

FSTB and HKMA Unveil Stablecoin Legislative Proposal

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On July 17, 2024, the Financial Services and Treasury Bureau (FSTB) and Hong Kong Monetary Authority (HKMA) jointly issued a [legislative proposal](#) on stablecoin regulation in response to a two-month public consultation period with industry stakeholders. The [consultation](#)—which began earlier this year—generated 108 responses from market participants, industry associations, business organizations, and individuals, many of whom expressed support for a “well-regulated environment” as “a prerequisite for sustainable and responsible development of the stablecoin ecosystem in Hong Kong.”

In the proposal, the FSTB and HKMA reference feedback from consultation participants, market developments, and international dialogue on stablecoins in its decision to “take forward the legislative proposal to implement a regulatory regime for issuers of fiat-referenced stablecoin (FRS) in Hong Kong.”

LICENSING AND JURISDICTIONAL REQUIREMENTS

The legislative proposal clarifies that any individual or entity issuing FRS in Hong Kong, or individual or entity “actively marketing” stablecoins to Hong Kong users, must apply for a license to do so. If a stablecoin issuer is not licensed by the HKMA, the issuer may only offer stablecoins to professional investors. Additionally, foreign issuers seeking a license must establish a subsidiary in Hong Kong with locally based key personnel management.

INTEREST AND MARKETING LIMITATIONS

While FRS issuers are prohibited from paying interest to holders, the legislative proposal clarifies that issuers can offer marketing incentives. However, these incentives are subject to limitations: incentives attached to stablecoins cannot be tied to the quantity of stablecoins held or duration of their holding, and issuers are prohibited from partnering with third parties to provide interest to holders.

MANAGEMENT OF RESERVE ASSETS AND REPORTING

The legislative proposal specifies various reporting requirements on the valuation and composition of reserve assets. FRS issuers must disclose any specific information regarding management of reserves in their license applications. Importantly, any FRS issued must be fully backed by reserve assets, and any FRS issuer must be able to demonstrate that it has measures in place to fulfill such requirement. The reserve assets, which include cash,

bank deposits and more, must be “high-quality” and “highly liquid.” Lastly, the legislative proposal states that the total amount of reserve assets in circulation and their value must be disclosed daily, the composition of reserve assets must be reported weekly, and attestation by an independent auditor must be performed monthly.

IMPLICATIONS

The FSTB and HKMA legislative proposal aligns with Hong Kong’s broader policy to facilitate digital asset development in the region. In March 2024, the HKMA kickstarted a [regulatory sandbox](#) that gives some stablecoin issuers “immunity” while conducting certain operations, and in August 2023, the Securities and Futures Commission of Hong Kong issued [guidance](#) regarding virtual asset trading platform licensing.

Winston & Strawn’s multijurisdictional Digital Assets & Blockchain Technology Group will continue to monitor developments and provide clients and friends of the firm with updates as they become available.

Summer associate Bailey White also contributed to this blog post.

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