

## Hong Kong: Gazettal of the Stablecoins Bill

### In brief

On 6 December 2024, the Hong Kong government gazetted the Stablecoins Bill<sup>1</sup> ("**Bill**"), which aims to establish a regulatory regime for issuers of fiat-referenced stablecoins ("**FRS**") in Hong Kong. This follows public consultations by the Financial Services and the Treasury Bureau ("**FSTB**") and the Hong Kong Monetary Authority ("**HKMA**"). For more details, see the Previous Consultations section below.

The Bill aims to introduce a licensing and regulatory framework for FRS issuers and those involved in offering FRS. The Bill also seeks to provide the HKMA with necessary supervision, investigation and enforcement powers. The Bill will be introduced into the Legislative Council for first reading on 18 December 2024 and more visibility on the legislative timeline is expected at that stage.

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### Licensing of FRS issuers

Under the proposed licensing regime, any person carrying on any of the following activities ("**Regulated Stablecoin Activity**") is subject to licensing by the HKMA ("**Licensee**"):

- a. issuing FRS in Hong Kong in the course of business
- b. issuing FRS outside Hong Kong that purport to maintain a stable value with reference to Hong Kong dollars in the course of business, or
- c. actively marketing the person's issuance of FRS to the public of Hong Kong

An FRS (referred to as "specified stablecoin" in the Bill) is defined in the Bill as: (a) a stablecoin that purports to maintain a stable value with reference wholly to one or more official currencies, units of account, or stores of economic value, or a combination of one or more official currencies and one or more units of account or stores of economic value, or (b) a digital representation of value/digital representation of value of a class specified by the HKMA in the government Gazette. A "stablecoin" is defined in the Bill as a cryptographically secured digital representation of value that:

- a. is expressed as a unit of account or store of economic value
- b. 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, or investment
- c. can be transferred, stored, or traded electronically
- d. is operated on a distributed ledger or similar information repository, and
- e. purports to maintain a stable value with reference to a single asset or a pool or basket of assets.

<sup>1</sup> [The Government of the Hong Kong Special Administrative Region Gazette](#)

## Minimum Criteria for Licensing of FRS issuers

An applicant must meet the following criteria and conditions applicable to a Licensee:

- a. **Corporate Status:** The Licensee must be a company or an authorized institution under the Banking Ordinance incorporated outside Hong Kong.
- b. **Financial Resources:** The Licensee must have adequate financial resources and liquid assets to meet its obligations, with a minimum paid-up share capital of HKD 25,000,000 or equivalent.
- c. **Reserve Assets Management:** The Licensee must maintain, whether directly or by an arrangement with another person, a pool of reserve assets for each type of FRS issued by the Licensee and ensure that it is segregated from any other pool of reserve assets maintained by the Licensee and that its market value must at all times be at least equal to the par value of the outstanding FRS of the type in circulation. The reserve assets must be held in the same reference asset as that referenced by the type of FRS, unless otherwise approved by the HKMA. These assets must be of high quality and liquidity, with minimal investment risks, and subject to regular independent attestation and audit.
- d. **Redemption:** The Licensee must provide holders with the right to redeem their FRS without attaching any unduly burdensome conditions or unreasonable fees. Except with the HKMA's prior written consent, redemption requests must be honored as soon as practicable by paying the holder the par value of the FRS after deducting any reasonable fees, in the reference asset to which the FRS is referenced. The Licensee must clearly disclose to the public the redemption rights, fees, conditions for exercising the redemption rights, mechanisms and procedures for redemption, and the time within which a valid redemption request may be processed.
- e. **Fit and Proper Persons:** The Licensee's chief executive, directors, managers, "stablecoin manager" and controllers must be fit and proper persons. We expect that there will be more clarity in due course on the role of a "stablecoin manager."
- f. **Knowledge and Experience:** Officers responsible for the day-to-day management and operation of licensed FRS activities must have appropriate knowledge and experience.
- g. **Prudential and Risk Management:** The Licensee must implement adequate and appropriate risk management policies and procedures to manage the risks associated with its FRS activities. This includes ensuring data security, fraud detection, and having contingency arrangements for operational disruptions.
- h. **Anti-Money Laundering and Counter-Terrorist Financing Measures:** The Licensee must have systems of control in place to prevent and combat money laundering or terrorist financing, and to ensure compliance with relevant laws and guidelines.
- i. **Purpose and Soundness of Issue:** The issue of FRS must be prudent and sound, having regard to the purpose, business model, and operational arrangement of the issue.
- j. **Business Activities:** The Licensee must have dedicated and sufficient resources to carry on its licensed FRS activities, and obtain consent from the HKMA before engaging in any business activities other than a licensed FRS activity. Additionally, the Licensee must ensure that these activities do not cause significant risk to its licensed FRS activities and that potential or actual conflicts of interest arising from that business activity can be properly managed and mitigated.
- k. **Disclosures:** The Licensee must publish a white paper for each type of FRS and provide information about its complaints handling and redress mechanisms. It must also have in place risk management policies and procedures to address potential and actual conflicts of interest between itself and FRS holders.
- l. **Complaint Handling:** The Licensee must ensure that FRS holders have access to adequate complaints handling and redress mechanisms.
- m. **Non-Interest Bearing:** The Licensee must not pay or permit to be paid any interest in relation to FRS issued by the Licensee.
- n. **Recovery Planning and Orderly Wind-Down:** The Licensee must have systems in place for appropriate planning to support timely recovery and continuity of critical functions in relation to its licensed FRS activity when there is an occurrence of significant operational disruption, and ensure an orderly wind-down of its licensed FRS activities and redemption of FRS issued by the Licensee could be honoured in an orderly manner.

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## Transitional Arrangements

To ensure a smooth transition of pre-existing FRS issuers into the new licensing regime:

- a. **In the first three months beginning on the commencement date of the licensing regime<sup>2</sup> ("commencement date"):** Pre-existing FRS issuers can carry on or hold itself out to be carrying on a Regulated Stablecoin Activity if it has carried on the Regulated Stablecoin Activity in Hong Kong before the commencement date.
- b. **In the first six months beginning on the commencement date:** Pre-existing FRS issuers can carry on or hold itself out to be carrying on a Regulated Stablecoin Activity

if:

- i. it has carried on the Regulated Stablecoin Activity in Hong Kong before the commencement date; and
- ii. within the first three months beginning on the commencement date:
  - A. the pre-existing FRS issuer has applied to the HKMA to carry on the Regulated Stablecoin Activity
  - B. the HKMA has, by written notice, acknowledged receipt of the application, and
  - C. the pre-existing FRS issuer has provided the following documents to the HKMA:
    1. a written declaration that the pre-existing FRS issuer has carried on the Regulated Stablecoin Activity in Hong Kong before the commencement date;
    2. a written undertaking that the pre-existing FRS issuer will, on being granted a provisional licence (see below) comply with the regulatory requirements applicable to it as if it were a Licensee **and** has arrangements in place to ensure that the pre-existing FRS issuer will comply with those requirements.

**Provisional licence:** If a pre-existing FRS issuer satisfies the above requirements, the HKMA may, within the first six months beginning on the commencement date, grant a provisional licence to the pre-existing FRS issuer if the HKMA is satisfied that:

- a. the pre-existing FRS issuer has carried on the Regulated Stablecoin Activity in Hong Kong before the commencement date; **and**
- b. the pre-existing FRS issuer has a reasonable prospect of successfully showing the HKMA that it is capable of complying with the regulatory requirements applicable to a Licensee.

On the grant of a provisional licence, the pre-existing FRS issuer is taken to be a Licensee until the provisional licence ceases to be in force. A provisional licence ceases to be in force when the earliest of the following occurs:

- a. the licence application is withdrawn
- b. the licence application is refused
- c. a licence is granted under the new ordinance
- d. a rejection notice is given

**Closing down period:** If a pre-existing FRS issuer does not satisfy the relevant requirements to continue carrying on a Regulated Stablecoin Activity, it will enter into a "closing down period" of one month (or such longer period as may be agreed by the HKMA). The HKMA may impose specific requirements on a pre-existing FRS issuer that has entered into a "closing down period."

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## Offence of offering an FRS and other offences under the Bill

The Bill creates an offence for offering an FRS or holding out as offering an FRS without being a Licensee or a "permitted offeror" and without making such offering within the parameters specified in the Bill. A "permitted offeror" is defined in the Bill to mean:

- a. a Licensee

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<sup>2</sup> Under the Bill, this refers to the date on which section 8 (Offence relating to carrying on Regulated Stablecoin Activity) of the Bill comes into effect.

- b. a corporation that is granted a licence under section 53ZRK of the Anti-Money Laundering and Counter-Terrorist Financing Ordinance to provide a virtual asset service (i.e., a licensed virtual asset trading platform)
- c. a corporation that is licensed for a Type 1 regulated activity under section 116 of the Securities and Futures Ordinance, or
- d. an authorized institution under the Banking Ordinance

The Bill also creates the following offences:

- a. advertising a Regulated Stablecoin Activity carried on by a person or the offering of an FRS by a person in the case where the person is not a Licensee and where no exceptions are applicable
- b. fraud or deception in relation to an FRS transaction, and
- c. making fraudulent or reckless misrepresentation for the purpose of inducing another person to enter into, or offer to enter into, an agreement to acquire, dispose of, subscribe for or underwrite an FRS

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## Designation of certain entities

Part 3 of the Bill concerns the designation of an entity that issues an FRS or provides services to a stablecoin payment system. Part 3 applies to an individual or entity outside Hong Kong.

The HKMA is empowered to designate an entity that carries on a business outside Hong Kong of issuing FRS and an entity that provides services to a stablecoin payment system. The HKMA must not designate an entity unless the issue of an FRS or provision of services is material to Hong Kong's monetary or financial stability or to the functioning of Hong Kong as an international financial centre, or significant public interest is involved. A "stablecoin payment system" is defined in the Bill to mean a system or arrangement that comprises a set of instruments, procedures and rules for the transfer of FRS, or for the clearing or settlement of payment obligations using FRS.

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## Previous Consultations

The HKMA issued a discussion paper<sup>3</sup> in January 2022 setting out its views on the appropriate regulatory treatment applicable to stablecoins. In January 2023, the HKMA issued a conclusion paper<sup>4</sup> confirming that it would put in place a regulatory regime for certain key activities relating to stablecoins.

Subsequently, the FSTB and the HKMA jointly issued a consultation paper<sup>5</sup> in December 2023 on the proposed regulatory regime for FRS issuers in Hong Kong. The HKMA also announced<sup>6</sup> the introduction of a sandbox arrangement to communicate supervisory expectations and compliance guidance to entities genuinely interested in and reasonably planning to issue FRS in Hong Kong. This arrangement aimed to obtain feedback on the proposed regulatory requirements, with a view to facilitating the subsequent implementation of the regulatory regime and ensuring that it is fit-for-purpose. In July 2024, the FSTB and the HKMA issued a conclusion paper<sup>7</sup> on the legislative proposal to implement a regulatory regime for FRS issuers in Hong Kong.

For detailed guidance and compliance assistance, please contact our legal team.

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<sup>3</sup> [Discussion Paper on Crypto-assets and Stablecoins](#)

<sup>4</sup> [Conclusion of Discussion Paper on Crypto-assets and Stablecoins](#)

<sup>5</sup> [Legislative Proposal to Implement the Regulatory Regime for Stablecoin Issuers in Hong Kong](#)

<sup>6</sup> [Hong Kong Monetary Authority - Consultation on legislative proposal to implement regulatory regime for stablecoin issuers and announcement on introduction of sandbox arrangement](#)

<sup>7</sup> [Consultation Conclusions - Legislative Proposal to Implement the Regulatory Regime for Stablecoin Issuers in Hong Kong](#)

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