The Chief Executive's 2024 Policy Address, October 2024

4 Hong Kong Monetary Authority. January 2022. Discussion Paper on Crypto-assets and Stablecoins

5 Hong Kong Monetary Authority. January 2023. Conclusion of Discussion Paper on Crypto-assets and Stablecoins

under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (**AMLO**); and

- for stored value facilities (**SVF**) is overseen by the HKMA under the Payment Systems and Stored Value Facilities Ordinance (**PSSVFO**).

## Rationale for Hong Kong's Proposed Fiat-referenced Stablecoin Regulatory Regime

The FSTB and HKMA are proposing to introduce a stand-alone new piece of Hong Kong legislation to establish the Hong Kong regulatory regime for fiat-referenced stablecoin issuers in Hong Kong, rather than amending existing legislation such as the AMLO or the PSSVFO. The FSTB and HKMA made this decision based on the recognition that stablecoins and stored value facilities may have different features and a new ordinance is considered more suitable given the complex nature of the virtual asset market. They are also of the view that the new legislation can serve as the foundation for extending the regulatory regime to cover other virtual asset-related activities as necessary and appropriate in the future.

According to the FSTB and HKMA, the key policy objectives of Hong Kong's Proposed Fiat-referenced Stablecoin Regulatory Regime are to:

- put in place appropriate safeguards to address potential monetary and financial stability risks posed by fiat-referenced stablecoins;
- provide adequate protection to fiat-referenced stablecoin users;
- maintain Hong Kong's status as an international financial centre by putting in place an appropriate regulatory regime for fiat-referenced stablecoin issuers that is in line with international regulatory recommendations; and
- foster sustainable and responsible development of the virtual asset ecosystem in Hong Kong by providing legal and regulatory clarity.

## Definition of "stablecoin" under Hong Kong's Proposed Stablecoin Regulatory Regime

Under Hong Kong's Proposed Fiat-referenced Stablecoin Regulatory Regime, a "stablecoin" will be defined as a cryptographically secured digital representation of value that, among other things:

- is expressed as a unit of account or a store of economic value;
- is used, or is intended to be used, as a medium of exchange accepted by the public, for the purpose of payment for goods or services; discharge of a debt; and/or investment;
- can be transferred, stored or traded electronically;
- is operated on a decentralised distributed ledger (defined as "a distributed ledger in which no person has the unilateral authority to control or materially alter its functionality or operation") or similar technology; and
- purports to maintain a stable value with reference to a specified asset, or a pool or basket of assets.

Deposits, securities and futures contracts, float stored in stored value facilities (**SVF**) and SVF deposits, digital representations of fiat currencies issued by central banks and digital representations of value with limited purposes will be excluded from the definition.

## Definition of "fiat-referenced stablecoin" under Hong Kong's Proposed Stablecoin Regulatory Regime

Fiat-referenced stablecoins ("**Hong Kong fiat-referenced stablecoins**") will be defined as stablecoins where the referenced asset is one or more fiat currencies. The FSTB and HKMA have proposed that the issuance of a fiat-referenced stablecoin in Hong Kong will be a regulated stablecoin activity given that a Hong Kong fiat-referenced stablecoin could potentially become a commonly acceptable means of payment, which, in their view, would pose more imminent monetary and financial stability risks as compared to other types of stablecoins, such as commodity-referenced stablecoins.

## Scope of regulated activity under Hong Kong's Proposed Stablecoin Regulatory Regime

The Proposed Fiat-referenced Stablecoin Regulatory Regime will prioritise the regulation of fiat-referenced stablecoin issuance in Hong Kong. The question of what will be considered an "issuance" activity will generally be decided on a case-by-case basis according to the specific facts and circumstances. The regulators are intending to provide guidance to the industry on this issue when the licensing regime is implemented.

Some respondents to the consultation commented that the regulatory regime should also cover other activities such as private key storage and the provision of wallet services. In response, the FSTB and HKMA said that these activities will not be covered by the proposed regime. They are exploring their approach to regulating these activities in terms of risk management and user protection, and will engage the public and relevant stakeholders in the process in due course.

## Summary of the Licensing Regime under Hong Kong's Proposed Fiat-referenced Stablecoin Regulatory Regime

Under Hong Kong's Proposed Stablecoin Regulatory Regime, a licence from the HKMA will be required in order to:

- issue, or hold oneself out as issuing, a fiat-referenced stablecoin in Hong Kong;
- issue, or hold oneself out as issuing, a stablecoin purporting to maintain a stable value with reference to the value of the Hong Kong dollar; or
- actively market the issuance of fiat-referenced stablecoins to the public of Hong Kong.

During the consultation period, some respondents sought clarity around the concept of "actively marketing its issuance of fiat-referenced stablecoins to the public of Hong Kong" as they were unclear whether this is intended to cover only unlicensed fiat-referenced stablecoin issuers who actively market their own issuance in Hong Kong, but not agents or intermediaries engaged by the issuers. The consultation conclusions confirmed that any person, including issuers, agents and intermediaries, promoting the issuance of fiat-referenced stablecoins in Hong Kong by an unlicensed issuer will commit an offence. However, agents or intermediaries who actively market a licensed entity's issuance of fiat-referenced stablecoins to the Hong Kong public will not be regarded as issuing fiat-referenced stablecoins themselves, and will not require a licence to issue fiat-referenced stablecoins in Hong Kong. When determining whether a person is "actively marketing" an issuance of fiat-referenced stablecoins to the Hong Kong public, the HKMA will consider various factors similar to the approach adopted by the SFC including, among others, the language used in the marketing messages; whether the message is targeted at a group of people that resides in Hong Kong; and whether a Hong Kong domain name is used for its website.

Similarly, whether a fiat-referenced stablecoin is issued in Hong Kong will depend on the facts and circumstances of each case. The factors to be considered will include: the fiat-referenced stablecoin issuer's place of incorporation; the location of its operations; the provision of subsequent customer services to users of the fiat-referenced stablecoin; and whether a Hong Kong bank account is used to process issuance and redemption requests. The regulators will provide guidelines on these matters.

## Licensing Criteria and Conditions under Hong Kong's Proposed Stablecoin Regulatory Regime

The key licensing criteria and conditions under Hong Kong's Proposed Fiat-referenced Stablecoin Regulatory Regime are set out below:

### (a) Management of reserves and stabilisation mechanisms

#### (i) *Full backing:*

Issuers of fiat-referenced stablecoins in Hong Kong will have to ensure that the fiat-referenced stablecoins are backed by reserve assets with a value equal to or greater than the par value of the fiat-referenced stablecoins in circulation at all times. Issuers of fiat-referenced stablecoins in Hong Kong will also be required to demonstrate to the HKMA's satisfaction that they have put in place sufficient measures to comply with this requirement, for example, over-collateralisation arrangements. Issuers of fiat-referenced stablecoins that derive their value solely from arbitrage or algorithm will not be licensed in Hong Kong because the stablecoins are not backed by reserves.

(ii) *Investment limitations:*

Reserve assets will need to be of high quality and liquidity, with minimal market, credit and concentration risks. The regulators have said that high quality and high liquidity reserve assets may include coins and banknotes, deposits placed with licensed banks, marketable securities representing claims on or guaranteed by governments, central banks or qualified international organisations with high credit quality, overnight reverse repurchase agreements with minimal counterparty risk backed by these securities and tokenised versions of any of these assets. Issuers of fiat-referenced stablecoins in Hong Kong will be required to demonstrate to the HKMA that their proposed investments are suitable and have an investment policy for reserve assets that undergoes regular review.

(iii) *Segregation and safekeeping of reserve assets:*

Issuers of fiat-referenced stablecoins in Hong Kong will be required to put in place an effective trust arrangement to ensure the reserve assets are segregated and available to satisfy redemption requests and legal claims. The appointment of an independent trustee or a declaration of trust over the reserve assets will be considered as an acceptable trust arrangement. The HKMA should be given a draft of the relevant trust deed together with a draft of an independent legal opinion before implementation of the trust arrangement. Issuers of fiat-referenced stablecoins in Hong Kong will need to set up segregated accounts for the reserve assets with licensed banks in Hong Kong or, if approved by the HKMA, with other custodians. The FSTB and HKMA consider that safekeeping reserve assets with licensed banks in Hong Kong provides greater user protection in the case of business disruptions or failures. However, the HKMA will consider individual proposals from fiat-referenced stablecoins issuers on placing reserve assets in other jurisdictions on a case-by-case basis if they can demonstrate the need for the alternative arrangement, address any additional risks and show that the interests of fiat-referenced stablecoin users are not compromised. Issuers of fiat-referenced stablecoins in Hong Kong will also need to implement an internal control policy to safeguard reserve assets against operational risks, such as theft, fraud and misappropriation.

(iv) *Risk management and controls:*

Hong Kong fiat-referenced stablecoin issuers will need to have policies and controls to properly manage all their investment activities related to the reserve assets to ensure that sufficient funds and liquid assets will be available to satisfy redemption requests. They will also need to implement comprehensive liquidity risk management practices which should set out the strategy and tools for handling large-scale redemptions. Issuers of fiat-referenced stablecoins in Hong Kong will also be expected to conduct periodic stress testing to monitor the adequacy and liquidity of their reserve assets. They will also be required to formulate a reserve management policy to deal with both financial and operational risks in the course of managing their reserves.

(v) *Disclosure and reporting:*

Hong Kong fiat-referenced stablecoin issuers will be required to regularly disclose the total amount of fiat-referenced stablecoins in circulation, the mark-to-market value of reserve assets and the composition of reserve assets. The exact frequency of these disclosure has yet to be set, but the FSTB and HKMA have stated that they will strike a balance between the operational burden on issuers and the need for transparency. Issuers of fiat-referenced stablecoins in Hong Kong will also be required to appoint an independent auditor to attest to: the composition and market value of the reserve assets; the par value of fiat-referenced stablecoins in circulation; whether the reserve assets are adequate to fully back the value of fiat-referenced stablecoins in circulation and sufficiently liquid, as of the last business day of the period covered by the attestation; and the fulfilment of the HKMA's conditions on the management of reserves. The independent auditor's attestation will be required at least monthly.

(vi) *Prohibition on paying interest:*

Issuers of fiat-referenced stablecoins in Hong Kong will not be permitted to pay interest to stablecoin users and any income or loss from the reserve assets will have to be attributed to the fiat-referenced stablecoin issuer. Issuers will also be prohibited from making arrangements with



third parties to provide interest to fiat-referenced stablecoin users, but the offering of marketing incentives will be allowed provided that they do not amount to interest payments.

(vii) *Effective stabilisation:*

Hong Kong issuers of fiat-referenced stablecoins will be ultimately responsible for ensuring the effective functioning of the stabilisation mechanism of the stablecoins they issue notwithstanding their engagement of third parties to conduct stabilisation-related activities.

(b) Redemption requirements

Fiat-referenced stablecoin users will have the right to redeem their stablecoins at par value from the issuer without undue costs or unreasonable conditions. Fiat-referenced stablecoins must be redeemed at par in the fiat currency or currencies they reference. In normal circumstances, fiat-referenced stablecoin issuers will be required to fulfil redemption requests within one business day after the day on which a redemption request is received. Where issuers foresee difficulty in fulfilling redemption requests within that time frame, they will need to seek the HKMA's prior approval.

(c) Restrictions on business activities

Issuers of fiat-referenced stablecoins in Hong Kong will be required to obtain approval from the HKMA before starting new business lines and should conduct a risk assessment and avoid introducing significant risks or impairing its role as an issuer of fiat-referenced stablecoins. The HKMA will assess the proposed business activities on a case-by-case basis giving consideration to the risks involved and the effectiveness of measures to mitigate those risks. Issuers of fiat-referenced stablecoins will be permitted to provide ancillary services such as wallet services for the stablecoins they issue, provided they implement procedures for segregating and safekeeping users' stablecoins and handling their deposit and withdrawal requests. However, they will need to avoid activities such as lending, financial intermediation or other regulated activities such as activities regulated under the Securities and Futures Ordinance (**SFO**), the Mandatory Provident Fund Schemes Ordinance or the Insurance Ordinance.

(d) Physical presence in Hong Kong

An issuer of fiat-referenced stablecoins in Hong Kong will need to be a company incorporated in Hong Kong with a registered office in Hong Kong. Its chief executive, senior management team and key personnel must be based in Hong Kong and exercise effective management and control of its fiat-referenced stablecoin issuance and related activities. Key personnel include the functional heads of operations, IT systems, financial management, control and risk management, compliance and internal audit. Companies incorporated in other jurisdictions, other than authorised institutions, will need to establish a subsidiary in Hong Kong in order to apply for a licence as a fiat-referenced stablecoin issuer. The rationale for the local incorporation requirement is that it will allow the HKMA to supervise issuers more effectively and provide greater protection to fiat-referenced stablecoin users in the event of an issuer's insolvency.

(e) Financial resources requirements

Issuers of fiat-referenced stablecoins in Hong Kong will be required to have adequate financial resources, including a minimum paid-up share capital, to enable them to sustain their operations and absorb any losses. The minimum paid-up share capital will be the higher of HK\$25 million or 1% of the par value of the fiat-referenced stablecoins in circulation. The HKMA may also impose a higher paid-up share capital requirement where it considers it appropriate.

(f) Disclosure requirements

Hong Kong issuers of fiat-referenced stablecoins will be required to publish a white paper which should include, among others, general information about the fiat-referenced stablecoin issuer; the rights and obligations of fiat-referenced stablecoin users; the relevant stabilisation mechanisms; the arrangements for managing reserves; information on the underlying technology; the risks associated with using the fiat-referenced stablecoin; and the mechanism and procedures for issuance, distribution and redemption. The white paper will need to be ready when the licence application is submitted to the HKMA and will need to be published on the website of the issuer of the fiat-referenced stablecoin.

(g) Governance, knowledge and experience

The senior management, including controllers, chief executives and directors, of an issuer of Hong Kong fiat-referenced stablecoins, will need to be fit and proper persons. Any appointment or changes in ownership or management of the issuer will require the prior consent of the HKMA. Applications regarding senior management will be reviewed individually by the HKMA taking into account the applicant's previous supervising and financial experience, financial status and solvency as well as educational qualifications. Issuers of fiat-referenced stablecoins will need to ensure that they have in place systems of controls sufficient for the appointment of senior management and other personnel that have the necessary knowledge and experience to perform their roles effectively.

(h) Risk management requirements

Hong Kong issuers of fiat-referenced stablecoins will need to have appropriate risk management processes and measures for their operations including, among others; (i) adequate security and internal controls to ensure data and systems security; (ii) effective detection measures for fraud and technological risks; (iii) robust contingency arrangements to address operational disruptions; and (iv) other operational and security safeguards. Incident management should also include establishing management policies and monitoring incident response mechanisms. Despite cost concerns, the FSTB and HKMA are of the view that fiat-referenced stablecoin issuers should conduct risk assessments at least annually, regardless of their business size or the risk level of the stablecoin operation. The purpose is to identify any internal weaknesses that may undermine the effectiveness of fiat-referenced stablecoin issuers' internal controls, risk management and governance on an ongoing basis.

(i) Audit requirements

Issuers will be required to submit annual audited financial statements to the HKMA. When appointing an auditor, Hong Kong issuers of fiat-referenced stablecoins will be required to consider the auditor's knowledge, expertise, resources and independence regarding relevant audit areas. The FSTB and the HKMA will provide further guidance on the scope of the audit in future guidelines. As and when required by the HKMA, issuers of fiat-referenced stablecoins will also need to submit reports prepared by external independent auditors and assessors confirming the management and operational soundness of their stablecoin issuance.

(j) Anti-money laundering and counter-financing of terrorism requirements

Issuers of fiat-referenced stablecoins in Hong Kong will be required to adopt a risk-based approach and suitable measures to mitigate and manage risks related to money laundering and terrorist financing, including those related to transactions with intermediaries. Issuers will also need to ensure that they have in place adequate and appropriate systems of control for the purpose of ensuring compliance with the applicable provisions of the AMLO and other relevant regulations and guidelines. In particular, fiat-referenced stablecoin issuers will need to observe the AMLO's requirements pertaining to customer due diligence, transaction monitoring and wire transfers in relation to stablecoin issuance and redemption.

(k) Complaints handling

Issuers of fiat-referenced stablecoins in Hong Kong will be required to provide stablecoin users with effective complaint handling and dispute resolution systems. These mechanisms should be accessible, affordable, independent, fair, accountable, timely and efficient.

## **Other Licensing Matters for Hong Kong Fiat-referenced Stablecoin Issuers**

(a) Eligibility for a licence

The FSTB and HKMA have noted that all entities would be eligible to apply for a licence as an issuer of fiat-referenced stablecoins if they can satisfy the same set of licensing and regulatory requirements. Although there are certain exemptions for authorised institutions, these only pertain to licensing criteria regarding restrictions of business activities, physical presence in Hong Kong and financial resources requirements. The FSTB and HKMA explained that these exemptions are intended to prevent regulatory inconsistencies and overlaps with existing banking regulations. The regulators consider that authorised institutions are already subject to stringent prudential requirements and ongoing supervision by the HKMA. When

evaluating a licence application from an authorised institution, the HKMA will consider the risk profile of the authorised institution to determine if a separate entity should be set up.

(b) Ongoing licensing conditions

The HKMA will be empowered to impose ongoing conditions on the licences of Hong Kong fiat-referenced stablecoin issuers. Conditions could relate, for example, to requirements for reserve assets or restrictions on the types of service an issuer is permitted to provide. This power will allow the HKMA to address matters regarding specific fiat-referenced stablecoin issuers, such as operational risks, risk management effectiveness and operation size. Issuers will be notified of the HKMA's intention to impose licensing conditions and will have the chance to make representations in response before the HKMA finalises a decision to proceed with attaching licensing conditions.

(c) Issuing more than one fiat-referenced stablecoin

HKMA-licensed stablecoin issuers will be allowed to issue more than one fiat-referenced stablecoin in Hong Kong without needing to set up a separate entity or apply for a separate licence. To issue a new additional fiat-referenced stablecoin in Hong Kong, the issuer will be required to provide reasons for the further issue, justify the use cases for the fiat-referenced stablecoin, and obtain the HKMA's prior consent.

(d) Open-ended licence

Fiat-referenced stablecoin issuer licences will be open-ended and remain valid until revoked by the HKMA. Licences may be revoked due to non-compliance with the regulatory requirements or if the fiat-referenced stablecoin issuer ceases to operate.

(e) Register of licensees

In terms of licensing visibility, issuers of fiat-referenced stablecoins in Hong Kong will be expected to display their licence number in a prominent place on advertisements and in accessible locations on their websites and mobile applications. There will not be any specific format or mode of display for the licence number. The HKMA will also maintain a central register of fiat-referenced stablecoin issuer licences that will be accessible by the public.

### **Offering Fiat-referenced Stablecoins in Hong Kong**

Only HKMA-licensed issuers of fiat-referenced stablecoins, authorised institutions, SFC-licensed corporations and SFC-licensed virtual asset trading platforms will be able to offer fiat-referenced stablecoins in Hong Kong or actively market such an offering to the Hong Kong public. A licensed fiat-referenced stablecoin issuer will only be permitted to offer fiat-referenced stablecoins that it issues itself and not those issued by other issuers. Authorised institutions, licensed corporations and licensed virtual asset trading platforms will only be allowed to offer fiat-referenced stablecoins issued by HKMA-licensed issuers to retail investors. They will only be able to offer fiat-referenced stablecoins issued by unlicensed entities to professional investors as defined in Schedule 1 to the SFO and will need to indicate clearly that the stablecoins are not issued by a licensed fiat-referenced stablecoin issuer. Authorised institutions, licensed corporations and licensed virtual asset trading platforms will not need to obtain a fiat-referenced stablecoin issuer licence to offer fiat-referenced stablecoins, but will need to comply with the relevant regulatory requirements applicable under their respective regimes and obtain the necessary approvals from their regulating authority before offering fiat-referenced stablecoins.

The term "offer" will be defined to mean a public communication in any form that provides sufficient information about the terms of the offer and how the fiat-referenced stablecoin can be obtained to enable individuals to decide whether to acquire it. This proposed definition of "offer" references the regulatory regimes of other jurisdictions.

The FSTB and HKMA are working with relevant authorities on the possibility of allowing licensed virtual asset over-the-counter service providers to offer fiat-referenced stablecoins, subject to the finalisation and implementation of the licensing regime for virtual asset over-the-counter trading.

### **Authorities' power to modify Hong Kong's Proposed Fiat-referenced Stablecoin Regulatory Regime**

Given the fast-evolving nature of the industry, the HKMA will be given flexibility to address new risks arising from emerging types of stablecoins, activities or entities by giving it the power to adjust the parameters of in-scope

stablecoins and activities. In exercising this power, the HKMA would have regard to any risks to the Hong Kong market or the investing public. In assessing the materiality of the situation and the severity of the risks involved, the HKMA would take into account factors such as: the number and type of users; the number and value of transactions; the size and type of reserve assets; the value in circulation; market share; the interconnectedness with the financial systems; and the business, structural and operational complexity.

### **Supervisory and investigation powers of the HKMA**

The HKMA will be given the power to intervene in the operations of a fiat-referenced stablecoin issuer licensee when, in consultation with the Financial Secretary, it is of the opinion that the licensee:

- is or is likely to become insolvent or unable to meet its obligations;
- is carrying on its business in a manner detrimental to the interests of its users or creditors; or
- has contravened any of its licensing conditions or the applicable regulations.

The HKMA will also be given powers to gather information, give directions, make regulations and issue guidelines. It will be empowered to conduct investigations where there is reasonable cause to believe that an offence may have been committed. Its powers would include the ability to direct an investigator to conduct an investigation and to apply to a Hong Kong Magistrate for search warrants and seizures. Given the importance of ensuring protection of fiat-referenced stablecoin users, the HKMA will issue press releases and reminders to the general public from time to time to alert them of suspicious fiat-referenced stablecoin issuers and websites, and highlight the importance of exercising caution and vigilance.

### **Offences and Sanctions under Hong Kong's Proposed Fiat-referenced Stablecoin Regulatory Regime**

The proposed criminal offences and sanctions have been formulated by the FSTB and HKMA with reference to the AMLO and other relevant regulations and will be further refined in consultation with the Department of Justice. The conduct of any activity for which a fiat-referenced stablecoin issuer licence is required without a licence will be a criminal offence. An issuer of fiat-referenced stablecoins will need to be licensed by the HKMA in order to: issue a fiat-referenced stablecoin in Hong Kong; issue a Hong Kong dollar-referenced stablecoin; or actively market its issuance of fiat-referenced stablecoins to the Hong Kong public.

It will also be an offence to advertise an issuance of fiat-referenced stablecoins by an unlicensed issuer. Since only specified entities – that is HKMA-licensed issuers of fiat-referenced stablecoins, authorised institutions and SFC-licensed corporations and virtual asset trading platforms – will be allowed to offer fiat-referenced stablecoins in Hong Kong, it will be an offence for any other person to offer, or advertise an offering of, fiat-referenced stablecoins. Additional offences will include: providing false information to the HKMA and failing to produce documents required by the HKMA. The penalties for the various offences will be aligned with those under comparable legislation such as the AMLO and the SFO.

The HKMA will also be empowered to impose various civil and supervisory sanctions for breach of the regulatory requirements including suspension or revocation of licence, warnings, reprimands or a pecuniary penalty not exceeding the higher of HK\$10 million or three times the amount of profit gained or loss avoided as a result of the contravention. An appeal tribunal mechanism will be set up to allow appeals against HKMA decisions.

### **Transitional arrangements under Hong Kong's Proposed Fiat-referenced Stablecoin Regulatory Regime**

Under the transitional arrangements, existing fiat-referenced stablecoin issuers with a meaningful and substantial presence in Hong Kong before the implementation of the new licensing regime will be allowed to continue to operate for a 6-month non-contravention period on the condition that they apply to the HKMA for a fiat-referenced stablecoin issuer licence within the first 3 months. Those that do not submit a licence application in the first three months will have to close down their business in an orderly manner by the end of the fourth month.

What will be considered "*meaningful and substantial operations in Hong Kong*" will be evaluated by the HKMA with reference to factors such as whether the entity operating the fiat-referenced stablecoin issuance is incorporated in Hong Kong, whether it has a physical office in Hong Kong with staff exercising central management and control over the fiat-referenced stablecoin issuance and whether the fiat-referenced stablecoin(s) it issues have been



circulated to independent users and not just to its own associated entities.

## Implementation timeline

The FSTB and HKMA are currently drafting a bill to implement the regulatory regime for fiat-referenced stablecoins, which they plan to introduce to the Legislative Council this year. Additionally, the HKMA will issue licensing and supervisory guidelines in due course to aid the applicants' understanding of the relevant requirements.

## HKMA Stablecoin Issuer Sandbox

When the FSTB and HKMA issued their consultation paper in December 2023, it was also announced that the HKMA would introduce a sandbox arrangement for stablecoin issuers. The sandbox arrangement allows participants to test the feasibility of their intended business models and communicate with the HKMA to understand how to comply with future regulatory requirements. The HKMA can communicate supervisory expectations and guidance to parties planning to issue fiat-referenced stablecoins in Hong Kong and obtain feedback on the proposed regulatory regime. Participation in the sandbox is not a prerequisite for applying for a stablecoin issuer licence when the new regime takes effect.

To be eligible for the sandbox, applicants must be able to demonstrate that: they have a genuine interest in and a reasonable plan for issuing fiat-referenced stablecoins in Hong Kong, a concrete plan for participating in the sandbox, and have a reasonable prospect of complying with the proposed regulatory requirements. In determining an applicant's eligibility, the HKMA will take into account a range of factors such as the proposed use case, stabilisation mechanism, management of reserve assets and user protection. Applicants are expected to explain how their network, supply chain or major partners can drive long-term demand for the stablecoin they issue and must include specific plans on using the sandbox to demonstrate the robust processes to be put in place for the issuance, distribution and redemption of the stablecoin, in full compliance with the future regulatory requirements.

On 18 July 2024, the HKMA [announced](#) the first batch of 3 participants admitted to the sandbox – being (1) JINGDONG Coinlink Technology Hong Kong Limited; (2) RD InnoTech Limited; and (3) a coalition of Standard Chartered Bank (Hong Kong) Limited, Animoca Brands Limited, and Hong Kong Telecommunications (HKT) Limited. These participants are now able to test their proposed business models within a limited scope as specified by the HKMA. The primary use cases proposed by the first batch of sandbox participants include payments, supply chain management and applications in capital markets. They are designed to target pain points in the movement of funds across financial institutions, payment services companies and settlement systems in different time zones. The sandbox participants have also proposed applications of their stablecoins in other areas such as Web3, gaming and virtual asset trading.

Depending on the participants' plans, testing progress and sophistication of risk management, the HKMA may fine-tune the permitted operational parameters and testing scope for a sandbox participant as appropriate.

For further information on the requirements for participation in the HKMA sandbox for fiat-referenced stablecoin issuers, please see [Details of the Sandbox Arrangements for Stablecoin Issuers](#) as attached to the [HKMA's press release of 12 March 2024](#)<sup>6</sup> and the [HKMA's press release of 18 July 2024](#).<sup>7</sup>

6 HKMA. March 2024. HKMA launches the stablecoin issuer sandbox arrangement

7 HKMA. July 2024. HKMA announces stablecoin issuer sandbox participants

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