

STABLECOINS ORDINANCE

Explanatory Note on Licensing of Stablecoin Issuers

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1. Introduction

- 1.1. Under the Stablecoins Ordinance (Cap. 656) (“SO”), the Monetary Authority (“MA”) is the authority responsible for the licensing of persons who conduct regulated stablecoin activities in Hong Kong. This Explanatory Note on Licensing of Stablecoin Issuers (“Note”) provides guidance regarding the licensing regime established under the SO, which is relevant to parties that intend to apply for a licence under section 14(1) of the SO, and to licensees, as the minimum criteria in Schedule 2 to the SO (“minimum criteria”) are of a continuing nature. Failure to meet any of the minimum criteria by a licensee is a ground on which the MA’s powers of revocation or disciplinary actions are exercisable in respect of that licensee.
- 1.2. While this Note summarises a number of principal provisions of the SO, the Guideline on Supervision of Licensed Stablecoin Issuers (“Supervisory Guideline”) and the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Stablecoin Issuers) (“AML/CFT Guideline”), this Note is not intended to be a comprehensive guide to the wide variety of compliance issues that may be relevant to a licensee. It is therefore not a substitute for appropriate legal and other professional advice in a given case. Prior to applying for a licence under the SO, parties are therefore advised to familiarise themselves not only with this Note but also with the SO, the Supervisory Guideline and the AML/CFT Guideline and seek legal and professional advice as appropriate.
- 1.3. The information in this Note will be kept under review and amended from time to time as necessary. Institutions intending to apply for a licence under the SO should ensure their applications meet the requirements of the SO and relevant guidelines and circulars issued by the MA.
- 1.4. This Note should be read in conjunction with the SO as well as other guidelines issued by the MA from time to time. Terms that are defined in the SO have their defined meaning when used in this Note. Unless otherwise specified, terms in this Note in the singular include the plural and terms in this Note in the plural include the singular.

2. Key interpretations relating to stablecoin and scope of application

2.1. Meaning of “*stablecoin*”

2.1.1. For the purpose of the SO, “*stablecoin*” is defined in section 3 as a cryptographically secured digital representation of value that:

- (i) Is expressed as a unit of account or store of economic value;
- (ii) Is used, or intended to be used, as a medium of exchange accepted by the public for any one or more of the following purposes:
 - a. Payment for goods or services;
 - b. Discharge of a debt;
 - c. Investment;
- (iii) Can be transferred, stored or traded electronically;
- (iv) Is operated on a distributed ledger or similar information repository; and
- (v) Purports to maintain a stable value with reference to:
 - a. A single asset; or
 - b. A pool or basket of assets.

2.1.2. However, a digital representation of value is not a stablecoin if:

- (i) It is issued by:
 - a. A central bank;
 - b. An entity that performs the functions of a central bank;
 - c. An entity authorized by a central bank on the central bank’s behalf;
 - d. A government of a jurisdiction; or

- e. An entity authorized by a government of a jurisdiction that is acting in accordance with an authority to issue currency in that jurisdiction;
 - (ii) It is a limited purpose digital token as defined by section 53ZR of the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615)(“AMLO”);
 - (iii) It constitutes securities, or a futures contract, as defined by section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571);
 - (iv) It constitutes a float, or an SVF deposit, as defined by section 2 of the Payment Systems and Stored Value Facilities Ordinance (Cap. 584)(“PSSVFO”); or
 - (v) It constitutes a deposit as defined by section 2(1) of the Banking Ordinance (Cap. 155)(“BO”).
- 2.1.3. When determining whether a digital representation of value is operated on a distributed ledger or similar information repository, the MA will take into account factors including but not limited to the following:
- (i) Technological architecture of the ledger (e.g. methodology and storage of copies of ledger);
 - (ii) Operational arrangement of the ledger (e.g. number of parties operating the ledger as well as their relationships); and
 - (iii) Consensus mechanism of the ledger.

2.2. Meaning of “*specified stablecoin*”

2.2.1. For the purpose of the SO, “*specified stablecoin*” is defined in section 4(1) as:

- (i) A stablecoin that purports to maintain a stable value with reference wholly to:
 - a. One or more official currencies;
 - b. One or more units of account specified by the MA;
 - c. One or more stores of economic value specified by the MA; or
 - d. A combination of any two or more of the following:

- I. One or more official currencies;
- II. One or more units of account mentioned in (b);
- III. One or more stores of economic value mentioned in (c);
or

- (ii) A digital representation of value, or a digital representation of value of a class, specified by the MA.

2.2.2. Currently, the scope of specified stablecoin only covers stablecoin which purport to maintain a stable value with reference wholly to one or more official currencies, which are commonly referred to as “*fiat-referenced stablecoin*”.

2.3. Meaning of “*regulated stablecoin activity*”

2.3.1. As stated in section 5 of the SO, a person carries on a “*regulated stablecoin activity*” if:

- (i) The person issues a specified stablecoin in Hong Kong in the course of business;
- (ii) The person issues a specified stablecoin in a place outside Hong Kong in the course of business, and the specified stablecoin purports to maintain a stable value with reference (whether wholly or partly) to Hong Kong dollars (“HKD”); or
- (iii) The person carries on an activity specified by the MA in accordance with section 5(4) of the SO.

2.3.2. Section 5(2) of the SO provides that a person is to be regarded as holding out as carrying on a regulated stablecoin activity if:

- (i) The person actively markets, whether in Hong Kong or elsewhere, to the public that the person carries on, or purports to carry on, an activity; and
- (ii) The activity, if carried on in Hong Kong, would constitute a regulated stablecoin activity.

2.4. Meaning of “*issue*”

- 2.4.1. The question of what constitutes an issue of a specified stablecoin is generally a matter to be decided on the basis of the facts and circumstances of each individual case. A specified stablecoin is typically considered issued (or “minted” in industry parlance) when it is first recorded on a distributed ledger (or similar information repository), and assigned to a digital wallet address.

2.5. Meaning of “*issue in Hong Kong*”

- 2.5.1. In determining whether a specified stablecoin is issued in Hong Kong in the course of business, the MA will take a holistic approach and consider all relevant factors including but not limited to:

- (i) Where the day-to-day management and operations of the issuer take place;
- (ii) Where the issuer is incorporated;
- (iii) Where the minting and burning of the specified stablecoin take place;
- (iv) Where the reserve assets are managed; and
- (v) Where the bank accounts for processing the cash flows arising from minting or redemption requests are maintained.

The above factors are neither exhaustive nor conclusive. The presence or absence of any factor above may not necessarily lead the MA to consider that a specified stablecoin is issued in Hong Kong. The MA will take into account the particular circumstances and all relevant facts and make a determination on a case-by-case basis.

2.6. Meaning of “*actively market*”

- 2.6.1. In determining whether a person actively markets to the public that the person carries on, or purports to carry on, an activity that would, if carried on in Hong Kong, constitute a regulated stablecoin activity (for the purpose of section 5 of the SO) or offering of a specified stablecoin (for the purpose of section 6 of the SO – see paragraph 2.9 for further details), the MA will take a holistic approach and consider all relevant factors including but not limited to:

- (i) The languages used in the marketing messages and whether the person's website includes the use of the Chinese language;
- (ii) Whether the message is targeted at a group of people that resides in Hong Kong;
- (iii) Whether a Hong Kong domain name is used for the marketing website or a domain name that may give the impression to the public that the issuer is established in Hong Kong; and
- (iv) Whether there is a detailed marketing plan to promote the activity.

The above factors are neither exhaustive nor conclusive. The presence or absence of any factor may not necessarily lead the MA to consider that an issuance or offering of specified stablecoin is actively marketed in Hong Kong. The MA will take into account the particular circumstances and all relevant facts and make a determination on a case-by-case basis.

2.7. Licence required for carrying on a regulated stablecoin activity

- 2.7.1. Under section 8 of the SO, it is an offence to carry on, or hold out as carrying on a regulated stablecoin activity, without a licence or being exempted under section 13(1)(a) of the SO.
- 2.7.2. Under section 17 of the SO, the MA may attach conditions to a licence as the MA considers appropriate.

2.8. Exemption in relation to regulated stablecoin activity

- 2.8.1. Under section 13(1) of the SO, the MA may exempt a person, or a class of persons, from the prohibition in section 8 in relation to a regulated stablecoin activity. In granting such exemption, the MA must be satisfied that the risks posed by the carrying on of the regulated stablecoin activity by the person, or class of persons, to the holders or potential holders of any specified stablecoins to which the activity relates and to the monetary or financial system of Hong Kong, are immaterial.
- 2.8.2. Under section 13(5) of the SO, the MA may attach conditions to such exemption (such as limits on the circulation size, or the class of persons to which the exempt person may offer specified stablecoins) as the MA considers appropriate.

- 2.8.3. The MA may also exempt that person, or class of persons, from the prohibition in section 10(1) of the SO on the advertising of a regulated stablecoin activity to which the exemption relates.
- 2.8.4. A person who wishes to apply for an exemption under section 13(1) of the SO should make a written application to the MA. The MA may request further information as necessary to determine whether to grant an exemption accordingly.

2.9. Meaning of “*offering*”

- 2.9.1. As set out in section 6 of the SO, for the purpose of the SO, a person (person A) offers a specified stablecoin if person A makes, in the course of business, a communication (which may be made in any form and by any means) to another person (person B) that presents sufficient information on all of the following matters so as to enable person B to decide whether to acquire the specified stablecoin from person A:
- (i) The specified stablecoin to be offered;
 - (ii) The terms on which the specified stablecoin will be offered;
 - (iii) The channels through which the specified stablecoin will be offered.

2.10. Restrictions on offering of specified stablecoin

- 2.10.1. Under section 9(2) of the SO, a licensee may only engage a permitted offeror to offer specified stablecoins and the issue of which is authorized by a licence. A permitted offeror, as defined in section 9(5) of the SO, means:
- (i) A licensee;
 - (ii) An authorized institution as defined in section 2(1) of the BO;
 - (iii) A person who is granted a licence under section 8F of the PSSVFO;
 - (iv) A virtual asset trading platform licensed by the Securities and Futures Commission (“SFC”) to provide a virtual asset service as defined by section 53ZR of the AMLO; or
 - (v) A licensed corporation licensed by the SFC for a Type 1 regulated activity under section 116 of the Securities and Futures Ordinance (Cap. 571).

3. Minimum criteria

3.1. Minimum criteria

- 3.1.1. Pursuant to section 15(3) of the SO, the MA must not grant a licence unless the MA is satisfied that, if the licence is granted, the minimum criteria applicable in relation to the licensee would be fulfilled. If the licence is granted, under section 24 of the SO, the minimum criteria applicable in relation to the licensee must continue to be fulfilled.
- 3.1.2. Part 2 of Schedule 2 to the SO sets out the minimum criteria. The following paragraphs provide a description of each of the minimum criteria and the MA's interpretation of the same. The MA's expectations as to what is required to comply with the minimum criteria are set out in detail in the Supervisory Guideline and the AML/CFT Guideline.

3.2. Section 3 of Schedule 2 – Corporate status of licensee

- 3.2.1. The applicant must be 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 BO). This is to enable the MA to supervise a licensee effectively and to ensure that the MA may take any necessary enforcement measures as needed.
- 3.2.2. Any institution incorporated outside Hong Kong other than an authorized institution should incorporate a subsidiary in Hong Kong. Such locally incorporated subsidiary company shall be the licence applicant.
- 3.2.3. An authorized institution incorporated outside Hong Kong is not subject to the local incorporation requirement taking into consideration that such authorized institution is adequately supervised by both the MA and its home supervisor in accordance with comprehensive regulatory requirements that meet the Basel standards.

3.3. Section 4 of Schedule 2 – Financial resources¹

- 3.3.1. The applicant must have adequate financial resources and liquid assets to meet its obligations (whether actual or contingent) as they will or may fall due.

¹ The minimum criteria in section 4 of Schedule 2 to the SO do not apply to an applicant that is an authorized institution.

3.3.2. Without limiting paragraph 3.3.1, an applicant must satisfy either of the following at all times:

- (i) The paid-up share capital of the applicant is not less than—
 - a. HKD25,000,000; or
 - b. An equivalent amount in another currency that is freely convertible into HKD or is approved by the MA for this purpose;
- (ii) The applicant's other financial resources as approved by the MA are equivalent to or exceed the amount mentioned in paragraph (i)(a) or (b).

3.3.3. The proportion of the financial resources of a licensee that are equivalent to the financial resources requirement should only be used for the purposes of its business activities and should not be used for any dealing with its related companies or parties, including shareholders, directors and senior management.

3.4. Section 5 of Schedule 2 – Reserve assets management

3.4.1. For each type² of specified stablecoins to be issued by the applicant, it must maintain a pool of reserve assets for that type of specified stablecoin that is segregated from any other pool of reserve assets maintained by the applicant. An applicant should enter into written contractual agreements with qualified custodians for the safekeeping of reserve assets, which should be either a licensed bank, or other asset custodian under an arrangement which is acceptable to the MA.

3.4.2. In relation to each type of specified stablecoins that the applicant plans to issue, the market value of the specified reserve assets pool backing a type of specified stablecoins must be at all times at least equal to the par value of the outstanding specified stablecoins of that type in circulation. In practice, the applicant should take into account the risk profile of the reserve assets, and ensure that there is appropriate over-collateralisation to provide adequate buffer above the full backing level. The specified reserve assets pool for each type of specified stablecoins must be held in the same referenced asset as that referenced by that type of specified stablecoins, with flexibility allowed on a case-by-case basis, subject to prior written approval of the MA. When determining whether approval should be given to allow flexibility in respect of currency mismatch, the MA would consider whether there is a legitimate reason for having a currency mismatch, whether the licensee is able to demonstrate the needs and rationale for doing so, and whether the proposed arrangements (including for

² A licensee may issue more than one type of specified stablecoin (e.g. issuing a specified stablecoin which references a different referenced currency).

example the composition and proportion of reserve assets, as well as corresponding risk mitigating measures such as over over-collateralisation) are reasonable and can effectively manage the relevant risks so as to avoid transferring such risks to the specified stablecoin holders or negatively impacting its operations.

- 3.4.3. The reserve assets must be of high quality and high liquidity with minimal investment risks.
- 3.4.4. The applicant must ensure that the reserve assets of each type of specified stablecoins that the applicant plans to issue are (i) segregated from any other pools of reserve assets it maintains, (ii) adequately protected against claims by its other creditors in all circumstances, and (iii) kept separate from any other assets of the applicant, including any other funds paid to, maintained or received by the applicant. Accordingly, an effective trust arrangement should be put in place to ensure that the reserve assets are segregated from the assets of the applicant, held for and on behalf of specified stablecoin holders, and are available to satisfy specified stablecoin holders' valid redemption requests at par value (see paragraph 3.5). Prior to any implementation of a trust arrangement, the applicant should obtain an independent legal opinion demonstrating the effectiveness of the trust arrangement, and submit the same to the MA.
- 3.4.5. The applicant must have in place and implement adequate and appropriate risk management policies and procedures for managing its reserve assets to ensure that the reserve assets are properly managed such that valid redemption requests can be honoured without undue delay. In addition, the applicant must have in place and implement adequate and appropriate systems of control to ensure that the reserve assets are subject to regular independent attestation and audit of its reserve assets performed by a qualified and independent external auditor that is acceptable by the MA.
- 3.4.6. Section 5(7) of the minimum criteria further stipulates the applicant must make adequate and timely disclosure to the public on:
 - (i) Its reserve assets management policy;
 - (ii) An assessment of the risks arising from its reserve assets and the management of the risks;
 - (iii) The composition and market value of its reserve assets; and
 - (iv) The results of regular independent attestation and audit of its reserve assets.

- 3.4.7. In the case where the applicant intends to engage any third party to manage its reserve assets, the applicant must demonstrate to the MA's satisfaction that it has put in place and implemented adequate and appropriate systems of control:
- (i) For assessing the associated risks in having those activities being performed by third parties;
 - (ii) For monitoring the performance of those activities by those third parties; and
 - (iii) For managing the relationship with those third parties.
- 3.4.8. The MA's expectations regarding management of reserve assets and the measures required to ensure compliance with the relevant minimum criteria are set out in detail in the Supervisory Guideline.

3.5. Section 6 of Schedule 2 – Redemption

- 3.5.1. The applicant must provide specified stablecoin holders with the right to redeem their specified stablecoins at par value, which includes the following rights that are exercisable in the event of the licensee's insolvency:
- (i) The right to direct the disposal of the specified reserve assets pool for the purpose of redeeming all outstanding specified stablecoins of that type on a pro rata basis; and
 - (ii) The right to claim against the applicant for any shortfall if the proceeds from the disposal of the specified reserve assets pool is insufficient to redeem all the outstanding specified stablecoins of that type in full.
- 3.5.2. The applicant should establish and maintain an effective redemption mechanism for the specified stablecoins that it issues. Valid redemption requests made by a specified stablecoin holder must be honoured by the applicant, without charging an unreasonable fee in connection with redemption or attaching any unduly burdensome condition, as soon as practicable, except with the prior written consent of the MA. Unless otherwise approved, valid redemption requests should be processed within 1 business day after the day of which it is received by the applicant.
- 3.5.3. To honour a valid redemption request³, a licensee should transfer funds in an amount equal to the par value of the specified stablecoins received from the specified stablecoin holder, after deducting any fees for redemption to the

³ A valid redemption request means a request to receive the par value of the specified stablecoin in the reference asset to which it is referenced by a holder who meets all the applicable conditions for making such a request to the applicant.

specified stablecoin holder. The funds should be denominated in the respective referenced currency of the specified stablecoins issued by the applicant, or in cases where there is more than one referenced currency, denominated in the referenced currencies in the same ratio as that to which the specified stablecoins are referenced. The applicant should ensure that a draw-down of its reserve assets for honouring a redemption request is matched by a corresponding decrease in the par value of the outstanding specified stablecoins in circulation.

- 3.5.4. Section 6(5) of the minimum criteria stipulates that an applicant must make adequate and timely disclosure to the public on the redemption rights, including (i) the related fees (if any), (ii) the applicable conditions for exercising the right of redemption, (iii) the redemption mechanism and procedures, and (iv) the time within which a valid redemption request may be processed. This information must be stated clearly and prominently on the applicant's website or otherwise made available to the public.
- 3.5.5. The MA's expectations in relation to redemption and the measures required to ensure compliance with the relevant minimum criteria are set out in the Supervisory Guideline.

3.6. Sections 7 and 8 of Schedule 2 – Fit and proper person and knowledge and experience

- 3.6.1. The SO requires that each person holding the position of chief executive, director, stablecoin manager⁴ and controller of the applicant must be a fit and proper person with relevant knowledge and experience. Each of the officers of a licensee who is responsible for the day-to-day management and operation of its licensed stablecoin activities must have the appropriate knowledge and experience to discharge the officer's responsibilities effectively. The detailed expectation can be found in **Annex A (Part One)**. The applicant⁵ must have in place adequate and appropriate systems of control to ensure that the MA is kept informed of the identity of each chief executive, director, stablecoin manager and controller of the applicant and consent from the MA is received prior to taking up their appointment⁶.
- 3.6.2. The applicant must also have in place adequate and appropriate systems of control to ensure that each manager⁷ of the applicant is a fit and proper person

⁴ An applicant which is an authorized institution must appoint a person as the stablecoin manager under section 66 of the SO.

⁵ Sections 57, 62 and 70 of the SO.

⁶ The MA's consent is not required under the SO for a person to become a controller, chief executive or director of an applicant which is an authorized institution.

⁷ A manager is an individual who is principally responsible (either alone or jointly with others) for conducting one or more specified affairs as specified in Schedule 1 to the SO.

to hold the position concerned. The detailed expectation regarding the adequacy and appropriateness of systems of control can be found in **Annex A (Part Two)**.

- 3.6.3. Generally, the MA expects that the senior management and key personnel of the applicant should be based in Hong Kong.
- 3.6.4. It is expected that a separate face-to-face meeting between directors or the chairman of the board of directors, the chief executives (including alternate chief executive) and the stablecoin manager of the applicant and the Hong Kong Monetary Authority's Stablecoin Licensing Team ("Licensing Team") may be conducted during the licensing process.
- 3.6.5. The standards expected by the MA in relation to fitness and propriety are set out in detail in the Supervisory Guideline.

3.7. Section 9 of Schedule 2 – Prudential and risk management

- 3.7.1. An applicant must have in place and implement adequate and appropriate risk management policies and procedures for managing the risks arising from the carrying on of its licensed stablecoin activities that are commensurate with the scale and complexity of those activities, covering:
 - (i) Risk governance: The applicant should put in place formal arrangements that enable its board of directors and senior management to establish sound business strategy, articulate and monitor adherence to risk appetite and risk limits, and identify, measure, manage and control risks;
 - (ii) Risk management framework and internal control system: The applicant should establish risk management framework, with clearly defined and documented policies and procedures, for the identification, assessment, monitoring, reporting, control and mitigation of risks;
 - (iii) Credit, liquidity and market risk management: To comply with the requirement set out under section 5(6)(a) of the minimum criteria, an applicant should put in place policies and procedures to manage its operational risks, of which the applicant should conduct risk identification and assessment regularly, to identify the material operational risks associated with its business activities, processes and systems;
 - (iv) Technology risk management: The applicant should put in place a framework to ensure (i) the adequacy of information technology controls, (ii) the quality and security, including the reliability, robustness, stability and availability, of its technologies, and (iii) the safety and efficiency of its operations;

- (v) Operational risk management: The applicant should put in place effective policies and procedures to manage its operational risks which includes identification and assessment of material risks from time to time, and to implement effective control measures to mitigate and manage such operational risks;
- (vi) Reputation risk management: The applicant should identify and assess potential reputation implications of its activities, implement a monitoring and reporting mechanism to keep track of such risks, take proactive actions to minimise the identified risks, and respond swiftly to mitigate any impact should such risk materialise; and
- (vii) Incident management, business continuity and exit: The applicant should establish framework which include clear lines of responsibilities, escalation procedures, triggering and execution of incident response procedures, business continuity recovery strategies or business exit plan, as well as a clear communication strategy to relevant stakeholders including specified stablecoin holders.

3.7.2. The MA's expectations in relation to prudential and risk management and the measures required to ensure compliance with the relevant minimum criteria are set out in detail in the Supervisory Guideline.

3.8. Section 10 of Schedule 2 – Anti-money laundering and counter-terrorist financing (“AML/CFT”) measures

3.8.1. The SO requires that an applicant must have in place and implement adequate and appropriate systems of control for preventing and combating possible money laundering or terrorist financing (“ML/TF”) in connection with its licensed stablecoins activities that comply with:

- (i) The provisions of the AMLO applicable to the applicant; and
- (ii) The measures promulgated by the MA, whether in the form of rules, regulations, guidelines or otherwise, to prevent, combat or detect ML/TF.

3.8.2. Detailed requirements on AML/CFT measures are set out in the AML/CFT Guideline.

3.9. Section 11 of Schedule 2 – Purpose and soundness of issue of specified stablecoin

3.9.1. The SO provides that the issue of a specified stablecoin by an applicant must be prudent and sound, having regard to the purpose, business model and operational arrangement of the issue. To this end, the applicant should:

- (i) Adopt a strategy that aligns with the principle of ensuring the soundness and reliability of the specified stablecoins it issues;
- (ii) Have in place a business plan that is realistic, concrete, viable, and has a reasonable prospect of generating sufficient demand for the specified stablecoins it issues to ensure sustainability of its licensed stablecoin activities;
- (iii) Carry on licensed stablecoin activities in a prudent manner, for example to up-keep its reputation and to collaborate with reputable partners, such that it would not adversely affect the interests of specified stablecoin holders and/or monetary and financial stability of Hong Kong;
- (iv) Comply with statutory and regulatory requirements in relevant jurisdictions; and
- (v) Have adequate capability and resources to execute its business plan, and cope with internal and external shocks as well as unexpected contingencies.

3.9.2. When considering whether an applicant is conducting its business with prudence and competence, factors including but not limited to the following should be taken into account:

- (i) The nature, complexity and scale of the business model and operational arrangements of the applicant;
- (ii) The risks to the continuity of the financial functions provided or to be provided by the applicant;
- (iii) The effect of any disruption to the continuous performance of such functions and activities that may have on the monetary and financial stability of Hong Kong; and
- (iv) The mitigating measures that are implemented by the applicant.

3.10. Section 12 of Schedule 2 – Business activities⁸

- 3.10.1. The SO provides that an applicant must have dedicated and sufficient resources to carry on its licensed stablecoin activities. It must obtain the MA's consent before it carries on any business activities other than a licensed stablecoin activity ("Other Business Activity").
- 3.10.2. In the case where the applicant intends to carry on Other Business Activity, it should establish clear governance arrangements for such Other Business Activity, conduct a risk assessment to identify all relevant risks, as well as implement controls to properly manage and mitigate the identified risks. The applicant should demonstrate, and have adequate and appropriate systems of control to ensure, that the Other Business Activity will not pose significant risk to its licensed stablecoin activities and that potential or actual conflicts of interest from any Other Business Activity are properly managed and mitigated.
- 3.10.3. An applicant should also assess whether the Other Business Activities would constitute other regulated activities, and whether it is able to fulfil the requirements of all applicable regulatory regimes.
- 3.10.4. The MA's expectations regarding business activities and the measures required to ensure compliance with the relevant minimum criteria are set out in detail in the Supervisory Guideline.

3.11. Section 13 of Schedule 2 – Disclosures

- 3.11.1. The SO provides that an applicant must:
- (i) Publish a white paper to provide comprehensive and transparent information about the type of specified stablecoins issued by it;
 - (ii) Provide information to holders of its specified stablecoins about its complaint handling and redress mechanisms; and
 - (iii) Have in place and implement adequate and appropriate risk management policies and procedures to identify, prevent, manage and disclose potential and actual conflicts of interest between itself and holders of its specified stablecoins.
- 3.11.2. An applicant's white paper should set out, for each type of specified stablecoin it issues, information including but not limited to:

⁸ The minimum criteria in section 12 of Schedule 2 do not apply to an applicant that is an authorized institution.

- (i) General information about the applicant;
- (ii) Detailed information about the specified stablecoins;
- (iii) Reserve assets management arrangement as well as relevant arrangements with third party entities (if any);
- (iv) Issuance, redemption and distribution mechanism, covering the procedures, redemption rights, timeframe, any applicable conditions and fees involved, as well as arrangements with third party entities for distribution of the specified stablecoins (if any);
- (v) Underlying technology of the specified stablecoins; and
- (vi) Risks associated with using the specified stablecoins.

The applicant is required to publish the white paper on its website before offering the specified stablecoins to the public.

3.11.3. Public disclosures, among other things, should also include regular disclosures of the reserve assets and independent attestation results.

3.11.4. The MA's expectations regarding disclosures and the measures required to ensure compliance with the relevant minimum criteria are set out in detail in the Supervisory Guideline.

3.12. Section 14 of Schedule 2 – Complaint handling

3.12.1. The SO provides that an applicant must have in place and implement adequate and appropriate systems of control to ensure that holders of its specified stablecoins have access to complaints handling and redress mechanisms that are adequate, accessible, affordable, independent, fair, accountable, timely and efficient; and that the complaints handling and redress mechanisms do not impose unreasonable cost, delays or burdens on the holders of its specified stablecoin.

3.12.2. The applicant should establish proper governance and segregation of duties with competent staff; have appropriate and effective policies and procedures in place for handling complaints; maintain sufficient records for an appropriate time period with measures ensuring confidentiality of information as well as remedying the issues revealed by the complaints. In addition, the applicant should have in place appropriate feedback and notification system to the MA and to cooperate with the MA for any unaddressed matter. The applicant should make the complaints handling system accessible to the public and disclose its

complaint handling processes and expected timeframe at a reasonably prominent location of its website.

3.12.3. The MA's expectations regarding complaint handling are set out in detail in the Supervisory Guideline.

3.13. Section 15 of Schedule 2 – Non-interest bearing

3.13.1. The SO stipulates that an applicant must not pay, or permit to be paid, any interest in relation to specified stablecoins it issues. For the purpose of such section, interest means any profit, income or other return represented to arise or to be likely to arise from the holding of the specified stablecoin on the basis of any one or more of the following:

- (i) The length of the period during which the holder holds the specified stablecoins;
- (ii) The par value of the specified stablecoin; or
- (iii) The market value of the specified stablecoin.

3.13.2. An applicant should also ensure that any income or loss arising from the management of reserve assets, including but not limited to interest payments or capital gains or losses, is attributed to the applicant.

3.14. Section 16 of Schedule 2 – Recovery planning and orderly wind-down

3.14.1. The SO provides that an applicant must have in place and implement adequate and appropriate systems of control for appropriate planning to support timely recovery and continuity of critical functions in relation to its licensed stablecoin activities when there is an occurrence of significant operational disruption.

3.14.2. In addition, the applicant should have a business exit plan in place, covering a range of scenarios which may render it necessary for an orderly exit, as well as measures for monitoring any materialisation and/or triggering of the scenarios. An applicant should also set out detailed procedures to be followed upon triggering of the business exit plan.

3.14.3. The applicant should assess the time and resources required for the execution of its business exit plan, and put in place measures to ensure sufficient time and resources are available in case of a need for an orderly exit.

- 3.14.4. The MA's expectations regarding recovery planning, orderly wind-down and the measures required to ensure compliance with the relevant minimum criteria are set out in detail in the Supervisory Guideline.

3.15. Conditions attached to licence

- 3.15.1. Under section 17 of the SO, the MA may attach to a licence conditions as the MA considers appropriate upon and at any time after granting the licence, including attaching new conditions and/or amending existing conditions.
- 3.15.2. The licence conditions may be imposed with additional requirements or restrictions on various aspects, for example, (i) the scope of business activities that may be carried on by the applicant; (ii) the administration, maintenance, management, composition, and use of reserve assets, and (iii) the maintenance of additional financial resources greater than the amount as set out in the minimum criteria.

4. Application procedures

4.1. Introduction

- 4.1.1. This chapter sets out the procedures for applying for a licence under section 14 of the SO.

4.2. Preliminary consultation with the MA

- 4.2.1. An entity that is interested in applying for a licence to carry on a regulated stablecoin activity is encouraged to indicate its interest to the Licensing Team. This will facilitate initial, informal discussion to enable the Licensing Team to understand more about the person's background and business model and to ensure the person is fully aware of the licensing procedures and the MA's expectations on the minimum criteria. This may help avoid the premature submission of an application and facilitate the processing of a subsequent application.

4.3. Consultation with home regulator

- 4.3.1. Where the parent company of the interested party is also conducting a digital asset-related business or other financial services that are regulated in its jurisdiction of incorporation, the MA may contact the relevant home regulator and take into account its views in respect of matters such as the financial soundness and the overall internal control environment of the parent company, and whether the relevant home regulator has any concern about that parent company commencing or extending its business of issuing specified stablecoins to Hong Kong. Therefore, it is important that the interested party liaises with its parent company to consult its home regulator prior to submitting an application to the MA to avoid delays in processing the application.

4.4. Completing and submitting the application

- 4.4.1. As mentioned above, an interested party may find it helpful to discuss matters relating to its prospective application with the MA. When the interested party decides to apply for a licence, it should submit the list of documents required in **Annex B** (items 1-23) to the MA. The application forms for licence, controllers, as well as chief executives, stablecoin manager (where applicable) and directors can be obtained from the Licensing Team.

- 4.4.2. Where an application received is incomplete or without sufficient supporting documents or information, making it difficult for the MA to perform an assessment against the minimum criteria, the applicant will be asked to complete the application or provide the missing information. Pursuant to section 14(4) of the SO, if information or documents required by notice under section 14(3) of the SO are not provided, the MA may refuse to process the application further or reject the application.
- 4.4.3. When the application form has been properly completed and submitted together with all supporting documents and information, including those listed in **Annex B** (items 1-23), the MA will process the application accordingly.

4.5. Processing of application

- 4.5.1. While the MA endeavours to process an application for a licence as quickly as possible, the processing time required will depend on the particular circumstances of each application. An applicant should, therefore, pay attention to the following points:
- (i) The MA may, by notice in writing to the applicant under section 14(3) of the SO, require the applicant to provide any information or document specified in the notice that the MA considers necessary for determining the application. The MA may seek such additional information from the applicant as is necessary for the MA to reach a decision on the application. The information required will depend on the circumstances of each particular application;
 - (ii) Among other things, an applicant is required to submit independent assessment reports (“IA Reports”) regarding the overall compliance with applicable regulatory requirements with respect to an applicant’s policies, procedures, processes, systems and controls in certain areas. The MA will communicate with the applicant regarding when the IA Reports is/are to be produced. For the avoidance of doubt, the IA Reports is/are not required at the time of submission of an application form;
 - (iii) If any document or information requested is not received, or is received in an insufficient manner by the specified date or a revised date agreed in writing by the MA at the request of the applicant, or significant issues that remain unaddressed rendering the application unlikely be able to fulfil the minimum criteria, the MA may refuse to process the application further and the applicant will be notified of this in writing (also see paragraph 4.4.2);

- (iv) If there are unaddressed issues calling into question the applicant's ability to meet any of the minimum criteria, the applicant may decide to withdraw the application.

4.5.2. All licence applications will be considered by a Stablecoin Advisory Committee ("Committee") comprising senior officers of the Hong Kong Monetary Authority and chaired by a senior executive. The Committee is responsible for, amongst other matters, considering and making recommendations to the MA on licensing matters under the SO.

4.6. Approval of application

4.6.1. If the MA determines a licence application by granting a licence to carry on any regulated stablecoin activity for which the application is made, the licence may be subject to any condition that the MA considers appropriate. The MA must not grant a licence unless the MA is satisfied that if the licence is granted, the minimum criteria applicable in relation to the licensee would be fulfilled.

4.6.2. If the MA grants a licence, the MA will notify the applicant and will specify in the notice:

- (i) The licence number; and
- (ii) The date on which the licence is to take effect.

4.6.3. The MA will maintain a register of licensees in the form that the MA considers appropriate, which contains the information required under section 21(2) of the SO.

4.6.4. The ongoing obligations of a licensee are elaborated in Chapter 5.

4.7. Refusal of application

4.7.1. If the MA refuses to grant a licence, the MA will give a written notice to the applicant stating (i) the decision to refuse to grant the licence; and (ii) the ground for the refusal.

4.7.2. A decision to refuse to grant a licence under section 15(1)(b) of the SO is a specified decision (see Schedule 6 to the SO).

4.8. Public communications

- 4.8.1. In any case, a person who is not an applicant must not describe the person, in whatever terms, as an applicant, or behave in a manner that indicates, or that is reasonably likely to be understood as indicating, that the person is such an applicant, in accordance with section 154 of the SO.
- 4.8.2. Interested parties who have not yet submitted licence applications are reminded to exercise due caution in their communications to the public to avoid contravening section 154 of the SO.

5. Ongoing obligations

5.1. Duty to pay licence fee (section 22 of the SO)

- 5.1.1. A licensee must pay to the MA a licence fee of an amount specified in Schedule 3 to the SO, within 14 days after the date on which the licence is to take effect as specified in the notice upon the grant of licence, and annually on or before each anniversary of that date.
- 5.1.2. The amount of licence fee required to be paid is subject to amendment by notice published in the Gazette by the Financial Secretary. Licensees should keep themselves informed as to the amount of licence fee payable.

5.2. Duty to display licence number (section 23 of the SO)

- 5.2.1. A licensee must ensure that the licence number of its licence is clearly stated on any advertising material relating to, and the consumer-facing interface of any software application supporting, a licensed stablecoin activity of the licensee, whether published or provided by the licensee or by another person for the licensee.
- 5.2.2. This duty is applicable to all materials and applications, regardless of whether the form is physical or digital.

5.3. Duty to fulfil minimum criteria (section 24 of the SO)

- 5.3.1. A licensee must ensure that the minimum criteria applicable in relation to the licensee are fulfilled. Failure to do so is a ground on which the licence may be revoked, in accordance with section 28 of the SO.
- 5.3.2. For details on MA's expectation on the minimum criteria, please refer to the Supervisory Guideline.

5.4. Duty to report inability to meet obligations etc. (section 25 of the SO)

- 5.4.1. If a licensee is likely to become unable to meet its obligations, is insolvent or is about to suspend payment, it must report the matter to the MA immediately and provide the MA with all relevant facts, circumstances and information.

- 5.4.2. Licensees should note that the scope is not confined to financial obligations. Licensees should ensure that they are familiar with their obligations under the SO, and ensure timely and adequate compliance with all such obligations.
- 5.4.3. Licensees should also note that this obligation is imposed on them on a continuing basis, and licensees are obliged to report each and every occurrence of a matter that is to be reported under section 25 of the SO.

5.5. Duty to report change of address (section 26 of the SO)

- 5.5.1. Licence applicants are required under section 14(2)(b) of the SO to state the address of their principal places of business in Hong Kong, postal addresses and electronic mail addresses respectively in their licence applications.
- 5.5.2. If there is a change of address, the licensee must inform the MA of the change by written notice within 7 days after the day on which the change takes place.
- 5.5.3. To ensure effective transmission of information and adequate supervision, licensees should appoint designated personnel for the purpose of communications with the MA.

5.6. Duty to report change of circumstances (section 27 of the SO)

- 5.6.1. If it appears to a licensee that there is, or is likely to be, a material change in the circumstances that is relevant to the licensee's ongoing fulfilment of the minimum criteria, the licence conditions or its business activities, the licensee must comply with section 27 of the SO.
- 5.6.2. For a material change that has taken place, the licensee must provide the MA with details of the change in the specified form as soon as practicable after it becomes aware of the change.
- 5.6.3. For a material change that is likely to take place, the licensee must provide the MA with details of the likely change in the specified form as soon as practicable after it appears to the licensee that the change is likely to take place.
- 5.6.4. A licensee should act prudently in determining, based on the facts, whether there is a material change in circumstances.

6. Powers of control over licensee

6.1. Introduction

6.1.1. The MA's supervisory powers under Part 4 of the SO include the power to require information or documents from a licensee, to examine the books and accounts of a licensee or an associated company of a licensee that is not an authorized institution, and to require a report to be prepared by a skilled person such as an auditor.

6.1.2. Under Division 4⁹ of Part 2 of the SO, the MA may take action in relation to the management of a licensee in certain circumstances, for example if a licensee is acting in a detrimental manner or is encountering difficulties in its operations, as set out in paragraph 6.1.3. This chapter sets out the powers which the MA may exercise, and the possible actions that the MA may take in such situations.

6.1.3. Under section 77 of the SO, the MA may, after consulting the Financial Secretary, exercise in relation to a licensee one or more of the powers under sections 78, 79 and 80 of the SO that appear to the MA to be necessary if:

- (i) The licensee informs the MA that it:
 - a. Is likely to become unable to meet its obligations;
 - b. Is insolvent;
 - c. Is about to suspend payment; or
 - d. Is about to suspend any of its business activities under its licence;
- (ii) The licensee:
 - a. Is unable to meet its obligations;
 - b. Suspends payment; or
 - c. Suspends any of its business activities under its licence; or
- (iii) The MA is of the opinion that:
 - a. The licensee is likely to become unable to meet its obligations;

⁹ This Division does not apply in relation to a licensee that is an authorized institution.

- b. The licensee is insolvent;
- c. The licensee is about to suspend payment;
- d. The licensee is about to suspend any of its business activities under its licence;
- e. The licensee is carrying on its business in a manner detrimental to the interests of the holders or potential holders of any specified stablecoins connected with its licence;
- f. The licensee is carrying on its business in a manner detrimental to the interests of its creditors;
- g. The licensee has contravened any provision of the SO or a licence condition; or
- h. The ground for revoking the licence specified in Schedule 4 to the SO exists.

6.1.4. Where any of the MA's powers under sections 78, 79 and 80 of the SO becomes exercisable, the MA may, after consulting the Financial Secretary, take one or more of the following actions under that section:

- (i) The MA may, by written notice, require a licensee to take an immediate action relating to the licensee's affairs, business or property that the MA considers necessary (section 78(1));
- (ii) The MA may appoint a person to be an advisor of a licensee and may, by written notice, direct the licensee to seek advice from the advisor, while the direction is in force, on the management of the affairs, business or property of the licensee to which the direction relates (section 79(1)); or
- (iii) The MA may appoint a person to be a statutory manager of a licensee and may, by written notice, direct that, while the direction is in force, the affairs, business or property of the licensee to which the direction relates are to be managed by the statutory manager (section 80(1)).

6.2. Imposition of a requirement under section 78

6.2.1. This course of action may be used to mitigate the potential impact of the relevant issues mentioned in section 77 of the SO while enabling the licensee concerned to take appropriate steps, as directed by the MA, to rectify the problems

identified. Requirements imposed under this section may include, for example, restricting the licensee from expanding its business, entering into new financial commitments or disposing of the licensee's reserve assets, or taking any further actions relating to the issuance or redemption of specified stablecoins.

- 6.2.2. This power may be used to require a licensee to cease to carry on its normal business. As such, it is akin to the power of suspension under section 33 of the SO.

6.3. Appointment of an advisor under section 79

- 6.3.1. The MA may appoint a person to advise the licensee on the management of its affairs, business and property. This may be considered in cases where the MA considers that the management of the licensee can still function properly and is acting in good faith, but requires the additional knowledge, experience and support from the appointed advisor.

6.4. Appointment of a statutory manager under section 80

- 6.4.1. The MA may appoint a person to manage the licensee's affairs, business and property. This may be considered where the MA is of the view that the management of the licensee cannot be relied upon to take appropriate steps to rectify a problem. The main objectives of appointing a statutory manager to take control of a problematic licensee are:

- (i) To provide for the control of the affairs, business and property of a troubled licensee so that the problem can be resolved or in the alternative, the licensee can be wound down; and
- (ii) To safeguard the assets and maintain the major operations of the licensee until a liquidator can be appointed.

- 6.4.2. Ultimately, both objectives aim to protect the interests of the holders or potential holders of the specified stablecoins concerned, and to maintain the stability of the monetary and financial systems in Hong Kong.

7. Revocation and suspension of licence

7.1. Introduction

- 7.1.1. Under section 28 of the SO, the MA may revoke a licence on one or more of the grounds specified in Schedule 4 to the SO.
- 7.1.2. The MA must, under section 28(1) of the SO, give the licensee written notice of the MA's intention to revoke the licence, the grounds for the proposed revocation and a period within which the licensee may make written representations. The MA may decide whether or not to revoke the licence after taking into consideration any representation made.
- 7.1.3. A licensee that is aggrieved by a proposed revocation may refer the MA's decision to revoke to the Stablecoin Review Tribunal ("Tribunal") for review under section 140 of the SO. Only (i) after the review by the Tribunal is unsuccessful (i.e. the decision is confirmed by the Tribunal), the referral to the Tribunal is abandoned or withdrawn, (ii) the licensee has given a written notice to the MA stating that it does not intend to refer the decision to the Tribunal for review, or (iii) the period within which the licensee may refer the decision to the Tribunal for review has expired without such a referral having been made, will the MA specify by notice in writing under section 28(4) of the SO to the licensee the date on which the revocation shall take effect. From that date, the licensee must cease to carry on the business which was the subject of its licence. After the licence has been revoked, the MA will update the register of licensees maintained by the MA under section 21 of the SO.
- 7.1.4. The MA's power of revocation under section 28 of the SO is discretionary. In considering whether to exercise such power, the MA will have primary regard to the promotion of monetary and financial stability and protecting the interests of holders or potential holders of any specified stablecoins connected with the licence in question. It should however be noted that even if the power to revoke become exercisable, the MA may choose not to exercise it if the MA considers that timely remedial actions can be taken by the licensee concerned which may resolve the problem identified in a satisfactory manner.
- 7.1.5. A description of each of the grounds for revocation in Schedule 4 to the SO and the MA's interpretation of them is set out below.

7.2. Grounds for revocation (Schedule 4 to the SO)

Criteria for licensing no longer satisfied (section 1)

- 7.2.1. The minimum criteria set out in Schedule 2 to the SO are ongoing requirements which continue to apply after a licence has been granted. Under section 24 of the SO, a licensee must ensure that the minimum criteria applicable in relation to the licensee are fulfilled. Section 1 of Schedule 4 to the SO provides that it is a ground for revocation if the licensee does not fulfil one or more of the minimum criteria applicable in relation to the licensee.

Insolvency or winding up (sections 2 and 3), suspension of payment or business activities under the licence and inability to meet obligations (sections 3 and 4)

- 7.2.2. Under sections 25 and 27 of the SO, a licensee has a duty to report to the MA, amongst other things, that it is likely to become unable to meet its obligations, is insolvent, is about to suspend payment, or when there is or is likely to be a material change to its carrying on of any of its business activities under its licence. The winding-up of a licensee is dealt with in section 98 of the SO.
- 7.2.3. Even if the licensee concerned is in the process of being wound up or ceasing its business activities to which its licence relates, the MA may decide not to immediately revoke its licence. For example, the MA may direct that the licensee's affairs, business or property specified in the terms of the direction is to be managed by a statutory manager appointed by the MA (section 80).

Failure by the licensee to provide the MA with information of a material nature (section 5) and provision of information by the licensee to the MA which is false, misleading or inaccurate in a material particular (section 6)

- 7.2.4. Under section 5 of Schedule 4 to the SO, it is a ground for revocation of a licence if the licensee has not provided the MA with information required to be provided under the SO that is of a material nature relating to the licensee or any circumstances likely to affect its method of business. Section 6 of Schedule 4 to the SO refers to a situation where the licensee has provided the MA before, on or after the grant of a licence, with information which is false, misleading or inaccurate in a material particular. This applies whether or not the information was provided pursuant to a requirement under the SO.
- 7.2.5. Failure to provide the MA with material information or provision of information that is false, misleading or inaccurate in a material particular could indicate

weaknesses in the management and/or internal controls of the licensee. It may also cast doubt on the fitness and propriety of the management of the licensee, whether the licensee is being prudently managed and on the attitude of its management towards regulatory compliance. In determining whether or not to exercise the power of revocation on this ground, the MA will take into account factors such as the materiality of the information and the inaccuracy, the frequency with which such inaccuracies occurred, whether there was a deliberate intent to deceive the MA, whether effective measures had been implemented to rectify the situation, and whether there were other mitigating factors.

Contravention of any condition attached to a licence (section 7)

- 7.2.6. Under section 17 of the SO, the MA may attach conditions to a licence. Contravention of a condition is a ground for revocation under section 7 of Schedule 4 to the SO. In considering whether to revoke a licence on this ground, the MA will take into account the particular circumstances of the contravention (including the nature and purpose of the condition, seriousness and frequency of the contravention, and whether the contravention was deliberate) and any remedial action which had been taken to prevent a recurrence.

Cessation of business activity under a licence (section 8)

- 7.2.7. Under section 8 of Schedule 4 to the SO, the MA may revoke a licence if the licensee has ceased to carry on any of its business activities under its licence.
- 7.2.8. If a licensee has ceased to carry on any of its business activities under its licence, it is required under section 27 of the SO to notify the MA in writing of that fact. In considering whether to exercise the power of revocation under section 8 of Schedule 4 to the SO, the MA will take into account the particular circumstances of the cessation (including whether it was intended to be temporary or permanent) and whether there are any reasons why the licence should not be revoked.

Failure to pay licence fees (section 9)

- 7.2.9. Under section 22 of the SO, licensees are required to pay licence fees (the amount shall be specified in Schedule 3 to the SO). Under section 9 of Schedule 4 to the SO, the MA may revoke the licence if the licensee has failed to pay any such licence fee in compliance with section 22 of the SO. In considering whether to exercise his powers of revocation, the MA will take into account factors including the particular circumstances of the failure to pay the licence fees and any remedial action which had been taken to prevent a recurrence.

*A person has become a controller of a licensee despite the MA's objection (section 10) or a person continues to be a controller of a licensee despite the MA's objection (section 11)*¹⁰

7.2.10. Under section 38 of the SO, the MA may serve a notice of objection to a person who notifies the MA of the intention to become a controller of a licensee. The MA will generally do this if, for example, the MA is not satisfied that the person is fit and proper to be a controller of the licensee. Under sections 39 and 42 of the SO, the MA may also issue an objection notice in respect of an existing controller (for example, on the grounds that the MA considers that the controller is no longer fit and proper).

7.2.11. The MA may revoke a licence if a person becomes a controller of the licensee despite being served with an objection notice under section 38 of the SO or continues to be a controller despite being served with an objection notice under section 39 or 42 of the SO.

7.2.12. The MA is not likely to take such action against the licensee until the controller in respect of whom the objection notice had been issued had exhausted all the referral and review procedures available to the controller. The MA will also, where applicable, consider whether the measures available to the MA under Subdivision 3 of Division 3 of Part 2 of the SO would be sufficient to deal with any threat to holders or potential holders of any specified stablecoins connected with the licence arising from the association of the controller with the licensee. The closeness of the links between the licensee and the controller (including the size of the latter's shareholding) is also a relevant factor.

*Licensee fails to appoint a chief executive or a stablecoin manager, or a person has become or continues to be a chief executive, director or stablecoin manager without the MA's consent (section 12)*¹¹

7.2.13. Section 53 of the SO requires a licensee to appoint a chief executive and at least one alternate chief executive. Under sections 53, 58 and 66 of the SO, a director, a chief executive (including an alternate chief executive) and a stablecoin manager of a licensee require the MA's consent prior to taking up their respective appointment. The MA may withdraw his consent if, for example, the MA is no longer satisfied that the person is fit and proper for the position that he/she holds or that the person is not ordinarily resident in Hong Kong (in the case of a chief executive or a stablecoin manager).

¹⁰ Please refer to Footnote 6.

¹¹ Please refer to Footnote 6.

7.2.14. Under section 12 of Schedule 4 to the SO, the MA may revoke a licence where a person has become a chief executive, director or stablecoin manager of the licensee in contravention of section 53, 58 or 66 of the SO (as applicable), i.e. without the consent of the MA or that consent having been withdrawn. The MA is not likely to take such action until the person concerned had exhausted all the referral and review procedures available to him regarding the MA's refusal to grant consent or withdrawal of consent. The MA is not likely to exercise the power to revoke simply in respect of an unintentional and brief contravention of section 53, 58 or 66 of the SO.

Any threat to the interests of the holders or potential holders (section 13)

7.2.15. Section 13 of Schedule 4 to the SO provides that the MA may exercise the power to revoke a licence where the interests of the holders or potential holders of any specified stablecoins connected with the licence are threatened in any manner by the licensee continuing to be licensed.

Effect on the interests of Hong Kong as an international financial centre (section 14)

7.2.16. Under section 14 of Schedule 4 to the SO, the MA may revoke the licence of a licensee if it is engaging in a business practice that would be likely to affect the interests of Hong Kong as an international financial centre. This would apply to situations such as involvement in ML/TF. The power would be exercisable even when the conduct in question does not pose any immediate threat to the interests of the holders or potential holders of specified stablecoins connected with the licence.

Failure by the licensee to pay a pecuniary penalty (section 15)

7.2.17. Under section 15 of Schedule 4 to the SO, the MA may revoke a licence of a licensee, if the licensee has failed to pay a pecuniary penalty required to be paid by it under section 131 of the SO.

Voluntary revocation by the licensee (section 16)

7.2.18. Under section 16 of Schedule 4 to the SO, the MA may revoke a licence if the licensee makes such a request in writing and the MA is satisfied that the interests of the holders of any specified stablecoins issued by the licensee, or in respect of which a regulated stablecoin activity carried on by the licensee relates, will be adequately safeguarded if the licence is revoked. The MA will generally seek to ensure that the interests of the holders are safeguarded by requiring the licensee to notify holders to redeem all outstanding specified stablecoins

connected with its licence prior to the MA agreeing to the request for voluntary revocation. An auditor's certificate confirming that there are no outstanding specified stablecoins connected with its licence will normally be required. The MA may use the power under section 28(3) of the SO to direct a licensee to handle the reserve assets in respect of the outstanding specified stablecoins connected with its licence after revocation, for example where the relevant holders cannot be notified. Such direction may be subject to conditions relating to matters such as the period for which, and the manner in which, the reserve assets may be held.

7.3. Suspension

- 7.3.1. Under section 33 of the SO, where the MA's power to revoke a licence becomes exercisable, the MA may by notice in writing suspend the licence for a period not exceeding 6 months (which may be extended upon expiration for a period not exceeding 6 months). The effect of suspension is that the licensee concerned must, from the date specified by the MA, cease to carry on its business activities under its licence, and comply with the MA's direction on the handling of the reserve assets in respect of a specified stablecoin issued under its licence before the suspension, which may be subject to any condition attached thereto by the MA. Before exercising the powers under section 33 of the SO, the MA will give the licensee a written notice of the intention to suspend, setting out the grounds for the proposed suspension and a period of not less than 14 days within which the licensee may make written representations. If the MA decides to proceed with the suspension, the licensee has the right to refer the decision to the Tribunal for review under section 140 of the SO, however, such referral does not by itself operate as a stay of execution of the decision (see section 141(1) of the SO). The licensee may consider making an application for a stay of execution of the decision pursuant to section 141(2) of the SO.
- 7.3.2. Suspension may be a step before revocation or an alternative to revocation. While preventing a licensee from carrying on its business activities under its licence, suspension allows the licensee to retain its licensing status, which may help in a restructuring or rescue operation.
- 7.3.3. Under section 32 of the SO, the MA also has a power of temporary suspension whereby the MA may suspend a licence for a period of not more than 14 days. This power is most likely to be used in urgent cases, where the MA considers that it is necessary to protect the interests of the holders or potential holders of any specified stablecoins connected with the licence.

Annex A: Assessment of minimum criteria – fit and proper person and knowledge and experience (Sections 7 and 8 of Schedule 2 to the SO)

Part One

1. Sections 7 and 8 of Schedule 2 to the SO provide that each person who is, or is to be, a chief executive, director, stablecoin manager (applicable to an authorized institution) or controller of the applicant must be a fit and proper person to hold the particular position, and should have relevant knowledge and experience.
2. When considering whether a person is fit and proper to hold the relevant position and whether a person possesses the relevant knowledge and experience, the standards may vary depending on the exact position held, as well as responsibilities of, the person concerned. Thus, a person could be fit and proper for one position, but not for another position involving different responsibilities and duties.
3. For an applicant which is an authorized institution, the MA's consent is not required under the SO for a person to become a controller, chief executive or director of the applicant.

Chief executive, stablecoin manager and directors

4. The MA must be satisfied that the chief executive (including his/her alternate(s)), stablecoin manager and directors of the applicant are fit and proper persons to hold their positions. Such persons must have the MA's consent to hold such positions under section 54, 59 or 67 of the SO.
5. The MA considers that the board of directors plays an important role in the corporate governance of an applicant. In general, the MA expects at least one-third of the Board members should be independent non-executive directors.
6. When considering whether a person is fit and proper to hold such positions, factors including but not limited to the following should be taken into account:
 - (i) The person's reputation and character: Whether the person has a relevant criminal record (e.g. convictions for fraud or other dishonesty, contraventions of any legislative provision designed to protect members of the public against financial losses due to dishonesty, incompetence or malpractice); whether the person has been involved in any business practices that appear to be deceitful, oppressive, or otherwise improper,

or which otherwise reflect discredit on the person's method of conducting business;

- (ii) The person's knowledge and experience, competence, soundness of judgment and diligence: Whether the person has had experience of similar responsibilities and the person's record in fulfilling such responsibilities; where appropriate, whether the person has had appropriate qualifications and training; whether the person has a sound degree of balance, rationality and maturity as demonstrated in the person's conduct and decision-making;
- (iii) The person's records of non-compliance: Whether the person has any record of non-compliance and has been reprimanded, disciplined or disqualified by regulators or professional bodies in Hong Kong or elsewhere;
- (iv) The person's record as a controller, director, chief executive and stablecoin manager: Whether the person has been a controller, director, chief executive, stablecoin manager, or is otherwise concerned in the management, of any body corporate, partnership, unincorporated institution that has been censured, disciplined, publicly criticised, investigated or whose licence, registration or authorisation has been revoked by any regulator in Hong Kong or elsewhere, or has been wound up or adjudicated insolvent by a court in Hong Kong or elsewhere; whether the person has been disqualified by a court in Hong Kong or elsewhere from being a director of a company. In these cases, factors such as seriousness of the circumstances leading to the winding up or investigation, the extent of the person's involvement, the lapse of time and the person's conduct since should be taken into account;
- (v) The person's business record and other business interests, and the person's financial soundness and strength: Whether the person has any business record, interest and/or financial position that would undermine the prudence and soundness of the issue of specified stablecoins by the applicant, and/or the confidence of holder and potential holders of specified stablecoins;
- (vi) The person's interests in the company: Whether the person, in the case of an independent non-executive director, has direct or indirect financial or other interests in the business of the applicant as well as the person's relationship, if any, with significant shareholders of the applicant; and
- (vii) The person's time and commitment to the company: Whether the person is able to devote sufficient time and attention to perform the person's role, having regard to the person's outside mandates (if any); whether

there are any potential conflicts of interest arising from such outside work.

7. Many of the above criteria can be similarly applied to the assessment of the eligibility of a corporate entity to become a director of an applicant by looking into the quality of management, financial strength and reputation of such corporate entity.
8. The applicant must, on a continuing basis, comply with the legal requirements applicable to it after it is licensed. Imprudence in the conduct of a licensee's business, or actions which have threatened (without necessarily having damaged) the interests of the holders or potential holders of the specified stablecoins concerned will reflect adversely on the competence and soundness of judgment of those responsible. Similarly, failure by a licensee to conduct its business with integrity, prudence and professional competence will reflect adversely on the probity, competence and soundness of judgment of those responsible.

Controllers

9. Section 7(2) of Schedule 2 to the SO stipulates that each person who holds the position of, among others, controller of a licensee must be a fit and proper person to hold the position. When considering whether a person is fit and proper to hold such position, in addition to those set out in paragraph 6, factors including whether there could be conflicts of interest arising from the influence of a person holding the position of controller on the licensee, as well as the willingness and ability of the person to work collaboratively with other controllers and the senior management should also be considered. These factors for consideration should be taken into account in a manner proportionate to (i) the influence the person has, or is likely to have, on the conduct of the affairs of the licensee, and (ii) the potential impact of a person holding the position as controller on the interests of specified stablecoin holders and potential specified stablecoin holders.
10. In addition, a person must not become a controller of a licensee unless the person becomes such a controller in the circumstances set out in section 37(1) of the SO. Section 7(1) of Schedule 2 to the SO also stipulates that the licensee must have in place and implement adequate and appropriate systems of control to ensure that the MA is kept informed of the identity of each controller of a licensee. To this end, the licensee should put in place measures for keeping track of the identity of its controllers, as well as for seeking consent from the MA in accordance with section 38 of the SO.
11. In the case of a merger and acquisition, the prospective majority (and, if appropriate, minority) shareholder controllers will be required to submit clear

and detailed indications of their intentions or plans for the applicant concerned, so that the suitability of those plans and the capacity of the applicant to fulfil them can be considered, having regard to the prospective controller's track record in holding similar or other relevant positions and the applicant's financial capacity to undertake such plans. This may involve an evaluation of the proposed future plans for the applicant and a detailed analysis of the business concerned. A prospective controller whose plans are not conducive to the long term stability and healthy development of the applicant cannot be regarded as fit and proper.

12. The MA will consider whether the financial position, reputation or conduct of the controller could damage the company through "contagion" which subsequently undermines confidence in the applicant. For example, if the holding company, or a majority shareholder controller, or a company connected to that controller were to suffer financial problems, it could lead to difficulties in raising new equity from other shareholders or potential shareholders of the applicant. Generally, if the controller encounters financial difficulties, the larger the shareholding, the greater the risk of contagion. The risk of contagion is not confined to financial weakness, but also the publicity about possible illegal or unethical conduct by the holding company, or another member of the group, or a company connected to that controller in some other way, could also damage the public's confidence in the applicant.

Part Two

13. In addition to the chief executive, stablecoin manager (where applicable), directors and controllers of an applicant, senior executives also have a key role to play in the applicant. Therefore, there is a need to ensure fitness and properness of the senior executives of the applicant, who are referred to as "managers" in the SO.
14. Section 7(3) of Schedule 2 to the SO provides that an applicant must have in place and implement adequate and appropriate systems of control to ensure that each person who holds the position of manager of the applicant is a fit and proper person.

Adequate system of control for appointment of managers

15. Under section 2(1) of the SO, a "manager" means any individual (other than a chief executive, director or stablecoin manager) appointed by a licensee, by a person acting for or on behalf of the licensee, or by a person under an arrangement with the licensee, to be principally responsible, either alone or jointly with others, for the conduct of one or more of the specified affairs in

relation to the licensee's licensed stablecoin activities as stated in Schedule 1 to the SO.

16. In determining whether an applicant satisfies the requirement, generally speaking, the applicant should:
- (i) Clearly define the responsibilities of, and the skills, knowledge and experience required for, individual managerial positions are clearly defined and supported by up-to-date job descriptions, organisation charts and levels of authority;
 - (ii) Have in place a set of proper procedures for selecting and appointing managers and for satisfying itself regarding the fitness and properness of candidates for managerial positions at the time of appointment and recruitment. In assessing the fitness and properness of a manager or a prospective manager, the applicant should take into consideration the factors set out in paragraph 6 of **Annex A**, with due regard to the precise position that the person holds or is to hold;
 - (iii) Have in place effective and clearly defined systems for appraising the performance of managers. Such systems should not give undue weight to financial performance (e.g. achievement of profitability or market share) but should also have regard to other factors such as compliance with policies and procedures and regulatory requirements;
 - (iv) Have in place clearly defined policies and procedures for investigating apparent breaches of policies and procedures or regulatory requirements by managers, or complaints about the conduct of managers, and for taking disciplinary action where appropriate;
 - (v) Have in place clearly defined systems for taking action in respect of, and if necessary replacing, managers whose performance is assessed as unsatisfactory;
 - (vi) Ensure managerial vacancies are filled promptly and there are clearly defined arrangements to provide cover in the case of temporary vacancies;
 - (vii) Provide adequate training is provided to managers; and
 - (viii) Ensure that the systems of control in relation to the appointment of managers are subject to periodic review by the internal audit function.

17. In relation to the appointment of managers, licensees are required under section 63 of the SO to notify the MA and the appointees, among other things, of:
 - (i) The date of appointment;
 - (ii) Particulars of the specified affairs of the licensee in relation to which the person has been appointed as a manager; and
 - (iii) Any subsequent changes.
18. Such notification must be made within 14 days after the date on which a person became or ceased to be a manager of the licensee, or any changes to the specified affairs of the licensee in relation to which the person was appointed as a manager occurred.

Annex B: List of documents required

1. Completed application form for licence
2. Business plan that covers a three-year time horizon and beyond
3. Business and financial projections for the upcoming three years of operations
4. A copy of each of the following (certified as true copy by the chief executive)¹²:
 - (i) Certificate of incorporation and Certificate of change of name (if any);
 - (ii) Return of allotment (Form NSC1 – Companies Registry specified form);
 - (iii) Incorporation form (Company Limited by Shares) (Form NC1 or NNC1 – Companies Registry specified form);
 - (iv) Latest business registration certificate;
 - (v) Register of members;
 - (vi) Register of directors;
 - (vii) Register of charges; and
 - (viii) Register of debenture holders
5. A copy of board resolution in support of the licence application (certified as true copy by the chief executive)
6. Two copies of the articles of association (or equivalent) of the applicant company in English and/or Chinese (certified as true copies by the chief executive)
7. A copy of ownership and shareholding structure (disclosing each majority and minority shareholder controller)
8. Completed application form for each controller¹³
9. A copy of the latest audited financial statements for each institutional controller (if applicable)
10. Intended trust arrangement on protection of reserve assets

¹² Not applicable to an applicant that is an authorized institution incorporated outside Hong Kong.

¹³ Not applicable to an applicant that is an authorized institution.

11. Two copies of applicant's audited annual reports and/or audited financial statements (or of its parent company if the applicant is a newly formed subsidiary) for the past three financial years immediately prior to application (certified as true copies by the chief executive)
12. Outline of the structure of the management committees, senior management and their relevant responsibilities and authorities, as well as a company organisation chart and a proposed staffing plan in respect of the licensed stablecoin activity
13. Completed application forms for each chief executive, stablecoin manager (if applicable) and director¹⁴
14. Information on the systems of control for the appointment of managers
15. A copy of the applicant's reserve assets management policies and procedures that are in line with the explanations in the Supervisory Guideline
16. A copy of the applicant's issuance, redemption and distribution policies and procedures that are in line with the explanations in the Supervisory Guideline
17. A copy of the applicant's risk management policies and procedures that are in line with the explanations in the Supervisory Guideline and AML/CFT Guideline, covering:
 - (i) Credit, market and liquidity risks;
 - (ii) Technology risks;
 - (iii) Operational risks (including third party risks);
 - (iv) Reputation risks;
 - (v) ML/TF risks; and
 - (vi) Incident management, business continuity and exit
18. A copy of the applicant's corporate governance policies and procedures that are in line with the explanations in the Supervisory Guideline
19. A copy of the applicant's business practices and conduct policies and procedures that are in line with the explanations in the Supervisory Guideline, covering:

¹⁴ Application forms for chief executives and directors are not applicable to an applicant that is an authorized institution.

- (i) Information and accounting systems;
 - (ii) Disclosure and reporting;
 - (iii) Personal data protection; and
 - (iv) Complaints handling
20. A copy of terms and conditions in the draft contract to be entered into between the applicant and a holder of specified stablecoin
 21. Intended custodial arrangement for reserve assets
 22. White paper that is in line with the explanations in the Supervisory Guideline
 23. Institutional risk assessment (for assessing ML/TF risks of the proposed business)

The following documents may be provided upon request by the Licensing Team

24. Independent assessment reports regarding the overall compliance with applicable regulatory requirements
25. A report on paid-up share capital certified by external auditors
26. A copy of trust documents on the protection of reserve assets, supported by certified documentations, and an independent legal opinion demonstrating the effectiveness of the trust arrangement
27. Independent legal opinion demonstrating that the applicant has provided or will provide specified stablecoin holders with the rights set out in paragraph 3.3.1 of the Supervisory Guideline
28. A copy of contractual agreements with custodians of reserve assets and other entities involved in material third party arrangements under the proposed business plan (certified as true copy by the chief executive)
29. Smart contract audit report