Elphinstone Research Group

Legal Research

Regulatory Analysis Report

Regulating Digital Money: Hong Kong's Stablecoins Ordinance in Practice

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Editor's Note



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This is the first publication from ERG's Hong Kong Legal Research Branch. It asks one question: how does Hong Kong's Stablecoins Ordinance (Cap. 656) work in practice, a little over a year after it came into force, and what does that mean for the people who issue, offer and hold stablecoins?

Six student teams each took one part of the regime, from licensing and reserves to financial crime and the early market. They read the Ordinance and the regulators' guidance closely and were open about what is still uncertain. Our editorial team joined their sections into one report and kept each team's conclusions intact.

Our view is that the rules are demanding and carefully built, but largely untested. With two licensed issuers and no enforcement cases so far, the coming year will show how they hold up.

This is educational research, not legal or financial advice. Law and guidance were checked to 14 October 2026, and the HKMA register to 23 October 2026.



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How the research was organised

Six workstreams fed into one report. Each owned a defined part of the regime; the sections were then edited and joined as a single publication.

SECTION 01	**Scope, Definitions and Licensing Triggers**	What Cap. 656 covers, who needs a licence and how far it reaches outside Hong Kong.
SECTION 02	**Reserves, Custody, Redemption and Insolvency**	How reserves, custody and redemption make the promise of stable value credible, including under stress.
SECTION 03	**Governance, Capital, Risk and Technology**	The people, controls and technology behind a licence, and what outsiders can verify.
SECTION 04	**Financial Crime, Sanctions, Privacy and Enforcement**	Due diligence, the Travel Rule, sanctions, personal data and cross-border enforcement.
SECTION 05	**Offering, Retail Access and Early Market Evidence**	Who may offer stablecoins, to whom, and what the first licences show.
SECTION 06	**Hong Kong in Context: Comparison and Reform**	How Hong Kong compares with the US, EU, UK and Singapore, and what to watch next.

SCOPE AND METHOD

This is a focused desk review of primary law, regulatory guidance and official announcements, not legal advice or a market study. It covers the Stablecoins Ordinance (Cap. 656) and related HKMA and SFC material. Law and guidance were checked to 14 October 2026, and the HKMA Register of Licensed Stablecoin Issuers to 23 October 2026; the register was last updated on 23 April 2026. The report is independent ERG work and is not endorsed by the HKMA, the SFC or any licensee.

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ERG's position at a glance

Hong Kong has built a careful, layered regime. The rules are clear on paper; what the first year cannot yet show is how they work under pressure.

01 **WHAT THE ORDINANCE DOES**

Cap. 656 licenses the issue of fiat-referenced specified stablecoins in Hong Kong, and of Hong Kong dollar stablecoins issued abroad, and limits who may offer them to the public. Licensees must hold segregated reserves at least equal to par and redeem at par.

02 **WHERE IT IS STRONG**

Reserve, redemption, governance and anti-money laundering duties are detailed and demanding, and the HKMA keeps the bar to entry high: two licences have been granted so far.

03 **WHAT REMAINS UNTESTED**

No enforcement action under Cap. 656 has been found. How holders would direct the disposal of reserves, how a shortfall claim ranks in insolvency, and how cross-border supervision will work are still open questions.

A careful regime with a very small market

ERG's summary of the six workstreams

The Stablecoins Ordinance (Cap. 656) came into force on 1 August 2025. It works in three stages: a product must be a stablecoin, then a specified stablecoin, and a person's conduct then becomes a regulated stablecoin activity. Section 8 prohibits that activity, and even holding oneself out as carrying it on, unless the person is licensed or exempted. Issuing in Hong Kong is caught whatever the reference currency; issuing abroad is caught where the coin refers to the Hong Kong dollar (Section 01).

The protections that matter most to holders sit in Schedule 2 and the HKMA's guidance. Reserves must be segregated, of high quality and at least equal to the par value of coins in circulation, and holders have a right to redeem at par. Section 02 finds these rules strong, but identifies three unresolved insolvency questions. Section 03 shows that the governance, outsourcing and technology duties behind a licence are extensive, while much of the assurance material goes only to the HKMA rather than the public.

Financial crime controls ask a great deal of issuers: risk-based due diligence, wallet screening, sanctions screening and the Travel Rule, balanced against data protection. Information sharing between the HKMA and other agencies is permitted but not required, and no enforcement action under the Ordinance has been found (Section 04).

The market itself is still small. Two licences took effect on 10 April 2026, for Anchorpoint Financial Limited and The Hongkong and Shanghai Banking Corporation Limited. Only permitted offerors may offer specified stablecoins, and retail clients can reach Relevant Stablecoins through licensed virtual asset trading platforms under the SFC's circular of 27 May 2026. A licence establishes the right to issue, not the safety or success of any product (Section 05).

Set against the United States, the European Union, the United Kingdom and Singapore, Hong Kong's approach is broadly aligned on reserves and redemption and distinctive in its high bar to entry. The first year leaves Hong Kong with a regime worth preserving, several points worth clarifying and a market worth monitoring closely (Section 06).

Key fact	Position as at 23 October 2026
In force	1 August 2025
Licensed issuers	2: Anchorpoint Financial Limited (FRS01) and HSBC (FRS02), effective 10 April 2026
Reserves	At least equal to par value of coins in circulation, segregated
Redemption	At par; HKMA Guideline expects valid requests to be met within one business day
Capital	HK$25 million minimum paid-up share capital for non-bank licensees
Enforcement	No action under Cap. 656 found as at 14 October 2026

SECTION 01

Scope, Definitions and Licensing Triggers

Contributors: Sophie Lee (team contact), Angie Chu, Fengyu Yang, Godfrey Tam and Pedro Lo

How Cap. 656 defines a stablecoin and a regulated activity

Key definitions in Cap. 656

Stablecoin (s 3): a cryptographically secured digital representation of value that is used, or intended to be used, as a publicly accepted medium of exchange and purports to keep a stable value by reference to an asset or a pool or basket of assets.

Specified stablecoin (s 4): a stablecoin that purports to keep a stable value wholly by reference to one or more official currencies, or to other units of account or stores of economic value specified by the Hong Kong Monetary Authority (HKMA).

Regulated stablecoin activity (s 5): issuing a specified stablecoin in Hong Kong in the course of business, issuing one outside Hong Kong that refers to the Hong Kong dollar, or carrying on another activity the HKMA designates.

The Stablecoins Ordinance (Cap. 656) adopts a three-stage framework: a product must be a "stablecoin" (section 3); it may then be a "specified stablecoin" (section 4); and a person's conduct relating to it may be a "regulated stablecoin activity" (section 5).[1]

Section 3(1) also requires the value to be expressed as a unit of account or store of economic value, to be transferable, storable or tradable electronically, and to operate on a distributed ledger or similar information repository; the medium of exchange may be for payment, discharge of debt or investment.[2] The definition is functional: the product's characteristics, rather than its commercial label, decide the question. Section 3(2) excludes products governed by other frameworks, such as government or central bank digital value, limited-purpose digital tokens, securities, futures contracts, stored value facility float and deposits.[3]

Under section 4, the reference may be to official currencies, specified units of account or stores of value, or a combination of these.[4] An "official currency" includes a currency issued by a government, central bank, monetary authority or authorised note-issuing bank.[5] The HKMA may also designate additional digital representations of value by Gazette notice.[6] Not every stablecoin is therefore a specified stablecoin.

Section 5 regulates conduct rather than products, and the HKMA may designate further activities only after consulting the Financial Secretary.[7] Section 5 also defines "holding out". A person holds itself out as carrying on a regulated stablecoin activity if it actively markets to the public, whether in Hong Kong or elsewhere, that it carries on, or purports to carry on, an activity which, if conducted in Hong Kong, would be a regulated stablecoin activity.[8]

When issuing a stablecoin needs a licence

Whether issuance requires a licence depends on whether the product is a specified stablecoin (see above) and where it is issued. Under section 5(1)(a)(i), a person carries on a regulated stablecoin activity where the person "issues a specified stablecoin in Hong Kong in the course of business".[9] Commercial issuance in Hong Kong is therefore caught whatever the reference value; no Hong Kong dollar reference is needed.

Issuance outside Hong Kong is treated differently. Section 5(1)(a)(ii) applies where a person issues a specified stablecoin "in a place outside Hong Kong in the course of business" and the stablecoin "purports to maintain a stable value with reference (whether wholly or partly) to Hong Kong dollars".[10] The HKD reference supplies the territorial connection that brings overseas issuance within the regime.

The section 8 prohibition

Section 8(1) provides that a person must not "carry on a regulated stablecoin activity" or "hold the person out as carrying on a regulated stablecoin activity".[11] There are two exceptions: where the person is licensed for the relevant activity, or where the person or class of persons has been exempted by the HKMA under section 13.[12] Extending it to holding out stops a person circumventing the regime by presenting itself as conducting

SECTION 01 continued

Scope, Definitions and Licensing Triggers

a regulated stablecoin activity while unlicensed.

A contravention of section 8(1) without reasonable excuse is an offence under section 8(3). On summary conviction, the maximum penalty is a fine of HK$500,000 and imprisonment for two years, plus HK$10,000 for each day a continuing offence persists. On conviction on indictment, the maximum is a fine of HK$5 million and imprisonment for seven years, plus HK$100,000 for each day the offence continues.[13]

In short, section 5 decides whether issuance is regulated and section 8 prohibits it unless the person is licensed or exempted; only overseas issuance needs an HKD reference.[14]

Scenario	Caught by s 5?	Why
USD-referenced stablecoin issued in Hong Kong in the course of business	Yes, s 5(1)(a)(i)	Hong Kong issuance is caught without any HKD reference; s 8 applies unless the issuer is licensed or exempted
HKD-referenced stablecoin issued in Singapore in the course of business	Yes, s 5(1)(a)(ii)	The HKD reference supplies the connection required for overseas issuance; s 8 applies
USD-referenced stablecoin issued in Singapore	Not merely by reason of its issuance	It lacks the HKD reference required by s 5(1)(a)(ii)

Who can apply for a licence

Conducting a regulated stablecoin activity requires a licence.[15] The HKMA applies structural and legal criteria to applications and has granted licences to Anchorpoint Financial Limited and The Hongkong and Shanghai Banking Corporation Limited (licence numbers FRS01 and FRS02, effective 10 April 2026).[16]

Corporate status

An applicant must be either a company incorporated in Hong Kong[17] or, if incorporated outside Hong Kong, an authorized institution.[18] An institution incorporated outside Hong Kong that is not an authorized institution must establish a Hong Kong-incorporated subsidiary and submit its licence application through that subsidiary.[19]

Issuance requirements

The HKMA will consider the purpose of the issuance and assess the applicant's business model, operational arrangements, business plan and the adequacy of its risk mitigation measures.[20] For each type of specified stablecoin to be issued, the applicant must enter into written arrangements with a licensed bank or another asset custodian recognised by the HKMA for the safekeeping of a segregated reserve asset pool[21] (on reserves, see Section 02). Applicants must also publish a white paper with prescribed disclosures,[22] must not pay interest on their specified stablecoins,[23] and must maintain a redemption mechanism enabling holders to redeem their stablecoins at par value on request.[24]

Governance and resources

The chief executive, directors, stablecoin manager and controllers of an applicant must be fit and proper, and the HKMA expects senior management and key personnel to be based in Hong Kong.[25] Applicants must also maintain appropriate control systems covering, among other matters, the fitness and propriety of management personnel, risk management, complaint handling, anti-money laundering and counter-terrorist financing (AML/CFT) compliance, recovery planning and orderly wind-down arrangements.[26] Risk management, internal control, business continuity and incident duties are discussed in Section 03.

Applicants that are not authorized institutions face additional requirements. Unless the HKMA approves otherwise, they must maintain paid-up share capital of not less than HK$25 million.[27] They must also allocate dedicated and adequate resources to their licensed stablecoin activities and obtain the HKMA's prior consent before carrying on any other business.[28]

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Scope, Definitions and Licensing Triggers

These are continuing obligations. The HKMA may revoke a licence, or take disciplinary or criminal enforcement action against a licensee, where they are not met,[29] and may impose further licence conditions when the licence is granted or later.[30]

Transitional, exemption, designation and anti-avoidance rules

Transitional provisions

Schedule 7 to Cap. 656 gave persons already conducting a regulated stablecoin activity before the Ordinance came into force a limited period of legal protection in which to obtain a licence or wind down in an orderly manner.[31]

The provisions operate across three structured phases. In Phase 1 (months 1 to 3), pre-existing issuers wishing to continue operations must, by 31 October 2025, submit a licence application together with: (i) a written declaration confirming that they were conducting a regulated stablecoin activity prior to 1 August 2025; and (ii) a written undertaking to comply with regulatory requirements upon the grant of a provisional licence.[32] In Phase 2 (months 4 to 6), issuers that have completed the Phase 1 steps and received an acknowledgement from the HKMA may continue operating until 31 January 2026. During this phase, the HKMA may grant a provisional licence where it is satisfied that the applicant has a reasonable prospect of meeting the applicable regulatory requirements.[33] In Phase 3, where an issuer fails to apply for a licence or to provide the requisite documents by 31 October 2025, it will enter the closing-down period on 1 November 2025, during which it must cease regulated activities.[34] This transitional period has now ended.[35]

Exemptions

Under section 13, the HKMA may relieve specified persons, or classes of persons, from the licensing requirements where the risks posed by the relevant regulated stablecoin activity are immaterial.[36] This lets the licensing perimeter be calibrated to the nature and scale of the risks without legislative amendment.

Designation

Sections 4 and 5(4) allow the HKMA to extend the Ordinance's perimeter by Gazette notice. Section 4 lets it designate additional units of account or stores of economic value as reference assets for a specified stablecoin, bringing novel instruments within scope without primary legislation.[37] Section 5(4) lets it specify further regulated stablecoin activities beyond the two issuance categories.[38] Together, these powers help the HKMA address regulatory arbitrage and technological innovation.

Anti-avoidance

The anti-avoidance provisions prevent circumvention of the licensing requirement through indirect conduct or holding out. As explained above, section 8 prohibits holding out as well as carrying on the activity itself, and section 5 defines holding out to include active marketing to the public from outside Hong Kong.[39] This extraterritorial reach captures conduct originating outside Hong Kong where it is directed at the Hong Kong public, closing off a potential avenue for regulatory evasion.

Issuers, offerors, platforms, wallets and technology providers

Issuers are central: all regulated stablecoin issuance must flow through licensed issuers. An issuer is a person who issues a specified stablecoin in Hong Kong in the course of business,[40] or issues a Hong Kong dollar-referenced specified stablecoin outside Hong Kong in the course of business,[41] and must hold an HKMA licence to do so lawfully (see the section 8 discussion above).[42] Only two entities currently hold licences.[43]

An offeror is a person who, in the course of business, makes a communication presenting sufficient information about a specified stablecoin, its offer terms and the channels of acquisition to enable another person to decide whether to acquire it from them.[44] Only "permitted offerors", including licensed stablecoin issuers, authorized institutions, SFC Type 1 licensed corporations, licensed virtual asset trading platforms

SECTION 01 continued

Scope, Definitions and Licensing Triggers

(VATPs) and stored value facility licensees,[45] may offer specified stablecoins in Hong Kong.[46] VATPs licensed by the SFC[47] may lawfully offer Relevant Stablecoins[48] to retail and professional investors, providing dealing, custody and trading services.[49] Because Relevant Stablecoins are subject to HKMA oversight, the SFC has removed the 12-month track record requirement and certain liquidity, index and exposure-limit requirements for them, although VATPs must still disclose stabilisation and redemption arrangements.[50]

Wallet providers supply custodial arrangements (through financial institutions or VATPs) or unhosted key-management solutions to store, manage and transmit private keys and stablecoins.[51] Technology providers supply smart contract code, distributed ledger architecture or critical IT infrastructure.[52] Outsourcing does not shift accountability: the licensed issuer remains responsible for risk assessment, due diligence and ongoing monitoring of all material arrangements, including critical IT services and custody or wallet infrastructure.[53]

SECTION 02

Reserves, Custody, Redemption and Insolvency

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Reserve amount, quality, liquidity, currency and valuation

A licensed issuer must maintain a separate reserve assets pool for each type of specified stablecoin it issues, segregated from its other reserve pools and protected against claims by its other creditors.[54] The market value of each pool must "at all times be at least equal to the par value" of the outstanding stablecoins of that type.[55] This sets a statutory minimum backing ratio of 100 per cent, measured at market value rather than historical cost.

Requirement	Rule	Source
Amount	Market value at all times at least equal to the par value of outstanding stablecoins; appropriate over-collateralisation expected	Cap. 656, sch 2, s 5(2); Supervision Guideline paras 2.2.1 to 2.2.3
Quality and liquidity	High quality and high liquidity, with minimal investment risk	Cap. 656, sch 2, s 5(5); Supervision Guideline paras 2.3.1 to 2.3.2
Currency	Same reference asset as the stablecoin, unless the HKMA gives prior written approval	Cap. 656, sch 2, s 5(3); Supervision Guideline para 2.4.1
Valuation	Consistent and prudent approach; assets generally valued at the bid price	Supervision Guideline paras 2.2.2 and 2.7.1 to 2.7.4

The HKMA expects more than bare compliance with the 100 per cent threshold. An issuer should hold appropriate over-collateralisation reflecting the risk profile of its reserve assets, so that market movements, custody charges or other deductions do not produce a shortfall, although no fixed additional percentage is prescribed. All minted stablecoins should remain fully backed, including coins that are temporarily frozen, because they may later become transferable or redeemable.[56]

On quality, the Ordinance requires reserve assets of high quality and high liquidity with minimal investment risk.[57] The Supervision Guideline lists cash; bank deposits with terms of no more than three months; qualifying marketable debt issued by governments, central banks, public sector entities or international institutions with residual maturities of no more than one year; certain overnight reverse repurchase receivables; and dedicated funds investing in eligible assets. Other assets need the HKMA's acceptance, and tokenised representations may qualify if the issuer shows that they meet the same quality, liquidity and risk standards.[58]

Liquidity is also a functional requirement. Reserve management policies must ensure that valid redemption requests can be honoured without undue delay,[59] so the issuer must manage maturity, credit, counterparty, concentration, market and operational risks under normal and stressed conditions.[60] A short contractual maturity does not by itself establish practical liquidity if an asset cannot be sold promptly without material loss.

On currency, the pool must ordinarily be held in the same reference asset as the stablecoin. Where a stablecoin references a combination of assets, the reserves should reflect those assets in the same proportions. A mismatch requires the HKMA's prior written approval and a legitimate rationale, supported by risk mitigation such as additional over-collateralisation, and approval is case-specific rather than automatic.[61]

Finally, valuation must follow a "consistent and prudent approach". Price sources should be reasonable and reliable, and assets should generally be valued at the bid price, the more conservative sale value. The Guideline expects daily internal statements, generally weekly regulatory and public updates, and regular independent attestation and audit.[62] The Ordinance itself requires adequate and timely public disclosure of the composition and market value of the reserve assets and of attestation and audit results.[63]

The main uncertainties are that the Ordinance prescribes no numerical over-collateralisation buffer, no exhaustive liquidity formula and no automatic approval criteria for currency mismatches, leaving these to the issuer's risk profile, the HKMA's supervisory judgment and any licence-specific conditions.

SECTION 02 continued

Reserves, Custody, Redemption and Insolvency

How reserves are segregated, held, reconciled and protected

Segregation and trust arrangements

Schedule 2, s 5(1) requires a separate "specified reserve assets pool" for each type of specified stablecoin, segregated from the issuer's other reserve pools.[64] Section 5(4) further requires each pool to be kept separate from the issuer's other assets and adequately protected against claims by its other creditors.[65] The Supervision Guideline gives effect to these requirements through effective trust arrangements: reserve assets are to be held for specified stablecoin holders, through an independent trustee or a declaration of trust, supported by an independent legal opinion on the arrangement's effectiveness.[66] Holder protection therefore rests on the segregation required by Sch 2 s 5 together with the trust arrangements required by the Guideline. Section 5 does not itself automatically create a statutory trust.

Re Gatecoin Ltd (in liquidation) provides useful common law context.[67] It confirms that cryptocurrency can constitute trust property and illustrates that fungibility need not defeat certainty where the pool and each holder's proportionate interest can be sufficiently identified. Internal ledger records do not, however, automatically create beneficial ownership.[68] In practice, segregation therefore operates at three levels: between reserve pools, between reserves and the issuer's proprietary assets, and through trust-based safeguarding for holders.

Custody and safekeeping

The Guideline requires custody arrangements that preserve the segregation, security and availability of reserve assets.[69] Issuers must conduct due diligence on custodians and remain primarily responsible for reserve management and safekeeping even where custody is outsourced.[70] This prevents third-party custody from undermining the statutory segregation of the pool.

Reconciliation and control

Schedule 2, s 5(2) requires the market value of each pool to equal or exceed, "at all times", the aggregate par value of the corresponding outstanding stablecoins.[71] This establishes continuous full backing, and the Guideline requires monitoring and regular reconciliation between reserves and outstanding liabilities.[72] Reconciliation detects shortfalls and record mismatches. It should not be described as a statutory "daily reconciliation" requirement unless an applicable regulatory provision expressly says so.

Protection from other claims

Because each pool must be adequately protected against other creditors' claims,[73] an effective trust arrangement may give holders proprietary interests in an identifiable pool rather than merely personal contractual claims against the issuer. This matters in insolvency, because a proprietary claim concerns the protected assets themselves rather than a share of the issuer's general estate. Schedule 2, s 6 also provides for pro rata treatment in relation to the reserve pool and a claim against the issuer for any remaining shortfall.[74] The ranking and enforcement of that shortfall claim are discussed below.

Redemption at par: the right, timing and fees

A stablecoin holds its value only if holders can convert it back into fiat currency (on the statutory definition, see Section 01). Hong Kong therefore gives holders of a specified stablecoin a statutory right to redeem at par value in the reference asset.[75] Yet the conditions are open-ended: requests must be honoured "as soon as practicable", fees must be "reasonable" and conditions must not be "unduly burdensome". These vague standards qualify the right, because holders depend on supervisory enforcement by the HKMA rather than on rules they can enforce directly.

The redemption right

A licensee "must provide" each holder with a right to redeem at par,[76] which makes the right more than a marketing promise. It is nonetheless conditional. A "valid redemption request" must satisfy the licensee's

SECTION 02 continued

Reserves, Custody, Redemption and Insolvency

conditions, which must not be "unduly burdensome".[77] The Guideline gives this some content, such as whether a condition is reasonably practicable or arises from the licensee's legal or regulatory obligations, but those factors are non-exhaustive and not binding. The right is strongest on insolvency, where holders may direct the disposal of the reserve pool and claim for any shortfall.[78]

Par value

Payment is par value after deducting "reasonable" fees.[79] Yet payment depends on the reserve pool being available in both normal and stressed conditions. The Guideline expects over-collateralisation, prudent valuation and stress testing, but these are supervisory expectations rather than statutory minimums.[80]

Timing

Timing shows the gap between statute and guidance most clearly. The Ordinance requires redemption "as soon as practicable" without a fixed period. The Guideline states that requests "should" be processed within one business day,[81] which is a supervisory expectation.[82] A licensee may also delay with the HKMA's prior written consent.[83] "Business day" excludes weekends, holidays and severe weather days, while stablecoins trade continuously, a tension the Guideline itself acknowledges.[84] Licensees must make "adequate and timely" disclosure about redemption,[85] yet "timely" is undefined, which widens the gap.

Fees

The Ordinance bars "unreasonable" redemption fees but sets no cap. The Guideline weighs a fee's proportionality to operating cost against "prevailing industry practices",[86] a test that risks circularity where issuers' own practices set the norm. Holders are protected by disclosure of fees, conditions and timeframes but have no statutory ceiling to invoke if a fee is excessive.[87]

The case for flexibility

A defender of the regime could argue that flexible standards suit a developing market. The Guideline carries weight: a court must take it into account in any proceedings where it is admissible in evidence and relevant.[88] Failure to meet the minimum criteria, including the redemption right, is an express ground for revoking a licence.[89] The regime is also recent and largely untested, so this assessment is provisional. Enforcement practice and case law will show how these standards operate.

Stabilisation, liquidity management and stress testing

Stabilisation arrangements are the issuer's commitment to keep the stablecoin at par and the mechanisms that deliver it. Liquidity management ensures that the issuer can honour redemption requests within the applicable timeframe. Stress testing asks whether it could still do so in severe but plausible conditions. The three operate as a chain.

Stabilisation

Stabilisation arrangements preserve the value of a specified stablecoin relative to its reference currency: for a Hong Kong dollar stablecoin, one coin is meant to equal HK$1. To achieve this, a licensee must maintain full reserve backing and a high quality reserve pool.[90]

Redemption is the core mechanism. Because holders have a right to redeem at par, a holder of a stablecoin trading below its fixed value can redeem it with the issuer for the stated value. This encourages buyers to purchase at the lower price and profit from the difference at redemption, which pulls the market price back towards par. Direct redemption therefore contains deviation from par, but only if the issuer can pay out promptly. Stabilisation thus requires the issuer to set its redemption window, which in turn drives liquidity management.

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Reserves, Custody, Redemption and Insolvency

Liquidity management

Liquidity management ensures that reserve assets can be converted into cash in time to meet valid redemption requests without undue delay.[91] The licensee should establish an effective framework for projecting and monitoring liquidity demand from redemption requests under normal and stressed conditions. It may, for example, manage the allocation of reserves across types of instrument,[92] and set liquidity risk indicators such as a cash ratio and the proportion of reserve assets convertible to cash to meet redemption demand.[93] In formulating its policies it should consider the liquidity of instruments, trading hours and settlement timeframes.[94]

Liquidity management makes redemption work in practice whatever the market conditions. When holders sell or redeem heavily, an issuer that meets requests promptly reduces the incentive for panic selling and supports the market price's return towards par.

Stress testing

Stress testing checks whether reserves, liquidity capacity and risk controls remain adequate under severe but plausible shocks, such as credit, liquidity and market stress. The licensee is expected to test at least quarterly to assess the robustness of its reserve portfolio.[95] The results feed back into liquidity management: they inform which liquidity risk indicators are appropriate and how much over-collateralisation is needed to preserve full backing during market shocks.[96]

Stress testing can also help the issuer build a liquidity ladder that matches expected redemption needs to available reserve assets. The faster holders may redeem, the more immediately available cash and funds the issuer needs, so the redemption window and the ladder should be designed together.

The three elements therefore reinforce one another. Stress testing calibrates liquidity management, and liquidity management makes credible the redemption promise on which stabilisation rests, supporting confidence in the stablecoin and its redemption arrangements.

When an issuer, custodian or reserve bank fails

If a key participant fails, the Ordinance gives token holders two protections. They have a right to direct the disposal of the reserve pool to redeem all outstanding specified stablecoins of that type on a pro rata basis,[97] and a right to claim against the licensee for any shortfall if the proceeds are insufficient.[98]

Issuer insolvency

A double safeguard applies when the issuer becomes insolvent. Although the issuer is the primary protector of the reserve assets,[99] its insolvency is not in itself detrimental to holders. The Ordinance and the Guideline require reserve assets to be held separately at a custodian or reserve bank, isolated from the issuer's own estate and protected from claims by its other creditors.[100]

In addition, the HKMA may intervene where the issuer is or will become insolvent by directing that its affairs be managed by a statutory manager.[101] A statutory manager can help ensure that the issuer restructures or winds down in an orderly way without prejudicing holders, for example by coordinating the redemption of outstanding stablecoins.

Custodian or reserve bank insolvency

Engaging a third party to protect the reserve assets is a statutory minimum criterion.[102] Under the trust arrangements described above, the custodian holds the reserve assets on trust for token holders, who are the beneficiaries. As digital assets can be held on trust,[103] the custodian is subject to stringent fiduciary duties.[104] On settled trust principles, trust property does not form part of a trustee's general estate and is not distributed to its creditors on insolvency, so holders' interests in the reserve assets should remain secure.

The weak point is practical segregation. Certainty of subject matter is essential to a trust, and keeping fungible, intangible property clearly segregated is difficult, an area where the case law is unsettled.[105] As

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Reserves, Custody, Redemption and Insolvency

discussed above, if segregation is compromised the trust itself may be jeopardised, weakening the safety net for holders.

Three unresolved questions

Several critical insolvency questions remain open. First, for the right to direct disposal, there is no defined procedure, such as convening meetings or exercising voting rights. This is especially problematic because holders may be very numerous and dispersed worldwide.[106]

Second, the nature of the shortfall claim is ambiguous. It appears to be a personal claim against the issuer, but its priority against competing claims is uncertain.[107] Whether it simply ranks as an ordinary unsecured debt alongside the issuer's other general creditors could be decisive for holders.

Third, because limited offshore custody arrangements are permitted,[108] it is unclear what happens if an offshore custodian becomes insolvent in a jurisdiction that does not recognise trusts. Holders could then be exposed to foreign insolvency proceedings.

SECTION 03

Governance, Capital, Risk and Technology

Contributors: Au Ka Wing Annie (team contact), Stephy Tong, Leung Ka Wai Anissa and Kwan Pui Kiu Ally

Capital, local presence, fitness and ownership

Capital

A licensee that is not an authorized institution must maintain, at all times, paid-up share capital of at least HK$25 million, or an equivalent amount in another currency that is freely convertible into Hong Kong dollars, or other financial resources of an equivalent amount approved by the HKMA.[109] It should also be able to show that it has sufficient financial resources to maintain its licensed stablecoin activities, to meet all its obligations and to ensure an orderly exit, whether that exit is voluntary or follows revocation of its licence.[110]

Paid-up capital is only the floor. A licensee must have adequate financial resources and liquid assets to meet its obligations as they fall, or may fall, due. It should hold sufficient liquid net assets funded by equity, not by loans, guarantees or similar borrowings, and sufficiency is assessed by reference to factors including historical and projected operating expenses. The licensee must also secure an ongoing source of financial resources.[111]

Local presence

An applicant for a stablecoin issuer licence must be either a company incorporated in Hong Kong under the Companies Ordinance (Cap. 622) or an authorized institution incorporated outside Hong Kong, as defined in section 2(1) of the Banking Ordinance.[112] Any other institution incorporated outside Hong Kong must set up a Hong Kong subsidiary, and that subsidiary must be the applicant. The stated rationale is to allow the HKMA to supervise the licensee effectively and to take enforcement action where necessary. Overseas authorized institutions are exempt from local incorporation because they are already supervised by both the HKMA and their home supervisor under comprehensive requirements that meet Basel standards.[113]

Fitness, propriety and ownership

The chief executive, each alternate chief executive, each director, each stablecoin manager and each controller must be fit and proper and must have relevant knowledge and experience.[114] Ownership is brought within this test through the definition of "controller" in section 2(1) of the Stablecoins Ordinance (Cap. 656), which includes majority shareholder controllers, minority shareholder controllers and indirect controllers.[115] Those who own or control a licensee, and not only those who manage it, must therefore meet the fit and proper requirements.[116]

Risk management, internal control and incident duties

Risk management

The HKMA's framework leaves licensees some flexibility, and the underlying risk management duties can be seen from two angles. Licensees should put internal processes in place to identify the potential risks their business presents,[117] and should keep their risk profiles under continuous check and review.[118] More clarification on prescriptive measures is still needed from the HKMA. In the meantime, licensees should develop and apply their own internal guidelines for monitoring stablecoin transactions, taking particular account of the risk and complexity of the stablecoins they mint.

Internal control

Licensees should stay alert to the compliance risks involved in the circulation of stablecoins[119] by establishing a comprehensive internal control system and reviewing it regularly to keep it up to date.[120] Clearly defined responsibilities allow a licensee to track internally whether its control measures are adequate. Where those reviews produce abnormal results, the licensee would also be obliged to report them to the HKMA.[121] Internal audit outcomes are likewise submitted to the HKMA.[122]

SECTION 03 continued

Governance, Capital, Risk and Technology

Business continuity and incidents

Rather than relying wholly on the HKMA, licensees are generally responsible for building a comprehensive framework with clear standards for identifying when an incident calls for intervention.[123] That framework extends to what a licensee should do after an incident and to what it must report to the HKMA, and how.[124] Licensees should also protect business continuity with a precise plan setting out how they will respond to any operational disruption,[125] preferably overseen by the licensee's senior members rather than by independent third parties.[126] The plan should include further measures, such as back-up arrangements, so that any disruption is resolved in good time.[127]

When an issuer may outsource, and what stays with it

Cap. 656 and the Supervision Guideline allow an issuer to rely on third parties for technology, custody and operations, but they set conditions on how this is done and leave regulatory accountability where it started. In short, outsourcing transfers operational execution, never regulatory responsibility.

Conditions for outsourcing

The minimum criteria in Schedule 2 to the Ordinance cover the engagement of third parties and the controls needed for continuity and wind-down.[128] This points towards assessing a provider's resilience, controls and track record before relying on it. Critical technology services need an independent certification assessment, and issuers should diversify their providers and maintain contingency plans so that a vendor outage does not suspend core functions.[129]

Reserve assets may be held only by qualified custodians, and the licensee remains primarily accountable for their safekeeping.[130] Each arrangement must be set out in a written contract covering the services, subcontracting, termination, access to records and data handling.[131] Nothing in the arrangement may impede the access of the HKMA or the auditor to data, or their ability to carry out examinations,[132] and the HKMA must be notified before the licensee enters into a material third-party arrangement, including for custody and critical IT services.[133]

Responsibility that remains

The licensee remains responsible for meeting its obligations under the Ordinance whatever third-party arrangements it makes.[134] It must still redeem at par without unreasonable fees or burdensome conditions, and the HKMA's Guideline expects valid requests to be met within one business day;[135] the licensee needs the HKMA's written consent before delaying any redemption beyond that.[136] That clock does not stop because a custodian or technology provider has failed.

Several consequences follow. A disruption, security breach, technical failure or insolvency at a vendor, custodian or subcontractor is not a defence to non-compliance. The board and senior management therefore remain answerable for the oversight of outsourced activities. The issuer cannot rely passively on a vendor's own assurances and must verify independently, for example through the independent certification of critical technology services and the third-party smart contract audits discussed below. The issuer also remains the HKMA's point of accountability for regulatory reporting and supervisory transparency across its outsourced operations. It may be able to recover commercial losses from a defaulting provider under its contract, but supervisory action and penalties are directed at the licensee.

Governing smart contract, cyber, key management and operational risk

A smart contract is a program on a blockchain that runs automatically when its conditions are met, without intermediaries. Once it is deployed, the code executes in the same way every time and the result is recorded on the ledger. An error in a smart contract can therefore seriously affect cybersecurity, which makes it important to identify the main key management and operational risks.

To guard against flawed updates, bugs and tainted tokens, the Supervision Guideline requires the licensee to record the architecture of every smart contract, including the token, proxy and multi-signature contracts and

SECTION 03 continued

Governance, Capital, Risk and Technology

any upgradeability. High-risk operations must be carried out through a multi-signature protocol, with detailed procedures and the necessary controls, and the licensee should take further security measures where necessary and applicable. It must also keep audit reports, change approvals and review records, which makes this a formal and important management process.[137] An independent third party must audit the smart contracts at least annually, and again on every deployment, redeployment or upgrade, and the minimum threshold is assurance "to a high level of confidence".[138]

A key difficulty is that the smart contract audit is an outsourced task, and the industry has no consensus on what qualifies an auditor. The Guideline lists only broad factors for reference, such as the auditor's size, capabilities, expertise, track record, reputation and presence in Hong Kong, and states no standard or methodology.[139] In practice the burden falls on the licensee to show the HKMA (1) why its auditor is qualified and (2) at which points an audit is necessary. Without official standards the industry may become a patchwork, with audits of very different depth. Nor is there an exact time limit for reporting errors: "regular" cybersecurity assessments are not defined, and although incident response must be "timely", no deadline is given.

The licensee must classify incidents by materiality and severity,[140] for example smart contract exploits and unauthorised access to private keys. Cyber incident response must include timely containment and recovery, escalation to stakeholders, and the recording, analysis and preservation of digital forensic evidence.[141] The licensee must also test its incident framework at least annually, report the results to the board and report audit outcomes to the HKMA.[142] Again, "in a timely manner" is a vague standard, so the HKMA may be informed later than is ideal. The testing regime also has two weaknesses. First, annual testing is far from sufficient given the breadth and speed of stablecoin development. Second, there is no requirement to test combined scenarios, such as a key compromise, a contract exploit and a surge in redemptions occurring together, which is how real attacks and scams tend to unfold.

What outsiders can use to test compliance

Hong Kong's stablecoin framework provides structured but limited audit, attestation, disclosure and record-keeping mechanisms for outsiders to verify compliance, and public transparency is heavily restricted. Core assurance material, such as independent legal opinions on the reserve trust and redemption rights[143] and internal audit outcomes,[144] is submitted only to the HKMA, on a confidential basis, and is not open to the public.

Record-keeping and access rights mainly serve official oversight. The HKMA and auditors must have unimpeded access to data and examinations, including where functions are outsourced,[145] but that access is not available to the public. The anti-money laundering "tipping off" offence further restricts outside inspection by preventing disclosures that could prejudice an investigation.[146]

Only a narrow set of information is available for public compliance testing: licensees' attestation reports,[147] weekly updates on reserve composition and market value,[148] and white papers.[149] Licensees must also disclose their complaint handling procedures and response timelines prominently on their websites, keep the system accessible to the public, and report breaches of regulatory requirements and incidents that could materially affect them to the HKMA.[150] A licensee aggrieved by an HKMA decision may take the dispute to the Stablecoin Review Tribunal,[151] yet it remains questionable what formal channels outsiders have to challenge HKMA supervision. In short, public verification of compliance relies mainly on the limited disclosures listed above.

Risk register (illustrative)

The table draws together the controls discussed above, linking each requirement to a failure it is meant to prevent and the record that would show it is working.

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Governance, Capital, Risk and Technology

Requirement	Failure scenario	Control	Evidence
Smart contract audit	An upgrade is deployed with a bug that is then exploited	Independent third-party audit at least annually and on every deployment, redeployment or upgrade; multi-signature approval for high-risk operations	Audit reports, change approvals and review records
Key management	Unauthorised access to private keys	Incident classification by materiality and severity; timely containment, recovery and escalation	Recorded and preserved digital forensic evidence; reports to the HKMA
Outsourcing	A custodian or critical IT provider fails	Written contract covering services, subcontracting, termination, record access and data handling; diversified providers and contingency plans; prior notice to the HKMA	Contracts, independent certification assessment, notification to the HKMA
Incident response and continuity	An operational disruption interrupts redemption at par within one business day	Incident framework tested at least annually; business continuity plan with back-up arrangements	Test results reported to the board; incident reports to the HKMA

SECTION 04

Financial Crime, Sanctions, Privacy and Cross-border Enforcement

Contributors: Mok Pui Yin (team contact), Kara Yeung, Young Songwei Palin, Nguyen Minh Nhu Phuong (Harper) and Stephanie Chan

Customer due diligence and other duties of licensed issuers

Under the Stablecoins Ordinance (Cap. 656) and the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) (AMLO), an issuer licensed by the Hong Kong Monetary Authority (HKMA) is subject to distinct due diligence frameworks for direct customers and for non-customer holders. As at 14 October 2026, the HKMA had issued licences only to Anchorpoint Financial Limited and The Hongkong and Shanghai Banking Corporation Limited.[152]

Direct customers

A direct customer is a person who establishes a "business relationship"[153] or carries out an "occasional transaction"[154] with the issuer. Schedule 2 to the AMLO requires customer due diligence (CDD) for direct customers. The issuer must identify and verify the identity of the customer, any beneficial owner and any person purporting to act on the customer's behalf,[155] using documents, data or information from a reliable and independent source.[156] CDD normally precedes the business relationship, although there is limited room to complete verification shortly afterwards in defined circumstances.[157]

Non-customer holders

Non-customer holders are persons who hold stablecoins in the secondary market without a direct contractual relationship with the issuer.[158] The anti-money laundering and counter-financing of terrorism (AML/CFT) framework does not require the issuer to carry out ongoing CDD on these holders. Instead, the issuer should use risk-based blockchain analytics to monitor the flow of tokens in circulation.[159]

Travel Rule

The issuer should also apply the Travel Rule when transferring stablecoins to a virtual asset service provider (VASP) or to an external wallet. The Travel Rule does not apply to non-customer holders; for them, the issuer's obligations centre on wallet screening, blacklisting and AML risk mitigation.[160] For direct customers, the issuer must obtain, verify and transmit the required originator and recipient information for transfers at or above HK$8,000, and must ensure that the information is submitted.[161]

Wallet screening and the risk-based approach

Wallet ownership

A licensee should identify a customer's wallet address and confirm that the customer owns or controls the wallet. It can do so through micropayment tests (the licensee transfers a small amount), message signing tests (the customer signs a message specified by the licensee, which the licensee then verifies) or by obtaining statements of account issued by the custodial wallet provider.[162] The licensee must also understand the custodial wallet provider's business, reputation and the effectiveness of its AML/CFT regulation, and assess the AML/CFT controls of that provider or, for a self-hosted wallet, of its owner.[163]

Intermediaries

Licensees must carry out due diligence on a prospective third party, including thorough testing, to ensure its operations will meet expectations and comply with regulatory requirements, for example by assessing financial soundness, reputation, technical and operational capabilities, and any assessments or compliance certifications.[164] Licensees must then continually monitor stablecoin transfer counterparties to detect unusual activity, unusual transactions or changes in a counterparty's risk profile.[165]

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Financial Crime, Sanctions, Privacy and Cross-border Enforcement

Transfers and redemptions

Intermediary institutions must identify transfers that lack the required information and must have risk-based policies to suspend the transfer, return the stablecoins or obtain the missing information.[166] At redemption, the licensee should use risk-based transaction monitoring to identify and report suspicious transactions, supported by technology such as blockchain analytics tools that trace the transaction history of stablecoins and identify wallet addresses linked to suspicious activity.[167]

Overall approach

The HKMA takes a cautious, risk-based approach, expecting licensees to demonstrate risk-mitigating measures across transfers, redemptions and account management, and to act at signs of suspicion.

Scenario: ordinary retail use

Mr Smith, a retail customer with an unhosted wallet, wants to buy HK$9,000 of stablecoins from a licensed issuer. As an issuer customer, he goes through CDD, so the licensee must identify and verify his identity. Because the transfer is at or above HK$8,000, it must also carry the Travel Rule originator and recipient information.[168] His ownership of the wallet is confirmed by message signing or a micropayment test.[169] If he later redeems HK$500 and there is cause for concern, the licensee may use blockchain analytics tools to trace the stablecoins' transaction history and identify their source and destination.[170] If there are grounds for suspicion, the licensee must consider further steps under the Guideline, which may include restricting the stablecoins concerned.[171]

Sanctions and cross-border transfers

Issuance

Cap. 656 penalises any person, including one acting offshore, who "actively markets" to the Hong Kong public a specified stablecoin that is not issued by a licensed issuer.[172] Whether issuance takes place in Hong Kong depends on an inclusive test covering the stablecoin's link to Hong Kong, the issuer's incorporation, minting and burning, reserve management and banking.[173] Because public blockchains cross borders, offerors should monitor their digital channels closely to avoid inadvertent criminal liability in Hong Kong.[174] The HKMA may issue public warnings under s 108(2)(e), maintains the register of licensees under s 21, draws on intelligence shared with the Securities and Futures Commission (SFC), and works with overseas supervisors to flag spurious stablecoins.[175]

Primary distribution and intermediaries

Licensed intermediaries can provide dealing services in a particular Relevant Stablecoin through partnership with an HKMA-licensed issuer or with an SFC-licensed virtual asset trading platform (VATP).[176] For indirect dealing through omnibus accounts, the SFC has extended the partnership route to licensed VATPs, through which retail clients can access Relevant Stablecoins.[177] The SFC has also waived the 12-month track record requirement for Relevant Stablecoins, but offerors still need to monitor the licensing status and compliance of third-party distributors.[178]

UN sanctions

To give effect to the United Nations Sanctions Ordinance (Cap. 537), the HKMA's AML/CFT Guideline requires real-time screening, before transfer, of all persons (including groups, undertakings and entities) against the latest United Nations Security Council Resolutions (UNSCRs) and sanctions lists relating to terrorism, terrorist financing and proliferation financing.[179] A match with any UN-sanctioned target, whether or not it has been gazetted in Hong Kong, immediately gives rise to "knowledge or suspicion" and requires the transaction to be frozen and reported to the Joint Financial Intelligence Unit (JFIU).[180]

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Financial Crime, Sanctions, Privacy and Cross-border Enforcement

Secondary cross-border distribution

Uneven implementation of Recommendation 16 of the Financial Action Task Force (FATF) creates the "sunrise issue": counterparties in jurisdictions that have not yet implemented the Travel Rule may lack interoperable messaging systems and the legal capacity to send the required data.[181] Licensees must therefore carry out due diligence on counterparty VASPs, refuse to deal with shell VASPs and apply strict risk-based procedures, such as IP geolocation or blocking access, to suspend transactions or request data where a counterparty does not comply.[182] VATP operators may still use shared order books with global affiliates, provided that brokers disclose the lower level of protection overseas and obtain the client's express consent.[183]

Scenario: higher-risk cross-border transfer

Mr Smith now wants to make a transfer to a jurisdiction that has not yet implemented the Travel Rule. If he uses a VPN to disguise his location, automated geoblocking and a reassessment of his location are triggered, followed by suspension of the transfer, return of the tokens and a suspicious transaction report (STR) to the JFIU.[184] If he matches a UNSCR screening list, the AML/CFT Guideline requires an immediate asset freeze and an STR to the JFIU.[185] The size of his transaction also calls for due diligence on the receiving counterparty and checks on its data protection measures.

Personal data collection and privacy

Three categories of data collection

A *legal requirement* is collection mandated by Cap. 656, the AMLO or the AML/CFT Guideline. A *legitimate operational need* is collection that is not mandated but is reasonably necessary to mitigate money laundering and terrorist financing (ML/TF) risk. *Avoidable collection* is excessive or unnecessary collection.

Data collected

For CDD, licensees must collect identification information. For natural persons, this means full name, date of birth, nationality, residential address and a unique identification number. For legal persons, it means full name, date of incorporation, place of business and a unique identification number.[186]

Under the Travel Rule, transfers at or above HK$8,000 require the names and account numbers of the originator and the recipient, and the originator's address and identification number are also collected for verification.[187] Transfers below HK$8,000 require the same information but not verification, unless linked transactions total HK$8,000 or more or ML/TF is suspected.[188] For transfers involving an unhosted wallet, licensees must collect the originator's and recipient's names, the originator's address and identification number, and the relevant account number and wallet address: the originator's account number and the recipient's wallet address for a transfer to a wallet, and the reverse for a transfer from one.[189] Higher ML/TF risk triggers enhanced monitoring before issuance or redemption.[190]

Data shared and retained

Licensees with branches or subsidiaries outside Hong Kong must operate group-wide AML/CFT systems, which may involve sharing customer, account and transaction information.[191] Before a transfer, the ordering institution must submit the required originator and recipient information to the beneficiary institution.[192] CDD information, transaction records and other necessary records must be kept for at least five years after the business relationship ends,[193] and originator and recipient information for at least five years after the transfer is completed.[194] This reflects FATF Recommendation 11[195] and the AMLO.[196]

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Financial Crime, Sanctions, Privacy and Cross-border Enforcement

Privacy and cybersecurity concerns

Privacy concerns arise at collection, transmission and sharing.[197] Under the Personal Data (Privacy) Ordinance (PDPO), Data Protection Principle 1 (DPP1) requires collection to be necessary for AML/CFT compliance and not excessive,[198] and DPP4 requires security measures against unauthorised access.[199] How far these protections bite depends on how the Privacy Commissioner applies the PDPO.[200] For unhosted wallets, licensees should use technology to screen stablecoin transactions and the associated wallet addresses. If the tool cannot handle addresses that use anonymity-enhancing technologies such as mixers or tumblers, this presents a high ML/TF risk.[201]

Joint enforcement operations

The HKMA, the SFC, the Police, the Department of Justice (DoJ) and overseas regulators each have a part to play when a stablecoin-related crime is suspected.

Mechanisms for co-operation

Section 156 of Cap. 656 imposes a duty of confidentiality on the HKMA, and s 157 lifts that duty in three cases. First, the HKMA may disclose information to the SFC where, in its opinion, the information will assist the SFC in performing its functions.[202] Second, it may disclose information to the Police or the Independent Commission Against Corruption, at the request of the Secretary for Justice, where the information is relevant to the proper investigation of a criminal complaint.[203] Third, it may disclose information to an overseas regulator that performs functions similar to the HKMA's and is subject to adequate secrecy provisions in its own jurisdiction,[204] having regard to whether disclosure is desirable in the public interest and to the recipient's need for the information.[205]

These are permissions, not duties. As the HKMA has no power to arrest or prosecute, s 157 is a key route for passing information to enforcement bodies. The SFC may also assist overseas regulators on its own account where they perform similar functions and are subject to adequate secrecy.[206] The DoJ decides whether to prosecute the two main offences, under s 11 (fraud and deception in specified stablecoin transactions)[207] and s 12 (fraudulent or reckless misrepresentation to induce others to acquire specified stablecoins).[208] Mayer Brown reports that the Stablecoin Review Tribunal reviews HKMA decisions on an application made within 30 days.[209]

Effectiveness

As at 28 September 2026, when ERG checked HKMA enforcement notices and SFC enforcement news, no enforcement case under Cap. 656 had been listed. A further check on 14 October 2026 found none. On 28 April 2026, the HKMA issued a warning against "HKDAP" and "HSBC" tokens falsely claiming links to licensed issuers; no enforcement action is recorded.[210] The closest example is Operation FRONTIER+ III, a police operation across ten jurisdictions in 2026, in which nearly half of the defrauded amount was converted into stablecoins.[211]

Conclusion

Section 157 provides the legal basis for information sharing, but there is no public record of its use in a stablecoin case, or of any application to the Stablecoin Review Tribunal. Cap. 656 is therefore a latent enforcement framework whose effectiveness cannot yet be assessed.

SECTION 05

Offering, Retail Access and Early Market Evidence

Contributors: Lifei Gu (team contact), Sofia Yong, Sorcha Wong and Vincy Wong

Who may offer a stablecoin, and to whom

Section 9 of the Stablecoins Ordinance (Cap. 656) recognises five types of permitted offeror: (1) licensees; (2) corporations licensed to provide a virtual asset service under section 53ZRK of the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) (AMLO); (3) persons licensed under section 8F of the Payment Systems and Stored Value Facilities Ordinance (Cap. 584); (4) corporations licensed for Type 1 regulated activity under section 116 of the Securities and Futures Ordinance (SFO); and (5) authorized institutions.[212]

Whether retail investors may be reached depends on the offeror and the stablecoin.

Offeror category	Relevant (HKMA-licensed) stablecoins	Other stablecoins
Permitted offerors: licensed stablecoin issuers; SFC-licensed virtual asset service providers; stored value facility licensees; SFC-licensed Type 1 corporations; authorized institutions	Allowed for both retail and professional investors. Exposure limits: holdings are excluded when calculating a client's overall virtual asset exposure limit. Product complexity: generally treated as a non-complex product, although suitability obligations apply if the product is recommended or solicited.	Allowed strictly for professional investors[213]
Non-permitted intermediaries	Prohibited from offering to retail or professional investors	Prohibited from offering to retail or professional investors

"Other stablecoins" includes, for example, stablecoins not linked to the Hong Kong dollar that are issued by foreign-based entities. In practice, retail clients can access Relevant Stablecoins through licensed VATPs under the SFC circular of 27 May 2026, discussed below.[214]

Advertising and cross-border marketing

Under section 10 of Cap. 656, a person commits an offence by publishing, or possessing for publication, an advertisement or document that the person knows holds a person out as carrying on a regulated stablecoin activity, while knowing that the advertised person is neither licensed for that activity nor exempted for it under section 13.[215]

Section 10 exempts businesses and live broadcasters whose ordinary operations involve publishing third-party material, provided that they do not devise, select, modify or control the content and, for broadcasters, follow applicable broadcasting terms and codes of practice. It is a defence for the accused to prove that they took all reasonable steps to avoid committing the offence, and an advertisement published on behalf of another person is regarded as published by both.[216]

Under section 5, a person is regarded as carrying on a regulated stablecoin activity in Hong Kong if they actively market, by themselves or through another person, to the Hong Kong public, whether the marketing originates in Hong Kong or elsewhere.[217] Offshore and cross-border online marketing aimed at the Hong Kong public therefore falls directly within the Ordinance's licensing and regulatory requirements. Fraudulent practices, deceptive conduct and misrepresentations are addressed by sections 11 and 12 of Cap. 656 and evaluated in Section 04.[218]

What the SFC requires of platforms and intermediaries

Scope

The SFC circular applies to licensed virtual asset trading platforms (VATPs) and licensed corporations providing Relevant Stablecoin services. It defines a VATP as a corporation licensed for Type 1 (dealing in securities) and Type 7 (providing automated trading services) regulated activities under section 116 of the SFO, and a corporation licensed for providing a virtual asset service under section 53ZRK of the AMLO.[219]

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Offering, Retail Access and Early Market Evidence

Deemed-to-be-licensed VATPs are excluded from that meaning.[220] The requirements distinguish Relevant Stablecoins from other virtual assets because Relevant Stablecoins are subject to HKMA oversight, including reserve backing and redemption arrangements.[221]

Requirements relaxed for Relevant Stablecoins

Because Relevant Stablecoins are subject to HKMA oversight, the SFC considers them lower risk than other virtual assets and regards risks such as market manipulation and lack of transparency as unlikely to arise. The liquidity and index requirements, which ordinarily require a virtual asset to be included in at least two indices from different providers before it may be offered to retail clients, are therefore not applied.[222]

The virtual asset knowledge assessment is also relaxed. A firm providing only Relevant Stablecoin services to certain clients need not assess their virtual asset knowledge for those services, although it should still consider the client's objective in trading, such as the intended use case. If the firm also provides services in other virtual assets, the knowledge assessment continues to apply even where a particular client deals only in Relevant Stablecoins.[223]

A firm must ordinarily set an exposure limit for each client other than institutional and qualified corporate professional investors, but holdings of Relevant Stablecoins need not be included when calculating a client's exposure to virtual assets.[224] Finally, Relevant Stablecoins are treated as non-complex products, so the more intensive suitability assessment that applies to complex products is not triggered by the product's characteristics alone.[225]

Retail access

Retail clients can access Relevant Stablecoins through licensed VATPs under the SFC circular of 27 May 2026, subject to the conditions above: the knowledge assessment relief applies only to clients using Relevant Stablecoin services alone, and suitability requirements apply where there is a solicitation or recommendation.[226]

Requirements that remain in force

The general disclosure obligation continues: firms should make clear and adequate disclosure, including material information about a Relevant Stablecoin's stabilisation mechanism and redemption arrangements.[227] Where a firm solicits or recommends a Relevant Stablecoin, it must consider the client's use case and available alternatives such as fiat currencies, and must not rely primarily on commission rebates or other benefits as the basis for the solicitation or recommendation.[228]

Because the HKMA regulates issuance of Relevant Stablecoins, firms do not need the SFC's approval in certain respects. However, licensees must notify the SFC in writing in advance of any plan or proposal to include a Relevant Stablecoin for trading by retail clients or professional investors, or to suspend trading of or remove one, and the general SFC reporting and notification framework continues to apply to the extent relevant.[229]

What the first licences do and do not establish

The two licences granted on 10 April 2026 authorise specified regulated stablecoin activities. They do not amount to a general approval of any stablecoin, an endorsement of its commercial merits, or a guarantee of protection against risk.

What a licence establishes

A licence establishes that the holder may issue specified stablecoins, subject to the associated operational, reserve, redemption, distribution, governance and risk-management obligations.[230] Issuance is limited to the licensee's customers and should be carried out as soon as practicable after the licensee receives funds and a valid issuance request.[231] Holders must be given a right to redeem at par value, a right to direct the disposal of the specified reserve asset pool, and a right to claim against the licensee for any shortfall.[232] A licensee may issue more than one type of stablecoin if it shows the HKMA that it has adequate capabilities

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Offering, Retail Access and Early Market Evidence

and resources and that the additional issuance will not adversely affect its existing issuance.[233] Issuance remains subject to the HKMA's further obligations (see Section 02), including disclosure of the reserve asset management policy and independent audit results.[234]

What a licence does not establish

A licence does not permit the payment of interest, or of any profit, income or other return represented as arising from holding the stablecoin by reference to the length of the holding period, although marketing incentives that do not amount to interest may be offered.[235]

A licence does not automatically extend to other business: a licensee must obtain the HKMA's consent before carrying on any business activity other than the licensed stablecoin activity, although this restriction does not apply to a licensee that is an authorized institution.[236] Nor does it carry an unrestricted power to appoint key persons such as a chief executive or director: an authorized institution licensee, for example, must not appoint a stablecoin manager or controller without the HKMA's consent and satisfying Cap. 656.[237]

Nor does a licence settle technical design: cloud-based hardware security modules are not permitted for significant seeds or private keys, while outsourcing private key management is not prohibited but is assessed cautiously.[238]

Timeline: from commencement to first licences

Date	Event
1 August 2025	Implementation of the regulatory regime for stablecoin issuers
8 August 2025	HKMA warns against fraudulent documents and fake marketing flyers
31 August 2025	Deadline for parties interested in a licence to contact the HKMA to communicate regulatory expectations
30 September 2025	Deadline for applications to be considered in the first round of licensing
10 April 2026	Two licences granted; effective date of the licences
28 April 2026	HKMA and SFC alert on fraudulent fake tokens (for example, imposter "HKDAP" and "HSBC" tickers)
Second half of 2026	HSBC's announced window to launch a Hong Kong dollar denominated stablecoin integrated into PayMe and the HSBC HK app
12 August 2026	Anchorpoint Financial Limited launches phase-one institutional beta access for HKDAP ("HKD At Par")

Official evidence on launches, terms, complaints and enforcement

Launches

On 10 April 2026, the HKMA granted the first two stablecoin issuer licences under section 15 of Cap. 656.[239] As at 23 October 2026, the HKMA's Register of Licensed Stablecoin Issuers lists Anchorpoint Financial Limited (licence FRS01) and The Hongkong and Shanghai Banking Corporation Limited (HSBC) (licence FRS02), both effective 10 April 2026; the register was last updated on 23 April 2026.[240]

According to the HKMA's press release of 10 April 2026, both licensees had to complete operational testing, technical integration and internal controls before public issuance.[241] HSBC has announced plans to launch its Hong Kong dollar stablecoin in the second half of 2026, integrating it into PayMe and the HSBC HK Mobile Banking App for peer-to-peer transfers, merchant payments and tokenised financial products.[242] Anchorpoint Financial has launched HKDAP, beginning with phase-one institutional beta access.[243] Market adoption nonetheless remains at an early stage.

SECTION 05 continued

Offering, Retail Access and Early Market Evidence

Product terms

Product terms are examined in Section 02. In brief, Schedule 2, section 5 of Cap. 656 requires reserve assets of at least 100% of the face value of tokens in circulation at all times, held in high-quality liquid assets in the reference currency and segregated from general creditors' claims, consistent with the principles in Re Gatecoin.[244] Schedule 2, section 6 gives holders a right to redeem at par without unreasonable fees, and the Supervision Guideline expects redemptions to be processed within one business day.[245]

Complaints

Schedule 2, section 14 of Cap. 656 requires issuers to maintain internal complaint handling procedures, and the HKMA receives public enquiries and complaints at stablecoin_complaint_enquiry@hkma.gov.hk.[246] Under the HKMA's AML/CFT guideline for licensed stablecoin issuers, issuers must also conduct customer due diligence, which is mandatory for occasional transactions of HK$8,000 or more, monitor transactions on an ongoing basis and observe the FATF Travel Rule.[247]

Enforcement

Parts 5 and 6 of Cap. 656 give HKMA officers powers to enter premises, examine records, compel statements and require independent auditor reports.[248] Unauthorised offering under section 9 carries the same maximum penalties as unlicensed activity under section 8 (see Section 01). Unlawful advertising under section 10 carries a level 5 fine (HK$50,000) and six months' imprisonment. The fraud and misrepresentation offences in sections 11 and 12 are discussed in Section 04.[249] HKMA decisions such as licence refusals, suspensions or administrative fines are reviewable by the Stablecoin Review Tribunal.

Public warnings and education

The HKMA advises consumers and institutions to verify an entity's status on the Register of Licensed Stablecoin Issuers before entering into any transaction, and has warned the public about fraudulent websites and investment projects purporting to be related to it.[250]

Wording that could create a false regulatory impression

A representation should be judged by the overall regulatory impression it conveys, and firms should ensure that their advertisements accurately reflect their regulatory status. The following wording is likely to mislead.

Wording	Impression	Regulatory concern	Source
"Guaranteed"	Value or repayment is certain.	May imply protection against loss or a legally enforceable assurance that exceeds the regulatory framework. Regulation does not guarantee performance or value.	HKMA licensing framework; FCA financial promotion rules
"Fully backed"	Full redemption is assured in all circumstances.	May be understood as a guarantee rather than a description of reserve arrangements. The adequacy of reserve assets depends on their composition, custody, segregation and management.	HKMA requirements on reserve assets and redemption arrangements; EU MiCA marketing communications rules; EU MiCA reserve asset framework
"Redeemable at any time"	Redemption is immediate and unrestricted.	May overstate redemption rights by omitting applicable procedures, conditions or operational limitations. Redemption arrangements should be described accurately and in context.	HKMA requirements on reserve assets and redemption arrangements; EU MiCA marketing communications rules; EU MiCA redemption disclosure requirements

Each expression may overstate the certainty, protection or redemption rights that the regulatory framework affords. This approach is consistent with HKMA guidance, the EU MiCA requirement that communications be fair, clear and not misleading, and UK financial promotion standards.[251]

SECTION 06

Hong Kong in Context: Comparison and Reform

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How stablecoins differ from other forms of digital money

New forms of digital money look alike but differ in who bears credit and liquidity risk, how settlement becomes final and which regime applies: stablecoins are reserve-backed claims on issuers; tokenised deposits are existing bank deposits on distributed ledgers; stored-value facilities (SVFs) are pre-funded, often restricted, electronic money claims; central bank digital currencies (CBDCs) are direct sovereign liabilities; and ordinary bank money remains the baseline deposit claim on a commercial bank.

Stablecoins

A stablecoin holder's claim is against the issuer or the reserve pool, not a bank, and generally carries no deposit insurance or access to central bank liquidity. The Stablecoins Ordinance (Cap. 656), in force since 1 August 2025, defines a "stablecoin" (s 3) and regulates "specified stablecoins" (s 4), which are referenced to official currencies (see Section 01). Issuers in Hong Kong, and issuers of HKD-referenced stablecoins anywhere, need a licence from the Hong Kong Monetary Authority (HKMA). Licensed issuers must fully back their coins with segregated, high-quality liquid reserves and redeem at par, with the HKMA expecting valid requests to be met within one business day,[252] and may not pay interest to holders.[253] The first two licences, to Anchorpoint Financial Limited and The Hongkong and Shanghai Banking Corporation Limited (HSBC), took effect on 10 April 2026.[254]

Tokenised deposits and SVFs

Tokenised deposits remain "deposits" within s 2(1) of the Banking Ordinance (Cap. 155), held as tokens and moved by smart contracts. Unlike stablecoins, they may bear interest and sit within the full prudential regime for authorized institutions.

SVFs, such as prepaid cards and e-wallets like Alipay and WeChat Pay, are a pre-funded claim on a usually non-bank issuer, which needs an HKMA licence under the Payment Systems and Stored Value Facilities Ordinance (Cap. 584). They resemble stablecoins but are usually more restricted in transferability and are governed by payments law.[255]

CBDCs and ordinary bank money

A CBDC is a direct liability of the central bank. Hong Kong's project is the e-HKD, and the HKMA is exploring wholesale applications through pilots,[256] including in the derivatives market.[257] Ordinary bank money is a liability of a commercial bank.

Conclusion

Hong Kong has adopted a segmented, risk-based regime led by the HKMA. Stablecoins are ring-fenced under the Ordinance to reduce private issuer credit risk, tokenised deposits are being integrated into banking through Project Ensemble, and CBDCs are positioned as a sovereign settlement layer, so that innovation does not dilute financial stability or monetary sovereignty.

How the issuer regime interacts with platform and intermediary rules

Hong Kong regulates stablecoin issuance and related virtual asset (VA) activities by allocating functions between regulators and accepting calibrated overlap, following the principle of "same activity, same risks, same regulation".[258] Under Cap. 656 the HKMA licenses issuers. The Securities and Futures Commission (SFC) regulates virtual asset trading platforms (VATPs) and has proposed separate regimes for VA dealing, custody, advisory and management services. The two systems interact through targeted exemptions and adjustments where activities or risks overlap.

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Trading platforms

The SFC's circular of 27 May 2026 links the regimes through the concept of a "Relevant Stablecoin": a specified stablecoin issued by an HKMA-licensed issuer.[259] Certain liquidity and index requirements for other retail-traded virtual assets do not apply to Relevant Stablecoins, reflecting the safeguards the HKMA already imposes on reserves and redemption.[260] Downstream, VATPs and licensed corporations must disclose material information about a Relevant Stablecoin's stabilisation mechanism and redemption arrangements,[261] and suitability requirements continue to apply where Relevant Stablecoins are solicited or recommended. The framework therefore modifies, rather than displaces, SFC regulation.

Dealing

Under the proposed VA dealing regime, HKMA-licensed issuers conducting regulated stablecoin activities would be exempt from the dealing licence because those activities are already supervised by the HKMA. The exemption is confined to those activities.[262] Licensed corporations may partner directly with licensed issuers to deal in their Relevant Stablecoins, or may provide those services through VATPs.[263]

Custody

The SFC permits licensed corporations to receive or withdraw clients' Relevant Stablecoins through segregated accounts with the licensed issuer, where that issuer provides custody for the stablecoins it issues and segregates client assets from its own.[264] Under the proposed VA custodian regime, client VAs would generally have to be safeguarded by regulated custodians, while issuers providing custody of their own Relevant Stablecoins would remain under HKMA supervision.

Advisory and management

The proposed advisory regime would cover advice on acquiring or disposing of VAs, and the management regime would cover discretionary portfolio management involving VAs.[265] The framework distinguishes these activities by substance and exempts truly incidental ones: a VA management licensee would not need a separate dealing licence where it deals in VAs solely to provide management services. Advice on VAs, by contrast, is not generally treated as incidental to securities advice and remains within the proposed advisory regime.[266]

Plausible real-economy uses and the evidence for them

Hong Kong permits a broad range of stablecoin activity, but the only relevant completed pilot activity concerns tokenised deposits. This part assesses four applications for plausibility (infrastructure and regulatory permission) and evidence, graded in four tiers: legislation (tier 1); registers and official government materials (tier 2); pilots, transactions and product disclosures (tier 3); and statements of intention or commentary (tier 4), which indicate direction but cannot prove that a use case is operational.[267]

Settlement

Cap. 656 and the HKMA's Supervision Guideline provide the legal foundation,[268] and Project Ensemble created an institutional environment for digital settlement. In November 2025 EnsembleTX moved into a pilot phase for real-value tokenised deposit transactions,[269] in which HSBC completed a live cross-bank tokenised deposit transfer.[270] Separately, Anchorpoint states that its HKD-referenced stablecoin, HKDAP, is backed by segregated reserves and is therefore usable for settlement.[271] Settlement is highly plausible, but the strongest evidence concerns tokenised deposits rather than stablecoins, and large-scale adoption is yet to be seen.

Trade and cross-border payments

Rapid transfer, continuous availability and programmable settlement make trade and cross-border payments plausible, and payments and supply-chain management have been identified as two primary real-world use cases.[272] Project Ensemble tested e-commerce payments, cross-border trade and supply-chain settlement, and tokenised asset trading.[273] Plausibility is medium-high: policy support and pilots show feasibility but not

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market readiness, deployment would require compliance across several jurisdictions, and evidence of actual stablecoin activity is limited.

Remittances

Stablecoins could reduce reliance on correspondent banking and allow near-continuous transfers. The HKMA has described regulated stablecoins as settlement instruments enabling real-time on-chain transactions,[274] so individual cross-border payments fall within the policy direction. Commentators argue that stablecoins can cut remittance costs,[275] but Hong Kong's cross-boundary payment infrastructure already supports real-time transfers.[276] Without direct evidence of market need, remittance is a policy-supported but hypothetical application.

Tokenised assets

Tokenised assets have the strongest implementation evidence, though much of it concerns other digital assets: Anchorpoint is piloting HKDAP, which remains in beta access,[277] and Project Ensemble is designed to support tokenised money market fund transactions, liquidity management and treasury operations. Tokenised assets are therefore the most credible near-term use, but the evidence should not be overstated: Project Ensemble remains based on tokenised deposits, and more infrastructure is needed before large-scale adoption.

Conclusion

Implementation of licensed stablecoins has yet to catch up with regulatory ambition. The evidence supports cautious confidence in settlement and tokenised asset applications, while trade and remittances remain plausible uses.

How the US, EU, UK and Singapore compare

Hong Kong is among the first in Asia to legislate a dedicated stablecoin regime,[278] and its framework resembles those of the US, EU, UK and Singapore.

Jurisdiction	Scope	Reserves	Redemption	Distribution or foreign issuers
Hong Kong	Specified stablecoins under Cap. 656 (see Section 01)	At least par, segregated[279]	At par within one business day[280]	Offering limited to permitted offerors; HKD-referenced issuance abroad caught
US (GENIUS Act)	Payment stablecoins redeemable for a fixed monetary value[281]	Proposed OCC rules: reserve reports; 10% daily, 30% weekly liquidity[282]	Disclosed policy with no discretionary limits;[283] proposed OCC rule of par within two business days[284]	Permitted issuers only;[285] only their coins sold from 18 July 2028;[286] foreign issuers need a comparable regime and must not be under US sanctions[287]
EU (MiCA)	Asset-referenced tokens (ARTs) and e-money tokens (EMTs, one official currency)[288]	Reserve policy on composition and allocation;[289] liquidity stress testing for significant issuers[290]	Issuer sets policy, conditions and timeframes[291]	Home State authorisation (ARTs) or white paper notification (EMTs);[292] no specific foreign issuer route
UK	Qualifying stablecoins,[293] split into systemic and non-systemic[294]	Systemic: 30% central bank deposits, 70% short-term gilts;[295] non-systemic: core backing of 5% or the highest daily redemption (180 days)[296]	Systemic: within 24 hours;[297] non-systemic: by the end of the next business day[298]	Temporary £40 billion issuance guardrail for systemic issuers;[299] no specific foreign issuer route
Singapore	Broad definition;[300] single-currency SGD or G10 coins issued in Singapore may be MAS-regulated[301]	Detail pending; possible minimum held as deposits;[302] more for multi-jurisdictional issuance[303]	Within five business days[304]	Other coins not banned but excluded from MAS-regulated arrangements;[305] foreign coins may be recognised on comparability[306]

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Larger issuers, foreign issuers and redemption

The EU, UK and Singapore restrict larger issuers, probably to protect holders and financial stability. Under MiCA, significant issuers face additional requirements,[307] and an ART issuer whose daily use as a means of exchange within a single currency area exceeds 1 million transactions and EUR 200 million must stop issuing and, within 40 working days, submit a plan to bring use back below the threshold.[308] The MAS may designate stablecoins as systemic and impose additional reserve and redemption requirements.[309]

US and Singapore comparability tests may reduce the risk that foreign stablecoins import instability, while foreign issuers in the EU and UK may need a local subsidiary, which may be a hurdle. All five regimes require segregated one-to-one backing and timely redemption at par, though deadlines range from 24 hours to five business days, and rules are stricter for coins viewed as riskier. Because short redemption windows could strain issuers during mass redemptions, regulators might let issuers set their own policies within a statutory limit that includes a buffer.

Conclusion

The regimes share restrictions on larger issuers and reserve and redemption requirements; the major difference is their policy towards foreign issuers. However, these jurisdictions may amend their rules in line with crypto-asset economic development, or even diplomatic considerations.

Stablecoin regulation, trust law and Greater China

Cap. 656 has significant potential for the development of trusts in Hong Kong and in the wider Greater China context.

Stablecoins and trust law

In 2023 the Court of First Instance expressly recognised that cryptocurrency could be held on trust; earlier courts had done so only implicitly, by granting injunctions over cryptocurrency assets.[310] Before Cap. 656, however, regulation relied mainly on the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) and was not robust enough.[311] In the JPEX scandal users could not withdraw their assets, and although the SFC enforced against the exchange, one study argues that the case showed how hard enforcement is against cross-border, decentralised transactions.[312]

Cap. 656 is more robust, aiming at "mitigating potential financial stability risks and providing adequate user protection".[313] Licensees must maintain a pool of reserve assets for each type of specified stablecoin, segregate those assets, obtain a legal opinion confirming that the trust arrangement is adequate, and obtain the HKMA's approval.[314] One academic argues that this builds consumer confidence: holders may plead trust law remedies such as tracing, and the relatively high standard of fiduciary duties safeguards holders' interests.[315] This dovetails with family office policy:[316] the 2025 Policy Address aims for "family offices to establish a presence in Hong Kong",[317] and some family offices are family-owned investment holding vehicles that hold property on trust.[318]

Hong Kong's possible role in Greater China

On the mainland, the legal status of cryptocurrency and stablecoins is unclear. Under a notice issued by the People's Bank of China and other authorities, financial activity involving virtual currency is illegal,[319] yet in 2025 a Shanghai court disposed of virtual currency in criminal property enforcement.[320] A salient risk is that capital is drawn out of the mainland as US-based stablecoins become more attractive.[321]

Hong Kong may therefore serve as a gateway for stablecoin development in Greater China. The 2025 Policy Address describes "One Country, Two Systems" as allowing Hong Kong to attract overseas enterprises and to act as a springboard for mainland enterprises going global.[322] Some commentators suggest that Hong Kong's licensing regime may also act as a sandbox that lets the Central Authorities in Beijing assess their options.[323]

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Conclusion

Through segregation and trust arrangements and reserve requirements, Cap. 656 may strengthen the role of trust law and build consumer and institutional confidence in stablecoins. Hong Kong may also act as a regulated gateway and, as some commentators suggest, a policy sandbox, giving mainland entities access to global digital finance and Beijing space to consider its options.

Hong Kong after the first year

The HKMA's objectives

Cap. 656 responds both to stablecoins' potential as a settlement asset for blockchain transactions and to the customer protection, money laundering and financial stability concerns raised by their fast adoption.[324] The HKMA's goal is "to lay a solid foundation for Hong Kong as a leading digital financial hub, while promoting a stablecoin regulatory regime that strikes the right balance between innovation and prudent oversight".[325]

What supports these objectives

First, the regime is independent. Cap. 656 provides that a stablecoin does not constitute "securities, or a futures contract",[326] and the Anti-Money Laundering and Counter-Terrorist Financing Ordinance carves securities and futures contracts out of "virtual assets".[327] A tailored regime suits stablecoins' distinct risks[328] and substantially aligns Hong Kong with the FSB's global stablecoin recommendations.[329] Second, Cap. 656 and the HKMA's two guidelines create a comprehensive risk management system covering reserve assets, price stabilisation, redemption, technology risk and anti-money laundering controls,[330] under ongoing HKMA supervision.

Obstacles

First, the bar to entry is high. The HKMA accepts that the threshold "will remain high" and that "should additional licences be granted in future, the overall number will remain very limited";[331] only two issuers are licensed.[332] This assures users on redemption and recovery but raises concerns of oligopoly among large financial entities. Vincent Chok, chief executive of First Digital, warns that "we may end up with stablecoins that are well regulated but not well connected".[333] If the bar stays this high, the balance between innovation and prudent oversight may be hard to achieve. The HKMA could track market concentration (for example through the Herfindahl-Hirschman Index) and innovation on an ongoing basis.[334]

Second, there are no specific rules for multi-jurisdictional issuance. Cap. 656 recognises that stablecoins are inherently cross-border and draws largely on the FSB's global framework,[335] but it provides no detailed multi-jurisdictional framework, so the burden of navigating divergent rules falls almost entirely on issuers. The FSB has stressed cross-border cooperation and coordination between authorities, including through memoranda of understanding.[336] The HKMA is "open to multi-jurisdictional issuance arrangements",[337] but cross-border supervisory mechanisms remain aspirational. Supervisory colleges or informal networks with foreign authorities could support information exchange and coordinated action.

What this means for Hong Kong

Hong Kong should preserve its independent regime and comprehensive risk management system, which give users strong assurance on redemption and recovery. It should clarify how multi-jurisdictional issuance will be supervised, through cooperation with foreign authorities rather than leaving the burden on issuers. It should monitor market concentration and innovation so that the high bar to entry does not entrench an oligopoly.

What Hong Kong should preserve, clarify and monitor

On the evidence reviewed, ERG draws the following conclusions:

01 **Keep the layered design.**

Separating the product, the conduct and the prohibition makes it clear who needs a licence and why, including for Hong Kong dollar coins issued abroad.

02 **Treat a licence as a starting point.**

Two licences mark the beginning of a market, not proof that products are launched, widely used or safe.

03 **Settle the insolvency questions.**

Holders need a clear procedure to direct the disposal of reserves and clarity on how a shortfall claim ranks.

04 **Give the public more to check.**

Weekly reserve updates and attestations help, but much assurance material reaches only the HKMA.

05 **Test enforcement in practice.**

Information sharing is permitted but not required, and no case has yet shown how the agencies work together.

06 **Watch market concentration.**

A very high bar to entry protects holders but may leave a small market dominated by large incumbents.

07 **Build cross-border cooperation.**

Stablecoins are cross-border by nature; supervision and information sharing with overseas regulators need structure, not only goodwill.

08 **Keep roles distinct.**

Issuer, permitted offeror and platform carry different duties, and public communication should not blur them.

What the first year tells us

Hong Kong has written a demanding and coherent set of rules for fiat-referenced stablecoins. The Ordinance is clear about what it covers, and the HKMA's guidance turns its minimum criteria into detailed expectations on reserves, redemption, governance, technology and financial crime.

What the first year cannot show yet is how those rules behave under pressure. There have been no enforcement cases, no insolvency and only two licensees. The questions that matter most to holders, about what happens when something goes wrong, are still open.

So we see this report as a starting point rather than a final word. ERG will keep following the register, the market and the regulators' response, and the branch's next projects will build on this work.

Thank you to every student who worked on this report, and to the team contacts who kept each workstream moving.

Jadyn Pitt
Executive Director

Vadym Kapliuk
President and Trustee

Sources and Authorities

Notes are numbered continuously through the report. Law and guidance were checked to 14 October 2026 and the HKMA Register of Licensed Stablecoin Issuers to 23 October 2026; other access dates are as recorded by the authors.

Section 01: Scope, Definitions and Licensing Triggers

[1] Stablecoins Ordinance (Cap. 656), ss 3 to 5.

[2] Cap. 656, s 3(1).

[3] Cap. 656, s 3(2).

[4] Cap. 656, s 4(1)(a).

[5] Cap. 656, s 4(3).

[6] Cap. 656, ss 4(1)(b), 4(2)(c).

[7] Cap. 656, ss 5(1), 5(4).

[8] Cap. 656, ss 5(2) to (3).

[9] Cap. 656, s 5(1)(a)(i).

[10] Cap. 656, s 5(1)(a)(ii).

[11] Cap. 656, s 8(1).

[12] Cap. 656, ss 8(2), 13.

[13] Cap. 656, s 8(3).

[14] Cap. 656, ss 5(1)(a)(i) to (ii), 8(1) to (2).

[15] Cap. 656, s 8(1); see also s 14 (application for a licence).

[16] HKMA, Register of Licensed Stablecoin Issuers (checked 23 October 2026).

[17] Companies Ordinance (Cap. 622), s 2(1).

[18] Cap. 656, s 14(1), sch 2 s 3; Banking Ordinance (Cap. 155), s 2(1) (an authorized institution is a bank, a restricted licence bank or a deposit-taking company); HKMA, Explanatory Note on Licensing of Stablecoin Issuers (July 2025) para 3.2.

[19] Banking Ordinance (Cap. 155), s 2(1); Licensing Explanatory Note (n 18) para 3.2.

[20] Cap. 656, sch 2 s 11; Licensing Explanatory Note (n 18) para 3.9.

[21] Cap. 656, sch 2 s 5; Licensing Explanatory Note (n 18) para 3.4.

[22] Cap. 656, sch 2 s 13; Licensing Explanatory Note (n 18) para 3.11.

[23] Cap. 656, sch 2 s 15; Licensing Explanatory Note (n 18) para 3.13.

[24] Cap. 656, sch 2 s 6; Licensing Explanatory Note (n 18) para 3.5.

[25] Cap. 656, sch 2 ss 7 to 8; Licensing Explanatory Note (n 18) annex A.

[26] Cap. 656, sch 2 ss 7 to 10, 14; Licensing Explanatory Note (n 18) paras 3.6 to 3.8, 3.12, annex A.

[27] Cap. 656, sch 2 s 4; Licensing Explanatory Note (n 18) para 3.3.

[28] Cap. 656, sch 2 s 12; Licensing Explanatory Note (n 18) para 3.10.

[29] Cap. 656, sch 2 ss 7 to 10, 14; Licensing Explanatory Note (n 18) ch 1, paras 3.6 to 3.8, 3.12.

[30] Cap. 656, s 17; Licensing Explanatory Note (n 18) para 3.15.

[31] Explanatory Note on Transitional Provisions for Pre-existing Stablecoin Issuers (July 2025) para 1.3.

[32] Transitional Provisions Explanatory Note (n 31) ch 3.

[33] Transitional Provisions Explanatory Note (n 31) ch 4.

[34] Transitional Provisions Explanatory Note (n 31) ch 5.

[35] Transitional Provisions Explanatory Note (n 31) chs 3 to 5.

[36] Cap. 656, s 13.

[37] Cap. 656, s 4.

[38] Cap. 656, s 5(4).

[39] Cap. 656, ss 5(2) to (3), 8(1).

[40] Cap. 656, s 5(1)(a)(i).

[41] Cap. 656, s 5(1)(a)(ii).

[42] Cap. 656, s 8(1), (3).

[43] Register of Licensed Stablecoin Issuers (n 16).

[44] Cap. 656, s 6(1).

[45] Cap. 656, s 9(5).

[46] Cap. 656, s 9(2).

[47] Securities and Futures Ordinance (Cap. 571), s 116.

[48] Relevant Stablecoins are those that qualify as specified stablecoins under Cap. 656, s 4 and are issued by HKMA-licensed issuers.

[49] Cap. 656, s 9(2)(a).

[50] SFC, Circular on provision of Relevant Stablecoin services by virtual asset trading platforms and licensed corporations (27 May 2026).

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[51] HKMA, Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Stablecoin Issuers) (August 2025) paras 4.33 to 4.34.

[52] HKMA, Guideline on Supervision of Licensed Stablecoin Issuers (August 2025) paras 6.5.2, 6.5.22, 6.6.11.

[53] Supervision Guideline (n 52) paras 6.6.2 to 6.6.4, 6.6.6, 6.6.11.

Section 02: Reserves, Custody, Redemption and Insolvency

[54] Stablecoins Ordinance (Cap. 656), sch 2, ss 5(1) and 5(4).

[55] Cap. 656, sch 2, s 5(2).

[56] HKMA, Guideline on Supervision of Licensed Stablecoin Issuers (August 2025) paras 2.2.1 to 2.2.3 https://www.hkma.gov.hk/media/eng/doc/key-functions/ifc/stablecoin-issuers/Guideline_on_supervision_of_licensed_stablecoin_issuers_eng.pdf.

[57] Cap. 656, sch 2, s 5(5).

[58] Supervision Guideline paras 2.3.1 to 2.3.2.

[59] Cap. 656, sch 2, s 5(6)(a).

[60] Supervision Guideline para 6.4.1.

[61] Cap. 656, sch 2, s 5(3); Supervision Guideline para 2.4.1.

[62] Supervision Guideline paras 2.2.2 and 2.7.1 to 2.7.4.

[63] Cap. 656, sch 2, ss 5(6)(b) and 5(7).

[64] Cap. 656, sch 2, s 5(1).

[65] Cap. 656, sch 2, s 5(4).

[66] Supervision Guideline paras 2.5.1 to 2.5.4.

[67] *Re Gatecoin Ltd (in liquidation)* [2023] HKCFI 914, [2023] 2 HKLRD 1079.

[68] *Re Gatecoin* [134] to [138] (internal ledger accounting shows how contributions are tracked, but the intention to create a trust must be established by the surrounding agreements and a manifest declaration).

[69] Supervision Guideline paras 2.5.2 and 6.4.3.

[70] Supervision Guideline paras 2.5.3 and 6.4.5.

[71] Cap. 656, sch 2, s 5(2).

[72] Supervision Guideline para 5.2.1.

[73] Cap. 656, sch 2, s 5(4)(a).

[74] Cap. 656, sch 2, s 6(4)(a) to (b).

[75] Cap. 656, sch 2, s 6.

[76] Cap. 656, sch 2, s 6(1)(a).

[77] Cap. 656, sch 2, s 6(1)(b).

[78] Cap. 656, sch 2, s 6(4).

[79] Cap. 656, sch 2, s 6(2).

[80] Supervision Guideline paras 2.2.1 to 2.2.3, 2.7.1 to 2.7.4 and 6.4.6.

[81] Supervision Guideline para 3.3.3.

[82] Supervision Guideline para 1.2.

[83] Cap. 656, sch 2, s 6(2) to (3).

[84] Supervision Guideline para 6.8.6.

[85] Cap. 656, sch 2.

[86] Supervision Guideline para 3.3.4.

[87] Supervision Guideline para 3.6.1; Cap. 656, sch 2, s 6(5).

[88] Cap. 656, s 171(5).

[89] Cap. 656, ss 24 and 28 and sch 4, s 1 (failure to fulfil the minimum criteria in sch 2, including the redemption requirement in sch 2, s 6); HKMA, Explanatory Note on Licensing of Stablecoin Issuers, paras 7.1.1 and 7.2.1 https://www.hkma.gov.hk/media/eng/doc/key-functions/ifc/stablecoin-issuers/Explanatory_Notes_on_Licensing_of_Stablecoin_Issuers_eng.pdf.

[90] Cap. 656, sch 2, ss 5(2) and 5(5); Supervision Guideline para 2.2.1.

[91] Cap. 656, sch 2, s 5(6)(a); Supervision Guideline para 6.4.1.

[92] Supervision Guideline para 6.4.3.

[93] Supervision Guideline para 6.4.4.

[94] Supervision Guideline para 6.4.3.

[95] Supervision Guideline paras 6.4.6 to 6.4.7.

[96] Supervision Guideline paras 2.2.1 and 6.4.5 to 6.4.7.

[97] Cap. 656, sch 2, s 6(4)(a).

[98] Cap. 656, sch 2, s 6(4)(b).

[99] Cap. 656, sch 2, s 5.

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[100] Cap. 656, sch 2, s 5(4); Supervision Guideline para 2.5.4.

[101] Cap. 656, ss 77(a)(ii), 77(c)(ii) and 80.

[102] Cap. 656, sch 2, s 5(8); Supervision Guideline para 2.5.4.

[103] *Re Gatecoin* (n 67).

[104] Charles Mak, 'Trusts, Trustees and Stablecoins: An Analysis of Hong Kong's Stablecoins Ordinance and its Implications for Trust Law' (2025) 31 Trusts & Trustees 447, 450 https://academic.oup.com/tandt/article/31/9/447/8248855.

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[106] Mak (n 104) 451.

[107] cf the priority expressly granted by the Guiding and Establishing National Innovation for US Stablecoins Act: see James Zeng, 'The Legal Structure and Regulation of Stablecoins: An Organisation-Law Account' (University of Hong Kong Faculty of Law Research Paper No 2025/22, 18 September 2025) 30 to 31 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5386855.

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[110] Supervision Guideline (n 109) para 5.1.1.

[111] Supervision Guideline (n 109) para 5.2.1.

[112] Licensing Note (n 109) para 3.2.1.

[113] Licensing Note (n 109) para 3.2.1.

[114] Licensing Note (n 109) para 7.2.1.

[115] Stablecoins Ordinance (Cap. 656), s 2(1).

[116] Licensing Note (n 109) para 7.2.1.

[117] Supervision Guideline (n 109) para 6.3.2.

[118] Supervision Guideline (n 109) para 6.3.3.

[119] Supervision Guideline (n 109) para 6.3.4.

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