

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

The Financial Services and the Treasury Bureau (FSTB) and the Hong Kong Monetary Authority (HKMA) jointly issued today (December 27) a public consultation paper to gather views on the legislative proposal to regulate issuers of stablecoin.

In view of the important roles played by stablecoins in the Web3 and virtual asset (VA) ecosystem, and the rising interconnectedness between the traditional financial system and the VA markets, the Government considers that a regulatory regime should be introduced for fiat-referenced stablecoin (FRS) issuers. Bringing FRS issuers into the regulatory remit under a risk-based and agile approach will facilitate a proper management of the potential monetary and financial stability risks, and provide transparent and suitable guardrails with the increased prevalence of VAs.

The legislative proposal has taken into account the feedback received from the market and the public to "Discussion Paper on Crypto-assets and Stablecoins" (Note 1) issued by the HKMA last year, the ongoing engagement exercises with stakeholders, local market conditions and needs, and applicable international standards. Its salient features are as follows:

- a. introducing a new piece of legislation to implement a licensing regime requiring all FRS issuers that meet certain conditions (Note 2) to be licensed by the Monetary Authority (MA);
- b. requiring that FRS can only be offered by specified licensed entities (Note 3), and only FRS licensed by the MA can be offered to retail investors;
- c. prohibiting the advertising of:
 - (i) FRS issuance by unlicensed entities; or
 - (ii) non-specified licensed entities' offering of FRS;
- d. providing the necessary powers for the authorities to adjust the parameters of in-scope stablecoins and activities having regard to the rapid VA market development; and
- e. providing a transitional arrangement to facilitate the implementation of the regulatory regime.

The HKMA will also introduce a sandbox arrangement for communicating supervisory expectations and guidance on compliance to entities having a genuine interest in and a reasonable plan on issuing FRS in Hong Kong, as well as obtaining their feedback on the proposed regulatory requirements, with a view to facilitating the subsequent implementation of the regulatory regime and ensuring that it is fit-for-purpose. Relevant details of the sandbox arrangement will be announced separately.

The Secretary for Financial Services and the Treasury, Mr Christopher Hui, said, "With the implementation of the licensing regime for VA trading platforms from June this year, the legislative proposal to regulate FRS is another important measure facilitating Web3 ecosystem development in Hong Kong. With the relevant licensing, supervisory and enforcement parameters in place, the actual and potential risks associated with stablecoin development in Hong Kong could be properly managed in line with international standards."

The Chief Executive of the HKMA, Mr Eddie Yue, said, "We are supportive of financial innovation and believe that it is essential to put in place the necessary regulatory guardrails and standards to enable the long-term, sustainable and responsible development of the virtual asset ecosystem. We are therefore introducing a sandbox arrangement alongside the public consultation to establish channels for the exchange of views between the HKMA and market players who wish to establish stablecoin issuance business in Hong Kong with a view to facilitating the implementation of the regulatory regime."

The consultation period commences today and will last until February 29, 2024. The consultation paper is available on the websites of [the FSTB](#) and [the HKMA](#). The industry and the public are invited to provide comments by post or email.

Note 1: See ["Discussion Paper on Crypto-assets and Stablecoins"](#) published on January 12, 2022.

Note 2: This refers to FRS issuers who (i) issue an FRS in Hong Kong; (ii) issue a Hong Kong dollar-referenced stablecoin; or (iii) actively market their issuance of FRS to the public of Hong Kong.

Note 3: Refer to licensed FRS issuers, authorised institutions, licensed corporations and licensed virtual asset trading platforms.