



Hong Kong Stablecoin Regulation

Part 1: Licensing Regime Overview, February 2026

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Today's Focus

01

Licensing Regime Scope

Types of stablecoins and activities covered

03

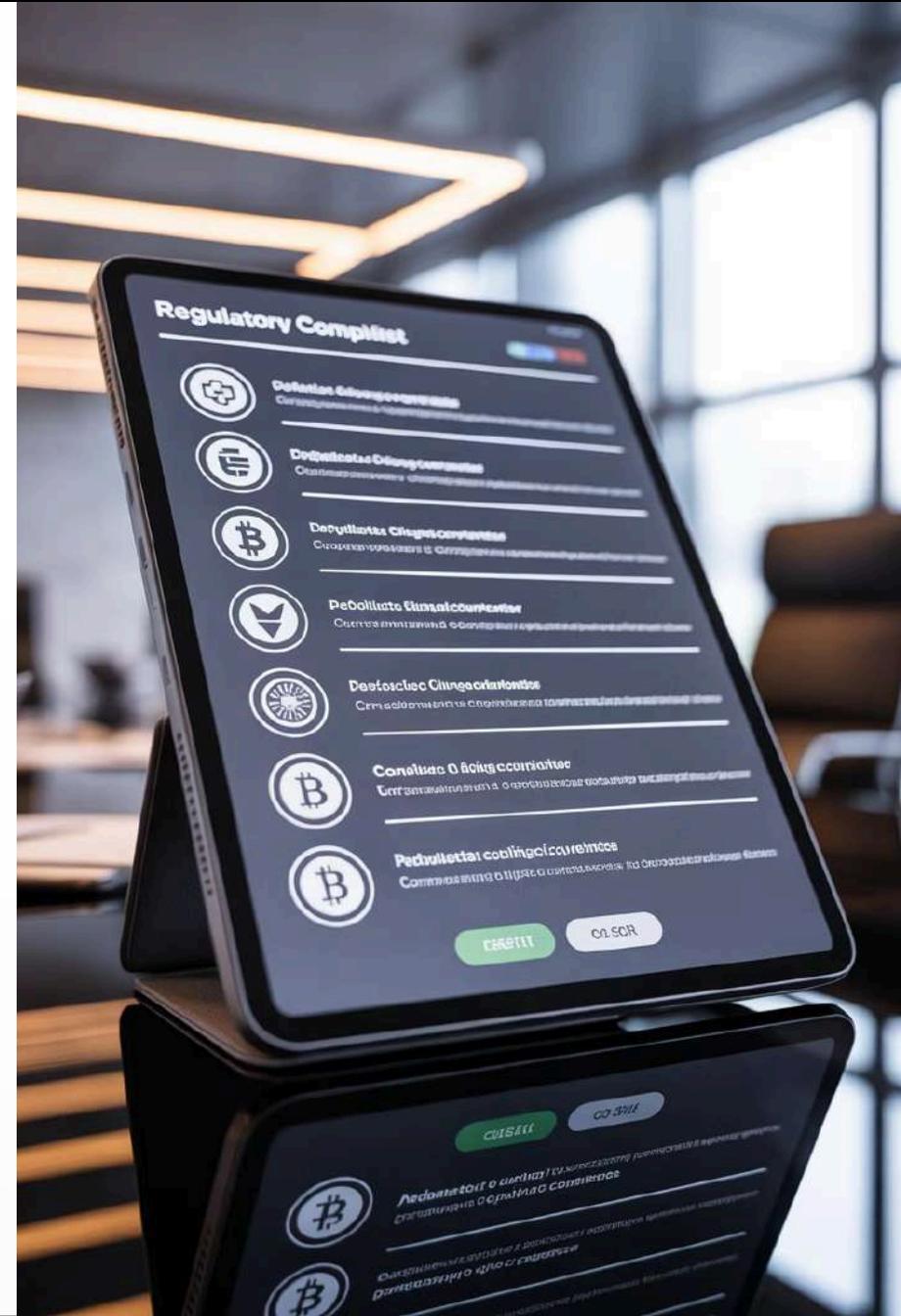
Continuing Obligations

Ongoing duties of licensed issuers

02

Eligibility Criteria

Requirements for obtaining a licence



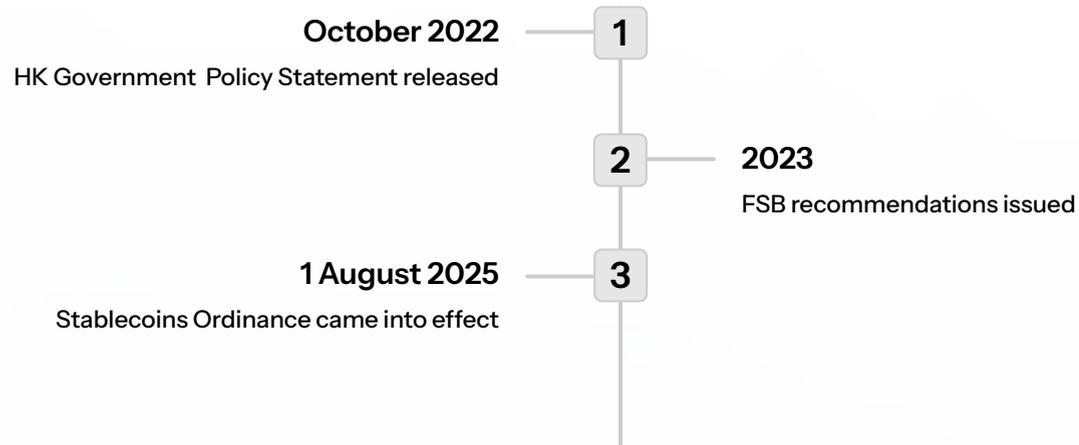


Background

October 2022 HK Government Policy Statement on Development of Virtual Assets

Cultivating a dynamic virtual asset sector as integral component of Hong Kong's financial future

Regulatory Timeline



Hong Kong is among the first jurisdictions to implement stablecoin regulation



'Stablecoin' Definition: section 3 Stablecoins Ordinance

A stablecoin is a cryptographically secured digital representation of value that:

1. Functions as a unit of account or store of value
2. Is used or intended to be used as a medium of exchange for goods, services, debt settlement, or investment
3. Is capable of electronic transfer, storage, and trading
4. Operates on a distributed ledger or similar technology
5. Purports to maintain a stable value by reference to one or more assets



'Specified Stablecoin' Definition: section 4 Stablecoins Ordinance

Stablecoin that purports to maintain stable value by referencing:

- One or more official currencies
- Official Currency = Currency issued by government, central bank, monetary authority or authorised note-issuing bank

Commonly known as: Fiat-referenced currencies

1

Current Scope

Only fiat-referenced stablecoins are currently regulated under the ordinance

2

Future Potential

HKMA has the power to specify other units of account or stores of value to be included in the regulatory framework

3

Current Exclusion

Commodity-linked stablecoins, such as those referenced to gold, are not currently regulated

What's Excluded?

1

Securities & Futures Contracts

Already regulated under Securities and Futures Ordinance

2

Deposits

Regulated under Banking Ordinance

3

Central Bank Digital Currencies

Government or central bank issued tokens

4

Limited-Purpose Digital Tokens

Loyalty points, rewards, in-game assets



Licensing Requirement

Section 5: Regulated Stablecoin Activity

Activity 1

Issuing Specified Stablecoin in Hong Kong

Activity 2

Issuing Specified Stablecoin that references Hong Kong dollar (wholly or partly) outside Hong Kong

📄 **Extraterritorial application:** Offshore issuers of HK\$-linked stablecoins must obtain an HKMA licence

Determining "Issued in Hong Kong"

HKMA takes holistic approach based on comprehensive review



Location

Where day-to-day management & operations occur



Incorporation

Issuer's jurisdiction



Minting & Burning

Where token operations take place



Reserve Management

Location of reserve asset management



Bank Accounts

Where cash flow accounts maintained

Offences

Section 8: Conducting Regulated Stablecoin Activity without a licence

Penalties

7

Years' Imprisonment

Maximum term

5M

HK\$ Fine

Maximum penalty

100K

HK\$ Daily Fine

For continuing offence

Holding Out Offence

What Constitutes 'Holding Out'?

Includes actively marketing to Hong Kong public that you conduct activity which, if in HK, would be Regulated Stablecoin Activity, includes active marketing to any class of Hong Kong public

HKMA Assessment Factors

- Use of Chinese language
- Targeting HK residents
- Use of .hk domain
- Detailed HK marketing plan

Minimum Criteria

Schedule 2 to Stablecoins Ordinance

Financial Stability

Ensuring Hong Kong market stability

ML Prevention

Preventing money laundering

Investor Protection

- Section 15(3): HKMA must be satisfied applicant will meet minimum criteria when licensed
- Compliance with minimum criteria is required on an **ongoing** basis: Breach is ground for licence revocation
- Detailed guidance on meeting Schedule 2 minimum criteria provided in:
 - HKMA Guideline on Supervision of Licensed Stablecoin Issuers ("Supervision Guideline")
 - HKMA Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Stablecoin Issuers) ("AML/CFT Guideline")

Corporate Status Requirement

Section 14 & Schedule 2 Section 3

Option 1

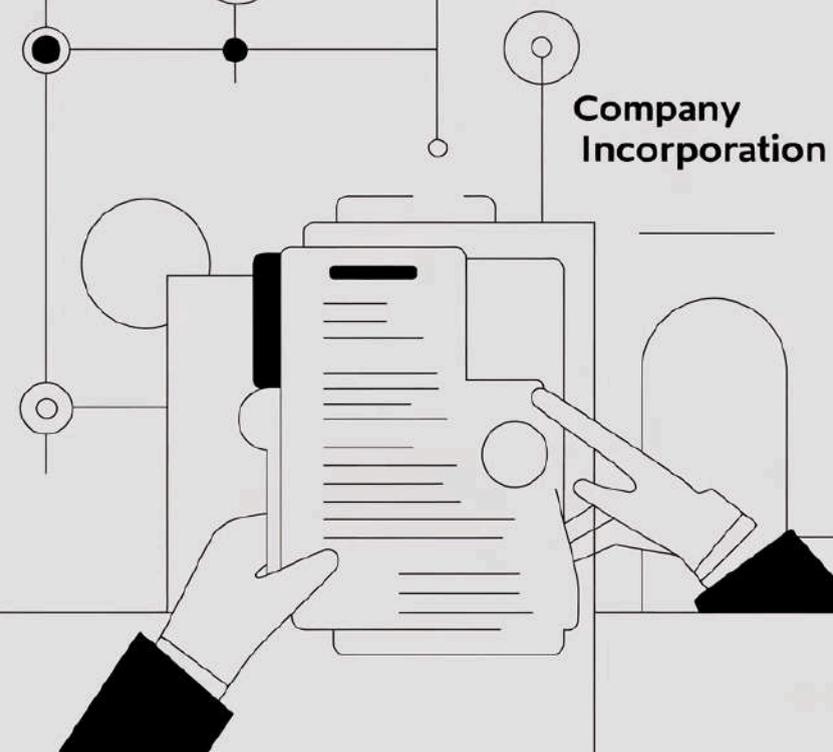
Company incorporated in Hong Kong

Option 2

Authorized institution under Banking Ordinance incorporated outside HK

- ❏ Overseas entities (non-authorized institutions) must set up HK subsidiary to apply

Hong Kong Business Registration



Financial Resources Requirements

Schedule 2 Section 4 and Supervision Guideline Paragraphs 5.1 & 5.2



General Obligation

Sufficient resources & liquid assets to sustain business, meet obligations, fund orderly wind-down



Funding Source

Liquid net assets funded by equity, not loans or guarantees



Minimum Capital

HK\$25 million paid-up share capital (or equivalent in freely convertible currency)*

* Authorized Institutions must comply with Banking Ordinance requirements



Dedicated Use

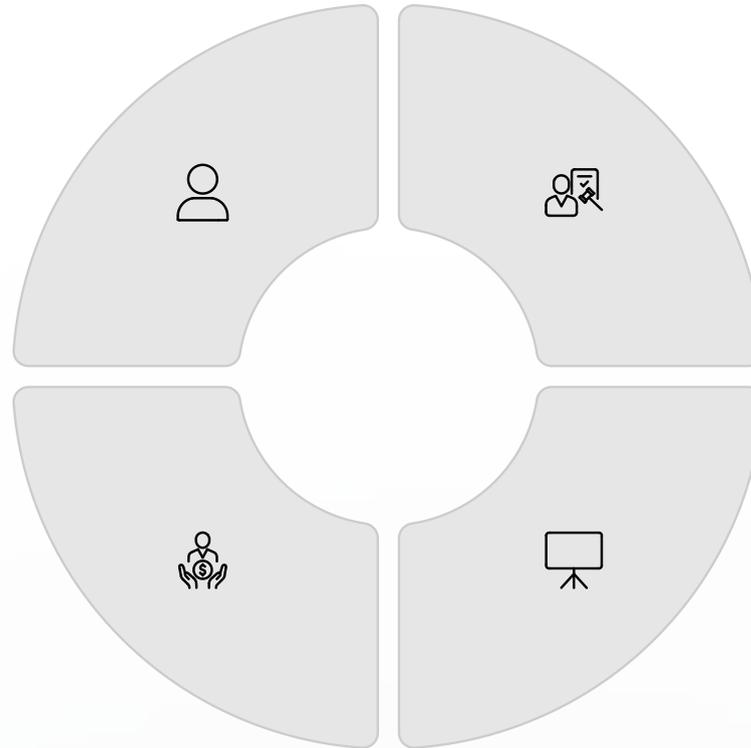
Resources solely for stablecoin business, not diverted to related parties

Who Must Be Fit and Proper?

Schedule 2 Sections 7 & 8

Controllers
10%+ voting rights or directing
majority of directors

Stablecoin Managers
For authorized institutions only



Chief Executives

Directors

Fit and Proper Assessment

01

Reputation & Character

Criminal record, fraud, dishonesty, financial malpractice, past business conduct

02

Knowledge & Experience

Qualifications, training, proven experience in similar roles

03

Regulatory Compliance

History with non-statutory codes, disciplinary actions by professional bodies or regulators

04

Professional Track Record

Leadership roles, regulatory censure, investigations, licence revocations

05

Financial Position/Other Business Interests

Whether interests could undermine Stablecoins' soundness or holder confidence

Appointment Requirements

HKMA Prior Consent

Required before person becomes controller, chief executive, alternate chief executive, director or authorized institution's stablecoin manager

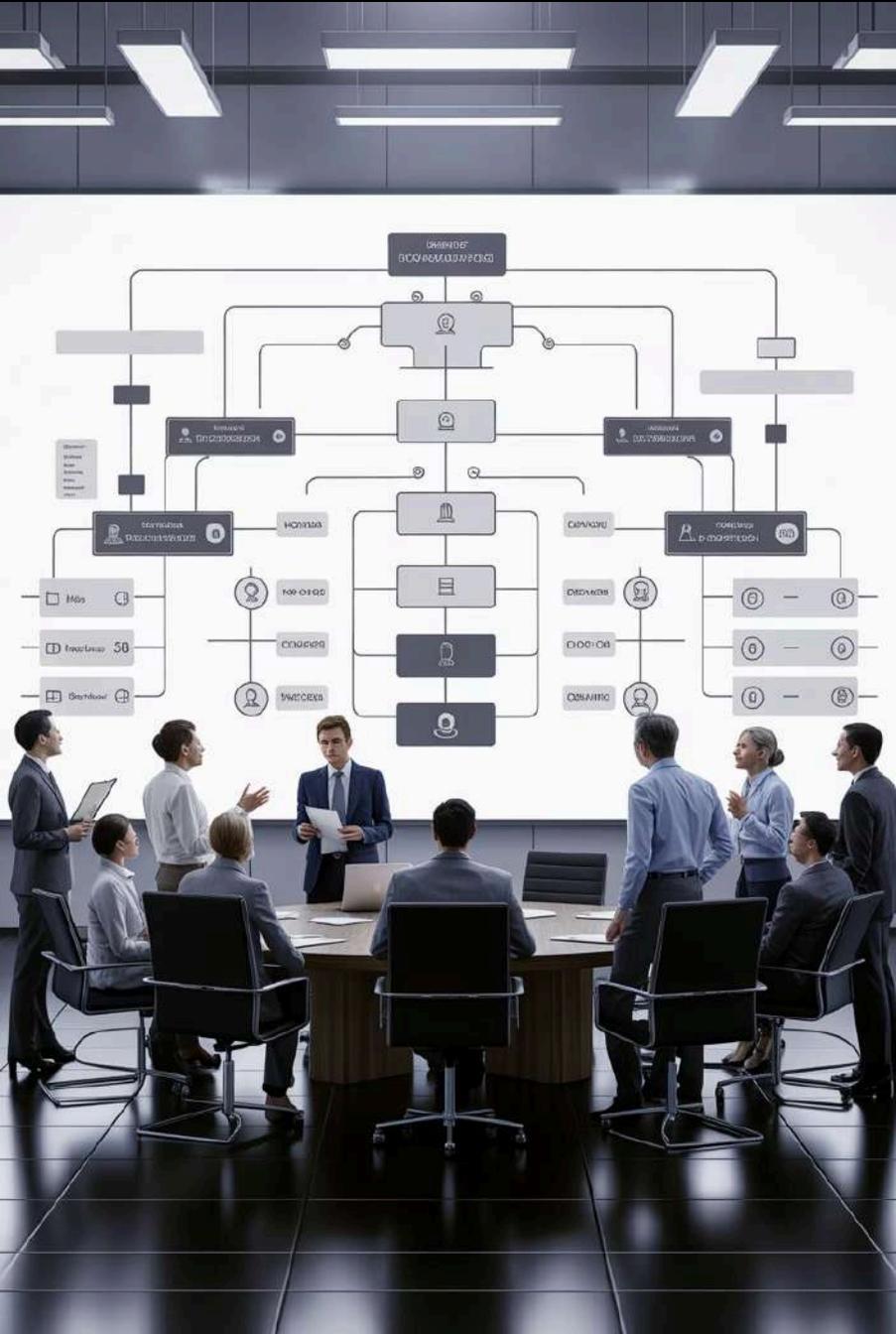
Residency

Officers (except directors) must be ordinarily resident in Hong Kong

Notification

Written notice to HKMA within 14 days of any changes





Manager Requirements

Schedule 2 Section 7(3)

- Adequate systems required to ensure managers are fit and proper persons to hold positions

Who Is a Manager?

- Individual with principal responsibility for conducting "specified affairs" (listed in Schedule 1) including management of :
 - accounting systems
 - AML/CFT control systems
 - risk management control systems

(excludes chief executives, directors and stablecoin manager)

Manager Control System Requirements

Supervision Guideline Paragraphs 7.2.6 and 7.2.7



Selection & Vetting

Clearly defined roles, formal candidate assessment before appointment



Misconduct Procedures

Clear investigation and disciplinary action processes



Ongoing Oversight

Performance appraisals balancing financial results with regulatory compliance



Support & Review

Adequate training, prompt vacancy filling, periodic internal audit

Section 63 requires HKMA notification within 14 days of any change in stablecoin issuer's managers

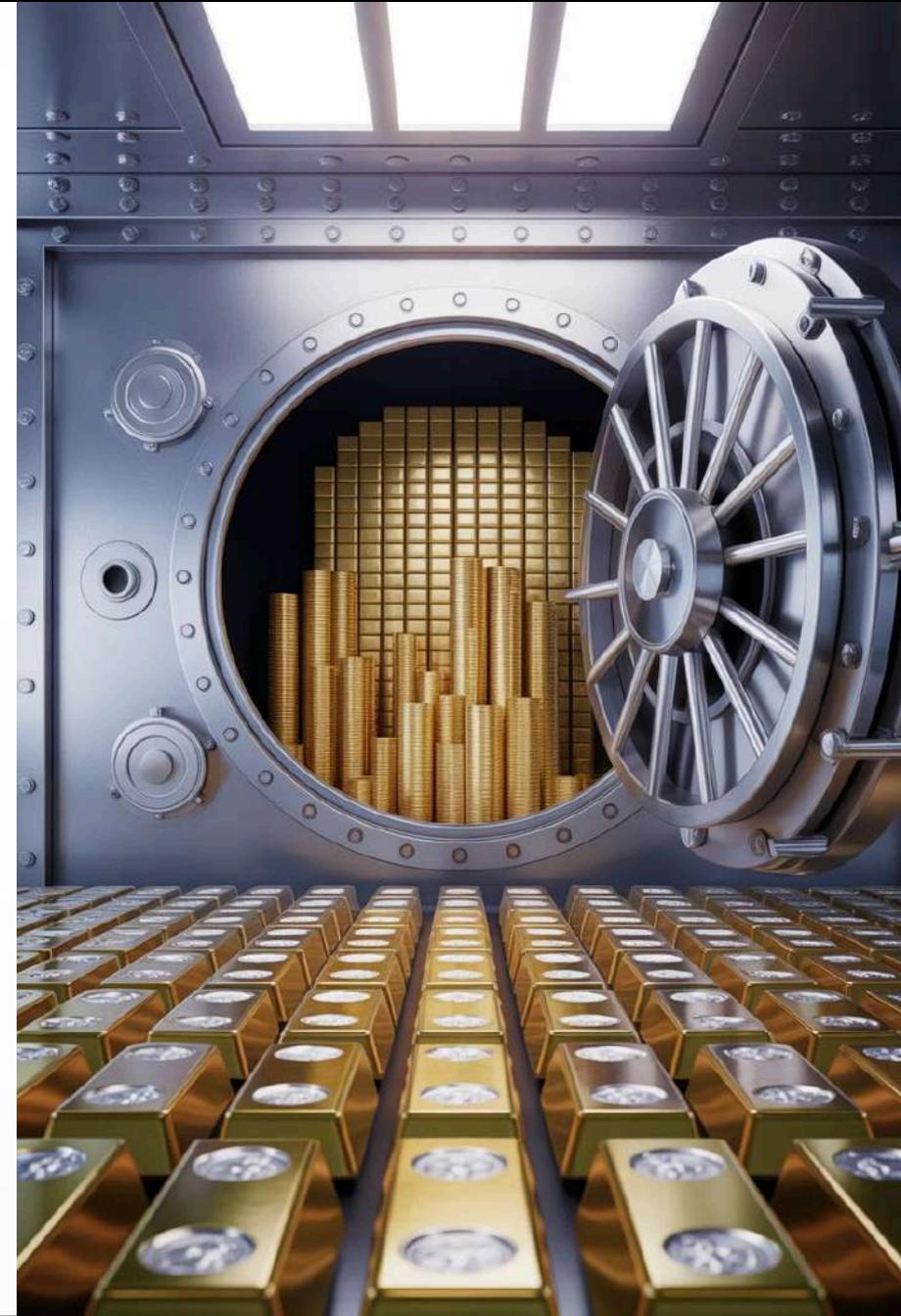
Full Backing & Reserve Assets

Schedule 2 Section 5

Reserve assets must have value equal to or greater than par value of outstanding Specified Stablecoins at all times

- ❏ Critical Implication: HKMA will not license algorithmic stablecoins

Applies to all Specified Stablecoins, including those temporarily restricted



Eligible Reserve Assets

Must be of high quality and liquidity and carry minimal investment risks (Schedule 2 Section 5(5))

Acceptable reserve assets - Supervision Guideline Paragraph 2.3.1



Cash



Bank Deposits

Terms \leq 3 months



Government/Central Bank Debt

Issued in own currency, mature within 12 months/highly liquid



Cash Receivable from Reverse Repos

Overnight, minimal counterparty risk, collateralised by specified asset types



Tokenised Versions of Eligible Assets

If meet quality, liquidity, minimal risk requirements

Reserve Asset Management

Schedule 2 Section 5(6): issuers must have risk management policies/procedures capable of ensuring proper management so that redemption requests are met without undue delay

Over-Collateralisation

Practical Expectation (Supervision Guideline Paragraphs 2.4.1 and 6.4.4)

- Issuers should over-collateralise to provide buffer above full-backing level
- Takes into account risk profile of reserve assets

Monitoring & Reconciliation

(Supervision Guideline Paragraphs 2.2.1 and 2.2.2)

- **Regular Reconciliations:** Between market value of reserve assets and par value of outstanding Specified Stablecoins
- **Consistent Methodology:** Prudent calculation using reliable data sources, bid price for valuations

Public Disclosure Requirements

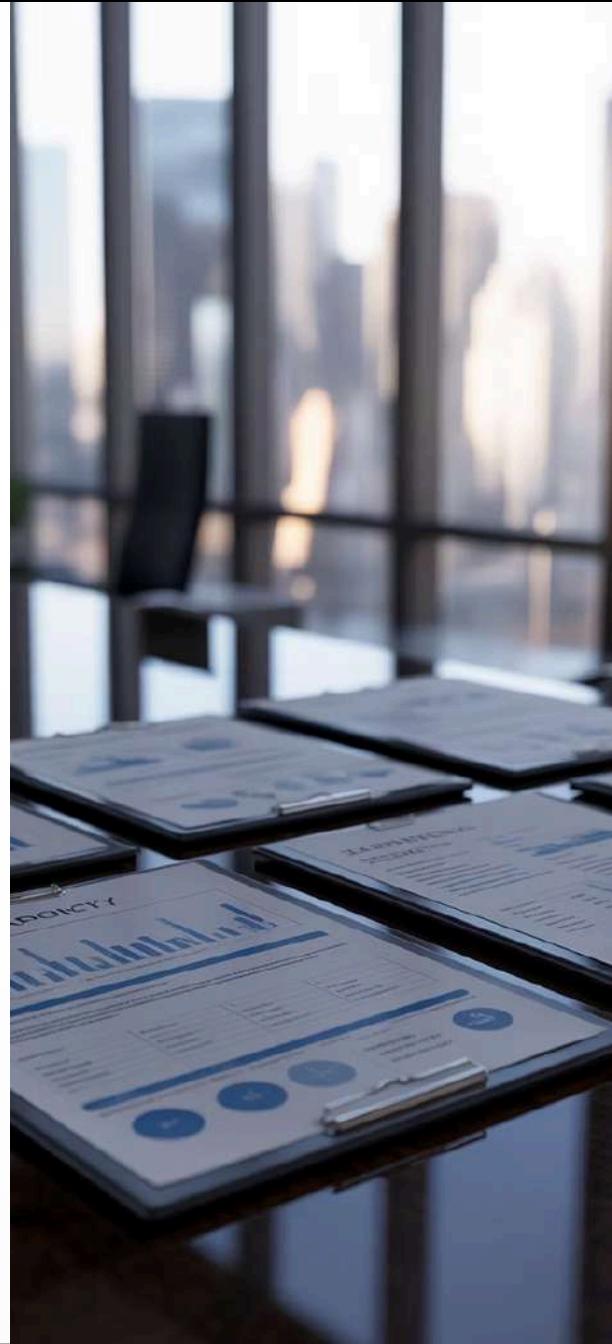
Schedule 2 Section 5(7)

- Reserve asset management policy
- Reserve assets risk assessment and management
- Composition and market value of reserve assets
- Results of regular independent attestations and audits of reserve assets

Supervision Guideline Paragraph 2.7.2

Issuers must:

- prepare daily statements of par value of outstanding Specified Stablecoins and reserve assets' market value and composition
- report to HKMA weekly
- publish reports on issuer's website



Independent Attestation Reports

Supervision Guideline Paragraph 2.7.3

Auditor Requirements

- Qualified independent external auditor
- Acceptable to HKMA
- Regular attestations (frequency to be agreed with HKMA)

Attestation Scope

- Market value & composition of reserve assets
- Par value of outstanding stablecoins
- Sufficiency of backing
- As of last day of period covered by report + random day within that period

Timeline: Attestation report must be submitted to HKMA within 1 month of last business day covered by report

Publication: On issuer's website

Additional Requirements

Supervision Guideline Paragraph 2.7.4

Annual Financial Audit

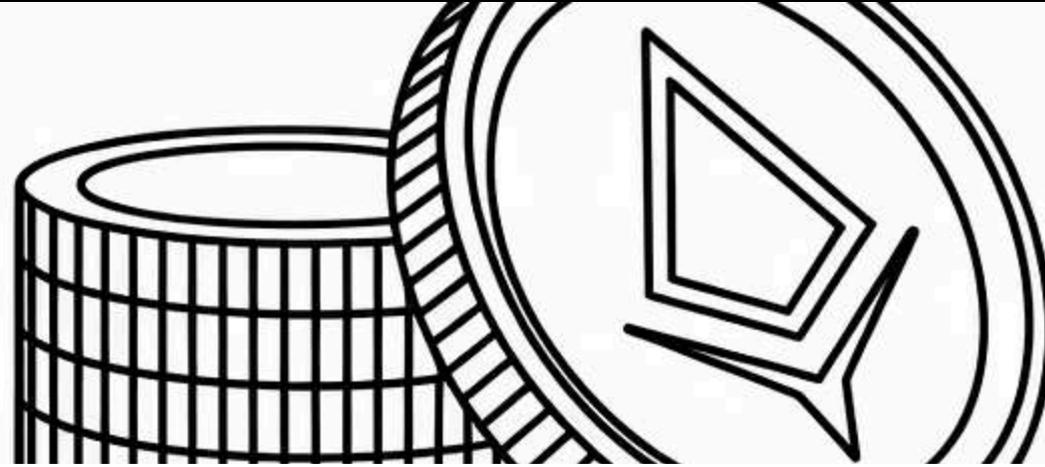
Must cover reserve assets

Quarterly Policy Review

Reserve asset management policies and procedures, board approval for material changes

Regular Compliance Audits

Determine compliance of reserve asset management with internal policies and regulatory requirements



Immediate Notification to HKMA Required

Supervision Guideline Paragraph 2.7.5

Breach

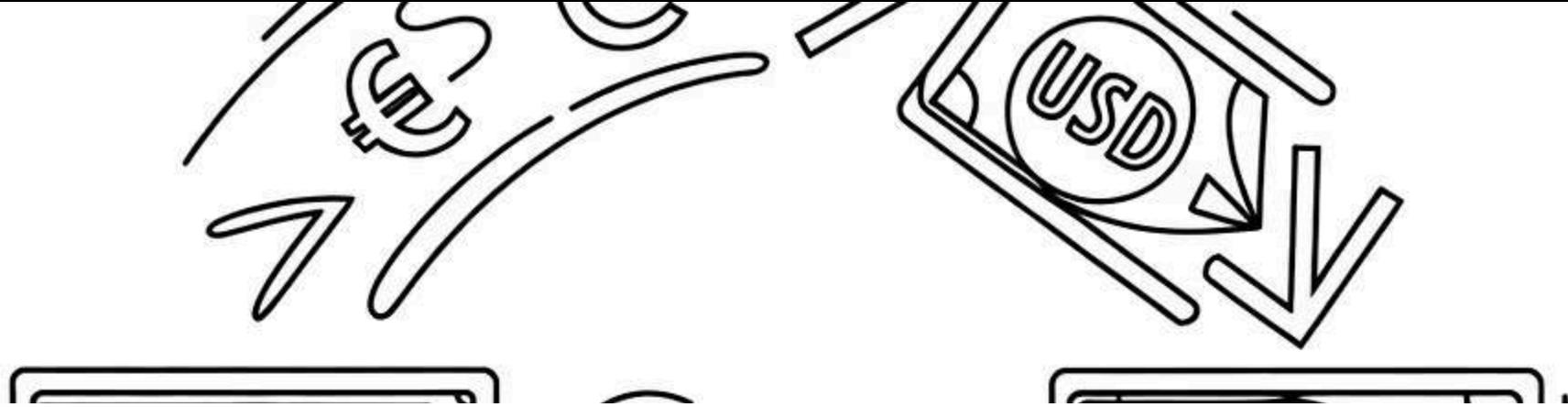
Any breach of statutory or regulatory requirements for reserve assets

Non-Compliance

Material non-compliance with reserve asset management policies

Discrepancies

Unresolved discrepancies from reconciliation exercises



Reference Currency

Schedule 2 Section 5(3)

General Rule

Reserve assets must be held in same currency as referenced by Specified Stablecoin

Multiple Currencies

Same ratio as referenced by Specified Stablecoin

Currency Mismatch

HKMA prior approval required, legitimate reason needed, appropriate measures (e.g., over-collateralisation)



Segregation of Reserve Assets

Schedule 2 Section 5(1) and 5(4)

Reserve assets pool backing a Specified Stablecoin issue must be:

- segregated from other reserve asset pools and issuer's other assets
- protected against claims by issuer's other creditors

Supervision Guideline Paragraphs 2.5.2 and 2.5.3

- Reserve assets must be held on trust (either independent trustee appointed or trust declared over reserve assets)
- Legal opinion confirming trust's effectiveness must be submitted to HKMA
- Income/loss from management of reserve assets belong to stablecoin issuer

Custodian Requirements



Qualified Custodian

Licensed bank or HKMA-acceptable asset custodian



Due Diligence

Size, capabilities, expertise, track record, reputation, HK presence



No Compromise

Arrangements must not compromise full backing (e.g., fees not from reserve assets)



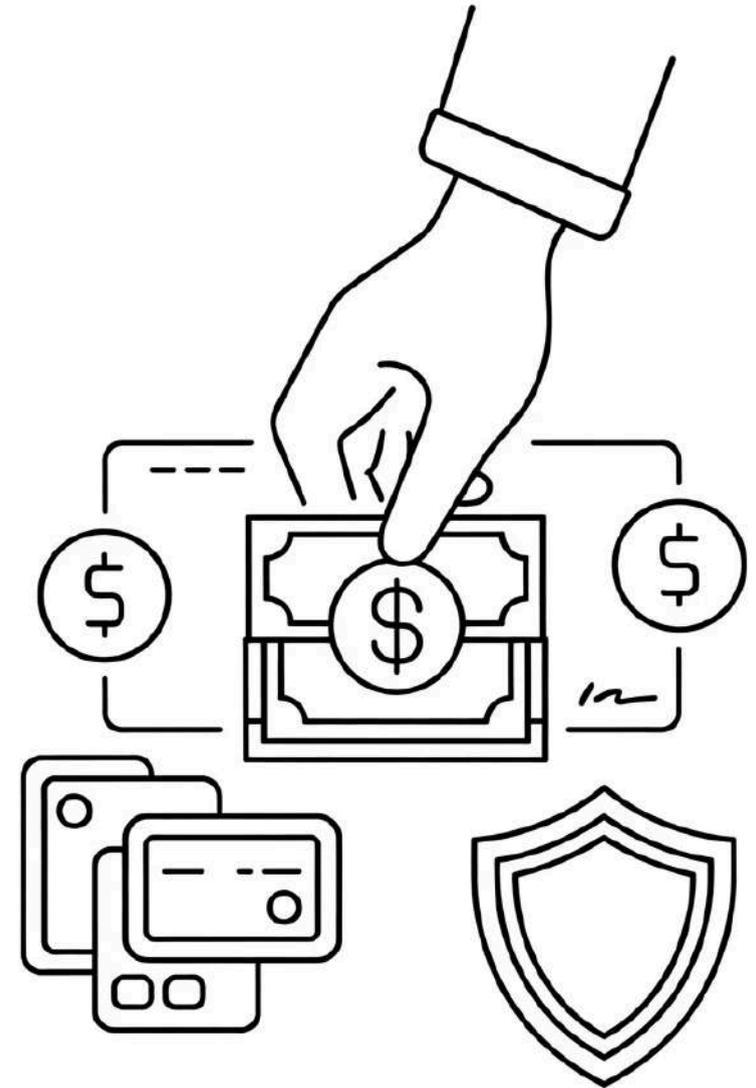
Ultimate Responsibility

Issuer retains accountability despite custodian engagement

Stablecoin Holders' Redemption Rights

Schedule 2 Section 6(1)-(3) and Supervision Guideline Paragraphs 3.3.3 and 3.3.4

- Full Face Value**
Redeemable for full face value in reference currency
- No Unreasonable Fees**
Fees must be proportional to processing costs, aligned with industry practice
- No Undue Burden**
Conditions must be reasonably practicable, reflect legal obligations, not cause hardship
- One Business Day**
Valid requests honoured within 1 business day (unless HKMA approves delay)



Rights on Insolvency

Schedule 2 Section 6(4) and Supervision Guideline Paragraphs 3.3.1 and 3.3.2

Right to Direct Sale

Holders can direct sale of reserve assets to redeem all outstanding Specified Stablecoins on pro rata basis

Shortfall Claim

Right to claim against issuer if sale proceeds insufficient

Legal opinion required to be submitted to HKMA: Confirming holders have required redemption rights and rights on insolvency

Issue of Specified Stablecoins

Schedule 2 Section 11



Viable Use Case

Demonstrate purpose and ability to operate prudently



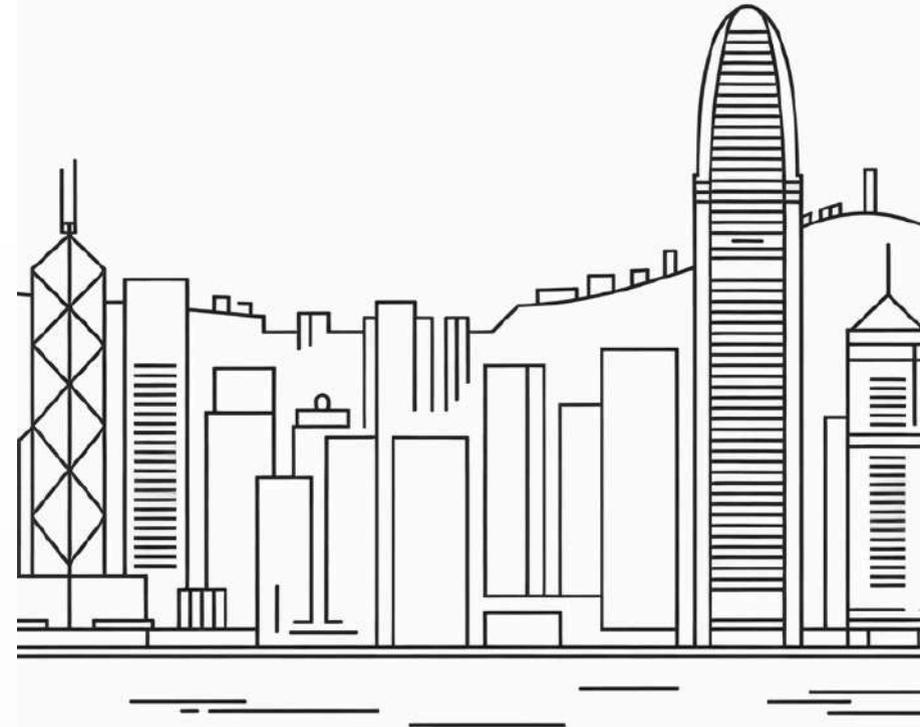
Reliability Strategy

Ensure reliability of Specified Stablecoins



Business Plan

Viable plan with reasonable chance of generating demand for Specified Stablecoins



Stablecoin Issuance Mechanism

Supervision Guideline Paragraph 3.2.1

Requirements

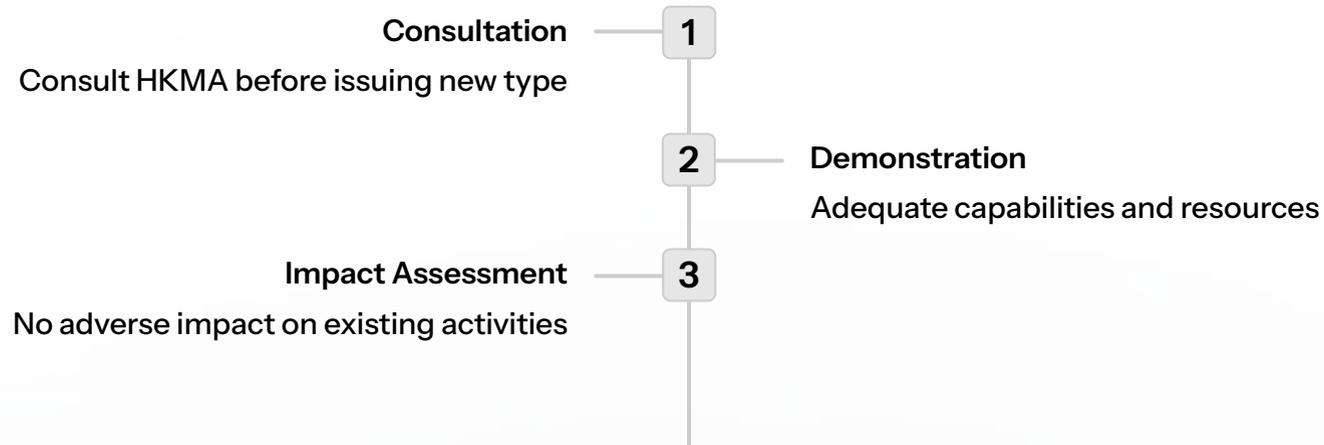
- Issue only to customers
- Prompt issuance after receiving funds
- Funds in same currency as reference
- Same ratio if multiple currencies

Multiple Stablecoin Types

Supervision Guideline Paragraph 4.2.1

Critical Rule

| Every issue must be matched by equivalent increase in reserve assets





Distribution Requirements

Supervision Guideline Paragraphs 3.4.1 and 3.4.2

Third Party Distribution

1

Legal & Regulatory Review

Consider requirements in distribution jurisdictions, licensing status of distributors

2

HK Distribution

Distributor must be permitted offeror under Stablecoins Ordinance

3

Risk Assessments and Due Diligence

- Size, capabilities, expertise, track record, reputation, governance, conduct standards
- Adequacy of third party's governance, risk management and internal controls

4

Regulatory Compliance

Arrangements comply with applicable laws, no distribution where unlawful



Customer On-boarding & Issue, Redemption & Distribution Policy Review & Reporting

Supervision Guideline Paragraphs 3.5.1, 3.5.2, 3.6.2 and 3.6.3

Jurisdictional Compliance & Verification

- Establish robust policies for identity verification, geolocation checks, and access blocking to prevent issuance in prohibited jurisdictions
- Implement controls to mitigate location spoofing risks

Policy Review & Approval

- Regularly (at least annually) review policies for issue, redemption, and distribution
- Promptly rectify any deficiencies, and obtain board approval for material updates

Audits & Incident Reporting

- Perform regular compliance audits and report findings to the HKMA
- Immediately notify HKMA of any statutory breaches or material non-compliance with internal policies related to Specified Stablecoin issue, redemption, or distribution

Prohibition on Interest-bearing Stablecoins

Schedule 2 Section 15 and Supervision Guideline Paragraph 2.6.1

Definition of "Interest"

= any profit, income, or other return payable to holders based on how long they have held the Specified Stablecoin, or its par or market value

Marketing Incentives Permitted

Issuers can offer marketing incentives that do not constitute interest payments

Restrictions on other Business Activities

Schedule 2 Section 12

01

HKMA Consent

Other activities require prior HKMA consent

02

Risk & Conflict Management

If HKMA consent granted, issuer must implement controls to ensure other business does not pose risks to Specified Stablecoin business and manage/mitigate conflicts of interest

03

Authorized Institution Exemption

Authorized Institutions are exempt - they follow Banking Ordinance

Prudential and Risk Management

Schedule 2, Section 9

Licensed Specified Stablecoin issuers must implement risk management policies and procedures, proportionate to their operations covering data confidentiality and accuracy, fraud detection, and robust contingency plans for operational disruptions. HKMA consent is required for any deviations.

Risk Governance and Three Lines of Defence

Supervision Guideline Paragraph 6.2.3

01

First Line: Business Units

Responsible for ongoing risk identification, assessment, management, and reporting within their operations

02

Second Line: Independent Functions

- Independent risk management function has overall responsibility for risk
- Compliance function responsible for compliance risk. Both report to senior management and have access to the board

03

Third Line: Internal Audit

- Independent internal audit function must assess effectiveness of internal control systems
- Reporting to the board or a board committee

Risk Management Framework & Internal Controls

Supervision Guideline Paragraph 6.3.1-6.3.5

Licensed stablecoin issuers must implement a robust framework for managing risks and maintaining effective internal controls across all operations

1

Comprehensive Risk Framework

Documented policies and procedures to identify, assess, monitor, control, and mitigate all material risks, including credit, liquidity, market, technology, operational, reputation, and AML/CFT risks

2

Continuous Monitoring & Reporting

Ongoing qualitative and quantitative assessments, early warning systems, and risk reports to senior management and the board on material exposures

3

Effective Internal Controls

Controls to ensure reliable financial information, confidentiality of essential data, and full compliance with applicable regulatory requirements

4

Board Oversight & Review

Board approval for the risk management framework and any material changes
Regular (at least annual) reviews are required and any shortcomings must be rectified promptly

Credit, Liquidity & Market Risk Management

Schedule 2 Section 5(6)(a) & Supervision Guideline Paragraphs 6.4.1-6.4.7

Licensed stablecoin issuers must implement robust risk management policies for their reserve assets to ensure timely redemptions, covering credit, liquidity, and market risks, and guaranteeing full backing even under stressed conditions



Credit Risk

- Manage exposures to counterparties
- Set and enforce internal credit exposure limits
- Implement response procedures for breaches
- Notify HKMA if breach persists beyond one business day



Liquidity Risk

- Anticipate and monitor liquidity needs for redemptions
- Manage reserve asset liquidity characteristics (e.g., instrument types, maturities)
- Establish liquidity risk indicators and internal limits
- Implement response procedures for breaches, including HKMA notification



Market Risk

- Monitor reserve assets' market risk using indicators
- Enforce internal market risk limits
- Implement response procedures for breaches
- Notify HKMA if breach persists beyond one business day



Stress Testing

- Conduct regularly (at least quarterly) using severe but plausible scenarios
- Evaluate resilience of reserve assets to various stresses
- Board review of scenarios, assumptions, and material changes
- Report methodologies, data sources, and results to board and HKMA

Technology Risk Management

Supervision Guideline Paragraphs 6.5.1-6.5.18

Robust technology risk management framework required to ensure effective IT controls, secure and high-quality technologies, and efficient operations



Token Management

- Document token standards, DLTs, and smart contract architecture
- Implement authorisation procedures (e.g., multi-signature for high-risk operations, velocity limits)
- Assess DLT robustness and appoint qualified third-party to conduct smart contract audits annually and on smart contract upgrade



Wallet & Private Key Management

- Stringent controls across the cryptographic key lifecycle (generation, usage, destruction)
- Higher security for "Significant Seeds/Private Keys" including offline generation, air-gapped environments, and physical security controls



Information Management

- Encrypt sensitive information during storage and transmission using strong standards
- Implement policies for data retention and secure disposal, ensuring minimal data collection and restricted access



Operational Risk & Third Parties

- Policies for managing operational risks and those associated with third-party arrangements
- Conduct due diligence, continuous monitoring, and risk assessments for third parties
- Notify HKMA of material third-party arrangements before commencement

Disclosure Obligations

Schedule 2, Section 13(1) and Supervision Guideline Paragraphs 8.2.3 and 8.2.4

White Paper Content

Each Specified Stablecoin requires a white paper detailing issuer information and comprehensive stablecoin specifics, including reserve asset management arrangements

Redemption & Terms

Disclose holders' redemption rights, process, timeframe, fees, and conditions. Include full terms and conditions, including exceptional events (e.g., hard forks) and transfer mechanism

Mechanisms & Risks

Detail issue and distribution mechanisms, any third-party distribution arrangements, the underlying technology, and risks of using the Specified Stablecoin

Publication & Notification

White papers must be published prominently on the issuer's website in non-technical language. HKMA notification is mandatory before publication or any material changes are made

Audit Requirement & Complaints Management

Licensed issuers face stringent requirements for financial transparency and robust complaint handling to protect stablecoin holders



Audit Requirements

- Supervision Guideline Paragraph 8.2.5
- Submit audited financial statements to HKMA within 4 months of financial year-end
- Statements must comply with accounting standards and cover reserve assets backing Specified Stablecoins



Complaints Procedure - Schedule 2 Section 14 and Supervision Guideline Paragraphs 8.4.1-8.4.4

- Provide fair, efficient, and accessible complaint handling mechanisms for stablecoin holders
- Complaints must be managed by competent staff not involved in complaint
- Acknowledge complaints within 7 days, and provide a full response within 30 days (or 60 days with reasons)
- Maintain complaint records for at least 2 years
- Publish complaints process and expected timeframes on the issuer's website
- Ensure third-party distributors have effective complaint handling procedures

Recovery Planning & Business Continuity

Schedule 2, Section 16(1) and Supervision Guideline Paragraphs 6.8.1-6.8.21

Incident Management

- Timely response to material impacts: operational, financial, reputational, or legal
- Define incident classification, detection, and activation criteria, covering all key risks (e.g., de-pegging, tech failure)
- Implement procedures to mitigate impact, and ensure orderly stablecoin operations
- Conduct post-incident review to identify causes and implement rectifications

Business Continuity

- Implement systems for recovery and continuity of critical functions during disruptions
- Comprehensive business continuity plan ("BCP") must cover critical operations, recovery strategies, and communication procedures
- Continuous off-site back-up for critical information, with instantaneous backup for certain data if appropriate
- Alternative sites for business and IT recovery, ready within BCP timeframes

Issuers must review incident management framework and business continuity and exit plans regularly (at least annually), and after activation of either plan

Orderly Wind-down Plan

Section 16(1) Schedule 2 and Supervision Guideline Paragraph 6.8.17

Business Exit Plan

- Detailed procedures for liquidating reserve assets under normal and stressed conditions
- Facilitating the filing of redemption claims by Specified Stablecoin holders

Proceeds Distribution

- Clear processes for distributing proceeds from liquidated assets to holders
- Managing necessary arrangements with third-party service providers

Corporate Governance

Clear Organisational Structure

- Defined reporting lines
- Allocated responsibilities across all levels

Board Oversight

- Ultimate responsibility for all issuer operations

Independent Directors

- At least one-third of the board must be Independent Non-Executive Directors (INEDs)

Independent Functions

- Required independent compliance function
- Required independent audit function

Code of Conduct

- Set standards for directors, senior management and staff

Remuneration Policy

- Established by board

Continuing Obligations



Public Transparency

Display licence number on all advertising and consumer-facing software. Failure to comply is an offence under Section 23



Immediate Notification

Promptly inform HKMA of financial distress, inability to meet obligations, insolvency, or payment suspension (Section 25)



Report Material Changes

- Report address change (within 7 days) and any material change that could impact ability to comply with Schedule 2 licensing criteria or licence conditions, or business activities to the HKMA



Annual Licence Fee

Annual licence fee of HK\$113,020 is payable within 14 days of the licence's effective date and annually thereafter