

### Consultation on legislative proposal to implement regulatory regime for stablecoin issuers, and announcement of introduction of sandbox arrangement

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On 27 December 2023, the Financial Services and the Treasury Bureau (“**FSTB**”) and the Hong Kong Monetary Authority (“**HKMA**”) jointly issued a public consultation paper entitled “Legislative Proposal to Implement the Regulatory Regime for Stablecoin Issuers in Hong Kong” (“**Paper**”), seeking feedback on a legislative proposal (“**Proposal**”) to regulate stablecoin issuers. The Proposal aims to address the increasing importance of stablecoins in the Web3 and Virtual Asset ecosystem, as well as the growing linkage between the traditional financial system and Virtual Asset markets. The consultation period for the Paper lasts until 29 February 2024.

Virtual Assets, also known as “crypto-assets”, are digital representations of value secured using distributed ledger technology, such as blockchain. While Virtual Assets have shown potential as an investment based on an innovative technology, the somewhat roller-coaster nature of their price valuation over time has hindered wider adoption and market confidence. Stablecoins have emerged as a potential solution to address the issue of price volatility. They represent an attempt to maintain stable pricing by tying their value to specific non-virtual assets, principally fiat currencies. The Government is of the view that, by providing stability and certainty in value, stablecoins can improve the efficiency of transactions and enhance liquidity in the Virtual Asset market.

In the light of the evolving development of stablecoins, the Paper emphasizes the need to regulate stablecoins, especially fiat-referenced stablecoins (“**FRS**”) because of their significant interconnections with the mainstream financial system and day-to-day commercial, financial, and payment activities.

The key features of the Proposal include:

- (a) introducing a new licensing regime, establishing licensing criteria, conditions, and requirements. The licensing criteria and conditions may cover management of reserves and stabilisation mechanisms and redemption requirements. Under this regime, all FRS issuers meeting applicable conditions will be required to obtain a license from the HKMA;
- (b) requiring that FRS only be offered by specified licensed entities, and only FRS licensed by the HKMA can be offered to retail investors;
- (c) prohibiting the advertising of FRS issuance by unlicensed entities and the offering of FRS by non-specified licensed entities;
- (d) granting the authorities power to adjust the parameters of in-scope stablecoins and related activities. In particular, the HKMA will be designated as the supervisory authority under the proposed regime, with powers over the management of licensees and investigation powers to ensure compliance with regulatory requirements; and
- (e) providing a transitional arrangement to facilitate the implementation of the regulatory regime to ensure a smooth transition for existing stablecoin issuers to the new regulatory requirements.

In addition to the Proposal, the HKMA plans to introduce a sandbox arrangement which will serve as a platform for communicating supervisory expectations and providing guidance on compliance to entities interested in issuing FRS in Hong Kong. The sandbox will also enable these entities to provide feedback on the proposed regulatory requirements. The HKMA will announce further details regarding the sandbox arrangement separately.

For a full copy of the Paper, please see [here](#). The HKMA's press release on the Paper is available [here](#). The HKMA's official column on the Paper is available [here](#).

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