

Blockchain & Cryptocurrency Regulation 2026

Eighth Edition

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Stablecoin use cases and regulations

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Stablecoins – digital assets that are designed to maintain a stable value, typically through pegging to fiat currencies held in a reserve account – provide the benefits of decentralized blockchain systems with the stability required to use cryptocurrencies for cross-border transactions or for retail payments. Stablecoins have also long been a lynchpin of cryptocurrency transactions, allowing users to move relatively easily from cryptocurrency to “fiat” through a stablecoin and then back into a different cryptocurrency.

Use of stablecoins in connection with cryptocurrency transactions has been highly successful. In 2024, total stablecoin transfer volume was US\$27.6 trillion, almost all of it used for digital asset transactions, and its market capitalization grew to US\$150 billion.¹ However, adoption of these digital assets for cross-border transactions or for retail payments has been slow, due in large part to uncertainty as to how stablecoins would be regulated. Recently, however, the regulatory landscape has become much clearer, particularly in the United States, paving the way for widespread adoption of stablecoins. In this chapter, we provide some background on stablecoins, and then an analysis of the current state of stablecoin regulation in the United States, the United Kingdom, the European Union and Hong Kong.

Background

Stablecoins emerged as a potential solution to the problems presented by cryptocurrencies that typically fluctuate dramatically in value, often within short periods of time. Such fluctuations limit the use cases of these cryptocurrencies. For example, retailers and service providers find it challenging to price goods and services consistently with a fluctuating asset, or to accept them as payment. Even cross-border money transfers can become more challenging, if the value of the underlying asset fluctuates to the detriment of the sender or receiver.

By pegging a stablecoin to the value of a stable asset, such as fiat, and holding that asset in reserve, stablecoins, as their name implies, remain relatively stable in value. Functionally, this means that one unit of a stablecoin should be worth the same as one unit of its reference asset. As discussed below, stablecoins maintain this stability through various mechanisms, including collateralization (holding reserves of the reference asset to back the stablecoin's value) and algorithmic stabilization (using computer code to automatically adjust the stablecoin's supply to match the pegged asset's value).

Types of stablecoins

Fiat-collateralized stablecoins

Fiat-collateralized stablecoins, the most common in use today, are backed at a 1:1 ratio to fiat reserves. This means that each time a stablecoin is sold, the corresponding fiat is placed in a reserve account, typically with a regulated bank. When a stablecoin holder redeems a stablecoin, that stablecoin is burned and the corresponding amount released from the reserve to the holder. Large stablecoins typically have their reserves audited by a third party and publish those audit results to prove their reserve holdings. As discussed in the *U.S. regulatory environment* section below, the entities that are permitted to issue stablecoins in the U.S. and the requirements surrounding them are now subject to a new federal regulatory framework.

Crypto-collateralized stablecoins

Crypto-collateralized stablecoins are stablecoins whose value is backed by reserves of other cryptocurrencies, rather than traditional assets like fiat currency or commodities. Instead of the reserve being held in a bank as is the case with fiat-backed stablecoins, crypto-collateralized stablecoins are secured through blockchain-based smart contracts. Analogous to a fiat-backed stablecoin, when a user acquires a crypto-collateralized stablecoin, they lock up the collateral cryptocurrency in a smart contract. When they redeem the stablecoin, that stablecoin is burned and collateral cryptocurrency is released to them. In sharp contrast to fiat-backed stablecoins, given that cryptocurrency is inherently volatile, crypto-collateralized stablecoins are usually overcollateralized. Specifically, the value of the cryptocurrency held in reserve is greater than the value of the stablecoins issued. This spread is designed to hold the stablecoin's value, even if the price of the collateral cryptocurrency drops.

Algorithmic stablecoins

Algorithmic stablecoins are a type of cryptocurrency designed to maintain a stable value, usually mirroring a fiat currency, without being linked to any collateral. Instead, they rely on computer algorithms to automatically expand or contract the stablecoin supply in response to market demand fluctuations, ultimately keeping the price stable. If the stablecoin price rises above its target, algorithms increase the supply by creating new coins, encouraging users to sell and bring the price back down. If the price falls below the target, the system reduces the supply by buying back and burning coins, encouraging scarcity and pushing the price up. Many algorithmic stablecoins have faced challenges given the inherent complexity in coding this stability.

Stablecoin use cases

Stablecoins present a number of potentially valuable use cases:

- An inexpensive and rapid means of payment for goods and services with lower barriers to entry than some other payment systems.
- For business-to-business transactions, the ability to quickly make payments on a global basis.
- The ability to remit payments around the world quickly and inexpensively.
- A means to convert digital assets to a fiat equivalent, and back, without the need to convert the digital asset into actual fiat. This allows a user to remain in the cryptocurrency ecosystem while avoiding the price fluctuations of non-stablecoin digital assets.

U.S. regulatory environment

In the United States, the regulatory landscape for stablecoins shifted decisively with the Guiding and Establishing National Innovation for U.S. Stablecoins Act (“**GENIUS Act**”). Signed into law on July 18, 2025, the GENIUS Act establishes the first comprehensive federal framework for payment stablecoins.

Prior to the GENIUS Act, stablecoin regulation was fragmented across state money transmission regimes and various securities and banking laws, creating uncertainty for issuers and limiting market adoption. With the GENIUS Act, stablecoin issuance and related activities are formally brought into the federal regulatory perimeter and are poised to have a key role in mainstream finance.

Scope and coverage

The GENIUS Act applies to “payment stablecoins” – digital assets designed for use as a means of payment or settlement, where the issuer is obligated to redeem them at a fixed monetary value and represents that they will maintain a stable value. Stablecoins structured as securities, commodities or deposits (including tokenized deposits) fall outside this framework and remain subject to existing regulatory regimes. Indeed, the GENIUS Act confirms that a payment stablecoin issued by a permitted payment stablecoin issuer (“**PPSI**”) does not constitute a security or commodity, thereby clarifying longstanding regulatory uncertainty.

Permitted issuers and key implications

Only PPSIs may issue stablecoins for the U.S. market. Eligible issuers include:

- Subsidiaries of insured depository institutions supervised by their existing federal or state banking regulator.
- Non-bank entities and uninsured national banks approved by the Office of the Comptroller of the Currency (“**OCC**”).
- State-qualified issuers with less than US\$10 billion in outstanding stablecoins, provided the state regime is certified as “substantially similar” by the U.S. Stablecoin Certification Review Committee (“**SCRC**”), which is chaired by the Treasury Secretary and also comprises the Federal Reserve Chair (or Vice Chair for Supervision, if so delegated) and the Federal Deposit Insurance Corporation (“**FDIC**”) Chair.

Federal regulators (the OCC, Federal Reserve, FDIC, and the National Credit Union Administration) oversee PPSIs depending on the type of entity. The law also provides for recognition of foreign-issued stablecoins if they are subject to regulatory and supervisory requirements that are “comparable” to those applicable to PPSIs, as determined by the Treasury Secretary upon a recommendation from each other member of the SCRC.

Significantly, if a payment stablecoin is not issued by a PPSI, then it cannot be: (i) treated as cash or cash equivalent for accounting purposes; (ii) eligible as cash or cash equivalent margin or collateral for broker-dealers, swap dealers, and certain other intermediaries; or (iii) accepted as a settlement asset to facilitate wholesale payments between banking organizations.

Under the GENIUS Act, so-called “digital asset service providers” (e.g., digital asset intermediaries, exchanges and custodians) will be generally prohibited from offering or selling payment stablecoins that are not issued by a PPSI beginning on July 18, 2028. In addition, they are prohibited from offering, selling or otherwise making available a payment stablecoin issued by a foreign stablecoin issuer unless such issuer has the technological capability to comply, and will comply, with the terms of any lawful order to seize, freeze, burn, or prevent the transfer of outstanding stablecoins, among other requirements.

Principal requirements for licensed stablecoin issuers

The GENIUS Act sets forth a number compliance and other requirements for stablecoin issuers. These requirements will be central to the evaluation of license applications.

Reserve, redemption, and disclosure requirements

PPSIs must maintain identifiable reserves equal to 100% of stablecoin liabilities, generally comprising

cash, bank deposits or low-risk securities of short-term duration (e.g., U.S. Treasuries). Reserves cannot be pledged, rehypothecated or reused by the issuer, with very limited exceptions.

Stablecoin holders have a statutory and enforceable right to redeem their stablecoins for the reference currency (e.g., U.S. dollars) on demand. Accordingly, PPSIs must publish a redemption policy that promises timely redemption of stablecoins for fiat, with any fees disclosed in plain language and capped (fees can only be changed with seven days' notice). An issuer also must disclose, on a monthly basis, the composition of reserves on its website, subject to examination and certification by a registered public accounting firm. Additionally, an issuer's Chief Executive Officer or Chief Financial Officer must make required certifications as to the accuracy of monthly reports. For an issuer with more than US\$50 billion in consolidated total outstanding issuance (and not a public company), it must provide regulators with annual audited financial statements and information on any related party transactions.

Capital, liquidity, risk management and other requirements

PPSIs will be expected to satisfy capital liquidity, risk management and other related requirements on an ongoing basis. Specifics on these requirements will be released in forthcoming regulations. However, the GENIUS Act makes clear that many of these requirements must be tailored to a PPSI's business model and risk profile and may not exceed requirements or standards that are sufficient to ensure ongoing operations of PPSIs.

Consumer protection

The GENIUS Act prohibits issuers from using "deceptive names" in marketing, such as representing that their payment stablecoins are backed by the full faith and credit of the U.S., guaranteed by the U.S. government or covered by federal deposit insurance. Issuers must also ensure that their marketing does not imply that their payment stablecoins are legal tender or government issued or approved. Misrepresentation is subject to civil penalties.

For federally licensed payment stablecoin issuers or subsidiaries of insured depository institutions or credit unions, the GENIUS Act preempts state laws related to chartering, licensure, or other authorization to do business as a PPSI, but specifically provides that it does not preempt state consumer protection laws.

Anti-money laundering and financial crime compliance

PPSIs are designated as financial institutions under the collection of U.S. statutes comprising the Bank Secrecy Act. They must register with the U.S. Treasury Department's Financial Crimes Enforcement Network, implement comprehensive anti-money laundering ("AML") compliance programs, conduct customer due diligence, monitor and report suspicious transactions, and comply with economic sanctions obligations. The GENIUS Act also requires that they have technical capabilities to freeze assets and share information with regulators.

Prohibition on interest payments

The GENIUS Act expressly prohibits PPSIs from paying interest or yield – in any form – to stablecoin holders, solely in connection with the holding, use or retention of such payment stablecoin. This restriction is intended to ensure that stablecoins function strictly as a means of payment, not as deposit-like instruments that could undermine banking intermediation.

However, the law does not explicitly prohibit non-issuer affiliates or third-party platforms, such as exchanges or fintech intermediaries, from offering "rewards" programs. Critics argue this represents a loophole, effectively allowing yield-bearing stablecoin products outside the banking system. Banks and some policymakers have raised concerns that this could draw deposits away from regulated institutions and increase systemic risks. Supporters counter that such programs encourage innovation and competition.

The controversy has prompted discussion of follow-on legislation, with some members of Congress signaling interest in closing or narrowing this perceived loophole.

Transition timelines and next steps

The GENIUS Act takes effect on the earlier of 18 months after enactment (January 2027) or 120 days after issuance of any final implementing regulations. A three-year transition period allows digital asset service providers to wind down offerings of stablecoins not issued by PPSIs or recognized foreign issuers.

Nevertheless, financial institutions and commercial firms are already assessing potential use cases for stablecoins and are taking various preparatory steps in anticipation of seeking licenses and being subjected to regulation and supervision under the GENIUS Act.

UK regulatory environment

In the United Kingdom, stablecoins currently occupy a largely unregulated space. Existing legislation, such as the Electronic Money Regulations 2011 (“EMRs”) and the Payment Services Regulations 2017 (“PSRs”), was not designed with crypto-assets in mind. Fiat-backed stablecoins generally do not qualify as “e-money” or “funds” under these frameworks, and so the issuers and custodians of stablecoins are not subject to the same authorization, safeguarding, or conduct requirements that apply to traditional payment institutions or e-money firms.

At the same time, the UK government has recognized the growing role that stablecoins may play in digital payments and financial markets. It is in the process of developing a new framework that will bring fiat-backed stablecoins within the regulatory perimeter. Unlike the EU, the UK’s regulatory approach to stablecoins will be anchored in changes to existing financial legislation rather than a single comprehensive law like MiCA (see *EU regulatory environment* below). The framework will extend regulatory oversight to activities such as issuance, custody, and payment services involving stablecoins, and will impose specific requirements around redemption rights, reserve backing, governance, and prudential soundness.

The UK therefore stands at a transitional stage: today, stablecoins are largely outside financial regulation, save for general obligations under consumer protection, financial promotions, and AML rules. In the near future, they will be subject to a bespoke regulatory regime, which is still in the process of being developed.

Existing treatment of stablecoins

At present, the regulation of activities relating to fiat-backed stablecoins in the UK is limited. Under the PSRs, stablecoins do not amount to “funds,” and under the EMRs they do not generally qualify as “e-money.” This means that the issuers of stablecoins are not subject to the prudential or safeguarding obligations that apply to e-money institutions. Similarly, persons that facilitate transfers in stablecoins are not regulated under the PSRs.

Nonetheless, stablecoin issuers and service providers are not entirely outside of the regulatory perimeter. Acting as a “*crypto-asset exchange provider*” or a “*custodian wallet provider*” from a UK place of business will require registration under the UK’s AML regime established by the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (“MLRs”). This is registration with the Financial Conduct Authority (“FCA”), which imposes know-your-customer and transaction monitoring rules. They are also subject to the UK’s financial promotions regime, which means that marketing of stablecoins to UK consumers may only be undertaken by an authorized firm, a crypto-asset firm registered under the MLRs, or pursuant to more niche exemptions that broadly permit marketing to professional or institutional users.

Forthcoming regime

Scope of forthcoming regime

The forthcoming regime will introduce the concept of a “qualifying stablecoin.” This term will apply to fiat-backed tokens that reference the value of a single official currency. These will be distinguished from e-money, securities, tokenized deposits, or other regulated instruments. The regime is expected to come into force in Q1 2026.

Other types of tokens, such as those backed by commodities or relying on algorithmic stabilization mechanisms, will not fall within this category. They may still be regulated under existing frameworks where their features bring them within scope (for example, as securities or collective investment schemes).

Issuance and custody

The new regime is intended to require issuers of qualifying stablecoins to have a UK-established entity that is authorized by the FCA where stablecoins are offered to UK retail customers. Issuers will likely need to incorporate a UK entity to access the UK retail market, and issuers based in third countries will not be permitted to issue directly into the UK retail market. However, the regime will allow for more limited cross-border activity. For example, a third-country issuer will be able to issue qualifying stablecoins to UK institutional or professional investors under certain conditions.

Custodians of qualifying stablecoins will also require FCA authorization. They will be subject to requirements to safeguard client assets, maintain operational resilience, and ensure proper segregation of client holdings.

Where a stablecoin arrangement is judged to be systemically important, the Bank of England will also have oversight powers, mirroring the dual-regulator model used for traditional payment systems.

Interest and returns

Stablecoins will be treated as a means of payment rather than as an investment product. Holders will not be entitled to receive interest or other returns on their tokens. While issuers may retain income generated from backing assets, they will be prohibited from passing such returns to holders in a way that could blur the distinction between stablecoins and bank deposits.

Redemption rights

Holders of qualifying stablecoins will have a statutory right to redeem their tokens for fiat currency at par value. Redemption will need to take place promptly: typically by the end of the next business day following a valid request. Limited exceptions will apply; for example, where redemption would breach financial crime laws.

Reserve and safeguarding requirements

Issuers of qualifying stablecoins will be required to maintain reserves of high-quality and liquid assets equal to the value of tokens in circulation. Reserves must be held in trust for the benefit of holders and segregated from the issuer’s own assets.

Permissible reserve assets will typically include cash deposits and short-dated government securities, with scope for limited diversification subject to liquidity buffers. Issuers will need to conduct daily reconciliations and commission independent audits to verify that reserves are maintained in full. It is expected that permitted reserve assets for “systemic stablecoins,” as designated by the Bank of England, will be narrower.

Governance requirements

Issuers and custodians will be subject to governance standards consistent with those applying to other

FCA-regulated firms. This includes requirements for robust organizational structures, risk management, and business continuity planning.

Senior managers will fall within the Senior Managers and Certification Regime, ensuring personal accountability for compliance. Where a stablecoin arrangement is judged to have systemic significance, the Bank of England may impose additional governance or prudential requirements.

Recovery and wind-down planning

Issuers will be required to maintain recovery and wind-down plans. Recovery plans will set out measures to restore compliance with reserve and redemption obligations during periods of stress, while wind-down plans will ensure the orderly redemption of tokens if the issuer ceases operations.

Consumer protection

Consumer protection will be reinforced through disclosure obligations. Issuers will be required to provide clear and transparent information on the nature of the stablecoin, its backing assets, the rights of holders, and associated risks. Marketing will be subject to the UK's existing financial promotions regime.

AML/CFT

Stablecoin issuers and custodians will remain subject to the UK's AML and counter-terrorist financing ("CFT") framework. They will need to register with the FCA, undertake customer due diligence, monitor transactions, and report suspicious activity.

Other activities

The Treasury and FCA are also consulting on the new UK regime for other related crypto activities, including operating a crypto-asset trading platform and acting as a crypto-asset intermediary. Providing these services in respect of stablecoins will therefore also likely require a license where these activities take place in the UK, or are offered to the UK retail market.

EU regulatory environment

In the European Union, stablecoins are regulated by Regulation (EU) 2023/1114 on markets in crypto-assets ("MiCA"). MiCA provides a unified legal framework for crypto-assets not already covered by existing EU financial services legislation. MiCA introduces clear rules for the issuance, offering, and trading of crypto-assets, and sets out requirements for crypto-asset service providers. The regulation aims to foster innovation, protect retail investors, ensure market integrity, and address financial stability and environmental concerns.

Application of MiCA

Definition of asset-referenced token and e-money token

MiCA applies broadly to crypto-assets, defined as "digital representations of value or rights transferable and storable electronically using distributed ledger technology or similar technology." The definition of crypto-assets generally encompasses stablecoins. Here, MiCA differentiates between two main categories: asset-referenced tokens ("ARTs"); and e-money tokens ("EMTs"). ARTs are crypto-assets that are not electronic money tokens and purport to maintain a stable value by referencing another value or right or a combination thereof, including one or more official currencies, whereas EMTs are defined as crypto-assets that purport to maintain a stable value by referencing the value of one official currency (*i.e.*, a fiat currency issued by a central bank or other monetary authority). As such, single currency stablecoins will generally be categorized as EMTs, while multi-currency stablecoins will be ARTs.

Regulatory perimeter

MiCA prohibits offering ARTs or EMTs to the public within the EU (or seeking the admission of an ART or EMT on an EU exchange) unless such offers are made by permitted ART or EMT issuers.

An “offer to the public” is defined broadly and captures “a communication to persons in any form, and by any means, presenting sufficient information on the terms of the offer and the crypto-assets to be offered so as to enable prospective holders to decide whether to purchase those crypto-assets.”

As such, third-country stablecoins issuers will generally not be able to offer stablecoins into the EU without establishing a MiCA-compliant ART or EMT issuer.

Permitted ART and EMT issuers

ARTs may be issued by:

- (1) any legal entity or other undertakings with a registered office in the EU that has obtained the respective authorization from the competent authority in their home Member State (e.g., the Federal Financial Supervisory Authority in Germany); or
- (2) EU credit institutions that have drawn up a crypto-asset white paper and notified their competent authority at least 90 working days before the issuance of the token. This notification requires the provision of various information, including a program of operations, a description of their governance arrangements, the policy and procedures implemented to comply with MiCA requirements, and a description of the internal control mechanisms and risk management procedures. The competent authority shall assess within 20 working days of receipt whether it deems the credit institution’s notification to be incomplete, or whether it requires further information. Only once the notification is complete may the credit institution issue the ART.

The issuance of EMTs is more restricted by MiCA. EMTs may only be issued by credit institutions or e-money institutions authorized to provide services in the EU. Before issuing EMTs for the first time, the respective institutions are required to notify their respective competent authorities at least 40 working days before providing the services. The notification has to include a program of operations, a description of the risk assessment framework for the management of AML risks, the technical documentation of the information and communications technology (“ICT”) systems and security arrangements, and a description of the procedure for the segregation of clients’ crypto-assets and funds. The competent authority shall assess within 20 working days of receipt whether it deems the notification to be incomplete, or whether it requires further information.

In addition to the above, the European Banking Authority (“EBA”) has the ability to classify ARTs or EMTs as “significant” where certain thresholds are met (including having more than 10 million token holders, or more than €5 billion in reserve assets). If classified as “significant”, the issuers will be subject to direct EBA supervision and have additional operational and governance requirements.

Prohibition on interest payments

Both ART and EMT issuers are prohibited from paying interest to holders of their tokens. This prohibition extends to crypto-asset service providers offering services in relation to ARTs or EMTs. MiCA defines “interest” rather broadly, capturing any remuneration or benefit related to the length of time a holder possesses the token, including net compensation or discounts, with an effect equivalent to that of interest received by the holder of the ART or EMT, directly from the issuer or from third parties, and directly associated to the ART or EMT or from the remuneration or pricing of other products.

Reserve/safeguarding requirements

Different reserve requirements apply to the issuers of ARTs and EMTs. ART issuers have to constitute and maintain a reserve of assets. The reserve has to manage two different kinds of risks associated with ARTs:

(1) the risks stemming from the assets referenced by the ART; and (2) the liquidity risks stemming from the token holders' permanent right of redemption. EMT issuers are required to deposit at least 30% of the funds received in exchange for EMTs in separate accounts held with credit institutions. The remaining funds have to be invested in secure, low-risk assets that qualify as highly liquid financial instruments with minimal market risk, credit risk and concentration risk and would have to be denominated in the official currency the EMT references.

Governance requirements

Pursuant to MiCA, ART issuers have to implement robust governance requirements, including clear organizational structures, effective risk management procedures and internal control mechanisms. Procedures for the issuance and redemption of the ART have to be put in place. Further, ART issuers are required to implement complaints handling procedures and policies to identify, prevent, manage and disclose conflicts of interest. Prudent management of the reserve of assets is required and regular independent audits thereof. Furthermore, ART issuers have to have in place business continuity policies and plans for ICT disruptions.

EMT issuers are subject to the governance requirements for credit and e-money institutions as these are the only institutions permitted to issue EMTs. These governance requirements are very similar to those set out in MiCA for ART issuers; in particular, they are also required to have clear organizational structures, effective risk management procedures and internal control mechanisms.

Recovery and redemption plans

Issuers of ARTs and EMTs have to draw up and maintain recovery and redemption plans. The recovery plans set out measures to restore compliance with reserve requirements in case of a breach thereof, including (1) conditions and procedures for timely implementation of the recovery actions, as well as (2) a range of recovery options, such as liquidity fees on redemption, limits on daily redemptions and suspension of redemption. Additionally, issuers of ARTs and EMTs have to maintain an operational plan for the orderly redemption of the token in case the issuer is unable or likely to be unable to fulfill its obligations (including in case of insolvency, resolution or withdrawal of authorization). The redemption plan has to include, *inter alia*, a demonstration of the issuer's ability to redeem outstanding tokens without undue harm to token holders or market stability, and contractual arrangements, procedures and systems to ensure equitable treatment and timely payment to holders with the proceeds from the sale of the remaining reserve assets. Both plans have to be regularly reviewed and updated.

Consumer protection

MiCA aims to strengthen retail investor protection. Therefore, ART and EMT issuers have to publish a crypto-asset white paper. The white paper has to, *inter alia*, provide information about the issuer and the token, on the offer to the public or its admission to trading, on the rights and obligations attached to the token and on the underlying technology and any risks as well as on the principal adverse impacts on the climate and other environmental-related adverse impacts of the consensus mechanism used to issue the token. Further, such information must be fair, clear and not misleading. Also, any marketing communication in relation to the ART and EMT has to comply with specific requirements, including that any marketing communication is clearly identifiable as such and that it is fair, clear and not misleading as well as being consistent with the information provided in the white paper.

Anti-money laundering and terrorism financing prevention measures

ART and EMT issuers are subject to the money laundering and terrorism financing prevention laws as applicable in the EU Member States. Therefore, they are obligated to implement and maintain effective AML programs, including know-your-customer and transaction monitoring procedures. Suspicious activities have to be monitored and reported and recordkeeping requirements apply.

Other activities

MiCA also requires that “*crypto-asset service providers*” who are established in the EU (or provide services to EU clients) are authorized pursuant to MiCA. Crypto-asset services include the operation of trading platforms and conversion of crypto-assets into funds or other crypto-assets. As such, firms that offer these services into the EU in respect of stablecoins will also need to be authorized.

Hong Kong regulatory environment

In Hong Kong, the Stablecoins Ordinance (Chapter 656 of the Laws of Hong Kong) (“**Ordinance**”) creates a licensing regime for stablecoin issuers in Hong Kong (or foreign issuers of stablecoins that reference the Hong Kong dollar). The Ordinance, which came into effect on August 1, 2025, is timed to make Hong Kong the first of the major jurisdictions to legalize and put in place a regulatory framework for stablecoin issuers. The Ordinance calls for the Hong Kong Monetary Authority (“**HKMA**”) to be the primary regulator tasked with administering Hong Kong’s stablecoin issuer licensing regime and issuing codes and guidelines in a manner that will provide safeguards against financial stability risks, money laundering and financing of terrorism and promote stablecoin user protection.

Coverage of the licensing regime

The Ordinance covers the issuance of “specified stablecoins,” which are stablecoins that purport to maintain a stable value with reference wholly to one or more official currencies (currency issued by the government, the central bank, the monetary authority, or an authorized note-issuing bank, of any jurisdiction) or other “units of account” or “stores of economic value” as may be specified by the HKMA from time to time.

Under the Ordinance, anyone that (i) issues a specified stablecoin in Hong Kong, (ii) issues a Hong Kong dollar-referenced specified stablecoin outside of Hong Kong, or (iii) actively markets the issuance of a specified stablecoin to the Hong Kong public will require a license. The licensing regime does not otherwise regulate the trading, holding or provision of intermediary services (such as brokerage, asset management and custody) in relation to stablecoins.

It is important to note that the Ordinance does not cover the issuance of certain non-specified categories of stablecoins, such as algorithmic stablecoins and stablecoins that reference the value of gold, silver or other precious metals (unless such commodities are later specified by the HKMA as “units of account” or “stores of economic value” through gazettal). Market participants therefore cannot rely on the Ordinance, at least at this time, to be the foundation for the issuance of such latter types of stablecoins.

Key compliance requirements for licensed stablecoin issuers

The HKMA has published two guidelines for licensed stablecoin issuers under the regime, one covering specifically AML/CFT requirements, and the other covering the broad range of day-to-day compliance requirements.

Financial resources

Licensed issuers must maintain at all times a paid-up share capital of HK\$25 million (which is approximately US\$3.2 million), or an equivalent amount in another currency that is freely convertible into Hong Kong dollars. The HKMA has the authority to require any licensed issuer to maintain a higher level of paid-up capital.

Reserve assets

- *Full backing*

The licensee must maintain a reserve assets pool for each specified stablecoin it issues and ensure full

backing of all outstanding specified stablecoins in circulation. In practice, taking into account the risk profile of the reserve assets, there must be appropriate over-collateralization to provide an adequate buffer.

- *Composition of reserve assets*

Reserve assets must be of high quality and high liquidity with minimal investment risks. The HKMA provided a list of examples, which includes (i) cash, (ii) bank deposits with a term of no longer than three months, (iii) highly liquid, marketable debt securities with a residual maturity of longer than one year that are issued by a government, central bank, multilateral development bank, etc. (subject to additional credit risk requirements), and (iv) cash receivable from overnight reverse repurchase agreements with minimal counterparty risks backed by the debt securities described in (iii).

Non-interest bearing

Licensees are prohibited from paying interest or interest-like incentives in any form to the stablecoin holders, although they may still provide other forms of marketing incentives.

AML/CFT

In addition to conducting customer due diligence on the stablecoin customer who is conducting a stablecoin transaction (e.g., subscription, redemption) with the licensed issuer, the HKMA further requires the licensed issuer to undertake a range of AML/CFT measures, including but not limited to:

- (i) verifying the customer's ownership of the relevant wallet for the relevant stablecoin transaction with the customer;
- (ii) adopting blockchain analytic tools (and/or other appropriate solutions) to screen stablecoin transactions with customers and the associated wallet addresses;
- (iii) on a risk-based approach, conducting ongoing monitoring of on-chain transactions of the stablecoins in circulation and screen stablecoin transactions and associated wallet addresses beyond the primary distribution venue on an ongoing basis;
- (iv) having in place procedures to blacklist sanctioned wallet addresses and freeze stablecoins upon receipt of requests from regulators and law enforcement agencies, or in accordance with court orders; and
- (v) complying with "travel rule" requirements, which relate to the sharing and verification of customer information with the counterpart institution when effecting a stablecoin transfer.

Administration of the licensing regime

The HKMA launched a stablecoin consultation and assessment process (referred to by the HKMA as the "stablecoin issuer sandbox") in early 2024 and involved three participants during that time. The purpose of the consultation and assessment process was for the HKMA to understand the business models of existing and potential stablecoin issuers, and to communicate its expectations with such market participants. However, the HKMA emphasized that participation during this consultation and assessment process is not a prerequisite for receiving a license under the Ordinance, nor is participation a guarantee for any such license.

In August 2025, the HKMA publicly acknowledged that there is strong enthusiasm from market participants for licenses under the Ordinance and indicated that the HKMA will adopt a "*robust and prudent approach, with a reasonably high bar*" in considering licensing applications under the regime. In further updates to the market, the HKMA indicated that "*only a handful of licenses will be granted initially*" and expects the first licenses to be issued in early 2026.

The prudence and sustainability of the proposed operations would be key determinants of whether an application is successful. As with all licensing regimes, it is of paramount importance for applicants to

demonstrate management personnel's possession of adequate capabilities and experience across a range of areas and the applicant's ability to comply with the applicable requirements.

In consideration of the above, hopeful applicants of Hong Kong's stablecoin issuer license may wish to adopt a set of policies and use case proposals on their application that shows to the HKMA that the applicant's stablecoin scheme is sustainable, factoring in multiple factors such as user base, viable use cases, partnerships, and the interest rate environment. The HKMA expects applicants to articulate how their stablecoin schemes would effectively address pain points in economic and financial activities. Applicants should also have a clear plan, backed by commensurate resources and compliance capability, to maintain a sufficiently large user base to ride out market fluctuations.



Endnote

- 1 Spencer Feingold, *Stablecoin Surge: Here's Why Reserve-Backed Cryptocurrencies are on the Rise*, WORLD ECONOMIC FORUM, <https://www.weforum.org/stories/2025/03/stablecoins-cryptocurrency-on-rise-financial-systems> (last updated July 21, 2025).

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