

Navigating Hong Kong's Stablecoins Regulatory Framework

The new regulatory framework for stablecoins in Hong Kong harmonizes resilience in financial markets with usability incentives.



Stablecoins are digital assets pegged to fiat currencies or other stable benchmarks to maintain consistent value. Their rapid adoption has raised concerns over financial stability, consumer protection, and compliance with anti-money laundering (AML) and counter-terrorist financing (CTF) obligations. Hong Kong has introduced a stablecoins regulatory framework to regulate issuers and operators. This framework requires licensing, full reserve backing, consumer protection measures, and addresses cross-border issues. It includes transitional arrangements for existing operators.

1. *Key Legal and Regulatory Considerations in the New Framework*

The Hong Kong Government has enacted the Stablecoins Ordinance (Cap. 656), a new regulatory framework for stablecoins, effective on August 1, 2025. This approach avoided the need to have multiple modifications made to various current laws, such as the Payment Systems and Stored Value Facilities Ordinance (Cap. 584) and the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) (AMLO).

Definition of Stablecoin

“Stablecoin” is defined as a cryptographically secured digital representation of value that satisfies the following criteria. A stablecoin must:

- Be expressed as a unit of account or store of economic value;
- Be used or intended to be used as a publicly accepted medium of exchange for payment for goods or services, debt settlement, or investment purposes;
- Be electronically transferable, storable, and tradable;
- Operate on distributed ledger technology (DLT) or equivalent systems; and
- Maintain value stability through reference to either a single asset or a diversified asset pool.

The Ordinance further establishes the regulatory classification of "Specified Stablecoins" by setting forth these defining characteristics:

- A stablecoin qualifies as a Specified Stablecoin if it maintains its stable value wholly with reference to one or more official currencies; HKMA-designated units of account or stores of economic value; or any combination thereof.
- Alternatively, a stablecoin constitutes a digital representation of value specifically designated by the Hong Kong Monetary Authority (HKMA), either individually or as part of a defined class.

Regulated Activities

According to the Ordinance, a license issued by the HKMA is required for any individual or entity engaging in regulated stablecoin activities with a nexus to Hong Kong, unless a specific exemption applies. The regulated activities are defined as follows:

- Any person or entity issuing a Specified Stablecoin within the jurisdiction of Hong Kong in the course of business.
- Any person or entity issuing a Specified Stablecoin outside Hong Kong in the course of business, where the stablecoin purports to maintain a stable value with reference, whether wholly or partly, to the Hong Kong dollar.
- Any person or entity carrying out an activity related to Specified Stablecoins, as designated by the HKMA.
- Any person or entity actively marketing, whether in Hong Kong or elsewhere, a regulated stablecoin activity to the public in Hong Kong. This includes presenting oneself as engaging in, or purporting to engage in, the issuance of a Specified Stablecoin or other activities that would constitute regulated stablecoin activities if conducted within Hong Kong.

Failure to comply with these licensing requirements may result in enforcement actions or penalties, including fines and imprisonment.

Licensing Criteria

Under the Ordinance, entities seeking to engage in regulated stablecoin activities must meet stringent licensing criteria and ongoing compliance requirements. These requirements include the following:

1. A licensee must be a company incorporated in Hong Kong or an authorized institution (AI) incorporated outside Hong Kong. Certain senior management and key personnel must be based in Hong Kong. Additionally, the licensee must satisfy specified minimum criteria, including maintaining financial resources with a paid-up share capital of not less than HKD 25 million or its equivalent.
2. The licensee must implement an effective stabilization mechanism for its Specified Stablecoins. This includes maintaining a segregated pool of high-quality, highly liquid reserve assets equivalent to at least the total amount of Specified Stablecoins in circulation. Fractional reserve practices (where only a portion of the expected redemptions is maintained) are not permitted. While the exact custodial arrangements for reserve assets are yet to be finalized, it is expected that the HKMA will adopt a customized approach similar to the Stored Value Facility (SVF) regime.
3. Specified Stablecoin holders must be able to redeem their stablecoins as soon as practicable at par value in the referenced currency. The process must not involve disproportionate fees or unreasonable redemption conditions.
4. All individuals in key roles, such as directors and chief executives, must be fit and proper persons, possessing the necessary knowledge and experience to manage stablecoin operations effectively. Licensees must implement systems to ensure compliance with these standards.
5. Licensees must establish robust risk management policies and procedures that address security, fraud detection, and operational disruptions. They must have contingency plans in place, and any deviations from these policies require prior approval from the HKMA.

6. Licensees must have effective systems to prevent money laundering and terrorist financing in line with the AMLO. Compliance with guidelines issued by the HKMA is also mandatory.
7. Licensees must publish a white paper for each type of stablecoin, detailing its features, risks, and operational arrangements. This includes providing clear information on redemption rights, complaints handling, and potential conflicts of interest.
8. Licensees must implement accessible and efficient mechanisms for handling complaints, ensuring that they do not impose unreasonable costs or delays on stablecoin holders.
9. Licensees are prohibited from paying or offering interest or returns on stablecoins based on factors such as holding period or market value.
10. Licensees must maintain systems to ensure timely recovery during operational disruptions and facilitate an orderly wind-down of operations, allowing stablecoin holders to redeem their holdings without undue complications.

Transitional Arrangements

During the first 3 months after the Commencement Date of August 1, 2025, entities engaged in pre-existing regulated stablecoin activities may continue operating if they apply for a license within this period to receive transitional relief. For the next 3 months, these activities may persist if the issuer has applied for a license and made necessary declarations regarding compliance with the new regulatory regime within the initial three months.

After 6 months, issuers may obtain a provisional license from the HKMA if they applied within the first three months and demonstrated a reasonable prospect of compliance. This provisional license remains valid until the application is withdrawn, refused, granted, or a rejection notice is issued.

Issuers that do not apply for a license within the first three months will enter a one-month closing-down period. Others will enter this period upon receiving a rejection notice, withdrawing their application, or having their application refused. The HKMA may extend this closing-down period at its discretion.

2. Enhancing Business Efficiency Through Hong Kong's Stablecoin Framework

The introduction of a clear regulatory framework for stablecoins in Hong Kong promises not only adherence to financial regulations but also the unlocking of significant opportunities to improve business efficiency. Stablecoins, designed for stability and efficiency, have the potential to streamline financial transactions, reduce costs, and stimulate innovation across various sectors.

Advantages of Stablecoins

Stablecoins offer distinct advantages over traditional financial systems, making them an appealing option for businesses seeking to optimize their operations.

One key benefit is the potential for faster cross-border payments with fewer intermediaries. Traditional cross-border transactions often involve multiple financial institutions, leading to delays and increased costs. Stablecoins can facilitate near-instantaneous cross-border transfers, eliminating the need for many intermediaries and reducing settlement times significantly. This efficiency is particularly valuable for businesses engaged in international trade and investment, allowing for quicker access to funds and reduced operational complexities.

Another advantage lies in lower transaction costs compared to traditional banking systems. The expenses associated with processing transactions through conventional banking channels can be substantial, especially for small and medium-sized enterprises (SMEs). Stablecoins offer a more cost-effective alternative, with reduced transaction fees and lower overhead. This can lead to significant savings for businesses, enabling them to allocate resources more effectively.

Furthermore, stablecoins can seamlessly integrate with Decentralized Finance (DeFi) and smart contracts. This integration opens new avenues for automating financial processes, creating innovative financial

products, and accessing decentralized lending and borrowing platforms. Businesses can leverage DeFi to optimize treasury management, access alternative funding sources, and generate new revenue streams, enhancing their financial flexibility and competitiveness.

Using Stablecoins in Hong Kong

Hong Kong's strategic position as a global financial hub makes it an ideal environment for leveraging stablecoins in various practical applications.

In trade finance, stablecoins can streamline transactions by reducing the reliance on traditional instruments like letters of credit. By using stablecoins, businesses can make faster and more secure payments to suppliers, mitigating the risk of fraud and improving cash flow. This can lead to more efficient supply chain management and stronger relationships with trading partners.

For remittances, stablecoins offer a more efficient and cost-effective solution for overseas workers sending money home. Bypassing traditional remittance services that often charge high fees, stablecoins can provide a faster and more affordable way to transfer funds. This can significantly benefit individuals and families who rely on remittances for their livelihoods.

Additionally, stablecoins can facilitate the tokenization of assets, such as real estate, commodities, and securities. This allows businesses to fractionalize ownership, increase liquidity, and attract a broader range of investors. The tokenization of assets can also simplify the process of transferring ownership and reduce administrative costs, making it easier for businesses to manage and trade their assets.

Balancing Innovation and Regulation

Hong Kong's stablecoin regulatory framework, while imposing stringent requirements to protect the integrity of market, also provides avenues for fostering innovation and growth within the fintech sector.

The HKMA offers a regulatory sandbox that allows entities to test stablecoin solutions under supervisory guidance. This controlled environment mitigates risks while encouraging collaboration between traditional financial institutions and fintech firms, fostering a dynamic ecosystem for innovation. This approach enables businesses to experiment with new technologies and business models while ensuring compliance with regulatory requirements.

Additionally, Hong Kong's asset management industry is increasingly adopting regulated stablecoins as a gateway to digital assets. Institutions benefit from the HKMA's redemption guarantees and reserve transparency, which align with existing risk management practices. This institutional adoption of stablecoins demonstrates the growing confidence in the regulatory framework and its potential to drive further innovation in the financial sector.

While high compliance costs may initially deter smaller players, these requirements are essential for ensuring market stability and attracting institutional capital, fostering long-term trust in the stablecoin ecosystem. Businesses can offset these costs through efficiency gains, such as automated Anti-Money Laundering checks enabled by blockchain analytics tools. This demonstrates the potential for technology to reduce compliance burdens and improve operational efficiency.

Conclusion

Hong Kong's stablecoin framework strikes a delicate balance between safeguarding financial stability and unlocking the transformative potential of blockchain technology. By complying with licensing, reserve, and transparency requirements, businesses can leverage stablecoins to reduce costs, accelerate transactions, and tap into emerging markets.

While challenges such as integration with legacy systems persist, the regulators' risk-based approach ensures that Hong Kong remains at the forefront of fintech innovation, cementing its role as a bridge between traditional finance and the digital economy.

For tailored guidance and advice in this connection, please scan the QR code below to reach out to our team.



Information in this update is for general reference only and should not be relied on as legal advice.

© 2025 JCHM Limited. All rights reserved.