



# Stablecoins in Hong Kong

**What you need to know about the  
regulatory framework.**



# Introduction

## 72%<sup>1</sup>

Global stablecoin transaction volume reached US\$33trn in 2025, up 72% from 2024

## 320bn<sup>2</sup>

Estimated value of the stablecoins in circulation was c\$320bn USD as of March 2026, the majority of which is USDT and USDC denominated. This is expected to be in the trillions by 2030 according to the Citigroup report, Stablecoins 2030.

## 3%-5%<sup>3</sup>

The estimated run-off in core deposits of banks over five years due to stablecoin adoption, cutting average bank earnings by about 3% driven by increased funding costs and pressure on fee income.

Hong Kong is continuing to position itself as a global hub for digital assets. The introduction of the Stablecoins Ordinance (Cap. 656) ("SO") represents a milestone in creating a transparent and regulated environment for stablecoin issuers.

For those seeking to enter this market, the business plan, commercial use case, and overall viability represent obvious initial challenges. However, regulatory compliance also demands significant early attention, requiring a thorough understanding of the requirements and sufficient upfront investment to navigate it successfully.

This document provides a breakdown of the key elements of the Hong Kong Monetary Authority's (HKMA) regulatory framework. We have identified areas where we anticipate issuers are likely to face the greatest compliance challenges under the relevant Guidelines on Supervision and Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT).

We have also set out a series of targeted questions to help you assess your current state of readiness in relation to the Reserve Reporting Requirements taking into consideration the Proposed Practice Note 831 (PN 831) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) - which is currently open for comment until 3 April 2026.

Finally, we have outlined a few practical steps you can take now, wherever you are in your planning journey.

### What exactly is a stablecoin?

Simply put, a stablecoin is a type of cryptocurrency designed to maintain a stable value by being "pegged" to something else—usually a traditional currency like the US dollar or Hong Kong dollar. Unlike Bitcoin, Ethereum or Solana, whose value can be volatile, stablecoins aim to be, well, stable. They achieve this by holding reserves - assets like cash or government bonds that back up every coin in circulation.

### What does the Hong Kong Stablecoins Ordinance aim to do?

The short answer: provide consumer protection and financial stability. When people hold stablecoins, they're trusting that they can redeem them for actual currency whenever they want. The new regulatory framework ensures that issuers have the reserves they claim to have, and that an independent auditor regularly checks this.

# What you need to know

The Proposed Practice Note 831, Reporting on Reserve Assets of Licensed Stablecoin Issuers under the Stablecoins Ordinance (“PN 831”), alongside the Stablecoins Ordinance and HKMA Explanatory Note and relevant Guidelines establish a comprehensive framework.

- **Full reserve backing required:** The market value of reserve assets must always be at least equal to the total value of outstanding stablecoins in circulation. Only certain assets with minimal investment risks qualify as reserve assets. Tokenised assets need HKMA approval
- **Regular independent attestation and financial statement audit:** An auditor must sign off an attestation report covering at least the following – calculation of market value and composition of reserve assets, par value of stablecoins in circulation and whether reserve assets are adequate to fully back the par value of the outstanding stablecoins in circulation. There is also a requirement for an annual financial audit of the issuer which also covers the reserve assets.
- **Audit readiness:** The recommended procedures to be performed by the auditor per PN 831 are significant and will require thorough upfront planning and coordination across the organization. There are specific accounting and disclosure implications taking into consideration the specific facts and commercial terms related to your stable coin.
- **Reporting:** Attestation reports must be submitted to the HKMA within one month following the end of the attestation period. In addition, the licensee must prepare daily statements on the par value of outstanding stablecoins and the market value/composition of reserve assets, available to the HKMA on request. These must be reported to the HKMA weekly and published in a prominent location on its website, unless otherwise agreed.
- **Additional Public disclosure:** Issuers must publish their white paper outlining - reserve management policy, issuance, redemption and distribution mechanism, underlying technology used, risks associated. In addition, any matters on reserve asset management, redemption needs to be disclosed publicly on a timely basis.
- **Robust systems :** To record accurate, comprehensive records of its books, accounts, management decisions, and business activities, covering both on-chain and off-chain information. Issuers must be able to maintain appropriate audit trail and demonstrate the effectiveness of relevant controls.
- **Enterprise grade IT governance:** The requirements cover security, cybersecurity, change management, and disaster recovery - with mandatory source code reviews, penetration testing, environment segregation, and independent assessment of critical service providers.
- **Ongoing Monitoring of Stablecoins in Circulation** - Unlike traditional banks or Virtual Asset Service Providers, issuers must monitor not only their direct customer transactions but also stablecoins held and transferred by non-customer holders in circulation.
- **Board-level oversight and governance:** Reserve asset policies, procedures and stress tests must be approved by the board and reviewed at least quarterly. Separate and independent compliance and internal audit functions are required - they cannot substitute for each other.

# What areas are expected to be most challenging to issuers?

**The HKMA's Guideline on Supervision of Licensed Stablecoin Issuers outlines the ongoing compliance requirements that all licensees must meet. While we cover Reserve Asset Reporting in a later section, noted below are areas where issuers are likely to face the greatest compliance challenges.**

Area	Why challenging?
<b>Wallet and Private Key Management</b>	<p>This requires significant investment in physical infrastructure, air-gapped facilities, specialised hardware (HSMs), enterprise grade controls as well as highly trained personnel, specifically in relation to:</p> <ul style="list-style-type: none"> <li>• Full lifecycle management of private keys - from generation to destruction.</li> <li>• Controls over the private keys governing smart contract administrative functions, supported by robust change management with sufficient documentation to enable independent validation</li> <li>• Physical security required, including mantraps, MFA, CCTV, and environmental monitoring.</li> <li>• Comprehensive audit logging of all key access, traceable to individual staff.</li> <li>• Wallet structure, this needs to be designed from the outset considering control, segregation, and governance requirements, not solely around operational efficiency.</li> </ul>
<b>Comprehensive Technology Risk Management</b>	<p>The requirements mirror those of a bank-grade IT risk framework, covering:</p> <ul style="list-style-type: none"> <li>• Security management, system development lifecycle, change management, network management, cybersecurity, disaster recovery.</li> <li>• Source code review, penetration testing</li> <li>• Segregation of development, testing and production</li> <li>• Service providers must undergo independent assessment before being engaged for critical services</li> </ul> <p>This is a high bar for organisations without mature enterprise IT governance.</p>
<b>Segregation, Trust Arrangements &amp; Custodianship</b>	<p>Establishing robust trust structures and obtaining credible legal opinions may involve complex legal and counterparty negotiations considering legal entity set-up.</p>
<b>Incident Management, Business Continuity &amp; Exit Plans</b>	<p>Developing a credible business exit plan for the stablecoin issuance, which involves unwinding circulation across decentralised markets is an unprecedented exercise with few industry precedents, there are also specific requirements on:</p> <ul style="list-style-type: none"> <li>• Establishing an effective incident management framework to ensure a timely response to incidents covering a wide array of risk indicators including credit, liquidity, technology, de-pegging, reputation, and compliance risks</li> <li>• Annual testing (including simulation exercises) of all business continuity and exit plans, with results reported to the Board.</li> </ul>

# What areas are expected to be most challenging to issuers?

**This Guideline on Anti-Money Laundering and Counter-Financing of Terrorism issued by the HKMA applies to licensed stablecoin issuers. It sets out the AML/CFT requirements licensees must meet to comply with. We have noted the following areas where issuers may find particularly challenging.**

Area	Why challenging?
<b>Ongoing Monitoring of Stablecoins in Circulation</b>	<p>Unlike traditional banks or Virtual Asset Service Providers, issuers must monitor not only their direct customer transactions but also stablecoins held and transferred by non-customer holders in circulation. This involves:</p> <ul style="list-style-type: none"> <li>Monitoring all stablecoin transactions using blockchain analytic tools to track source and destination of funds.</li> <li>Identifying wallet addresses directly or indirectly linked to illicit activities such as scams, sanctions evasion, etc., and preventing this misuse</li> <li>Conducting continuous real-time screening at issuance, redemption, and across stablecoins already in circulation.</li> </ul>
<b>Unhosted Wallet Due Diligence</b>	<p>Unhosted wallets are by definition not managed by any regulated custodian, making verification difficult. Customers may resist ownership tests, and the technology to reliably confirm control of a wallet is still evolving. When customers transact via unhosted (self-hosted) wallets, licensees must:</p> <ul style="list-style-type: none"> <li>Verify wallet ownership (e.g. via micropayment tests or message signing).</li> <li>Collect detailed originator/recipient information.</li> <li>Screen wallet addresses for illicit activity associations before every transaction.</li> <li>Apply enhanced monitoring or impose transaction limits where elevated risk is identified.</li> </ul>
<b>Travel Rule Compliance for Stablecoin Transfers</b>	<p>Unlike traditional financial transfers with well-established SWIFT messaging, stablecoin transfers occur on permissionless blockchains where counterparties may use incompatible systems, may be unregulated, or may be completely anonymous (unhosted wallets).</p> <p>The Travel Rule requires licensees to collect, transmit, and verify originator and beneficiary information for in-scope stablecoin transfers. Key challenges include:</p> <ul style="list-style-type: none"> <li>Submit required information to counterparty institutions immediately and securely.</li> <li>Ensure solutions are interoperable with counterparties using different travel rule systems.</li> <li>Collect and verify additional originator/recipient information for transfers to/from unhosted wallets.</li> <li>Identify, suspend, or return incoming transfers lacking required information in real time.</li> <li>Screen all parties in a transfer before execution.</li> </ul>

# Reserve asset reporting requirements – are you ready?

**PN 831 provides guidance for auditors on the requirements of independent attestation on reserve assets set out in the Stablecoins Ordinance. We have noted a non-exhaustive list of questions to ask across key areas to assess your organisation’s reserve asset reporting readiness:**

## **Reserve Asset Management**

- What specific assets will comprise your reserves? Are they high quality, highly liquid with minimal investment risk?
- What stress tests have you performed to ensure reserves always meet or exceed the value of stablecoins in circulation - even during market volatility?
- Do you have adequate and appropriate risk management policies and procedures for managing reserve assets to ensure that valid redemption requests can be honoured without undue delay? Has this been stress tested?

## **Governance and Risk Management**

- Have you planned to conduct regular audits to assess whether your reserve assets are managed in compliance with your policies and procedures, as well as applicable regulatory requirements?
- Have you identified all material risks - including operational, market, credit, liquidity, and custody risks and designed and tested the controls to mitigate these risks
- Have you planned to ensure you are able to review your risk management framework and internal control system at least on an annual basis.
- Who within the organisation is responsible for reserve management, and do they have the necessary expertise?

## **Disclosure and Transparency**

- Are you ready to publish detailed information about reserve assets and composition on your website?
- Have you determined what you will include as “managements assertions” in your reserve reporting for which your external auditor will need to attest to?
- Do you have processes to update disclosures promptly when circumstances change?
- Is your website infrastructure ready to host attestation reports in a prominent, easily accessible location?



# Reserve asset reporting requirements – are you ready?

## Operational Infrastructure

- What distributed ledger or blockchain is being used? Has the technical architecture, system capacity and scalability, consensus mechanism, level of decentralisation been documented and clearly explained?
- Do you have appropriate policies, procedures and controls as related to minting, burning and freezing activities, token management and wallet and private key management?
- How do your smart contracts work for minting, burning and freezing stablecoins? Have you obtained an independent third-party smart contract security reports on the resilience of the contract security to withstand cyber security threats
- What IT controls protect against unauthorised minting or manipulation?
- Can you accurately determine the volume of stablecoins in circulation at any given moment?
- For any technology related upgrade required have you appoint an independent third party to conduct quality assurance review over the project?

## Attestation and Audit Readiness

- Have you identified an appropriately qualified, independent external auditor for both the attestation as well as the financial statement audit of the issuer?
- Can you provide the auditor with complete, accurate, and timely evidence on your reserve assets, stablecoin circulation as well as minting, burning and freezing activities, token management and wallet and private keys?
- Have you discussed with your auditors the accounting and disclosure implications taking into consideration the specific facts and circumstances surrounding your stable coin issuance, commercial terms, segregation / trust arrangement and management of reserve assets.
- Are you prepared for the auditor to select random dates for verification?

## Third-Party Dependencies

- Who are your critical third-party service providers (technology vendors, etc.)? How do you monitor them?

## Systems and Record Keeping

- Do your accounting and information systems capture all business activities accurately and in real-time?
- Do you have complete audit trails and reconciliations that demonstrate the effectiveness of your controls?
- If systems are offshore, have you established arrangements for HKMA access?



# No-regrets decisions

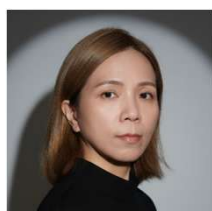
Regardless of where you are in your stablecoin journey, the following actions make sense now. These are moves you won't regret making - they'll position you well ahead of any independent audit, regulatory inspection and regardless of how the market or regulatory environment evolves:

What to do	Why it's important
<b>Invest in Compliance and Control Infrastructure Early</b>	Start documenting policies and procedures now, these are the foundation of your regulatory compliance. Particularly around reserve management, private key management, issuance, redemption, distribution, customer on-boarding and risk management oversight. Having policies written is the first step, however this is meaningless without appropriate challenge and controls to ensure these policies and procedures are adhered to in the spirit they were intended to, as such building out an appropriate plan to ensure you have assurance over the effectiveness of these controls is important.
<b>Choose Your Auditor Carefully</b>	Select an independent auditor with expertise in digital assets and stablecoin attestation. It's worth identifying candidates early and understanding their capabilities and approach. Upfront planning and coordination across the organisation working pro-actively with your auditor will help ensure a smooth process.
<b>Develop Clear Governance Structures</b>	Establish unambiguous roles and responsibilities for reserve management, with appropriate board oversight. Document decision-making processes and ensure your governance structure supports at least quarterly reviews of policies and procedures. Ensure there is a clear plan for all prescribed board level approvals and engage early.
<b>Prepare for Transparency</b>	Operate as if everything will be public - because much of it will be. Build a culture of transparency and ensure your disclosures are clear, accurate, and genuinely informative, not just technically compliant.
<b>Conduct Security Assessments</b>	Commission independent security assessments of your technology infrastructure, including smart contracts and blockchain implementations. These assessments provide assurance to regulators and help identify vulnerabilities before they become problems.
<b>Plan for Operational Resilience</b>	Consider what happens if things go wrong—technology failures, market stress, or key person departures. Build redundancy and contingency plans into your operations so that redemption requests can always be honoured "without undue delay" as the regulations require.
<b>Stay Informed</b>	The regulatory landscape for digital assets is evolving rapidly. Stay connected to local as well as global industry developments, engage with professional bodies like the HKICPA, and be prepared to adapt as guidance is refined and market practices develop and mature.

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