

# Hong Kong's Stablecoin Ordinance: Licensing, Reserves, and Market Effects

## Overview

Hong Kong's **Stablecoins Ordinance** establishes a rigorous licensing framework for fiat-referenced stablecoins (FRS), defined as blockchain-based payment tokens pegged to official currencies or HKMA-approved assets. The regulation creates a two-tier system where only licensed issuers can offer stablecoins to retail investors, while restricting unlicensed offerings to professional traders. This represents one of the world's most comprehensive attempts to bring stability and consumer protection to the volatile crypto sector.

## Key Regulatory Requirements

**The Ordinance requires any entity issuing FRS in Hong Kong, or offering HKD-pegged stablecoins globally, to obtain authorization from the HKMA.** This includes both domestic firms and foreign issuers targeting Hong Kong markets.

Beyond this foundational requirement, the regulation imposes strict operational controls. **Issuers must maintain reserves equal to at least 100% of outstanding tokens**, held in high-quality liquid assets like cash deposits and short-term government securities. For example, if a stablecoin issuer has \$100 million worth of tokens held by users in circulation, they must maintain at least \$100 million in high-quality reserves (cash, government bonds, etc.) as backing. These reserves must be held in segregated trust accounts, providing bankruptcy protection for holders.

The rules explicitly prohibit algorithmic stablecoins that lack proper collateralization, learning from incidents like Terra USD's collapse. **Licensed issuers cannot pay interest on stablecoin holdings**, preventing yield-bearing products that could encourage excessive risk-taking. Monthly reserve attestations by independent auditors and public disclosures create transparency, while robust AML/CFT measures including customer due diligence and transaction monitoring align stablecoins with traditional financial regulations.

In effect, Hong Kong's framework treats licensed stablecoins almost like digital money: fully collateralized, redeemable on demand, and covered by trust-like asset segregation.

## Impact on Crypto exchanges and Investors

Crypto Exchanges must now carefully vet listed stablecoins, potentially delisting popular but unregulated options like Tether (USDT) for retail traders. Payment processors integrating stablecoins face compliance burdens but gain legal certainty - a Hong Kong e-commerce platform using stablecoins for settlements must now ensure its payment partners work exclusively with licensed issuers.

Retail investors gain stronger protections but face reduced choice. Consumers can now

redeem licensed stablecoins at face value with clear legal recourse but lose access to many global stablecoin options unless they qualify as professional investors. This trade-off reflects Hong Kong's priority of stability over innovation in the retail crypto space. Additionally, strict and compulsory KYC requirements for investors could further dampen the popularity and short-term demand for Hong Kong-issued stablecoins.

## **Transform Cross-Border Commerce**

Hong Kong's regulatory framework creates a unique opportunity for its licensed stablecoin issuers to revolutionize international trade flows. By combining blockchain's efficiency with robust financial safeguards, these regulated digital assets - including but not limited to RMB-backed variants - offer compelling solutions for cross-border transactions across Asia and emerging markets.

For China-ASEAN trade, a Thai electronics importer could settle payments with Chinese suppliers instantly using an HKMA-approved stablecoin (whether HKD, RMB or other currency-pegged), eliminating traditional banking delays while maintaining full value stability through 1:1 reserve backing. Similarly, an African minerals exporter could receive payments in Hong Kong-issued USD-pegged stablecoins from global buyers, leveraging the territory's regulatory credibility while bypassing costly correspondent banking networks. In volatile markets, traders could price contracts in stablecoins pegged to various reserve currencies, protecting against local currency risks while benefiting from blockchain's 24/7 settlement.

Hong Kong's framework ensures all such transactions occur within a secure environment, regardless of the reference currency. Issuers must maintain 100% reserves in high-quality liquid assets matching the peg, with monthly audits providing transparency. The standardized compliance requirements - from AML/KYC to redemption guarantees - create uniform trust across different stablecoin types while permitting efficient legitimate commerce.

This approach positions Hong Kong as a multilateral hub for digital trade finance, where:

- RMB-backed stablecoins can facilitate China-centric trade
- HKD-pegged versions serve local commerce needs
- USD and other currency-linked stablecoins meet global trade demands

By maintaining strict oversight while enabling currency diversity, Hong Kong's framework allows market participants to choose the optimal stablecoin for each transaction while enjoying consistent regulatory protections. This versatility could significantly enhance cross-border trade efficiency while reinforcing Hong Kong's role as Asia's premier financial innovation center, with its regulatory standards providing stability as these new payment channels develop globally.

### Comparative Analysis with U.S. Proposals

The U.S. legislative approach, as seen in the *GENIUS Act*, shares Hong Kong's emphasis on full reserve backing and issuer licensing, but differs in implementation.

**Table 1: Stablecoin Regulatory Frameworks: Hong Kong vs. United States (2025)**

Region	Hong Kong	United States
<b>Regulatory Dimension</b>	Stablecoin Ordinance	GENIUS Act
<b>Licensing &amp; Supervision</b>	HKMA license required for issuers; "offerors" (exchanges, dealers) must also be licensed. Requirements: HK-incorporation, HKD25M+ capital, AML/CFT compliance. Ongoing HKMA supervision.	Only bank subsidiaries or OCC-approved entities may issue. Nonbanks need OCC charter ("Federal qualified issuer"). Federal/state licensing; capital/liquidity standards set by regulators.
<b>Reserve Backing (Fiat Only)</b>	100% backing in high-quality liquid assets (cash, ≤1yr govt bonds, etc.). Over-collateralization required. Monthly audit/attestation. Includes HKD/other official-currency pegs.	100% backing in USD/short Treasuries/repo collateral only. No rehypothecation. Monthly disclosure + auditor review. (Tokenized bank deposits excluded.)
<b>Algorithmic Stablecoins</b>	Prohibited (must be fully backed by specified assets). Only fiat-backed qualify.	Effectively disallowed: only fully backed "payment stablecoins" are licensed.
<b>Consumer Protection</b>	Holder priority in insolvency; no interest paid; AML/KYC, disclosures, par-value redemption rights. Strong penalties for fraud.	Holder bankruptcy priority (per proposals); no yield; issuers subject to Bank Secrecy Act (AML). Extensive reporting/audits.
<b>Cross-Border Use / Trade</b>	Regulates foreign-currency stablecoins (e.g., USD-pegged) offered in HK. Retail trading of unlicensed coins restricted to professionals. Facilitates digital trade under HK oversight.	Focuses on USD stablecoins to enhance global trust. Non-U.S. issuers must comply to target Americans. Relies on FATF/BSA enforcement tools.

## Conclusion

Hong Kong's stablecoin regime, in force since August 2025, represents a pioneering effort in establishing a clear and secure legal framework for digital assets. By emphasizing strict licensing, full reserve backing, and robust consumer protections, the Ordinance provides much-needed stability and legitimacy to the stablecoin market—a crucial step forward in the maturation of crypto assets.

While the current framework prioritizes safety and regulatory compliance, it also lays a strong foundation for future refinements. As the market evolves and stakeholders gain experience under the new rules, there may be opportunities to fine-tune the regulatory approach—potentially allowing for greater flexibility in issuance and cross-border usage while maintaining core safeguards. This measured approach ensures that Hong Kong's stablecoin ecosystem develops sustainably, balancing innovation with financial integrity.

Comparatively, the U.S. GENIUS Act adopts a structured yet more permissive model for USD-pegged stablecoins, reinforcing the global role of the U.S. dollar in digital finance. Hong Kong's framework, while more cautious, aligns with its broader strategy of integrating digital assets within a well-regulated financial system. Moving forward, collaboration between regulators, industry players, and international partners could further enhance the framework's adaptability, ensuring that Hong Kong remains a competitive hub for both stability and innovation in the crypto space.

Graph 6: JPY:USD Exchange Rate since 2020

Overall, the Stablecoin Ordinance marks a significant milestone in formalizing crypto regulation. Its prudent approach reflects Hong Kong's commitment to responsible financial innovation, setting the stage for future developments that could further strengthen its position in the global digital economy.

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Author: David Zhu

Contact: Phone: +44 7907497633; Email: [finance@f2f2advisory.com](mailto:finance@f2f2advisory.com)