

30 June 2025

Submitted by email (stablecoin\_feedback@hkma.gov.hk)

Hong Kong Monetary Authority  
55/F, Two International Finance Centre  
8 Finance Street  
Central, Hong Kong

**Re: ASIFMA response to Consultation on Draft Guideline on Supervision of Licensed Stablecoin Issuers**

Dear Sir/Madam

The Asia Securities and Financial Markets Association (“**ASIFMA**” or “we”) <sup>1</sup> appreciates the opportunity to respond to the Hong Kong Monetary Authority’s (the “**HKMA**”) consultation on the *Draft Guideline on Supervision of Licensed Stablecoin Issuers* published on 26 May 2025 (the “**Supervision Guideline**”). Feedback set out in the Appendix of this response has been collected from ASIFMA members (“**Members**”) of the Fintech Working Group, Crypto Sub-Working Group, and Anti-Financial Crime Working Group, which have been closely following global, regional and local developments relating to digital assets in recent years.

We are grateful to ASIFMA law firm member Latham & Watkins LLP for their support in drafting this response.

Unless otherwise defined herein, the terms used in this response have the meanings assigned to them in the Supervision Guideline.

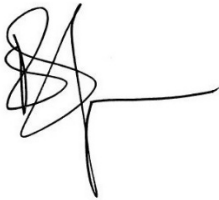
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<sup>1</sup> ASIFMA is an independent, regional trade association with over 160 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, law firms and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative, and competitive Asian capital markets that are necessary to support the region’s economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the GFMA alliance with SIFMA in the United States and AFME in Europe, ASIFMA also provides insights on global best practices and standards to benefit the region. More information about ASIFMA can be found at: [www.asifma.org](http://www.asifma.org).

At the outset, we wish to commend the HKMA and reiterate our strong support for its steadfast commitment to developing the digital assets regime in Hong Kong, and promoting Hong Kong as a digital financial centre more generally. With a total global market capitalisation exceeding \$US250 billion, it is clear that stablecoins have found mainstream adoption across the globe and play a crucial role in helping firms and individuals to manage risks, store value, reduce costs, accelerate trading and bridge traditional finance and digital finance. We firmly believe that locally-licensed stablecoin issuers will highly value the regulatory certainty that the Supervision Guideline will foster, once finalised.

We would be pleased to discuss our response in further detail. Should you wish to do so, please do not hesitate to contact Rishi Kapoor, Executive Director, Head of Technology and Operations at [rkapoor@asifma.org](mailto:rkapoor@asifma.org).

Sincerely,

A handwritten signature in black ink, consisting of a stylized 'R' followed by a horizontal line and a vertical stroke.

Rishi Kapoor  
Executive Director  
Head of Technology & Operations  
Asia Securities Industry & Financial Markets Association

## APPENDIX

Section 2	Reserve assets management
<p><b>2.1. Full backing</b></p> <p>In respect of paragraph 2.1.1 of the Supervision Guideline:</p> <ul style="list-style-type: none"><li>• Members would like to inquire whether it would be acceptable for the licensee to have an account holding the reserve assets (which is a dedicated, charged account) that is separate from the day-to-day transaction account, with an end of day netting process to ensure the value of reserve assets is sufficient to match the outstanding stablecoins in circulation.</li><li>• With reference to Section 5(2) of Schedule 2 to the Stablecoins Ordinance, the ‘market value’ (<i>i.e.</i>, mark-to-market value) of the reserve assets must at all times be at least equal to the par value of the outstanding stablecoins of the type in circulation. Noting the proposal that there be over-collateralisation to cover market risk, Members would like to inquire whether further guidance will be provided as to the valuation methodology for non-cash collateral.</li></ul> <p><b>2.2. Scope and composition of reserve assets</b></p> <p>In respect of paragraph 2.2.1(iv) of the Supervision Guideline, Members believe that the restriction for investment funds as set out is overly restrictive as it precludes any funds that are not set up solely for the purpose of managing reserve assets of a specific licensee. There does not appear to be a clear rationale for this, and it could be out of step with other international stablecoin frameworks. Members would recommend broadening the eligible assets by amending as follows: “Investment funds that invest <u>solely</u> in assets set out in (i), (ii), and/or (iii), <del>and such investment funds should be set up dedicated for the sole purpose of managing the reserve assets of the licensee; and/or</del>”.</p>	

In respect of paragraph 2.2.1(v) of the Supervision Guideline, Members request for additional guidance and clarification on the “*other types of assets which are acceptable to the HKMA*”. For avoidance of doubt, Members recommend clarifying that tokenised forms of the reserve assets would be eligible too (*i.e.*, tokenised forms of any of (i) to (v)), in order to future proof such guidance.

#### **2.4. Segregation and safekeeping**

Generally, Members seek express confirmation in the Supervision Guideline and guidance that a licensee will be permitted to delegate management of the reserve assets to a suitable third-party.

In respect of paragraph 2.4.1 of the Supervision Guideline, Members would like to inquire whether the requirement for reserve assets to be “*adequately protected against claims by its other creditors in all circumstances*” could be met by utilizing a Charge over the Reserve Account (*i.e.*, charge over the account holding the reserve assets).

In respect of paragraph 2.4.2 of the Supervision Guideline, Members have the following questions in respect of the trust arrangements:

- in the case of the appointment of an independent trustee, what are the detailed duties and obligations of the independent trustee in terms of managing the reserve assets.
- would the independent trustee be appointed by the licensee, and what should be the relationship between the licensee and independent trustee.
- where a trustee is involved, could the reserve asset account be a cash or safekeeping account opened in the name of the licensee and charged to the trustee.
- could an escrow arrangement be an alternative to the trust arrangement and satisfy the requirement set out in paragraph 2.4.2 of the Supervision Guideline.
- in the scenario of a “*declaration of trust over the reserve assets*”, who should (i) be the account owner of the reserve asset account and (ii) provide the declaration of

trust, and what would the declaration of trust entail.

- would the trustee (and any change of trustee) and the independent legal opinion need to be approved by the HKMA.
- whether the guidance and obligations imposed on stored value facility (“SVF”) licensees for their trust arrangements will be similarly applicable to stablecoin issuers.

In respect of paragraph 2.4.4 of the Supervision Guideline:

- the licensee is expected to engage a custodian (*e.g.*, licensed bank) to safekeep the reserve assets, although the licensee shall be primarily responsible and accountable for the proper management and safeguarding of reserve assets. Members would like to inquire whether custodian banks will be required to undertake additional safeguards to protect the deposited reserve assets, noting recent instances of bank failures causing de-pegging of stablecoins.
- noting the proposed requirement that “*A custodian should be a licensed bank, or other asset custodian under an arrangement which is acceptable to the HKMA.*”, Members would like to inquire –
  - whether the custodian would need to be approved by the HKMA.
  - what are the key obligations and responsibilities of the qualified custodians for the safekeeping of reserve assets.
  - what are the criteria for a third-party entity to hold the reserve asset account.

## **2.5. Non-interest bearing**

In respect of paragraph 2.5.1 of the Supervision Guideline, Members would like to seek further guidance as to the marketing incentives that are permitted to be offered by the licensee (*e.g.*, discounts, rebates, bonuses, merchandise that could be proportionate to the size of the primary issuance). Members would recommend the HKMA clarifying what

marketing incentives would entail in the Supervision Guideline, and how the HKMA would distinguish them from interest-like incentives.

## **2.6. Disclosure and reporting**

In respect of paragraphs 2.6.2 and 2.6.3 of the of the Supervision Guideline, Members request additional clarity on the cadence of the periodic disclosure obligations to the public.

In respect of paragraph 2.6.5 of the Supervision Guideline, Members would recommend that only ‘material’ breaches, non-compliance and unresolved discrepancies related to reserve assets management be reportable to the HKMA immediately.

## **Section 3**

### **Issuance, redemption and distribution**

#### **3.1. Issuance requirements**

Noting the importance of having availability of non-HKD stablecoins in the Hong Kong market, Members would like to inquire whether the HKMA will publish further guidance on the types of currencies that the stablecoins will be permitted to reference, and in particular whether the referenced currency must be freely tradeable or convertible into Hong Kong dollars.

#### **3.2. Redemption requirements**

Under the draft *Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Stablecoin Issuers)* (“**AML/CFT Guideline**”), licensees are required to perform customer due diligence before establishing a business relationship with a customer or before carrying out an occasional transaction (*e.g.*, redemption of stablecoin) involving an amount equal to or above HK\$8,000 for a customer.

As set out in paragraph 3.2.3 of the Supervision Guideline, it is expected that valid redemption requests made by a stablecoin holder must be honoured by the licensee as soon as practicable and within one (1) business day after the day on which it is received by the

licensee.

Based on experience, in the case of a stablecoin holder that has obtained the stablecoin on the secondary market and who is not an existing customer of the licensee, it may not be possible to perform the required customer due diligence within one (1) business day of a redemption request. In most cases, it will take time to obtain the necessary documentation from the stablecoin holder, and such stablecoin holder may not provide the requisite information needed to verify their identity (and any beneficial owner). Members would like to confirm that the one (1) business day requirement is contingent on the stablecoin holder providing all necessary information to complete the customer due diligence requirements set out in the AML/CFT Guideline, *i.e.*, a ‘valid’ redemption request would be one where the specified stablecoin holder has provided all necessary information for the licensee to comply with its obligations. In addition, there should be necessary carve-outs where the licensee cannot comply with the redemption request due to applicable laws and regulations (*e.g.*, sanctions laws or court orders).

For reference, it is noted that other jurisdictions allow further time to fulfill the redemption request (*e.g.*, in Singapore, the MAS’s Stablecoin Regulatory Framework requires that redemption requests be fulfilled within five (5) business days). Instead of referencing a specific number of business days, it could be required that the redemption request must be fulfilled in a timely manner.

### **3.4. Customer on-boarding**

In respect of paragraph 3.4.3 of the Supervision Guideline, Members recommend that this obligation to prevent location spoofing should not be imposed further than at the time of token design and during the KYC process.

### **3.5. Disclosure and reporting**

In respect of paragraph 3.5.3 of the Supervision Guideline, Members would recommend that

only ‘material’ breaches related to issuance, redemption and distribution be reportable to the HKMA immediately.

## **Section 4**

### **Business activities**

#### **4.1. Restrictions on business activities**

In respect of paragraph 4.1.1 of the Supervision Guideline, Members seek clarification whether a virtual asset wallet offered by a licensee for its customers to facilitate stablecoin distribution, particularly within a closed-loop system, would fall within existing ‘licensed stablecoin activity’. If such activity constitutes “Other Business Activity” which requires the HKMA’s consent, Members seek clarification whether this is intended to be covered by the licensing frameworks for virtual asset over-the-counter trading or custody services that are planned to be introduced, and whether there would be any exemption under those regimes for stablecoin licensees.

#### **4.2. Issuance of more than one type of specified stablecoins**

In respect of paragraphs 4.2.1 – 4.2.2 of the Supervision Guideline, Members would like to seek confirmation that a stablecoin of the same currency issued on different blockchains will be considered the same type of specified stablecoin (*i.e.*, no further discussion with the HKMA is required for such issuance).

## **Section 5**

### **Business activities**

Members have no comments.

## **Section 6**

### **Risk management**

#### **6.4. Credit, liquidity and market risk management**

In respect of paragraphs 6.4.2, 6.4.4 and 6.4.5 of the Supervision Guideline, Members would



recommend that only if internal limits have been ‘materially’ exceeded for a prolonged period of time will prompt notification be required to the HKMA.

#### **6.5. Technology risk management**

Generally, Members have concerns that the controls regarding the wallet features could go beyond what the licensee can control. For example, in the section “*Wallet and private key management*”, it is unclear whether these security measures would apply to the stablecoin holders or just the licensee. There should be clarification that this only applies to the licensee’s activities.

In respect of paragraphs 6.5.8(iv) and (x) of the Supervision Guideline, Members would recommend removing the wording of “*located in Hong Kong*” and “*backed-up in Hong Kong*” for key storage and key back-up respectively, as it does not provide additional assurance from a risk mitigation perspective and could potentially create inefficiency or unnecessary complexity.

Further, in respect of paragraph 6.5.8(iv) of the Supervision Guideline, Members seek clarification whether the requirement for “*storage media, such as HSM with appropriate certification, in a secure facility with stringent access control and monitoring systems located in Hong Kong, or at a location acceptable to the HKMA*” would permit the use of cloud HSM.

In respect of paragraph 6.5.8(xii) of the Supervision Guideline, Members would recommend removing “CCTV footage”, as this assurance has already been covered by third party certification audit such as SOC2. In respect of paragraph 6.5.23 of the Supervision Guideline, Members would recommend adding “*conducted by an independent third party through an internationally recognized certification standard*” as this provides assurance through the compliance certification that is equivalent to a third-party audit. Also, Members would

recommend removing “*diversify its service providers to*” as while diversification of service providers could appear to reduce concentration risk to some extent, the technical, process and resource complexity needed to support multiple service providers can lead to decreased resilience overall. A diversification of service providers can create challenges, such as increased costs, technical complexity, and additional specialist skillsets required to onboard and manage multiple service providers and their respective services. Instead, other compensating controls such as service interoperability, data portability, and standardization can also help mitigate concentration risks.

#### **6.6. Operational risk management**

In respect of paragraph 6.6.4 of the Supervision Guideline, Members would recommend adding “testing or compliance certification” and “assessment or compliance certification”, as this provides assurance through the compliance certification that is equivalent to a third-party audit.

In respect of paragraphs 6.6.7 and 6.6.10 of the Supervision Guideline, Members have concern whether the licensee can reasonably obtain agreement from third party entities for announced and unannounced on-site examinations and off-site reviews of their operations by authorised parties including the HKMA and the licensee’s internal and external auditors. Based on experience (including with cloud service providers), there are practical challenges and difficulties in obtaining such access rights, particularly if the third party entity is itself licensed or based overseas. Also, for paragraph 6.6.7, Members would recommend removing “on-site examinations” as the licensee could leverage international standard certifications (such as ISO) or third-party audit reports (such as SOC2 reports) instead.

In addition, if any access rights are imposed, such rights should only be required to be obtained for material outsourcing and third-party arrangements.

<b>Section 7</b>	<b>Corporate governance</b>
Members have no comments.	
<b>Section 8</b>	<b>Business practices and conduct</b>
<b>8.4. Complaints handling</b>  Members would like to inquire whether there will be a standard dispute resolution tribunal or mechanism to adjudicate claims brought by stablecoin holders against licensees.	
<b>N/A</b>	<b>Other Comments</b>
Members have the following additional comments and queries: <ul style="list-style-type: none"> <li>• With regards to the HKMA’s licensing requirements, is there any form of substituted compliance or exemptive relief available to SFC-licensed entities?</li> <li>• Will the HKMA establish a dedicated hotline or taskforce to assist prospective stablecoin issuers to navigate the Supervision Guideline?</li> </ul>	