

Stablecoin Licensing Regime: Key requirements

Any person who carries on, or holds out as carrying on, a regulated stablecoin activity (a "**stablecoin issuer**") must be licensed by the Hong Kong Monetary Authority ("**HKMA**") and fulfil the minimum criteria set out in Schedule 2 of the [Stablecoins Ordinance \(Cap. 656\)](#) on an ongoing basis. The [Supervisory Guideline](#), as well as other guidelines and explanatory notes issued by the HKMA (together, the "**HKMA Guidelines**") further elaborate on the minimum criteria by setting detailed regulatory expectations and guidance for licensed stablecoin issuers ("**licensees**"). A summary of the key requirements is set out below:

Criteria	Key Requirements under the Ordinance and HKMA Guidelines
Corporate status	A licensee must be either: <ul style="list-style-type: none">• a company incorporated in Hong Kong; or• an authorized institution.
Financial resources	Unless it is an authorized institution, a licensee must have adequate financial resources and liquid assets to meet its obligations, by having either: <ul style="list-style-type: none">• the paid-up share capital of not less than HK\$25,000,000; or• other financial resources approved by the HKMA.
Reserve assets management	<p>A licensee must maintain a reserve assets pool for each type of its specified stablecoins (specified reserve assets pool).</p> <p>Segregation and safekeeping</p> <ul style="list-style-type: none">• A licensee's specified reserve assets pool must be:<ul style="list-style-type: none">○ segregated from its other reserve asset pools;○ adequately protected against claims by its other creditors; and○ kept separate from its other assets (including any other funds paid to, or maintained or received by it).• To ensure effective segregation, a licensee must implement robust trust arrangements with a licensed bank or other qualified asset custodian. <p>Full backing</p> <ul style="list-style-type: none">• The market value of the specified reserve assets pool must at all times be at least equal to the par value of the specified stablecoins.• A licensee must ensure that there is appropriate over-collateralisation to provide adequate buffer above the full backing level. <p>Same reference asset</p> <ul style="list-style-type: none">• Unless with the HKMA's prior written approval, the specified reserve assets pool must be held in the same reference asset as that referenced by the specified stablecoins. <p>Scope and composition of reserve assets</p> <ul style="list-style-type: none">• Reserve assets must be of high quality and high liquidity with minimal investment risks. This includes assets held in the form of (i) cash, (ii) bank deposits with a term no longer than 3 months, (iii) certain marketable debt securities that are issued or guaranteed by a government, central bank or public sector entity, (iv) cash receivables from overnight reverse purchase agreements collateralized by assets in category (iii), and (v) investment funds that invest in assets in categories (i) to (iv).• The HKMA has also clarified that tokenized representations of the above assets may be used as reserve assets if they meet the criteria of high quality, high liquidity and minimum investment risks.
Issuance	<p>Offer and distribution</p> <ul style="list-style-type: none">• Only a licensee or a "permitted offeror" engaged by the licensee may offer and distribute specified stablecoins. "Permitted offerors" include authorized institutions, SFC-licensed virtual asset trading platforms, and SFC-licensed corporations licensed for Type 1 regulated activities and stored value facility licensees.

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	<ul style="list-style-type: none"> It is important to note that third-party distributors engaged by a licensee are also considered as customers of the licensee. Accordingly, the same standards of customer due diligence and AML/CFT measures applies to these distributors (see AML/CFT Guideline). <p>Purpose and soundness</p> <ul style="list-style-type: none"> The issue of a specified stablecoin must be prudent and sound, having regard to the purpose, business model and operational arrangement of the licensee. Subject to prior consultation with the HKMA, a licensee may issue multiple types of specified stablecoins if it is able to demonstrate its operational capability and suitability to do so. <p>Non-interest bearing</p> <ul style="list-style-type: none"> A licensee must not pay, or permit to be paid, any interest in relation to its specified stablecoins. However, marketing incentives that do not amount to the payment of interest are permitted. <p>Disclosures</p> <ul style="list-style-type: none"> A licensee must publish a white paper to provide comprehensive and transparent information about the type of specified stablecoins issued by it. A licensee must regularly make public disclosures of the reserve assets and independent attestation results.
Redemption	<p>Redemption rights</p> <ul style="list-style-type: none"> A licensee must provide specified stablecoin holders with: <ul style="list-style-type: none"> a right to redeem any portion of their specified stablecoins at par value; in the event of the licensee's insolvency, a right to direct the disposal of the specified reserve assets pool for the purpose of redeeming all the outstanding specified stablecoins of that type on a pro rata basis; and in the event of the licensee's insolvency, 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. <p>No unduly burdensome redemption conditions</p> <ul style="list-style-type: none"> A licensee must not attach any condition restricting the redemption of a specified stablecoin that is unduly burdensome. The HKMA will take into account relevant factors such as the practicality of fulfilling such condition, whether it imposes undue hardship on stablecoin holders, and whether it arises from legal or regulatory obligations imposed on the licensee. Unless otherwise approved by the HKMA, valid redemption requests must be processed within 1 business day after the request it is received by the licensee. <p>Reasonable fees</p> <ul style="list-style-type: none"> A licensee must not charge a fee in connection with the redemption unless the fee is reasonable. The HKMA will consider whether the fees in proportion to the operational costs incurred in processing the redemption as well as prevailing industry practices.
Other business activities	<p>A licensee must have dedicated and sufficient resources to carry on its regulated stablecoin activities. As such, a licensee must obtain the HKMA's consent before it carries on any business activity other than a regulated stablecoin activity.</p>
Fit and proper, knowledge and experience	<ul style="list-style-type: none"> Each chief executive, director and stablecoin manager of a licensee must be a fit and proper person, and must have the HKMA's consent to hold such positions (unless it is an authorized institution). Each controller of the licensee must be a fit and proper person. Each officer of a licensee responsible for day-to-day management and operation of its regulated stablecoin activities must have appropriate knowledge and experience. Generally, the HKMA expects that the senior management and key personnel of the licensee be based in Hong Kong.

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Prudential and risk management	A licensee must have adequate and appropriate risk management policies and procedures for managing the risks arising from the carrying on of its regulated stablecoin activities that are commensurate with the scale and complexity of those activities.
Anti-money laundering (AML) and counter-terrorist financing (CTF) measures	<ul style="list-style-type: none"> • A licensee must have in place and implement adequate and appropriate systems of control for preventing and combating possible money laundering or terrorist financing in connection with its regulated stablecoin activities. Detailed requirements on AML/CFT measures are set out in the AML/CFT Guideline. • Specifically, given the global reach of stablecoin transactions, the HKMA has emphasized the importance of implementing measures to detect and mitigate the risk of location spoofing by the potential customers via the use of proxy servers, virtual private networks, etc. Such measures should be applied during both the onboarding process and the ongoing transactions.
Complaint handling	A licensee's complaints handling and redress mechanisms must be adequate, accessible, affordable, independent, fair, accountable, timely and efficient, and must not impose unreasonable cost, delays or burdens on its specified stablecoin holders. In addition, a licensee must have in place appropriate feedback and notification system to the HKMA and to cooperate with the HKMA for any unaddressed matter.
Recovery planning and orderly wind-down	A licensee must have in place and implement adequate and appropriate systems of control (i) for appropriate planning to support timely recovery and continuity of critical functions in case of significant operational disruption; and (ii) for an orderly wind-down of its regulated stablecoin activities and redemption of its specified stablecoins.