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# Opportunities in Digital Finance After the Enactment of New Stablecoins Law in Hong Kong and the US

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**Seyfarth Shaw LLP**

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3 | 2025: The Year of New Stablecoin Law

4 | Opportunities Presented by New Stablecoin Law

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# Speakers

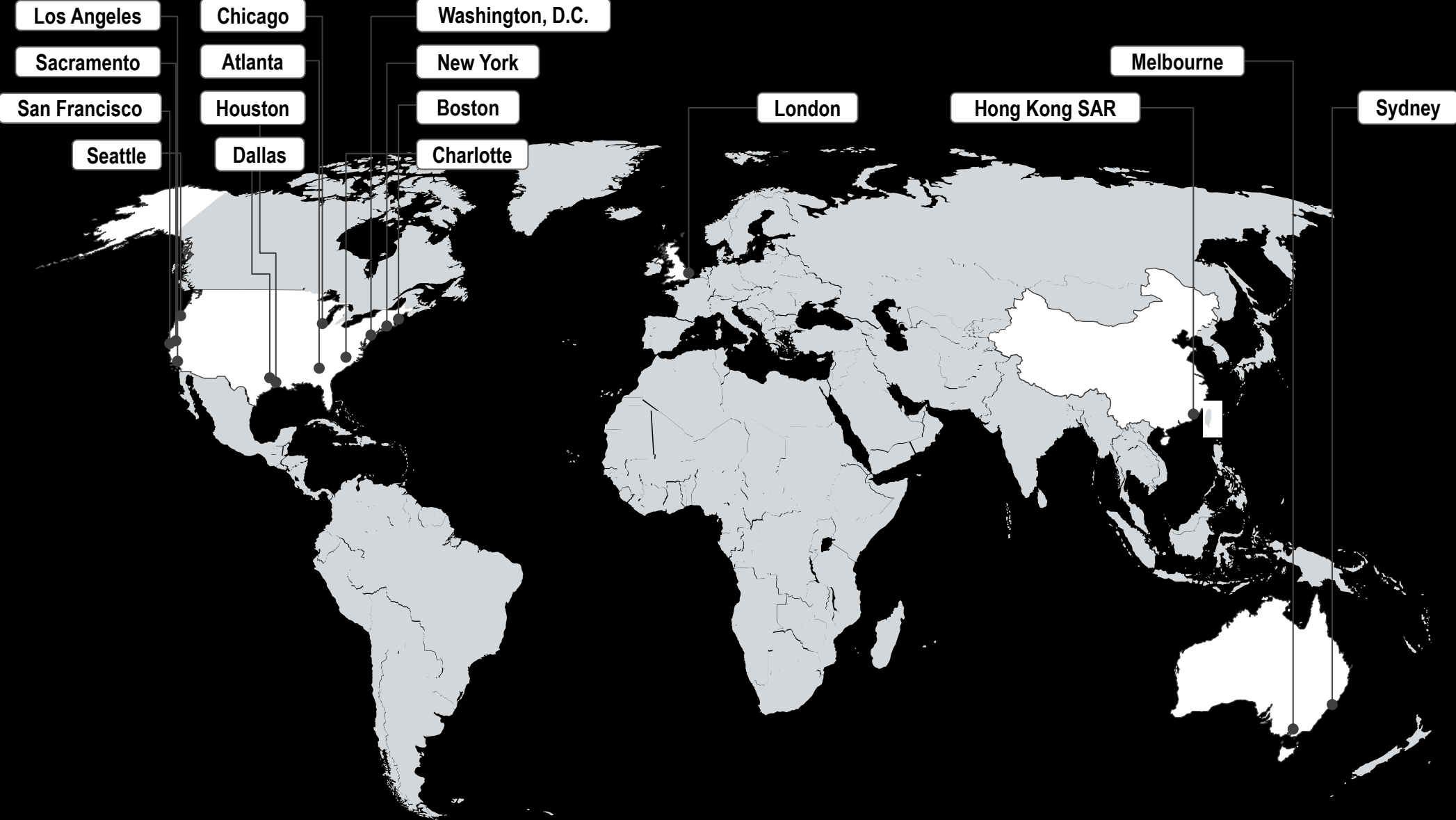


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# Digital Assets, Stablecoin, Crisis, and Reform

# Digital Currencies and the Rise of Stablecoins

Stablecoins are the market's answer to volatile digital currencies such as Bitcoin. Stablecoins have the potential for replacing traditional currencies and have evolved into an important part of the modern financial system, attracting the attention of both major financial players and regulators.

## Why Stablecoin is Attractive

### **Jump in Market Value:**

The aggregate market value of stablecoins jumped from US\$20 billion in 2020 to US\$246 billion in May 2025, according to Deutsche Bank.

### **Attraction of Stablecoins:**

These are digital assets with all of the attributes of digital currencies, but the primary stablecoins are *stable* (with few exceptions) in that they are “pegged” or tied to “real,” liquid and reliable assets (e.g., US\$ or gold) held in reserve on a 1:1 basis.

### **Fast and Inexpensive to Transfer:**

Stablecoins are issued, purchased and sold as “tokens” on blockchains (e.g., Ethereum). This means that these assets can move practically at the speed of light locally and internationally.

### **Widespread, Established Use:**

The two most widely accepted stablecoins are Tether (USDt, with ~US\$154 billion in value) and Circle (USDc, with ~US\$61 billion), and both are “pegged” to the US Dollar.

# What Are Stablecoins?

## How Are They Created?

## How are They Stored?

and

## How Have They Failed?

1

**Stablecoin Creation:** An issuer mints a digital coin as a token, records it on a block, the block's header contains information (like a timestamp, the hash of the *previous* block, making a secure, chronological chain), where each block cryptographically locks the one that came before it.

2

**Creation and Custody of Reserves:** Unlike Bitcoin, a Stablecoin issuer has credit support, or collateral in reserve, so that the Stablecoin is fiat-backed or crypto-backed by assets, thereby maintaining the “peg” (stability).

3

**Maintaining Collateral for Stability:** In the course of issuing a Stablecoin, the issuer is making a promise to maintain an equivalent amount of assets to back each Stablecoin (example: if the holder has US\$5 million in Stablecoin that holder can at any time “redeem” the Stablecoin and recover from the Issuer US\$5 million in liquid assets (e.g., USD or gold)).

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**Reserves of Collateral are the Key to Stablecoin:** Stablecoins are only “stable” if the assets held in reserves are *always* available for redemption and those assets are in fact “*real*.” The type of Stablecoins which are backed by other cryptocurrencies (e.g., Bitcoin) or algorithmic-determined reserves need a “cushion” to account for volatility or other safeguards to avoid the most infamous Stablecoin failure (TerraUSD).

# How Stablecoins Maintain Stability

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There are several mechanisms stablecoins use to keep their value stable:

## Fiat-collateralized

The most common type, where a single entity holds reserves of the stable asset (e.g., US dollars) to back each token, ensuring a 1:1 value relationship.

## Crypto-collateralized

Uses other cryptocurrencies as collateral, often with an overcollateralization strategy to maintain stability and allow for more censorship-resistant options.

## Algorithmic

Employs algorithms and smart contracts to manage the stablecoin's supply based on market demand, rather than relying on physical or direct collateral.

# The Result: Stablecoins Create an Entirely New Financial Ecosystem which before 2025 Was Not Subject to Regulation

- Stablecoin developers moved faster than regulators until 2025, creating a new Financial Ecosystem.
- Stablecoin is used internationally for payment (example: In May 2025, VISA partnered with Bridge, a stablecoin company owned by Stripe, a fintech startup, and this partnership enables consumers to use stablecoin for payments (first in Latin America)).
- The VISA experience demonstrates that Stablecoin issuers can “act” as banks without being subject to bank regulation.



# Market Crises and Fraud Led to New Digital Asset and Stablecoin Law in 2025

In the years leading to 2025, stablecoins were increasingly exploited for illegal activities:

- Until recently, Bitcoin was synonymous with crypto crime, valued for its deep liquidity and ubiquitous exchange listings.
- However, Chainalysis's 2025 Crypto Crime report underscores a major turning point last year:

Illicit addresses received \$40.9 billion in cryptocurrency in 2024, a figure Chainalysis projects could top \$51 billion once additional criminal wallets are identified.

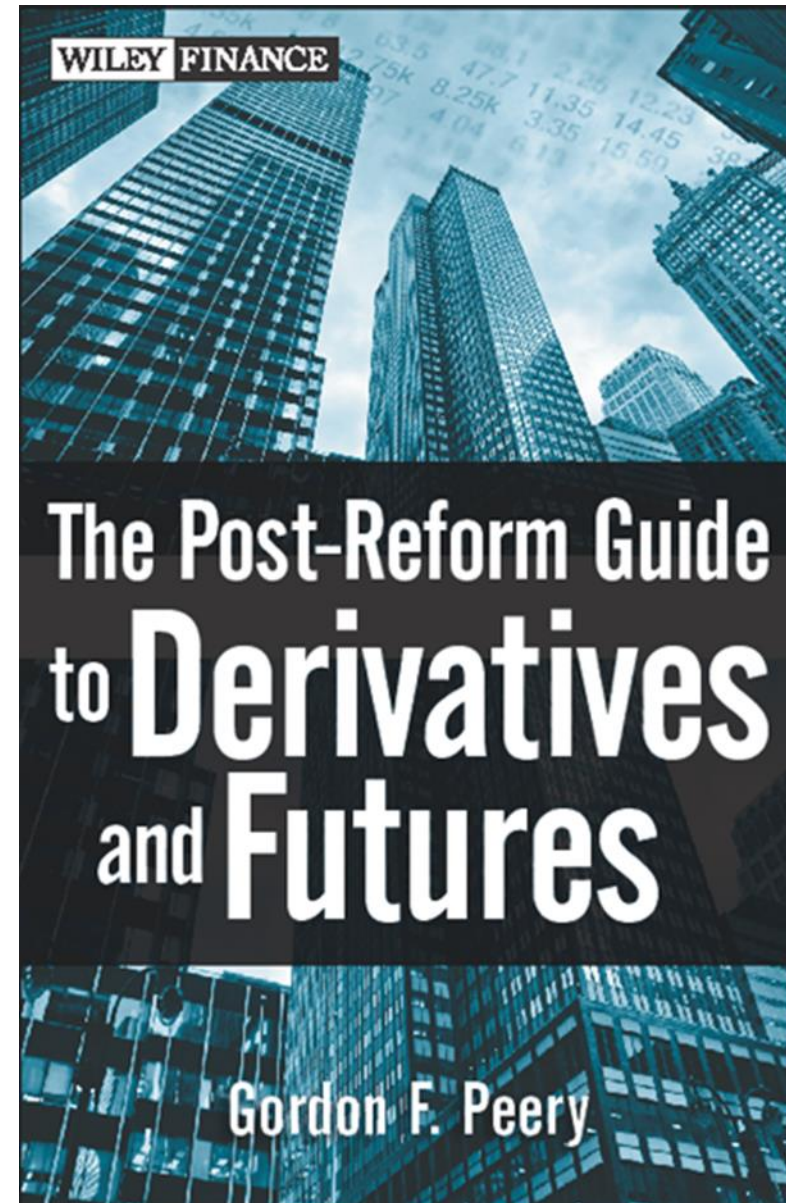
Stablecoins comprised 63% of all illicit transactions, up from significantly smaller shares in prior years.

Across the global cryptocurrency market, stablecoins also saw a 77% increase in legitimate usage, hinting that criminals are simply following the mainstream trend toward these less volatile digital assets, as the figure above shows.

*Source: Rezaul Karim, "Stablecoins: The New Epicentre of Crypto Fraud," International Compliance Association (March 3, 2025)*

In the United States, many high-profile fraud cases involving stablecoins led to the passage of the Guiding and Establishing National Innovation for US Stablecoins (GENIUS) Act in 2025.

The global financial crisis in 2008 led to international reform starting in 2010, and today's Stablecoin reform in 2025 uses the same principles as used in the reform measures in 2010.



The background features a dark teal to black gradient. On the left, several thin, glowing blue lines radiate from the bottom left towards the top right, each ending in a small, bright blue dot. On the right side, there is a dense cluster of overlapping, semi-transparent blue circles of various sizes, creating a bokeh effect. The overall aesthetic is futuristic and digital.

# 2025: The Year of New Stablecoin Law

# The GENIUS Act

- The GENIUS Act regulates any individual, company, or bank which sets out to issue a stablecoin.
- The GENIUS Act specifically applies to payment stablecoins (unlike Bitcoin and other cryptocurrencies, stablecoins are digital assets which are designed to maintain a stable value relative to a fiat currency, like the US dollar. Only certain, regulated issuers may create and bring to market stablecoins.
- Key requirements for issuers:

## Reserve Backing

Issuers must hold reserves of cash, US Treasury securities, or other similar, highly liquid assets on a 1:1 basis with the stablecoins in circulation.

## Reserves Audits & Disclosures

Issuers must conduct periodic reserve audits and release public disclosures about their holdings to ensure transparency.

## AML/Sanctions Compliance

Issuers are classified as financial institutions and must maintain anti-money laundering (AML) programs, monitor for suspicious activity, and comply with sanctions.

# Regulatory Structure

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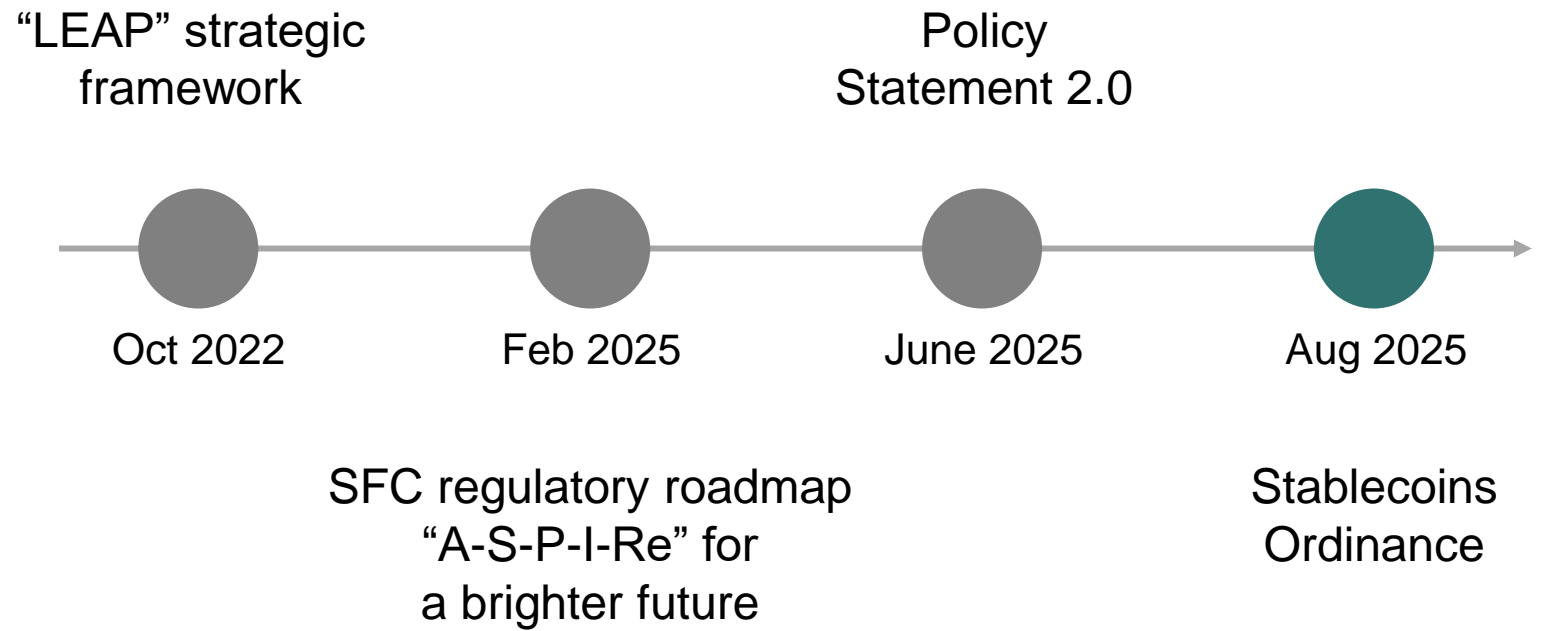
Payment stablecoins are not considered securities or commodities under US law.

- **Dual State-Federal Oversight:** The law creates a framework allowing issuers to be regulated either at the federal level or under state programs deemed substantially similar by a federal committee.
- **Federal Authority:** Issuers with over \$10 billion in outstanding stablecoins face federal oversight, ensuring nationwide consistency.

## Consumer & Financial Protections

- **Bankruptcy Priority:** In the event of an issuer's bankruptcy, stablecoin holders are prioritized over other creditors, improving the likelihood of getting their money back.
  - **Redemption Policy:** Issuers must have a clear policy for the timely redemption of outstanding stablecoins and disclose associated fees.
  - **Prohibited Practices:** The law prohibits issuing stablecoins as a condition of another purchase and bans names that imply government endorsement.
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# Digital Finance Framework Development in Hong Kong



# The Stablecoins Ordinance

What you need to know



Who and what are regulated



“Specified stablecoins:” “official currency,” “units of account,” or “stores of economic value”



“Issuance” and “offering”



Licensing requirements for issuers – “by invitation only”



Exemptions?



Professional investors?

# The Stablecoins Ordinance

What you need to know



Reserve Assets



Third-party distributors



AML/CFT requirements




Risk management



Transitional period for pre-existing stablecoin issuers

The background of the slide is an abstract pattern of vertical lines in various shades of blue and white, creating a sense of depth and movement. The lines are of varying thickness and are slightly blurred, giving the impression of light rays or data streams. The overall color palette is cool and professional.

# **Opportunities Presented by New Stablecoin Law**

An abstract background on the left side of the slide, featuring a series of parallel, slightly curved lines in various shades of blue and white, creating a sense of depth and movement.

The GENIUS Act creates major opportunities for the market by providing a clear regulatory framework for US dollar-backed stablecoins.

This clarity is expected to foster innovation, attract traditional financial institutions to the digital asset space, and boost the US dollar's global standing.

# Opportunities for the Digital Asset Market

**Encourages stablecoin innovation and adoption:** The act establishes clear rules for stablecoin issuers, which removes the regulatory uncertainty that has limited the use of stablecoins for everyday transactions. This foundation is expected to spur innovation, leading to a wider variety of stablecoin-related products and services.

**Drives mainstream adoption of stablecoins:** By establishing consumer protection guardrails, such as 100% reserve backing, transparency requirements, and holder priority in bankruptcy, the act increases trust in stablecoins. This could encourage consumers and businesses to adopt stablecoins for faster, cheaper payments, particularly for international transactions.

**Fosters growth in DeFi:** A stable and regulated stablecoin ecosystem can accelerate the use of stablecoins within decentralized finance (DeFi) protocols, providing a more reliable foundation for activities like lending, borrowing, and trading.

**Boosts tokenization efforts:** By legitimizing stablecoins as a type of digital asset, the act could spur the broader tokenization of real-world assets, such as securities, on blockchains. This could streamline trade settlements and open up new avenues for financial institutions.

# How can we assist?

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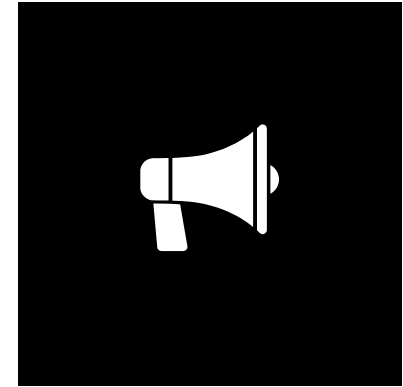
Cross-Border  
Compliance



Licensing  
Application

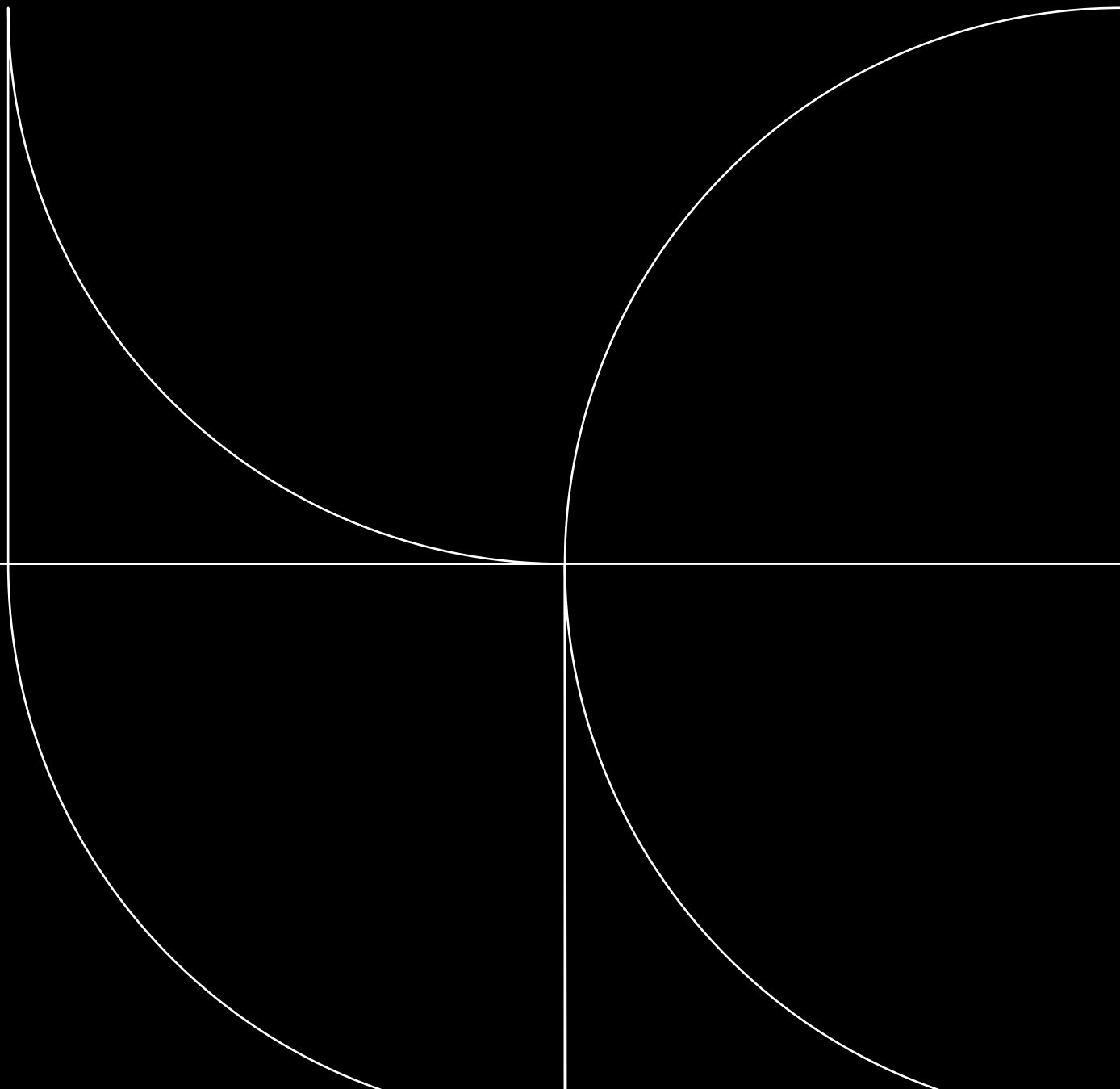


AML/CFT  
Compliance



Come Speak  
to Us

**Questions?**



**thank  
you**

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