

立法會

Legislative Council

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Bills Committee on Stablecoins Bill

Background brief

Purpose

This paper provides background information on the Stablecoins Bill (“the Bill”). It also gives a brief account of the major views and concerns expressed by Members during the discussions on the subject at the meetings of relevant committees of the Legislative Council (“LegCo”).

Background

2. In October 2022, the Government issued a Policy Statement on Development of Virtual Assets in Hong Kong (“the Policy Statement”), laying out the vision and policy direction to develop a vibrant sector and ecosystem for virtual assets (“VAs”). The Policy Statement sets out the Government’s plans to put in place both appropriate regulation as well as market development initiatives, with a view to facilitating the sustainable and responsible development of the sector. In respect of regulation, the Government and financial regulators will adopt the principle of “same activity, same risks, same regulation” to put in place necessary guardrails to address the risks associated with VAs, including actual and potential ones on financial stability, money laundering and terrorist financing, and investor protection.

3. In response to the Policy Statement, the Administration introduced the Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Bill 2022 into LegCo in July 2022, which was enacted as the Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Ordinance 2022 in December 2022, to provide for a licensing regime for VA service providers under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) (“AMLO”) (“the AMLO licensing regime”). With the commencement of the AMLO licensing regime, any person engaging in VA trading platform (“VATP”) business in Hong Kong or actively marketing

their VA services to Hong Kong investors is required to be licensed by the Securities and Futures Commission (“SFC”). The AMLO licensing regime has commenced operation since 1 June 2023.

Proposed licensing regime for stablecoin issuers

4. According to the Administration, it is observed that stablecoins, which purport to maintain stable value relative to some real world assets (typically fiat currencies as in the case of fiat-referenced stablecoins (“FRS”)), have the potential to develop into a widely accepted means of payment and be incorporated into the mainstream financial system. Notably, FRS could pose more imminent risks as compared to other types of stablecoins, and therefore the Administration sees the need to put in place a regulatory regime for FRS issuers, where such issuers are regulated by a risk-based and agile approach.

5. Besides, the Financial Stability Board (“FSB”)¹ finalized its recommendations on regulating stablecoins in 2023. Under the recommendations, financial authorities from member jurisdictions are expected to, among others, implement measures to regulate, supervise and oversee stablecoin activities conducted in their jurisdictions with a view to addressing the potential financial stability risks.² FSB also allows jurisdictions to manage the risks posed by stablecoins by effectively prohibiting stablecoin activities. Internationally, the licensing approach is more common and more applicable in the case of Hong Kong considering the Government’s policy on VAs as set out in the Policy Statement.

6. The Administration conducted a public consultation on the proposed licensing regime for stablecoin issuers (“the proposed licensing regime”) from December 2023 to February 2024. According to the Administration, overall, there is broad support for the policy objectives and the key proposals, and the consultation conclusions were issued in July 2024. The main features of the proposed licensing regime are set out in the ensuing paragraphs.

¹ FSB was established in 2009 to coordinate at the international level the work of financial authorities from different jurisdictions and international standard-setting bodies, as well as promote the reform of international financial regulations. The Mainland and Hong Kong are FSB members.

² FSB will conduct a review of the implementation progress attained by its member jurisdictions, including Hong Kong, in 2025.

Scope of stablecoins covered

7. The proposed licensing regime will focus on FRS by defining “specified stablecoin” which will be subject to the regulatory control of the Monetary Authority (“MA”) as a stablecoin that purports to maintain a stable value with reference wholly to one or more official currencies.

Regulated stablecoin activities

8. Under the proposed licensing regime, no person may, without a licence granted by MA, carry on a regulated stablecoin activity which includes the issuance of a specified stablecoin in Hong Kong in the course of business. A person actively marketing the issuance of specified stablecoin to the public of Hong Kong is regarded as holding out as carrying on a regulated stablecoin activity and has to be licensed by MA.

Licensing criteria

9. The proposed licensing criteria include the following key elements:

- (a) **Management of reserve assets and stabilization mechanism:** the market value of the reserve assets pool backing the specified stablecoins must at all times be at least equal to the par value of the outstanding specified stablecoins in circulation;
- (b) **Redemption:** a licensee must pay a specified stablecoin holder who makes a valid redemption request the par value of the specified stablecoin without imposing unduly burdensome conditions and unreasonable fees;
- (c) **Physical presence in Hong Kong:** to enable effective supervision and enforcement by MA, a licensee must have a physical presence in Hong Kong;
- (d) **Financial resources:** a licensee must have adequate financial resources for carrying on its business, including a minimum paid-up share capital of HK\$25 million;
- (e) **Fitness and properness:** controllers, chief executives and directors of a licensee must be fit and proper persons, and persons responsible for the management and operation of the regulated stablecoin activity must possess appropriate knowledge and experience; and

- (f) **Prudential and risk management:** a licensee must have in place appropriate risk management policies and procedures for managing the risks arising from the carrying on of its business that are commensurate with the scale and complexity of the operation. The licensee should also put in place adequate and appropriate systems of control for preventing and combating possible money laundering and terrorist financing.

Restriction on offering of specified stablecoins

10. Under the proposed licensing regime, only the following entities, which are regulated either by MA or SFC, can offer a specified stablecoin to the public: (a) a licensee under the proposed licensing regime; (b) a VATP licensed by SFC; (c) a corporation that is licensed by SFC for carrying on Type 1 regulated activity under section 116 of the Securities and Futures Ordinance (Cap. 571); and (d) an authorized institution as defined in the Banking Ordinance (Cap. 155).

Transitional period

11. The Administration proposes to provide for six-month transitional arrangements for pre-existing issuers of specified stablecoins with meaningful and substantial presence in Hong Kong prior to the commencement of the proposed licensing regime.

Stablecoins Bill

12. The Bill was published in the Gazette on 6 December 2024 and received its First Reading at the Council meeting of 18 December 2024. The Bill seeks to: (a) provide for the supervision of activities involving stablecoins; (b) provide MA with investigatory and enforcement powers; and (c) provide for incidental and related matters. Details of the main provisions of the Bill are set out in paragraph 22 of the LegCo Brief ([File Ref.: B&M/4/1/44C](#)) issued on 11 December 2024 and paragraphs 4 to 15 of the Legal Service Division Report ([LC Paper No. LS80/2024](#)) on the Bill. The Bill, if passed, would come into operation on a day to be appointed by the Secretary for Financial Services and the Treasury by notice published in the Gazette.

Major views and concerns expressed by Members

13. The Administration consulted the Panel on Financial Affairs and the Subcommittee on Issues Relating to the Development of Web3 and

Virtual Assets on the proposed licensing regime on 8 April 2024 and 19 July 2024 respectively. Members generally supported the proposed licensing regime to address the potential risks on monetary and financial stability brought by FRS and to provide protection for FRS users. The major views and concerns expressed by Members are summarized in the ensuing paragraphs.

Licensing criteria and conditions

14. Members noted the financial resources requirement imposed on stablecoin issuers under the proposed licensing regime, i.e. the **minimum paid-up share capital** of an issuer should be 1% of the total amount of FRS in circulation, and the issuer must ensure that **the total value of the reserve assets** backing an FRS was no less than the par value of the FRS in circulation at all times. Members suggested that the requirement **be suitably relaxed** to allow more participants to enter the market and facilitate the long-term development of the industry.

15. The Administration advised that the main consideration in setting the financial resources requirement was to strike a balance between protecting investors and maintaining market competitiveness. The proposed minimum paid-up share capital requirement had been set having regard to public views and **adjusted from 2%** as initially proposed **to 1% of the par value of the FRS in circulation**. On reserve assets, the Administration explained that as each stablecoin represented the value of a particular fiat currency, corresponding reserve assets were fundamentally required to guarantee that the value of a stablecoin could be traced back to the value of the underlying fiat currency and to absorb potential losses from any risk incidents. Relevant international standards also emphasized that reserve assets must cover at least **100% of the issue value**.

16. Members were concerned that the industry might have technical difficulties in meeting **redemption requests**. The Administration responded that under the proposed licensing regime, stablecoin issuers must process redemption requests in a timely manner, i.e. within **one business day**, which was a practicable requirement in the Hong Kong market. In general, FRS users could cash in through well-established exchanges.

17. Members expressed concern about one of the proposed **disclosure and reporting requirements** to be imposed on stablecoin issuers which required the issuers **to engage a qualified independent auditor to conduct attestation at least once a month**, pointing out that currently, neither the Hong Kong Institute of Certified Public Accountants (“HKICPA”) nor the Accounting and Financial Reporting Council (“AFRC”) had guidelines on reporting and auditing of VAs. Members suggested that the Administration

should discuss with HKICPA or AFRC to finalize the guidelines as soon as possible for reference of the accounting profession. The Administration advised that it would follow up with HKICPA on the development of the guidelines.

Investor protection

18. Members pointed out that under the proposed licensing regime, only FRS issued by licensees could be offered to retail investors, while FRS issued by unlicensed issuers could only be offered to professional investors. Members suggested enhancing **the protection for professional investors**.

19. The Administration advised that **the proposed licensing regime was not intended to prohibit the offering of FRS issued by unlicensed issuers**, given that FRS was in existence before the implementation of the proposed licensing regime. Intermediaries were required to assess the suitability of financial investment products for their clients when marketing the products to them, and when offering FRS issued by unlicensed issuers, they must indicate clearly that such FRS was not a licensed FRS. The Administration stressed that given their considerable asset size and investment expertise, professional investors had to bear their own risks when investing in FRS issued by unlicensed issuers.

Stablecoin issuer sandbox

20. Enquiring about **the implementation of the stablecoin issuer sandbox** launched by the Hong Kong Monetary Authority (“HKMA”) to test out the operation of stablecoin issuers, Members were concerned about the number of participants in the sandbox, the transparency in the vetting process, and whether the potential use cases would pose limitations to applicants.

21. The Administration advised that the purpose of launching the stablecoin issuer sandbox was to allow institutions having a genuine interest in and a reasonable plan on issuing stablecoin in Hong Kong to **test, in a risk-controlled environment, the feasibility of their stablecoin issuance processes, business models, as well as investor protection and relevant risk management arrangements**, and to have bilateral communications with HKMA directly on the regulatory requirements to be implemented in future. The Administration had not set a limit on the number of sandbox applicants and considered that the use cases for which applications for participation in the sandbox were made would not limit the future application of the stablecoin concerned to other use cases. However, applicants were required to demonstrate detailed business plans with concrete use cases, as well as explain how their businesses could practically address pain points in

the real economy and bring benefits as well as new opportunities to the economic and financial activities of Hong Kong. Applicants' sandbox plans would need to explain clearly how they would demonstrate robust and compliant stablecoin issuance operations via the sandbox.

Manpower supply

22. Members expressed concern about whether there were sufficient **talents** in Hong Kong to undertake the relevant **risk management** for the proposed licensing regime. In response, the Administration highlighted that Hong Kong had a sufficient supply of professionals for asset management and custody, anti-money laundering, auditing work, etc. required for the implementation of the licensing regime. Moreover, financial services and innovation and technology were under the industry segments on the Talent List of Hong Kong, and fintech talents admitted to Hong Kong included those familiar with stablecoin operation.

Council questions

23. At the Council meetings of 21 February, 5 June and 11 December 2024, Members raised questions relating to the regulation and development of stablecoins and VAs. The hyperlinks to the questions and the Administration's replies are provided in the [Appendix](#).

Relevant papers

24. A list of relevant papers is in the [Appendix](#).

Council Business Divisions
Legislative Council Secretariat
16 January 2025

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List of relevant papers

Committee	Date of meeting	Paper
Panel on Financial Affairs	8 April 2024	Agenda Item IV: Development of financial technologies in Hong Kong and the proposed regulatory regime for stablecoin issuers Minutes
Subcommittee on Issues Relating to the Development of Web3 and Virtual Assets	19 July 2024	Agenda Item I: Proposed regulatory regime for stablecoin issuers Minutes

Council meeting	Paper
21 February 2024	Question 7 : Regulation of virtual asset trading
5 June 2024	Question 9 : Promoting the development of stablecoins and virtual assets
11 December 2024	Question 15 : Policy on digital assets