



# **The Hong Kong Chartered Governance Institute**

## **Submission**

**Financial Services and the Treasury Bureau (FSTB)  
Hong Kong Monetary Authority (HKMA)**

**Consultation Paper on  
Legislative Proposal to Implement the  
Regulatory Regime for Stablecoin Issuers in Hong Kong**

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## **Consultation Paper on Legislative Proposal to Implement the Regulatory Regime for Stablecoin Issuers in Hong Kong**

*[Unless the context requires otherwise, the terms and expressions used in this submission shall have the meanings set out under the Consultation Paper.]*

### **About HKCGI**

The Hong Kong Chartered Governance Institute (HKCGI), formerly known as The Hong Kong Institute of Chartered Secretaries (HKICS), is the only qualifying institution in Hong Kong and Mainland China for the internationally recognised Chartered Secretary and Chartered Governance Professional qualifications.

With 75 years of history and as the Hong Kong/China Division of The Chartered Governance Institute (CGI), the Institute's reach and professional recognition extends to all of CGI's nine divisions, with about 40,000 members and students worldwide. HKCGI is one of the fastest growing divisions of CGI, with a current membership of over 7,200, 300 graduates and 2,300 students with significant representations within listed companies and other cross-industry governance functions.

Believing that better governance leads to a better future, HKCGI's mission is to promote good governance in an increasingly complex world and to advance leadership in the effective governance and efficient administration of commerce, industry and public affairs. As recognised thought leaders in our field, the Institute educates and advocates for the highest standards in governance and promotes an expansive approach that considers all stakeholders' interests.

### **General Support**

From the applied governance perspective, we support regulation over stablecoin issuers to provide a statutory regime that will enable stablecoins and FRS issuance as part of Hong Kong's VA ecosystem being developed under a major Hong Kong government policy initiative. We are also developing the talent and expertise in virtual assets regulation with our recently launched HKCGI AML/CFT Certification programme and look forward to collaborating and addressing

emerging issues with the Financial Services and the Treasury Bureau and the Hong Kong Monetary Authority on virtual assets regulation, including stablecoin and FRS, as well as other emerging technology concerns.

Also, in line with international developments, including the Financial Stability Board's global regulatory framework for crypto-asset activities, we agree that FSTB and the HKMA, in conjunction with the SFC, should under the regulation put in place timely and necessary guardrails so that VA innovations can sustainably thrive in Hong Kong. At the same time, under the regulation, actual and potential risks from the perspectives of monetary and financial stability, consumer protection, as well as money laundering and terrorist financing, can be identified and properly addressed.

Q1. Do you agree with the proposed definition of "stablecoin" and "FRS"?

We agree with the definition of stablecoin under paragraph 4.1 based on the definition currently adopted by IOs, SSBs and VA market practice. Paragraph 4.1 of the Consultation Paper further clarifies that the underlying could be a specified asset, pool, or basket of assets to maintain stable value as an electronic medium of exchange for goods and services and other economic activities.

Within stablecoins is the subset of FRS. We agree with the definition under paragraphs 3 and 4.3 of the Consultation Paper: FRS is a cryptographically secured digital representation of value that purports to maintain a stable value concerning one or more fiat currencies other than items already covered by other regulatory regimes.

In either case, the definition should exclude float stored in SVFs or SVF deposits. However, we agree that in some cases, whether a digital representation of value or its issuance constitutes an SVF under the PSSVFO may still have to be determined on a case-by-case basis having regard to relevant factors such as the structure, relationship of the relevant parties and operations of the entity or product concerned. Also, the exclusion should extend to deposits, whether in tokenised or digital form and limited purpose representations not within the definition of stablecoins as set out under paragraph 4.2 of the Consultation Paper.

Q2. Do you have any comments in relation to the scope of regulated stablecoin activity?

We agree that the scope of regulation of FRS issuers should extend to stablecoin referenced to the Hong Kong dollar or actively marketed to the public. We understand that the regulation could be less tight for FRS to professional investors. We agree with the need for powers on regulators as to what might be in the scope of regulated stablecoin activities, including considering derivative regulations.

Q3. Do you agree with the proposed approach of introducing a new piece of legislation to implement the regulatory regime for FRS issuers, and potentially cover the regulatory regime for other VA activities as appropriate in the future?

From the applied governance perspective, we agree that given the evolving nature and complexity of the VA market landscape, it is sensible to introduce new, stand-alone legislation that focuses on regulating FRS issuers. We also agree with a risk-based approach to prioritising higher-risk areas from evolving market developments. The regulation should be proportional to the risks and reduce regulatory arbitrage to provide a level playing field for market participants. As the market evolves, we recommend conducting periodic reviews to ensure that the regulations are fit for purpose.

Q4. Do you agree with the proposed exclusion of issuance of FRS from certain regulatory regimes, such as those for securities and SVFs to avoid subjecting FRS issuer to multiple regulatory regimes?

From the applied governance perspective, we agree that this would result in clearer regulations.

Q5. Do you have any comments on the proposed licensing regime for FRS issuers?

We submit it is appropriate. The MA would be the gatekeeper of the underlying reserve assets and periodic review requirements. We also agree that FRS issuers that derive FRS value from arbitrage or algorithms should not be granted a licence. Concerning other requirements and restrictions under paragraph 6.2, they are appropriate and aligned with best practices. These include requiring controllers, chief executives, and directors of an FRS issuer to be fit and proper persons.

Q6. Do you have any comments on the proposed licensing criteria and conditions?

We do not have any specific concerns.

Q7. Do you have any comments on the proposed power given to the MA to impose additional licensing conditions?

We submit that this is important given the evolving nature of the market and the need to be responsive to new risks and/or for investor protection.

Q8. Do you have any view on the proposed arrangements for the offering of FRS?

We do not have any issue with the proposed arrangements. There might need to be thought about the stablecoins and FRS derivatives regulations.

Q9. Do you support granting the authorities necessary powers to adjust the parameters of in-scope stablecoins and activities, similar to the VASP regime?

From the applied governance perspective, this is important as the industry evolves.

Q10. Do you consider the proposed criteria and factors relevant and appropriate for the authorities to take into account when exercising such powers?

We agree, and the law draftsman can refine the language for the appropriate balance between clarity of regulation and achieving the intended legislative policy.

Q11. Do you have any comments on the proposed supervisory powers of the MA on licensed FRS issuers?

Given the potential volatility of the marketplace, we have no issue, and the MA should act quickly where necessary.

Q12. Do you have any comments on the proposed investigation powers of the MA in respect of licensed FRS issuers?

We have no issue; these are expected powers of MA as regulator from the applied governance perspective under the subject matter of the regulations.

Q13. Do you have any comments on the proposed offence and sanction provisions, in particular the sanctions and pecuniary penalty proposed, as well as the appeal arrangements?

We have no issue with the sanction regime.

Q14. Do you have any comments on the proposed transitional arrangement?

We have no concerns with the arrangements, and the market should be provided with the indicative timeline ASAP to prepare for the implementation of the regulatory regime.

If there are any questions, please feel free to reach out to Ellie Pang FCG HKFCG(PE), Chief Executive, HKCGI or Mohan Datwani FCG HKFCG(PE), Deputy Chief Executive, HKCGI at 2881 6177 or [research@hkcgi.org.hk](mailto:research@hkcgi.org.hk).

Yours sincerely,

For and on behalf of  
The Hong Kong Chartered Governance Institute

A handwritten signature in blue ink, appearing to read 'Simmonds', with a large, stylized initial 'S'.

**David J Simmonds FCG HKFCG**  
President