

Hong Kong’s Regulators Refresh Guidance on Virtual Assets and Propose Legal Framework for Stablecoin Issuers

This briefing examines in depth the circulars and consultation paper issued by the SFC and HKMA in December 2023.

Throughout the course of 2023, the Hong Kong Securities and Futures Commission (“**SFC**”) and the Hong Kong Monetary Authority (“**HKMA**”) showed clear indications of their increased openness to virtual assets (“**VA**”), including through the implementation of the SFC’s Hong Kong virtual asset trading platform (“**VATP**”) regime,^[1] and the release of multiple circulars liberalising the regulatory approach to this area.^[2] This trend continued through until the very end of 2023, with the SFC and HKMA being very active in this space in late December. In particular, the SFC on December 22, 2023 issued a circular significantly relaxing the approach to virtual asset exchange traded funds (“**VA ETFs**”) and other funds with exposure to VA, followed by a joint SFC-HKMA circular in relation to intermediaries’ virtual asset-related activities and an HKMA consultation paper setting out a proposed legislative regime for the issuance of stablecoins. This client briefing examines the two circulars and consultation paper in further depth.

I. SFC Circular on SFC-Authorised Funds With Exposure to Virtual Assets

On December 22, 2023, the SFC published a circular on SFC-authorized funds with exposure to virtual assets (“**SFC Circular**”), and sets out the requirements under which the SFC will consider authorising funds with exposure to VA of more than 10% of their net asset value (“**NAV**”) (“**SFC-authorized VA Funds**”).^[3] The SFC Circular supersedes an earlier circular on VA futures ETFs issued on October 31, 2022 (“**October 2022 Circular**”).^[4] The key practical effect of the replacement of the October 2022 Circular is to expand the scope of VA ETFs that may be authorised by the SFC, as the October 2022 Circular only provided for the authorisation of VA ETFs with Bitcoin futures and Ether futures traded on the Chicago Mercantile Exchange (“**CME**”) as the underlying assets. The SFC Circular removes this requirement.

However, all funds with either direct (i.e. as a result of purchasing of tokens directly by the fund) or indirect investment exposure to VA seeking SFC authorisation must comply with a range of requirements, as summarised in the table below.^[5] Further, (i) funds having or intending to have VA exposure of more than 10% of NAV that wish to seek the SFC’s authorisation or (ii) existing SFC-authorized funds that plan to obtain VA exposure of more than 10% of their NAV should consult and seek prior approval from the SFC by contacting the relevant case officer of the Investment Products Division.

Area	Key changes from the October 2022 Circular and/or key requirements
Eligible underlying VA	<ul style="list-style-type: none"> SFC-authorized VA Funds should only invest (indirectly or directly) in VA tokens that are accessible to Hong Kong public for trading on SFC-licensed VATPs.
Investment strategy	<ul style="list-style-type: none"> As noted above, the SFC Circular has removed the requirement under the October 2022 Circular that VA ETFs must only have as their underlying Bitcoin futures and Ether futures traded on Chicago Mercantile Exchange. However, the SFC Circular does allow SFC-authorized VA Funds to only have exposure to VA futures traded on conventional regulated futures exchanges. Further, the management company of such funds must be able to demonstrate that: (i) the relevant VA futures have adequate liquidity and (ii) the roll costs of the relevant VA futures are manageable and how such roll costs will be managed. Indirect exposures to eligible VA via other exchange-traded products are subject to applicable requirements in the UT Code and other requirements which may be imposed by the SFC. SFC-authorized VA Funds must not have leveraged exposure to VA at the fund level. SFC-authorized VA Funds that primarily adopt a futures-based investment strategy are expected to adopt an active investment strategy to allow flexibility in portfolio composition, rolling strategy and handling of any market disruption events.
Transactions and direct acquisitions of spot VA	<ul style="list-style-type: none"> Transactions and acquisitions of spot VA by SFC-authorized VA Funds should be conducted through SFC-licensed VATPs or authorized institutions (“AIs”) or their subsidiaries in accordance with any applicable HKMA requirements. For in-cash subscriptions and redemptions, SFC-authorized spot VA ETFs should acquire and dispose of spot VA through SFC-licensed VATPs, either on or off platform.

	<ul style="list-style-type: none"> • For in-kind subscriptions, participating dealers (“PDs”) should transfer spot VA to SFC-authorized spot VA ETFs’ custody accounts with SFC-licensed VATPs or AIs (and vice versa where in-kind redemptions are concerned). • Both in-cash and in-kind subscription and redemption are permitted for SFC-authorized spot VA ETFs. • For ETFs that invest in spot VA, PDs should be SFC-licensed corporations or registered institutions.
<p>Custody</p>	<ul style="list-style-type: none"> • The trustee/custodian of an SFC-authorized VA Fund should only delegate its VA custody function to an SFC-licensed VATP or an AI (or a subsidiary of a locally incorporated AI) which meets the expected standards for VA custody issued by the HKMA from time to time. • The trustee/custodian and any delegate responsible for taking custody of VA holdings of an SFC-authorized VA Fund should comply with additional requirements: (i) it should ensure segregation between the VA holdings and its own assets as well as the assets it holds for other clients; (ii) it should store most of the VA holdings in a cold wallet, and minimise the amount and duration of VA held in a hot wallet; (iii) it should ensure the seeds and private keys are securely stored in Hong Kong, tightly restricted to authorized personnel, and sufficiently resistant to speculation or collusion, and properly backed up to mitigate any single point of failure.
<p>Management companies</p>	<ul style="list-style-type: none"> • Management companies of SFC-authorized VA Funds should have a good track record of regulatory compliance, and at least one competent staff member with relevant experience in the management of VA or related products. • The SFC’s Licensing Department may also impose additional terms and conditions on such management companies.
<p>Valuation</p>	<ul style="list-style-type: none"> • When valuing spot VA, the management companies of SFC-authorized VA Funds should adopt an indexing approach based on VA trade volume across major VA trading platforms (i.e. a benchmark index published by a

	reputable provider that reflects a significant share of trading activities in the underlying spot VA).
Service providers	<ul style="list-style-type: none"> • Management companies should confirm that all necessary service providers (such as fund administrators, participating dealers, market makers and index providers) are competent, available and ready to support the SFC-authorized VA Funds.
Disclosure and investor education	<ul style="list-style-type: none"> • The offering documents (including the product key facts statements (“KFS”)) of SFC-authorized VA Funds should disclose the investment limits and key risks related to the funds’ VA exposures. • Product KFSs for SFC-authorized VA Funds should contain upfront disclosure of the investment objectives and the key risks associated with the underlying VA exposures, such as: (i) price risk, custody risk, cybersecurity risk and fork risk for investments in spot VA; and (ii) potentially large roll costs and operational risks for investments in VA futures.
Distribution	<ul style="list-style-type: none"> • <ul style="list-style-type: none"> ○ Please refer to Section II below.

II. SFC and HKMA Joint Circular on Intermediaries’ Virtual Asset-Related Activities

On December 22, 2023, the SFC and HKMA issued a joint circular on intermediaries’ virtual asset-related activities (“**Joint Circular**”) which provides updated guidance to intermediaries carrying on VA-related activities, in respect of (i) the distribution of investment products with exposure to VAs; (ii) the provision of VA dealing services; (iii) the provision of VA advisory services; and (iv) the management of portfolios investing into VAs.^[6] The Joint Circular supersedes an earlier joint circular published on October 20, 2023.^[7]

The Joint Circular emphasises that VA-related products^[8] will very likely be considered complex products and that intermediaries distributing VA-related products considered to be complex products will generally be required to comply with the SFC’s requirements on the sale of complex products (including most notably ensuring suitability of VA-related products, regardless of whether the intermediary has solicited or recommended that its clients invest in the product in question).

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However, the SFC and HKMA have also imposed two additional investor protection measures on the distribution of VA-related products to address specific risks related to these products:

1. **Restrictions on sale:** Subject to certain exceptions (as discussed further below), the SFC and HKMA have indicated that VA-related complex products should only be offered to professional investors (“**PIs**”); and
2. **VA knowledge test:** Intermediaries must assess whether clients (other than institutional PIs and qualified corporate PIs) have knowledge of investing in virtual assets or VA-related products prior to effecting a transaction in VA-related products on their behalf. Where a client does not have the requisite knowledge, the intermediary may only proceed if it has provided sufficient training to the client on the nature and risks of VAs and the clients have sufficient net worth to bear potential losses from trading VA-related products.^[9]

However, while the above investor protection measures appeared in the earlier joint circular dated October 20, 2023, the SFC and HKMA have in the Joint Circular stated that the selling restrictions above will not apply to SFC-authorized VA Funds (i.e. funds approved for public offering), subject to intermediaries complying with the following additional safeguards:

- For SFC-authorized VA Funds listed and traded on the Hong Kong Stock Exchange (“**SEHK**”), client orders can be executed on exchange without the need to comply with the suitability requirement or minimum information and warning statements requirements,^[10] providing there has been no solicitation or recommendation by the intermediary.
- For SFC-authorized VA Funds that are not listed, or for listed funds where trading occurs off exchange, intermediaries will still have to comply with the abovementioned requirements, as well as undertaking the VA knowledge test set out above on the clients concerned.

Further, the SFC and HKMA have also reminded intermediaries that where these SFC-authorized VA funds are also VA derivative funds, intermediaries also need to comply with the requirements for derivative products set out in the Joint Circular.

To assist intermediaries in determining whether an investment product with exposure to VA is complex and the corresponding selling requirements that may apply to the product, the Joint Circular also includes a flowchart which sets out the relevant factors and the corresponding selling requirements.^[11]

III. Legislative Proposal on Issuance of Stablecoins

On December 27, 2023, the Financial Services and the Treasury Bureau (“**FSTB**”) and the HKMA jointly issued a public consultation paper regarding their proposed legislative regime for the regulation of stablecoins (“**Legislative Proposal**”).^[12] This followed the HKMA’s January 2022 discussion paper inviting feedback on its proposed regulatory approach towards crypto-assets and stablecoins (“**Discussion Paper**”) (as covered in our previous client alert)^[13] and its

January 2023 consultation conclusions (“**Consultation Conclusions**”)^[14] (as covered in a subsequent client alert).

The introduction of the Legislative Proposal is driven by the potential interconnectedness between the virtual assets (“**VA**”) market and the traditional financial system. Specifically, the FSTB and HKMA view stablecoins, especially fiat-referenced stablecoin (“**FRS**”) as a key monetary and financial stability risk area which could lead to a spill-over from the VA sector to the traditional financial system, and vice versa.

A. Legislative Scope and Approach

The FSTB and HKMA have proposed that, rather than amending existing legislation (including the Payment Systems and Stored Value Facilities Ordinance (“**PSSVFO**”)), their intention is to introduce a new piece of legislation which will address specific features of stablecoins and could more readily serve as the foundation for the extension of the regulatory regime to other forms of VAs down the track. The FSTB and HKMA have also proposed that the issuance of an FRS by an FRS licensee would be excluded from the scope of existing regulatory regimes, including those applicable to securities (e.g. collective investment schemes) and SVFs.

The FSTB and HKMA have proposed that initially, the licensing regime will apply only to issuers of fiat-referenced stablecoins (“**FRS**”) – that is, stablecoins which have as their specified asset one or more fiat currencies.^[15] The FSTB and HKMA have noted that while a FRS which derives value from arbitrage or algorithm will be caught by the regulatory regime, it is highly unlikely (as explained further below) that such FRS will be able to meet the HKMA’s licensing requirements.

That said, the FSTB and HKMA have left the door open to extend the regulatory regime to other forms of VAs (presumably including other types of stablecoins) by describing the proposed FRS issuance regime as a “first step” in the regulation of virtual assets. Notably, the FSTB and HKMA have proposed that the legislative regime should empower the “authorities” to modify the parameters of in-scope stablecoins and activities, but have not specified if this power would be reserved to the HKMA specifically or to the HKMA in consultation with the FSTB (for example). In exercising any such power to modify the regime, the “authorities” would be required to consider a number of factors (such as the risks posed to the monetary and financial stability of Hong Kong), and the materiality of the case (such as the market share and the value in circulation) before exercising this power.

B. Licensing Requirements for FRS Issuers

Under the Legislative Proposal, an FRS issuer will have to be licensed with the HKMA before it can:

Issue, or hold itself out as issuing, an FRS in Hong Kong;

- Issue, or hold itself out as, issuing a stablecoin that purports to maintain a stable value with reference to the value of the Hong Kong dollar; or
- Actively market its issuance of FRS to the Hong Kong public.

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In order to be licensed, the FRS issuer must demonstrate that it could meet the following licensing requirements, as summarised below:

Licensing Requirements		Description
Management of reserves and stabilisation mechanism	Full backing	<ul style="list-style-type: none"> The value of the reserve assets backing an FRS must be at least equal to the par value of the FRS (at a minimum) at all times. Issuers of FRS which derive value from arbitrage or algorithms will not be granted a license, given the inherent difficulties of maintaining a stabilisation mechanism in the absence of any backing assets.
	Investment limitations	<ul style="list-style-type: none"> The reserve assets must be of high quality and high liquidity with minimal market, credit and concentration risk. Reserve assets must be held in the referenced currency, although flexibility may be allowed on a case-by-case basis subject to the HKMA's approval. The composition of the reserved assets should be determined with reference to the FRS's liquidity requirements, including how liquidity requirements will be met through the management and investment of reserve assets. The HKMA will need to be satisfied of the appropriateness of the types of assets held by the FRS issuer, and expects that each issuer will have a regularly reviewed investment policy regarding assets that are suitable for holding as reserve assets.
	Segregation and safekeeping of reserve assets	<ul style="list-style-type: none"> FRS issuers will be expected have effective trust arrangements to ensure that reserve assets are appropriately segregated and available to satisfy FRS holders' redemption, as well as their legal right and priority claim in the event of insolvency. Reserve assets must be stored in segregated accounts with licensed banks or with other asset

		<p>custodians (subject to the HKMA's approval of the proposed arrangements).</p> <ul style="list-style-type: none"> • FRS issuers must maintain effective internal controls to protect the reserve assets from operational risks, including risks of theft, fraud and misappropriation.
	<p>Risk management and controls</p>	<ul style="list-style-type: none"> • FRS issuers must put in place adequate policies, guidelines and controls for the proper management of all investment activities associated with the management of the reserve assets. This includes having comprehensive liquidity risk management practices which address the approach to large scale redemptions – i.e. run scenarios or other scenarios of liquidity stress. FRS issuers must also conduct periodic stress tests to monitor the adequacy and the liquidity of the reserve assets.
	<p>Disclosure and reporting</p>	<ul style="list-style-type: none"> • FRS issuers must regularly publish the total amount of FRS in circulation, the mark-to-market value of reserve assets and the composition of reserve assets. • FRS issuers will also be expected to (in consultation with the HKMA) engage a qualified and independent auditor to perform regular attestations in relation to their FRS, including the (i) composition and market value of the reserve assets; (ii) the par value of FRS in circulation; (iii) whether the reserve assets are adequate to fully back the value of FRS in circulation and are sufficient liquid (as of the last business day of the period covered by the attestation); and (iv) whether the conditions on the reserves management as imposed by the HKMA have all been fulfilled. • The Legislative Proposal recommends that the total amount of FRS in circulation and the value of reserve assets be disclosed at least daily, the composition of reserve assets be disclosed at least weekly, and attestation by the independent auditor be performed at least monthly.

	<p>Prohibition on paying interest</p>	<ul style="list-style-type: none"> • FRS issuers must not pay interest to FRS users. • Any income or loss from the reserve assets, including but not limited to interest payments, dividends or capital gains or losses are attributable to the FRS issuer.
	<p>Effective stabilisation</p>	<ul style="list-style-type: none"> • The FRS issuer is ultimately responsible for ensuring the effective functioning of the stabilisation mechanism of its FRS, notwithstanding any engagement of third parties to carry out the stabilisation activity.
<p>Redemption requirements</p>		<ul style="list-style-type: none"> • The HKMA expects for FRS users to have the right to redeem their FRS at par value with the FRS issuer to have a claim on the reserve assets (or the issuer if the issuer is not able to meet redemption obligations). • An FRS issuer is expected to process redemption requests without undue costs and on a timely basis. The issuer must not impose unreasonable conditions on redemption, such as a very high minimum threshold amount. • In the event that fees for redemption are charged, such fees must be clearly communicated to FRS users and must be proportionate, at a level that do not deter redemption. • The FRS issuer must meet the redemption request at par value by paying in the fiat currency underlying the relevant FRS. • Where channels for FRS users to exchange their FRS into fiat currency become unavailable (e.g. due to disruption to infrastructure), the FRS issuer must nevertheless still be able to ensure direct redemption for all FRS users at par in a reasonably timely manner. • The FRS issuer is expected to draw up and maintain a contingency plan to enable orderly redemption of FRS by FRS users in the event that the FRS issuer is unable to meet

	<p>redemption requests (including in the case of suspension or revocation of the issuer's licence).</p>
<p>Restrictions on business activities[16]</p>	<ul style="list-style-type: none"> • The HKMA's approval must be sought before an FRS issuer can commence any new lines of business. To this end, the FRS issuer must conduct a risk assessment and demonstrate to the HKMA that adequate resources are allocated to the issuance and maintenance of the FRS, that the new business will not introduce significant risks, and that proper risk controls are in place to ensure that the new line of business will not impair its functions as an FRS issuer. • However, provided that the FRS issuer have adequate systems for the segregation and safekeep of FRS and handling of deposit and withdrawal requests for FRS, the FRS issuer will be allowed to conduct activities ancillary or incidental to its issuance of FRS, such as providing wallet services for the FRS it issues. • The FRS issuer is prohibited from carrying on lending and financial intermediation or other regulated activities (e.g. regulated activities under the SFO).
<p>Physical presence in Hong Kong[17]</p>	<ul style="list-style-type: none"> • The FRS issuer must be a company incorporated in Hong Kong with a registered office in Hong Kong. • Its key personnel and senior management must be based in Hong Kong, and must be empowered with effective management and control of FRS issuance and related activities.
<p>Financial resources requirements[18]</p>	<ul style="list-style-type: none"> • The FRS issuer is expected to maintain a minimum paid-up share capital to be HKD 25,000,000 or 2% of the par value of FRS in circulation, whichever is higher.
<p>Disclosure requirements</p>	<ul style="list-style-type: none"> • The FRS issuer is expected to disclose general information about the issuer itself, the rights and obligations of its FRS users, the FRS

	<p>stabilisation mechanism, reserves management arrangements, the underlying technology and the risks through a published white paper.</p> <ul style="list-style-type: none"> • The FRS issuer must also disclose their redemption policies, including the timeframe for the redemption process, the applicable fees and the right of FRS users to redemption.
<p>Governance, knowledge and experience</p>	<ul style="list-style-type: none"> • Controllers, chief executives and directors of an FRS issuer must be fit and proper. Their appointment and any changes to the ownership and management of the FRS issuer are subject to HKMA approval. • The FRS issuer is expected to have an adequate system of control for the appointment of the senior management team and suitable staff under a robust corporate governance structure.
<p>Risk management requirements</p>	<ul style="list-style-type: none"> • An FRS issuer is expected to implement appropriate risk management processes and measures, such as adequate security and internal controls, effective fraud monitoring and detection measures; technological risk management measures; and contingency arrangements to address operational disruptions. • The FRS issuer must also perform risk assessments on a sufficiently frequent basis and at a minimum, on an annual basis, to ensure adequacy of its internal controls.
<p>Audit requirements</p>	<ul style="list-style-type: none"> • The FRS issuer are required to submit audited financial statements to the HKMA annually. • Where required by the HKMA, the FRS issuer must submit reports prepared by external independent auditors and assessors to validate the management and operational soundness of the FRS issuance, such as whether the FRS issuer has adequate systems of control for the

	management of reserve assets, cybersecurity and the integrity of smart contracts.
Anti-money laundering and counter-financing of terrorism requirements	<ul style="list-style-type: none"> The FRS issuer must ensure that the design and implementation of its issuance business has adequate and appropriate systems of control for preventing or combating possible money laundering and terrorism financing, and for ensuring compliance with the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (“AMLO”) and any other related rules or regulations issued by the HKMA. This includes ensuring that the FRS issuer has adequate customer due diligence measures in relation to FRS issuance, redemption, transaction monitoring and travel rule requirements.

Notwithstanding the above, the HKMA will have the power to impose, amend and cancel ongoing licensing conditions on an FRS issuer, where necessary. These additional conditions can include requirements on reserve assets and restrictions on the types of services that could be undertaken by the FRS issuer.

Licenses granted under the FRS issuer licensing regime will be open-ended, i.e. licences will remain valid until or unless revoked by the HKMA or the FRS issuer ceases to operate. However, the issue of any new FRS (i.e. other than that which the FRS issuer received a licence to issue) will require the consent of the HKMA before it can issue any new FRS under its license. Further, all licensed FRS issuers must display their licence number on any advertising materials and consumer facing materials or software applications.

C. Custody and offering of FRS

With regard to offering of FRS, the FSTB and HKMA have indicated that they consider that FRS issued by unlicensed entities are unsuitable for use by the public. As a result, their intention is that only licensed FRS issuers, authorized institutions, licensed corporations and licensed VATPs can offer FRS in Hong Kong or actively market such offerings in Hong Kong. Meanwhile, authorized institutions, licensed corporations and licensed VATPs can offer FRS issued by unlicensed entities to professional investors only.

With regard to custody, we understand that the FSTB, HKMA and the SFC are continuing to examine the appropriate regulatory approach for such activities. Further regulatory guidance on this topic (including guidance from the HKMA on the provision of VA custodial services by authorised institutions) is expected in the short to medium term.

D. Supervisory Powers of the HKMA

Mirroring similar provisions under the Banking Ordinance, the Legislative Proposal confers supervisory powers on the HKMA to act in the event that a licensee (i) has become or is likely to become insolvent or unable to meet its obligations; (ii) is carrying on its business in a manner detrimental to the interests of its users or its creditors; or (iii) has contravened any of its licensing conditions or provisions of the proposed regulatory regime. In these circumstances, the HKMA will have the power to:

- Require a licensee to implement any action relating to the licensee's affairs, business or property that the HKMA considers as necessary, including restricting the licensee's business of FRS issuance;
- Direct a licensee to seek advice on the management of its affairs, business and property from an advisor appointed by the HKMA; and
- Require a licensee's affairs, business and property to be managed by a HKMA-appointed manager.

The HKMA's consent will also be required for changes in ownership or management of FRS issuers, including with regard to any proposed amalgamation, sale or disposal of all or part of the business of an FRS issuer, change of control (including change of majority or minority shareholder controller, or indirect controller) and the appointment of chief executives and directors.

Additionally, the HKMA will also have the power to gather information, including request information or documents from licensees, or to conduct on-site examinations at the licensee's premises. Where the HKMA has reasonable cause to suspect non-compliance, the HKMA will have the power to conduct investigations into the licensee and persons relevant to the suspected contravention. The HKMA will also have the power to give directions to bring an FRS issuer into compliance with its statutory obligation to ensure the protection of the FRS issuer. Finally, the HKMA will also have the power to make regulations to operationalise the FRS regulatory regime and issue guidelines regarding the way in which it expects to perform its functions with regards to this new regime.

E. Disciplinary Framework

The Legislative Proposal contemplates the creation of both a criminal and a civil framework. It will be a criminal offence to:

- Issue an FRS in Hong Kong without a licence;
- Advertise the issuance of FRS by an unlicensed issuer;
- Fail to produce documents or information as required by the HKMA;
- Provide false information to the HKMA; and

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- Contravene other conditions imposed by the HKMA in connection with the FRS licensing regime.

Separately, the HKMA will also have the power to impose civil and supervisory sanctions, including:

- Issuing a caution, warning, reprimand or order to take specified action(s);
- Issuing a temporary suspension, suspension or revocation of an FRS issuer's license;
- A pecuniary penalty not exceeding HK\$10,000,000 or 3 times the amount of profit gained or loss avoided as a result of the contravention, whichever is higher; and
- Any combination of the above.

As a check and balance, an appeal tribunal mechanism will be set up to address appeals against the HKMA's disciplinary decisions. A person dissatisfied with the decision of the appeal tribunal will be able to appeal to the Court of Appeal against the determination on a point of law.

F. Transitional Arrangements

The FRS Issuer Licensing Regime is proposed to commence one month upon gazettal of the proposed new ordinance. However, the FSTB and HKMA have proposed a transitional arrangement to ensure the smooth transition into the new regime. Under this transitional regime, pre-existing FRS issuers conducting FRS issuance with a meaningful and substantial presence in Hong Kong prior to the commencement of the regime can continue to operate under a non-contravention period of six months, subject to submitting a licence application to the HKMA within the first three months of the commencement of the regime. This comparatively short transitional period (if not extended in the final version of the legislative regime) means that stablecoin issuers will need to take steps to quickly prepare licence applications (and establish a meaningful and substantial presence in Hong Kong if they do not already have one) following the gazettal of the new ordinance. Those pre-existing FRS issuers which fail to submit a licence application to the HKMA within the first three months will need to wind down its business by the end of the fourth month of the commencement of the regime.

[1] See "Hong Kong SFC Consults On Licensing Regime For Virtual Asset Trading Platform Operators", published by Gibson, Dunn & Crutcher (March 2, 2023), available at <https://www.gibsondunn.com/hong-kong-sfc-consults-on-licensing-regime-for-virtual-asset-trading-platform-operators/>; and "New Hong Kong Regulatory Requirements and Licensing Regime for Virtual Asset Trading Platforms Finalised as Legislation Takes Effect", published by Gibson, Dunn & Crutcher (June 7, 2023), available at <https://www.gibsondunn.com/new-hong-kong-regulatory-requirements-and-licensing-regime-for-virtual-asset-trading-platforms-finalised-as-legislation-takes-effect/>.

[2] "Hong Kong's SFC Updates Guidance on Tokenised Securities-Related Activities", published by Gibson, Dunn & Crutcher (November 10, 2023), available at

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<https://www.gibsondunn.com/hong-kong-sfc-updates-guidance-on-tokenised-securities-related-activities/>.

[3] “Circular on SFC-Authorised Funds With Exposure to Virtual Assets”, published by the Securities and Futures Commission (December 22, 2023), available at <https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/products/product-authorization/doc?refNo=23EC65>.

[4] “Circular on Virtual Asset Futures Exchange Traded Funds”, published by the Securities and Futures Commission (October 31, 2023), available at <https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=22EC60>.

[5] These requirements are in addition to meeting the applicable requirements in the Overarching Principles Section and the Code on Unit Trusts and Mutual Funds in the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products.

[6] “Joint Circular on Intermediaries’ Virtual Asset-Related Activities”, jointly published by the Securities and Futures Commission and the Hong Kong Monetary Authority (December 22, 2023), available at <https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=23EC67>.

[7] “Joint Circular on Intermediaries’ Virtual Asset-Related Activities”, jointly published by the Securities and Futures Commission and the Hong Kong Monetary Authority (October 20, 2023), available [here](#).

[8] “VA-related products” are defined as products which (a) have a principal investment objective or strategy to invest in virtual assets; (b) derive their value principally from the value and characteristics of virtual assets; or (c) track or replicate the investment results or returns which closely match or correspond to virtual assets.

[9] See Appendix 1 of the Joint Circular for the non-exhaustive criteria for assessing whether a client can be regarded as having knowledge of virtual assets.

[10] The minimum information and warning statements requirements require intermediaries to provide clear and easily comprehensible information and warning statements to clients in relation to VA-related products and information on the underlying VA investments; and provide to clients risk disclosure statements (which can be a one-off disclosure) specific to VAs.

[11] See Appendix 3 of the Joint Circular.

[12] “Legislative Proposal to Implement the Regulatory Regime for Stablecoin Issuers in Hong Kong Consultation Paper”, jointly published by the Financial Services and the Treasury Bureau and the Hong Kong Monetary Authority (December 27, 2023), available at <https://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2023/20231227e4a1.pdf>.

[13] “Another Step Towards the Regulation of Cryptocurrency in Hong Kong: HKMA Releases Discussion Paper on Stablecoins”, published by Gibson, Dunn & Crutcher (September 19,

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2022), available at <https://www.gibsondunn.com/another-step-towards-the-regulation-of-cryptocurrency-in-hong-kong-hkma-releases-discussion-paper-on-stablecoins/>.

[14] “Hong Kong Monetary Authority Introduces Plans To Regulate Stablecoins”, published by Gibson, Dunn & Crutcher (February 7, 2023), available at <https://www.gibsondunn.com/hong-kong-monetary-authority-introduces-plans-to-regulate-stablecoins/>.

[15] For completeness, the Legislative Proposal defines “stablecoin” to mean “a cryptographically secured digital representation of value that, among other things – (a) is expressed as a unit of account or a store of economic value; (b) is used, or is intended to be used, as a medium of exchange accepted by the public, for the purpose of payment for goods or services; discharge of a debt; and/or investment; (c) can be transferred, stored or traded electronically; (d) uses a distributed ledger or similar technology that is not controlled solely by the issuer; and (e) purports to maintain a stable value with reference to a specified asset, or a pool or basket of assets.” To avoid overlap with the SVF regulatory regime, the FSTB and HKMA have expressly carved out “deposits, including its tokenized or digitally represented form; certain securities or future contracts (mainly authorized collective investment schemes and authorized structured products); float stored in SVFs or SVF banks; and certain digital representations of fiat currencies issued by or on behalf of central banks; and certain digital representation of value that has a limited purpose” from the definition of “stablecoins”.

[16] This licensing requirement will not apply to FRS issuers which are authorized institutions, considering that these authorized institutions are already subject to relevant requirements under banking regulation.

[17] This licensing requirement will not apply to FRS issuers which are authorized institutions, considering that these authorized institutions are already subject to relevant requirements under banking regulation.

[18] This licensing requirement will not apply to FRS issuers which are authorized institutions, considering that these authorized institutions are already subject to relevant requirements under banking regulation.

The following Gibson Dunn lawyers prepared this client alert: William Hallatt, Emily Rumble, and Jane Lu.

Gibson Dunn’s lawyers are available to assist in addressing any questions you may have regarding these developments. If you wish to discuss any of the matters set out above, please contact any member of Gibson Dunn’s [Global Financial Regulatory](#) team, including the following members in [Hong Kong](#) and [Singapore](#):

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