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# HONG KONG PASSES STABLECOINS BILLS: NEW REGULATORY REGIME FOR STABLECOIN ISSUERS

## BACKGROUND

On 21 May 2025, the Hong Kong Legislative Council passed the Stablecoins Bill, with the final version of the Stablecoins Ordinance ("**SO**") gazetted on 30 May 2025, marking an official beginning of the stablecoin law in Hong Kong since discussions started in 2022. We have been following the journey and covered them in several earlier client alerts in [March 2023](#), [January 2024](#) and [December 2024](#). Interested readers may access these client alerts for more information.

The SO is expected to commence operation on 1 August 2025 as chapter 656 of the laws of Hong Kong.

## WHAT IS CHANGED IN THE SO?

In the gazetted version of the SO, the following changes were made to the bill:

- + New permitted offeror  
The list of permitted offerors under section 9(5) (Offence related to offering specified stablecoin) is expanded to also include a person who is granted a licence under section 8F of the Payment Systems and Stored Value Facilities Ordinance (Cap. 584), commonly referred to as stored value facility issuers.

- + Stricter duties to report inability to meet obligations

The reporting obligation to the Hong Kong Monetary Authority ("**HKMA**") will be triggered once a licensed stablecoin issuer (a "**Licensee**") is likely to become unable to meet its obligations, is insolvent or is about to suspend payment. An objective test is now used under the SO instead of a subjective test.

- + Referral for review is not a stay of execution

Schedule 6 to the SO contains a list of "specified decisions" which the HKMA may make, e.g. a decision to attach a condition to a stablecoin issuer's licence. Under section 140 of the SO, a person aggrieved by a specified decision may refer the decision to the Stablecoin Review Tribunal for review. A new section 141 is inserted to specify that a referral of a specified decision to the Stablecoin Review Tribunal for review is not itself a stay of execution and an application for a stay of execution of the specified decision must be separately made. This means a specified decision of the HKMA, notwithstanding that it is in the process of being reviewed, will still be valid and effective, and such decision must be complied with, unless a



stay of execution is granted or a decision from the tribunal varies or sets aside such decision.

Furthermore, the Financial Secretary has issued the Stablecoins Ordinance (Specification of Persons for Purposes of Section 9(2)(b)(iii)) Notice, permitting a permitted offeror to offer specified stablecoins issued by non-licensed stablecoin issuers to professional investors (within the meaning given by Schedule 1 to the Securities and Futures Ordinance). This covers existing stablecoins that are already in circulation in the market, such as USDT.

## NEW GUIDELINES FOR LICENSED STABLECOIN ISSUERS

On 26 May 2025, the HKMA launched two consultations in relation to the terms of the Guideline on Supervision of Licensed Stablecoin Issuers ("**Stablecoin Guideline**") and the AML/CFT Requirements for Regulated Stablecoin Activities ("**AML Requirements**"). Both consultations will close on 30 June 2025.

### Guideline on Supervision of Licensed Stablecoin Issuers

The Stablecoin Guideline intends to set out guidance on the HKMA's expectations regarding the minimum criteria in Schedule 2 to the SO, which a Licensee is required under section 24 of the SO to fulfil. Key aspects covered by the Stablecoin Guideline includes:

- + Full Asset Backing: The market value of the specified reserve assets pool backing the type of specified stablecoins is always at least equal to the par value of the outstanding specified stablecoins of the type in circulation. A Licensee should also ensure there is appropriate over-collateralisation to cover market risks. Account-level fees should also not be deducted from the accounts in which the reserve assets are held. This backing requirement also needs to cover specified stablecoins that, in the Licensee's view, are not part of the circulation (e.g., they are restricted from being accessed due to court orders) so that these stablecoins can be redeemed when required.
- + Composition of reserve assets: The HKMA stipulates that high quality and

high liquidity reserve assets may include bank deposits with a term no longer than three months, marketable debt securities (that are issued or guaranteed by a public authority, have residual maturity of no longer than one year, qualify for a 0% risk weight pursuant to the Banking (Capital) Rules (Cap. 155L), are of high liquidity and are not an obligation of an financial institution that is not a public sector entity bank), cash receivable from overnight reverse repurchase agreements, investment funds (but only investing in the aforementioned items), or other types of assets which are acceptable to the HKMA.

- + Reserve Asset Management: Reserve assets must be kept separate from the Licensee's own assets and protected from other creditors. These assets should be held in the same currency as the stablecoin, unless otherwise approved by the HKMA. Only certain types of assets—such as short-term bank deposits and high-quality government securities—are allowed.
- + Effective trust arrangement: There must be an effective trust arrangement in place to ensure that the reserve assets are segregated from the assets of the Licensee. In this regard, the Licensee can appoint an independent trustee or declare a trust itself over the reserve assets. There should be an independent legal opinion demonstrating the effectiveness of the trust arrangement, which must be submitted to the HKMA. The legal opinion should also be updated upon any material changes to the trust arrangement.
- + Income or loss generated from the management of the reserve assets should be attributed to the Licensee. Therefore, excess assets (i.e. the portion of assets that exceed the internal target set out by the Licensee) may be regularly transferred from the account of reserve assets to the Licensee's own account but there should be a triggering mechanism and detailed procedures to ensure that only the excess assets are transferred.



- + No Interest Payments: Licensees are not allowed to pay interest or any interest-like incentives to specified stablecoin holders (but marketing incentives that do not amount to payment of interest are allowed).
- + Transparency and Disclosure: A Licensee must prepare daily statements on the par value of the outstanding specified stablecoins in circulation, the market value and composition of its reserve assets. Such statement should be ready for submission to the HKMA as and when requested. Moreover, a Licensee must also report to the HKMA on a weekly basis.
- + Redemption: Each specified stablecoin holder must be provided with: (a) a right to direct the disposal of the specified reserve assets pool for the purpose of redeeming all outstanding specified stablecoins of that type on a pro rata basis, (b) a right to claim against the Licensee for any shortfall if the proceeds from the disposal of the specified reserve assets pool is insufficient to redeem all the outstanding specified stablecoins of that type in full. These rights must be supported by an independent legal opinion. The redemption process must also be effective, and there must be no unreasonable fee or any unduly burdensome condition for redemption.
- + Risk Management and Governance: A Licensee must have strong risk management policies, covering credit, liquidity (including putting in place liquidity risk indicator for monitoring the liquidity profile of reserve assets), market, technology, and operational risks. There must be clear governance structures, with defined roles for the board, senior management, and independent functions such as compliance and internal audit.
- + Account Management: There must be an effective authentication method to establish and verify the identity of a potential customer. When meeting an issuance or redemption request, the Licensee should transfer and accept funds or specified stablecoins only to and from the customer's pre-registered bank accounts (or other types of pre-registered accounts) or wallet addresses.
- + Business Activities and Exit Planning: The HKMA's approval must be obtained before the Licensee carries on any business activity other than a licensed stablecoin activity. The HKMA should also be consulted before the Licensee issuing more than one type of specified stablecoins. A Licensee must have plans in place to ensure business continuity in case of disruptions, and a clear exit plan to ensure an orderly wind-down if needed.
- + Corporate Governance: Generally, at least one-third of the board members of a Licensee should be independent non-executive directors. Such directors' appointment must also be justified, and the reasons must be submitted to the HKMA. If the Licensee is an authorized institution, there must also be a stablecoin manager appointed. The appointment of all chief executives, directors and stablecoin managers (if applicable) must be approved by the HKMA.
- + White Paper: For each type of specified stablecoin issued, there must be a corresponding white paper. The white paper needs to be publicly disclosed at a reasonably prominent location on the Licensee's website. The white paper needs to set out: (a) general information about the Licensee, (b) detailed information about the specified stablecoin, (c) reserve assets management arrangement, (d) issuance, redemption and distribution mechanisms, covering the procedures, redemption rights, timeframe, as well as any applicable conditions and fees involved, (e) underlying technology of the specified stablecoin, and (f) risk associated with using the specified stablecoin.



### Anti-Money Laundering and Counter-Terrorist Financing (AML/CFT) Requirements

Similar to other financial institutions, it is proposed that the Licensee will be subject to a set of AML Requirements, which will be the basis of determining whether a Licensee fulfils the anti-money laundering-related minimum criteria under Schedule 2 of the SO. Key requirements under the AML Requirements include:

- + Risk Assessment: A Licensee must adopt a risk-based approach in the design and implementation of its AML/CFT policies, assess the risks of money laundering and terrorist financing in its business, and take steps to manage those risks. Risks that the HKMA expects to cover include customer risk, country risk, product, service or transaction risk, and delivery channel risk. The risk assessment should be done when developing new products and new business practices, or when using new or developing technologies for both new and pre-existing products.
- + AML System: A Licensee's system should, at a minimum, include oversight by senior management, and appointment of a compliance officer and a money laundering reporting officer. These can be the same person, depending on the size of the business. A compliance officer should be appointed at the management level, whereas a money laundering reporting officer and be a sufficiently senior person. Both of which should be individuals with sufficient expertise.
- + Customer Due Diligence (CDD): A stablecoin holder can be a "customer stablecoin holder", who is a person that has a business relationship with the Licensee or a person that the Licensee is carrying out an occasional transaction for, or a "non-customer stablecoin holder", who is any other stablecoin holder that is not a customer stablecoin holder. A customer stablecoin holder must be subject to the CDD process of the Licensee, but it is not necessary to conduct CDD against a non-customer stablecoin holder. The standard of the CDD to be conducted is similar to the

standards imposed on other regulated financial institutions.

- + Ongoing Monitoring: A Licensee is expected to conduct ongoing CDD by reviewing from time-to-time documents, data and information relating to the customers. It also needs to conduct appropriate scrutiny of transactions carried out for the customer to ensure that they are consistent with the Licensee's knowledge. To do this, a Licensee should adopt appropriate technological solutions (e.g., blockchain analytic tools) to track the transaction history of stablecoins to more accurately identify the source and destination of specified stablecoins, and identify transactions involving wallet addresses that are associated with illicit or suspicious activities. This also applies to specified stablecoins that are held by non-customer stablecoin holders.

- + Stablecoin Rule (travel rule): Certain originator and recipient information must be obtained and recorded, and the information to collect differ depending on the amount of the transfer. The collected information must be submitted to the beneficiary institution. This is similar to the travel rule requirements applicable to other financial institutions. If technological tools will be used for the stablecoin transfer, then the Licensee must ensure that the tools will enable the Licensee to meet the stablecoin rule.

The Licensee is also required to carry out appropriate due diligence on the stablecoin transfer counterparty, who will receive specified stablecoins from the Licensee.

- + Wallet Controls: A Licensee must identify and verify the wallet addresses to be used by customer stablecoin holders, and apply additional controls when dealing with unhosted (self-custody) wallets.

The AML Requirements also contain other requirements in relation to record-keeping, suspicious transaction reporting and sanction



screening. This is also similar to the requirements imposed on other regulated financial institutions.

## CONCLUSION

If you are considering becoming a Licensee in Hong Kong, you should start preparing to meet these requirements. This includes reviewing your business model, setting up robust systems for reserve management, risk controls, customer onboarding, and compliance, and ensuring you have the right governance and resources in place.

The HKMA will continue to consult with the industry on the detailed requirements, and the new regime is expected to come into full effect later this year.

We regularly advise clients with businesses relating to stablecoins, such as issuers and custodians. Should you be interested in knowing more about the upcoming regime, please feel free to reach out to one of us.

Our team regularly advises financial institutions on a wide range of regulatory issues relating to VAs. Please get in touch if you are interested in discussing any of the above.

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