



Han Kun Newsletter

Issue 220 (8th edition of 2025)

Legal Updates

- 1. Interpretation to the Measures for Administration of Mergers and Acquisitions Loans of Commercial Banks (Draft for Comment) and Recommended Actions**
- 2. Key Points and Challenges for Hong Kong Stablecoin Issuer License Applications**

1. Interpretation to the Measures for Administration of Mergers and Acquisitions Loans of Commercial Banks (Draft for Comment) and Recommended Actions

Authors: Ting ZHENG | Eryin YING | Lin ZHU | Hattie ZHANG

On August 20, 2025, the National Financial Regulatory Administration (the “NFRA”) issued for public comments the *Measures for Administration of the Mergers and Acquisitions Loans of Commercial Banks* (Draft for Comments) (the “Draft Measures”). The public comment period ended on September 20, 2025. The Draft Measures are intended to amend and replace the *Guidelines on Risk Management of Mergers and Acquisitions Loans of Commercial Banks* (the “2015 Guidelines”), as promulgated by the China Banking Regulatory Commission (“CBRC”, the predecessor to the NFRA) and amended on February 10, 2015. This article summarizes and interprets the major amendments made in the Draft Measures and suggests recommended actions to be taken by banks that offer mergers and acquisitions (“M&A”) loan services.

Evolution of the M&A loans related regulatory rules

I. Release of Guidelines on Risk Management of M&A Loans of Commercial Banks in 2008

On December 6, 2008, CBRC promulgated the *Guidelines on Risk Management of M&A Loans of Commercial Banks* (the “2008 Guidelines”), breaking the principle restriction in Article 20 of the *General Rules of Loans* that “borrowers shall not use loans to engage in equity investment, unless otherwise stipulated by the nation”, and allowing qualified commercial banks to provide M&A loans. This marked the complete lifting of the ban on commercial banks in the M&A market. Previously, in practice, only some foreign banks and policy banks could provide loans and financing for overseas M&A activities of large state-owned enterprises with special authorization from CBRC. According to the Q&A of a CBRC officer regarding the release of the 2008 Guidelines¹, given that M&A loans are more complicated and risky than general commercial loans, and that domestic enterprises need to broaden financing channels to cope with the impact of the global financial crisis, the drafting of the 2008 Guidelines adheres to the following two (2) basic principles: (1) the 2008 Guidelines should not only meet market demands, broaden the scope of loans, but also control the risks of M&A loans of commercial banks to a tolerable extent, so as to achieve the best balance between meeting the market demand and controlling loan risks; (2) on the basis of the mandatory requirements on risk control, the 2008 Guidelines introduce more guiding principles, so as to help commercial banks design their internal business processes and management systems according to their own circumstances.

¹ See NFRA official website:
<https://www.nfra.gov.cn/cn/view/pages/ItemDetail.html?docId=2981&itemId=915&generalttype=0>
See JSA Official Website
<https://www.nfra.gov.cn/cn/view/pages/ItemDetail.html?DocId%20=%202981%20&%20itemId%20=%20915%20&%20generalttype%20=%200>

II. Release of the 2015 Guidelines

In 2015, CBRC revised the 2008 Guidelines and issued the 2015 Guidelines. The major revisions made in the 2015 Guidelines include:

1. Moderately extending the tenor of M&A loans to better conform to the actual circumstances of M&A transactions (from five (5) years to seven (7) years); and
2. Moderately increasing the proportion of M&A loans in the total M&A amount, so as to reasonably satisfy the financing needs of mergers and reorganizations under the circumstance of rapid development of M&A transactions (from not higher than 50% to not higher than 60%);
3. The mandatory requirement for securities under M&A loans being revised to be requirement in principle, and the requirement that the conditions for securities must be stricter than those for other types of loans being removed, so as to allow commercial banks to, on the condition the risks of M&A loans are prevented, reasonably determine their conditions for securities based on the risk profile of the subject M&A project and the credit status of the acquirer.

III. Release of the Draft Measures in 2025

On August 20, 2025, NFRA made an effort to comprehensively revise the 2015 Guidelines and formulated the Draft Measures, with the purpose of adapting to the development needs of the M&A market under current conditions and supporting industrial transformation and upgrading. The major revisions made in the Draft Measures are reflected in the following aspects:

1. Broadening the applicable scope of M&A loans. On the basis of the controlling M&A transactions only under the 2015 Guidelines, M&A loans are permitted to support **equity participation M&A transactions** meeting certain conditions;
2. Setting differentiated requirements on the business operation qualifications. For commercial banks engaging in controlling and equity participation M&A loans business, on the basis of the requirements on good regulatory rating and compliance with major prudential regulatory indicators, **differentiated requirements on asset size** are introduced;
3. Optimizing loan conditions. **The upper limit of the proportion of M&A loans to the transaction price is increased, and the maximum term of loans is extended;** and
4. Emphasizing solvency assessments. Banks are required to, after comprehensive consideration of risks related to M&A transactions, **focus on assessing the solvency of the acquirer**, and at the same time, pay attention to the development prospects, synergies and operational benefits of the target enterprise after the M&A transaction, and assess the impact on M&A loans from multiple dimensions.

Major changes in the Draft Measures

Please refer to the table below for detailed analysis of the major changes made in the Draft Measures compared to the 2015 Guidelines and our suggestions (with ~~deletion lines~~ and **red text** indicating major changes).

Major changes and suggestions	Draft Measures	2015 Guidelines
<p>1. Purpose of M&A loans: restricting payment of “expenses”</p> <ul style="list-style-type: none"> ■ It is commonly understood that the “expenses” mentioned in Article 4 of the 2015 Guidelines include taxes and fees of intermediaries (audit, valuation, legal fees, etc.) relating to M&A transactions. ■ Paragraph 1, Article 3 of the Draft Measures changes the purpose of M&A loans to be “payment of the consideration for M&A transactions (including transaction expenses)”. We tend to believe that the qualifier of “transaction expenses” is intended to clarify that the M&A loans may only be used to pay the taxes and fees of intermediaries involved in the M&A transaction, but may not be used to pay or replace financing expenses, unless expressly specified in the final draft of the Draft Measures or the Q&A of NFRA that the “transaction expenses” may include payment or replacement of financing expenses. 	<p>Paragraph 1, Article 3 – “M&A loans” under these Measures refer to loans issued by commercial banks to domestic acquirers or their subsidiaries for the purpose of payment of the consideration for M&A transactions (including transaction expenses).</p>	<p>Article 4 – “M&A loans” under these Guidelines refer to loans issued by commercial banks to acquirers or their subsidiaries for the purpose of payment of the consideration and expenses of M&A transactions.</p>
<p>2. M&A acquirer: adding investment capacity requirements</p> <ul style="list-style-type: none"> ■ Paragraph 2, Article 3 of the 2015 Guidelines allows the M&A transactions to be carried out by the acquirer through a wholly-owned or controlled subsidiary which is specially established by the acquirer and has no other business activities. Paragraph 2, Article 3 of the Draft Measures changes the scope of entities carrying out M&A transactions to “a wholly-owned or controlled subsidiary of an acquirer which is mainly engaged in investment management”. We understand that the regulatory intent is that the entity carrying out M&A transactions and the entity borrowing in the M&A loan must have the relevant investment expertise, management experience and 	<p>Paragraph 2, Article 3 – The “subsidiary” referred to in the preceding paragraph refers to a wholly-owned or controlled subsidiary of the acquirer which is mainly engaged in investment management.</p>	<p>Paragraph 2, Article 3 – The M&A transactions can be carried out by the acquirer through a wholly-owned or controlled subsidiary which has been specially established by the acquirer and which has no other business activities (hereinafter referred to as the “subsidiary”).</p>

Major changes and suggestions	Draft Measures	2015 Guidelines
<p>the ability to assume liabilities. When determining whether the entity has the aforesaid capabilities, factors such as its business scope, investment track record and financial statements may be taken into consideration. For shell companies established solely for M&A purposes, they may not be able to meet the said requirements under the Draft Measures.</p> <ul style="list-style-type: none"> ■ As to whether the overseas subsidiaries of the acquirer can be used to carry out the M&A transactions, in view that there have been many precedents of banks providing M&A loans to acquirers' overseas subsidiaries under the current 2015 Guidelines, and the Draft Measures do not limit the domicile of such entity on the basis of the 2015 Guidelines, we believe banks will still be able to provide M&A loans to the overseas subsidiaries of domestic acquirers in compliance with the relevant foreign lending rules under the Draft Measures. It is worth noting that, overseas loans granted by onshore banks should, in principle, be used for the relevant expenditure within the business scope of the offshore enterprises and not be remitted back into China by means of financing to onshore entities or equity investment, etc., according to Article 7 of the <i>Circular of the People's Bank of China and the State Administration of Foreign Exchange on Relevant Issues concerning the Overseas Loans of Banking Financial Institutions</i> ("Circular 27"). Normally, an overseas enterprise is not required to list or disclose its business scope in accordance with its local laws; instead, a "broad purpose" clause may be adopted. We understand that the M&A loans taken by an overseas enterprise in this category are deemed as within the business scope of such overseas enterprise, and are generally not deemed as violating the loan limitation under Circular 27. 		
<p>3. Type of M&A loans: adding equity participation M&A loans</p> <ul style="list-style-type: none"> ■ Controlling M&A Loans <ul style="list-style-type: none"> - The Draft Measures clarify that under controlling M&A loans, M&A 	<p>Article 4 – M&A loans are used to support the domestic enterprise as the acquirer, by means of the transfer of existing equity</p>	<p>Paragraph 1, Article 3 – For the purpose of these Guidelines, "M&A" refers to a transaction in</p>

Major changes and suggestions	Draft Measures	2015 Guidelines
<p>transactions can be carried out by a single acquirer or by several acquirers acting in concert.</p> <ul style="list-style-type: none"> - On the basis of the 2015 Guidelines, the Draft Measures clarify that enhancing control rights also falls within the scope of controlling M&A loans, which is consistent with market practice during the application period of the 2015 Guidelines. <p>■ Equity participation M&A loans</p> <ul style="list-style-type: none"> - On the basis of the 2015 Guidelines, the Draft Measures clarify that banks are permitted to issue minority stake acquisition M&A loans, i.e. the loans are provided to support the acquirer to acquire the equity interest of the target company without obtaining control rights over the target company. - Different from controlling M&A loans, equity participation M&A loans only allow a single acquirer to carry out M&A transactions, but not multiple acquirers/consortiums; - The equity interest of the target company obtained at one time by a single acquirer may be no less than 20%; and - If a single acquirer already holds 20% or more of the equity of the target company, the equity interest transferred or subscribed at one time may be no less than 5% (and will not result in the acquisition of control rights of the target company). 	<p>interest, subscription of newly issued equity interest, acquisition of assets, or undertaking of liabilities, so as to realize actual control, merger or equity participation in the target company or assets that have already been established and under continuous operation. M&A loans are divided into controlling M&A loans and equity participation M&A loans according to the purposes of use:</p> <ol style="list-style-type: none"> i. A controlling M&A loan refers to a loan provided to support the acquirer to acquire the control rights of the target company or assets. <p>If the acquirer already obtained controlling rights of the target company acquires or subscribes the equity of the target company for the purpose of maintaining or strengthening its control rights, it may apply for controlling M&A loans.</p> <p>The acquirer referred to in the preceding paragraph may be a single acquirer or multiple acquirers acting in concert.</p> <ol style="list-style-type: none"> ii. An equity participation M&A loan refers to a loan provided to support a single acquirer to participate in the 	<p>which a domestic enterprise as the acquirer, through the transfer of existing equity interest, subscription of newly issued equity interest, acquisition of assets, or undertaking of liabilities, realizes the merger with or actual control over the target company or assets that have already been established and under continuous operation.</p> <p>Article 41 – These Guidelines apply to commercial banks providing loans supporting an acquirer which has already controlled the target company to acquire or subscribe the equity of the target company for the purpose of maintaining its control over the target company.</p>

Major changes and suggestions	Draft Measures	2015 Guidelines
	<p>equity of a target company but without achieving control over the target company, provided that the equity obtained at one time shall be no less than 20%.</p> <p>If a single acquirer already holds 20% or more of the equity of the target company and in order to further increase its shareholding ratio in the target company but without achieving control over the target company, it may apply for equity participation M&A loans, provided that the equity acquired or subscribed at one time shall be no less than 5%.</p>	
<p>4. Strengthening the qualification requirements for banks</p> <p>■ Minimum asset threshold: Paragraph 4 of Article 5 of the Draft Measures sets a hard asset threshold for banks providing M&A loan services for the first time, i.e., the balance of on- and off-balance-sheet assets of a commercial bank with legal person status after the adjustment of the consolidated statements at the end of the previous year shall not be less than 50 billion yuan (if the bank provides controlling M&A loan services only) or 100 billion yuan (if it provides equity participation M&A loan services).</p> <p>Article 32 of the Draft Measures provides that the Draft Measures shall apply <i>mutatis mutandis</i> to branches of foreign banks. However, it is yet to be clarified by NFRA whether the branches of foreign banks can use the assets of their parent banks to satisfy such requirement.</p>	<p>Article 5 – To provide M&A loan services, a commercial bank with legal person status shall meet the following conditions:</p> <ol style="list-style-type: none"> i. It shall be in good condition and have sound corporate governance; ii. It shall have a professional team engaged in due diligence and risk assessment of M&A loans; iii. It shall have a good regulatory rating in the previous year, and the major regulatory indicators shall meet the regulatory requirements; iv. The balance of on- and off-balance- 	<p>Article 5 – To provide M&A loan services, a commercial bank with legal person status shall meet the following conditions:</p> <ol style="list-style-type: none"> i. It shall have a sound risk management mechanism and an effective internal control mechanism; ii. Its capital adequacy ratio shall not be less than 10%; iii. Other regulatory indicators shall meet the regulatory requirements; and

Major changes and suggestions	Draft Measures	2015 Guidelines
<ul style="list-style-type: none"> ■ Regulatory rating: the requirement of “good regulatory rating” is newly added to Paragraph 3 of Article 5 of the Draft Measures, but for now, there are no specific measurement standards for “good regulatory rating”. Local offices of NFRA may have the discretion in that regard at that time. ■ Professional experience: Article 9 of the Draft Measures adds that for a bank providing equity participation M&A loans, the responsible person of the professional team shall have more than five (5) years of experience in M&A business. 	<p style="color: red;">sheet assets after the adjustment at the end of the previous year shall not be less than RMB 50 billion; for a commercial bank providing equity participation M&A loan services, the balance of on- and off-balance-sheet assets after the adjustment at the end of the previous year shall not be less than RMB 100 billion.</p> <p>Prior to providing M&A loan services, a commercial bank shall develop corresponding business process and internal control system, and file the same with NFRA or its local office for record.</p>	<p>iv. It shall have a professional team engaged in due diligence and risk assessment of M&A loans.</p> <p>Prior to providing M&A loan services, a commercial bank shall develop the business process and internal control system for M&A loans, and report the same to the regulatory authorities. After providing M&A loan services, if a commercial bank fails to continuously satisfy any of the above conditions, it shall stop providing new M&A loan services.</p>
	<p>Paragraph 2, Article 9 – The responsible person of the professional team referred to in the preceding paragraph shall have more than three (3) years of experience in M&A business, and the members of the professional team shall include but not limited to M&A experts, credit experts, industry experts, legal experts and financial experts. The responsible person of the professional team for equity M&A loans shall have more than five (5)</p>	<p>Paragraph 2, Article 24 – The responsible person of the professional team referred to in the preceding paragraph shall have more than three (3) years of experience in M&A business, and the members of the team may include but not limited to M&A experts, credit experts, industry experts, legal experts and financial experts.</p>

Major changes and suggestions			Draft Measures	2015 Guidelines
			years of experience in M&A business.	
5. Optimization of loan conditions: higher loan percentages and longer loan terms			<p>Paragraph 2, Article 24 – The controlling M&A loan shall not account for more than 70% of the M&A transaction price, and the equity funds shall not account for less than 30% of the M&A transaction price.</p> <p>Paragraph 3, Article 24 – The equity participation M&A loan shall not account for more than 60% of the M&A transaction price, and the equity funds shall not account for less than 40% of the M&A transaction price.</p>	<p>Article 21 – The M&A loan shall not account for more than 60% of the M&A transaction price.</p> <p>Paragraph 2, Article 14 – Commercial banks shall, taking into account the above risk factors, reasonably calculate the source of repayment of the M&A loan and prudently determine the financial leverage ratio of the M&A project supported by the M&A loan based on the operational and financial conditions of both parties and the M&A financing methods and amounts, so as to ensure that the source of funds for payment of M&A transaction price contain a reasonable proportion of equity funds and to avoid the risks caused by the high-leverage M&A financing.</p>
	Draft Measures	2015 Guidelines		
Proportion of M&A Loan to the Price of the M&A Transaction	<ul style="list-style-type: none"> ■ Controlling: not more than 70% ■ Equity participation: not more than 60% 	Not more than 60%		
Proportion of equity funds	<ul style="list-style-type: none"> ■ Controlling: not less than 30% ■ Equity participation: not less than 40% 	Reasonable proportion		
Term	<ul style="list-style-type: none"> ■ Controlling: not more than ten (10) years ■ Equity participation: not more than seven (7) years 	Not more than seven (7) years		
<ul style="list-style-type: none"> ■ Pilot policy: It is noteworthy that on March 5, 2025, NFRA indicated that certain provisions of the 2015 Guidelines were moderately relaxed to support the development of technology enterprises. The maximum amount of a controlling M&A loan that technology enterprises can borrow shall be raised to 80% of the M&A transaction price (higher than the upper limit of 70% or 60% as set out in the Draft Measures). We understand that after the Draft Measures take effect, unless otherwise specified by NFRA, this pilot policy may continue to apply to technology enterprises. ■ Scope of equity funds: The term “equity funds” mentioned in Article 24 of 			<p>Article 25 – In principle, the term of a controlling M&A loan shall not exceed ten (10) years, and that of an equity participation M&A loan shall not exceed seven (7) years.</p>	<p>Article 22 – In principle, the term of an M&A loan shall not exceed seven (7) years.</p>

Major changes and suggestions	Draft Measures	2015 Guidelines
<p>the Draft Measures is not clearly defined, but we may refer to the capital source requirements imposed by the pilot banks on the borrower of the technology enterprise M&A loan pilot program launched in March 2025, i.e., the borrower’s own capital shall not be less than 20% of the M&A transaction price. The capital source must be legal and compliant, and must not include debt funds or other financing instruments in violation of regulatory provisions and must not include equity funds which are in essence debt funds. We understand that “equity funds” stipulated in the Draft Measures refer to self-owned funds, which are usually interpreted as the total owner’s equity in the financial statements and do not include debt funds or proceeds from debt financing instruments, or debt funds packaged as equity funds.</p> <p>We believe that the requirements for equity funds in the Draft Measures will not affect the common forms of equity issuance for M&A transactions (such as share roll over, share exchange) under the 2015 Guidelines in market practice, because the nature of such transactions can be understood as the acquirer using the consideration for issuing or transferring the shares to acquire the target, and from the perspective of the acquirer, the funds received by the acquirer from issuing or transferring the shares belong to self-owned capital/equity funds.</p> <ul style="list-style-type: none"> ■ Calculation of transaction price: Neither the Draft Measures nor the 2015 Guidelines specify the calculation method of the transaction price of an M&A transaction. We understand that the M&A transaction price covers all the consideration paid for the purpose of the M&A transaction (including the consideration for the undertaking of liabilities). Where the acquirer carries out the M&A by means of undertaking of liabilities + equity transfer, the M&A transaction price shall be the total price of the M&A transaction prior to the undertaking of liabilities. Banks must comply with the requirements on the proportion of equity funds and M&A loans based on 		

Major changes and suggestions	Draft Measures	2015 Guidelines
such basis.		
<p>6. Clarifying restrictions on replacement of M&A loans</p> <ul style="list-style-type: none"> ■ M&A price to be replaced: The Draft Measures provide that M&A loans shall not be used to replace another M&A loan, but may be used to replace the M&A price paid in advance by the acquirer. Based on market practice, M&A price paid in advance to be replaced may be derived from equity funds or debt funds such as bridge loans. <p>It was previously discussed in the market that banks may grant M&A loans to replace another M&A loans already granted by other banks, so long as the total term of such loans do not exceed the maximum time limit (seven (7) years in accordance with the 2015 Guidelines). However, after the Draft Measures take effect, such replacement model will no longer be feasible.</p> <ul style="list-style-type: none"> ■ Replacement time: The Draft Measures provide that the interval between the time when the M&A loan is processed and the time point the payment of the M&A price to be replaced is made shall not exceed one (1) year. However, the Draft Measures do not specify the starting point for calculating the “time when the loan is processed”, which could be the date of application for credit, the date of approval of credit, the date of first drawdown, or other date. Further clarification from NFRA and observation of the market will be needed. There is no such requirement for the replacement interval under the 2015 Guidelines, and in the current practice, banks may allow one (1) to three (3) years replacement time interval. ■ Source of funds for repayment of M&A loans: Although Article 27 of the Draft Measures only restricts the replacement/repayment of M&A loans with other M&A loans, considering that bank loans are subject to strict restrictions on their use, for example, working capital loans must not be used for equity investment, and fixed asset loans must be used for the 	<p>Article 27 – An M&A loan may be used to replace the consideration for the M&A transaction that has been paid in advance by the acquirer, but shall not be used to replace the M&A loan already granted to the acquirer. The interval between the loan processing date and the completion of payment of the M&A transaction price shall not be more than one (1) year.</p>	<p>N/A</p>

Major changes and suggestions	Draft Measures	2015 Guidelines
<p>construction, purchase or renovation of fixed assets during the borrower’s business operation, the fundamental principle for the replacement of loan is to look through and verify the use of the original loan to be replaced, and the replacement of M&A loans cannot be used to circumvent and violate the restrictions on the use of working capital loans or fixed asset loans. Therefore, in practice, banks usually carry out loan replacements within the same types, but take a very cautious attitude towards cross-type loan replacement. For M&A loans, banks generally require that only non-bank loans can be used for repayment of the M&A loans.</p>		
<p>7. New concentration restrictions on equity participation M&A loans</p> <ul style="list-style-type: none"> ■ Article 29 and Article 30 of the Draft Measures maintain the concentration restrictions on M&A loans as provided in the 2015 Guidelines, i.e., the balance of all M&A loans of a commercial bank must not exceed 50% of its net tier 1 capital in the same period, and the balance of M&A loans to a single borrower may not exceed 5% of its net tier 1 capital in the same period. ■ Article 29 of the Draft Measures adds an additional concentration restriction for equity participation M&A loans, i.e., the balance of equity participation M&A loans may not exceed 30% of the balance of all M&A loans of a bank. 	<p>Article 29 – The balance of all M&A loans of a commercial bank shall not exceed 50% of the commercial bank’s net tier 1 capital in the same period.</p> <p><i>The balance of equity participation M&A loans shall not exceed 30% of the balance of all M&A loans of a bank.</i></p> <p>Paragraph 1, Article 30 – The balance of M&A loans of a commercial bank to a single borrower shall not exceed 5% of the commercial bank’s net tier 1 capital in the same period.</p>	<p>Article 18 – The balance of all M&A loans of a commercial bank shall not exceed 50% of the commercial bank’s net tier 1 capital in the same period.</p> <p>Article 20 – The balance of M&A loans of a commercial bank to a single borrower shall not exceed 5% of the commercial bank’s net tier 1 capital in the same period.</p>
<p>8. Strengthening post-loan management</p> <ul style="list-style-type: none"> ■ Compared with the 2015 Guidelines, Article 28 of the Draft Measures requires banks to strengthen post-loan management of borrowers, and sets forth detailed measures to be taken by banks to ensure loan safety if risks or abnormal situations are discovered, including accelerating the loan, providing additional security, adjusting the loan utilisation conditions or 	<p>Article 28 – A commercial bank shall strengthen the management of loan funds after the funds are disbursed, follow up the implementation of M&A in a timely manner, pay close attention to the performance of key terms of the loan contract, monitor the risk factors affecting</p>	<p>Paragraph 2, Article 33 – Commercial banks shall, in accordance with the loan contracts, strengthen the management of drawdown and payment of loan funds and monitor the flow of funds to</p>

Major changes and suggestions	Draft Measures	2015 Guidelines
<p>repayment schedule, freezing or terminating the line of credit, and other measures. Banks may update their M&A loan contracts to ensure that banks are entitled to take the aforesaid measures for the purpose of post-loan management.</p>	<p>the borrower’s solvency, and strictly prevent the misappropriation of the borrower’s funds and the obtainment of loan funds by affiliated enterprises by virtue of any false M&A transaction, etc.</p> <p>If any abnormality is discovered, the bank shall timely take measures such as acceleration of the loan, providing additional security, adjusting the loan utilisation conditions or repayment schedule, freezing or terminating the line of credit.</p>	<p>prevent affiliated enterprises from obtaining loan funds by virtue of false M&A transactions, and to ensure that the loan funds will not be misappropriated.</p> <p>Paragraph 1, Article 35 – Commercial banks shall, during the term of the loan, strengthen the post-loan inspection, timely track the implementation of M&A, regularly evaluate the predictability and stability of the future cash flow of both parties to the M&A, and regularly evaluate whether the repayment plan of the borrower matches the repayment source. In case of any abnormal situation in the M&A transaction or both parties to the M&A, commercial banks shall timely take effective measures to ensure the safety of the loan.</p> <p>Article 36 – Commercial banks shall, during the term of the loan, pay close attention to the performance of key clauses of the loan contracts.</p>

2. Key Points and Challenges for Hong Kong Stablecoin Issuer License Applications

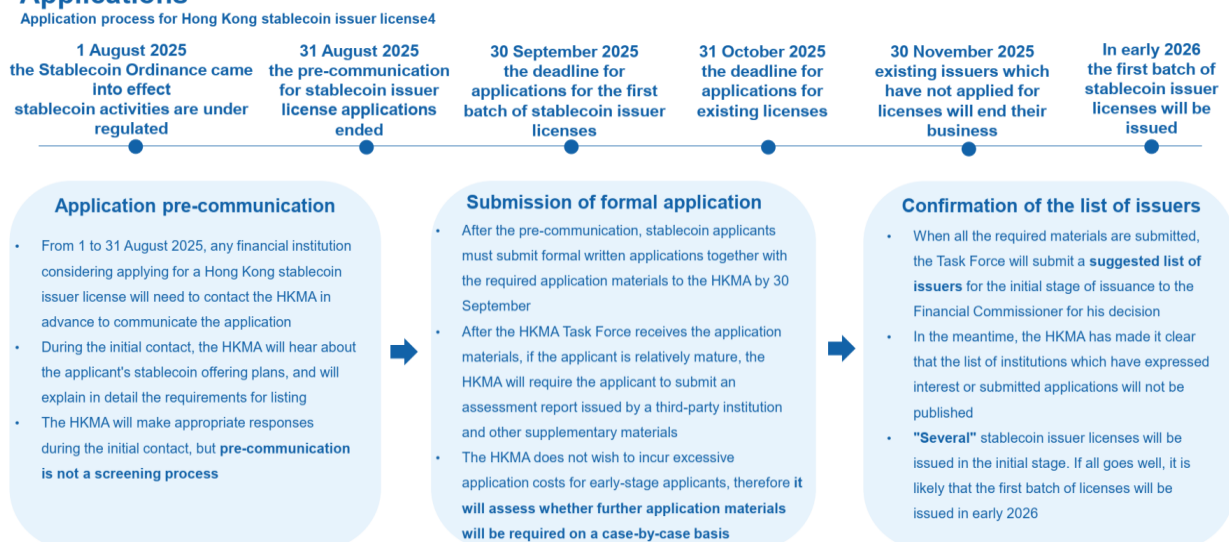
Authors: Xun LI | Felix MIAO | Bo ZHENG | Song HONG

Startup for stablecoins licenses: 60-day countdown begins

With the effectiveness of the Stablecoins Ordinance in Hong Kong on August 1, the application process for stablecoins issuer licenses under the Stablecoins Ordinance has officially opened. All the time points for application have been confirmed, and the application process has entered the 60-day countdown (please refer to the following chart for details of the application process and key time points).

Key Points and Challenges for Hong Kong Stablecoin Issuer License Applications

HANKUN
汉坤律师事务所
Han Kun Law Offices



Note: The HKMA has set a six-month transitional period for stablecoin issuers with established operations in Hong Kong before 1 August 2025

On July 29, the Hong Kong Monetary Authority (“**HKMA**”) issued the following six documents in relation to the Stablecoins Ordinance in order to clarify the specific regulatory requirements and assist relevant market players to fully understand the application requirements:

1. Explanatory Note on Licensing of Stablecoin Issuers (the “**Explanatory Note on Licensing**”)
2. Explanatory Note on Transitional Provisions for Pre-existing Stablecoin Issuers
3. Guideline on Supervision of Licensed Stablecoin Issuers (“**Guideline for Issuers**”)
4. Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Stablecoin Issuers) (“**Guideline on Anti-Money**”)
5. Consultation Conclusions on Draft Guideline on Supervision of Licensed Stablecoin Issuers
6. Consultation Conclusions on Proposed AML/CFT Requirements for Regulated Stablecoin Activities

We have previously analyzed the content and impact of the Stablecoins Regulations (see our previous article which provides further guidance to clients who intend to lodge formal applications prior to the application deadline in relation to the application of the Stablecoins Regulations, based on the above documents and our understanding of the current practice in respect of applications for stablecoin licenses). This article provides further guidance to potential stablecoin license applicants who intend to submit formal applications prior to the application deadline (“**Applicants**”) based on the above documents and our understanding of the current application practice.

Key points for stablecoin license applications

According to the provisions of the Stablecoins Ordinance and the Explanatory Note on Licensing, currently the HKMA has several minimum standards for license applicants, and applicants are required to prove that they can continue to satisfy the relevant requirements after being granted a license, which can be regarded as pre-conditions that Applicants must satisfy. **The following contents only list some of the key requirements for Applicants and do not represent the complete set of minimum criteria that HKMA has set out.**

I. Legal person status

According to the Stablecoins Ordinance, only two types of entities are allowed to apply for Stablecoin licenses: (1) companies incorporated in Hong Kong; and (2) authorized institutions incorporated outside Hong Kong. In particular, the approved institutions are limited to three types of entities, namely, banks, companies with restricted licenses, and companies that take deposits as prescribed in the Banking Ordinance of Hong Kong.

Therefore, **an Applicant that is located outside Hong Kong and is not the aforesaid banking financial institution, it must appoint a subsidiary it has established in Hong Kong to apply for a stablecoin license. Banking financial institution located outside Hong Kong may apply for a stablecoin license directly without the need for a subsidiary in Hong Kong.**

II. Financial resources

According to the Stablecoins Ordinance, an Applicant must have sufficient financial resources and liquid assets to perform its redemption obligations corresponding to the issued stablecoins. Currently, the minimum paid-in capital as prescribed in the Ordinance is HK \$25 million or equivalent amount in other currencies, but the Monetary Authority has the power to require an Applicant to provide a higher amount.

Considering the demonstrative effect of the first batch of stablecoin licenses, and HKMA’s preference for the maturity of redemption of stablecoins and the overcollateralization of reserve assets, **an Applicant may fully explain its own or its parent company’s capital strength to prove that it can inject more capital according to business or regulatory needs through share capital increase or otherwise, so as to support its stablecoins business.**

III. Reserve asset management

According to the Stablecoins Ordinance, an Applicant shall adopt a reserve portfolio consistent with the stablecoins to be issued and have a licensed Hong Kong bank act as the custodian for the portfolio. The reserve assets shall be high-quality and highly liquid financial assets with minimum investment risk. The Monetary Authority may only, with prior written approval, permit an applicant to adopt a reserve portfolio with a currency mismatch (for example, using U.S. dollar-denominated assets as the reserve assets to be issued in the Hong Kong dollar stablecoins) in exceptional circumstances.

According to the Guideline for Issuers, the current reserve assets of stablecoins issuers have made it clear to include investment funds specially established for stablecoins issuers, and the reserve asset portfolios of stablecoins issuers may be formed by investing investment funds in cash, short-term bank deposits, short-term high-credit bonds and cash receivables generated from overnight reverse repurchase agreements. In other words, 9 fund management companies registered by the SFC may assist the currency stabilizing issuers in managing the reserve portfolio in the form of investment funds, which will help the currency stabilizing issuers to carry out subscription, redemption, regular disclosure and other operations for the reserve portfolio, improve the transparency of the reserve portfolio, and provide a solid guarantee for the management of the reserve assets.

Therefore, **if an Applicant chooses to apply for a stablecoin license jointly with a Hong Kong licensed fund company (acting as reserve asset trustee) and a Hong Kong licensed bank (acting as reserve asset custodian) which has extensive experience in investment fund management, it will be beneficial to fully demonstrate the synergies of the consortium in operating stablecoins business and win the trust of HKMA.**

IV. Issuance, redemption, and distribution

According to the Stablecoins Ordinance, an issuer of stablecoins may only issue stablecoins to its clients at the issuance stage, and pursuant to the Guideline on Anti-Money, clients holding stablecoins shall comply with the relatively strict anti-money laundering requirements; in the redemption stage, an issuer of stablecoins shall dispose of the redemption demand within one business day; and in the distribution stage, an issuer of stablecoins shall take into full account the regulatory rules of the distribution jurisdiction, and shall not distribute stablecoins issued by a licensed party in any jurisdiction where stablecoins trading is prohibited.

Therefore, **the applicant may focus on its experience in anti-money laundering and the distribution channels and partners for the sale of financial products in various countries/regions to prove its strength in the issuance, redemption, and distribution of stablecoins.**

V. Suitable candidates

According to the Stablecoins Ordinance, the persons acting as chief executive officer, director, manager or controller of the applicant must be the proper persons with the relevant knowledge and experience and shall have the consent of the Monetary Authority. In addition, the senior management and key personnel of the applicant must be located in Hong Kong. However, given that banking

financial institutions located outside of Hong Kong are permitted to apply for the license under the Stablecoins Ordinance, we understand that there may still be room for interpretation regarding this provision.

In light of the limited number of potential candidates with experience in stablecoins who may be acceptable to HKMA, and the fact that some of the offers for appointment may have already been received, **it is important for an applicant to confirm and contact its candidates for the relevant positions as soon as possible, and communicate with HKMA about the candidates at the pre-communication stage.**

VI. Risk management

According to the Stablecoins Ordinance, an Applicant is required to have sound and appropriate risk management policies and procedures in place, covering the dimensions of credit risk, liquidity risk, market risk, technological risk, operational risk, reputation risk, etc., and adopt anti-money laundering measures to manage and control AML/CFT risks. In particular, as emphasized by HKMA CEO David Yu, in terms of anti-money laundering and anti-terrorism financing regulatory standards, stablecoin licenses will be almost the same as those of banks and electronic wallets, so it is self-evident that such risk management provides a high barrier to entry.

Given that HKMA has repeatedly expressed its preference for the Basel Accord financial regulatory standards, **applicants with a banking financial institution background and are familiar with risk management requirements in the banking industry may be favored by HKMA.**

Difficulties encountered in applying for stablecoin licenses

In the past few months, the topic of stablecoins has aroused a series of discussions, and the announcement of stablecoin license applications or stablecoin concepts by a number of listed companies has created hype, which has led to the financial supervision authorities in the Mainland and Hong Kong to repeatedly release documents to alert the public to the risk of illegal fundraising and fraud related to stablecoins.

In addition, relevant Hong Kong officials repeatedly expressed HKMA's prudent attitude towards the applications for stablecoin licenses through its official website and news interviews, which helped to cool down the trend towards stablecoins. For example, **HKMA CEO David Yu, recently released a statement, clearly expressing the HKMA's regulatory position on stablecoin licenses, which will be "stricter before looser". According to a public news report, the number of applicants eligible for the first batch of stablecoin licenses may be reduced to three or four.**

Applicants intending to apply for the first batch of stablecoin licenses will need to overcome the following difficulties from an application perspective:

I. Formulate a stablecoin issuance plan in advance

In view of the entry requirements and application costs for stablecoin licenses, HKMA broke common practice and set the period from August 1 to August 31 as the pre-communication period for stablecoin

licenses to compel any potential applicant to contact HKMA and communicate about license application matters.

Although HKMA has clarified that “pre-communication is not a selection process”, given the difficulty in obtaining the first batch of stablecoin licenses, and HKMA’s resistance to applicants who fail to provide detailed, practical and feasible proposals and implementation plans, **having a comprehensive stablecoin issuance plan is of great significance to the communication efforts of the applicants at the pre-communication stage, which will help HKMA to better understand the purpose of the issuance and the stability level of the applicants.** In terms of the specific content of the issuance plan, in addition to the demonstration by reference to the regulatory requirements of the Stablecoins Ordinance, the demonstration of the applicant’s corporate strategy that intends to invest the stablecoins business for a long time and continuously can also be used as an important basis for the subsequent drafting and publication of a white paper on stablecoins.

II. Fully demonstrate the stablecoin application scenarios

HKMA CEO David Yu has stressed in public many times that stablecoin issuers need to have sufficient support, key capabilities and experience in different areas, such as reserve asset management and asset security systems, effective price stabilization mechanisms, comprehensive and feasible redemption policies, as well as capabilities in science and technology security, risk control and anti-money laundering, etc. The most critical aspect is that **issuers must fully explain the application scenarios of the stablecoins to be issued, and the ability and determination to continue operations in various market environments.**

According to an analysis conducted by research institutes, about 95% of the stablecoins currently in circulation and trading are used in crypto asset trading, and only 5% are used in cross-border trade payment and settlement. In other words, the current application scenarios for stablecoins remain relatively limited beyond cryptocurrency trading, indicating significant room for growth. Considering the wide gap between the real-name system requirements put forward in the Guideline on Anti-Money and the current situation of generally anonymous transactions in the stable coin industry, **if an applicant has a comprehensive business ecosystem and needs for payment and settlement, it may support the real-name circulation of stable coins in the ecosystem at the early stage of business development. This will help the HKMA in exploring the future application scenarios of stablecoins and will also be a very advantageous additional point for the application.**

III. Actively seek support from local regulatory authorities

Unlike the locality-bound nature of other financial licenses, blockchain addresses that hold stablecoins can transcend national borders with relative ease, as stablecoins are inherently decentralized. Therefore, the Explanatory Note on Licensing specially emphasizes that an Applicant must consult with the relevant regulatory authorities at the place where its head office is located before submitting an application, and consider whether the Applicant has any areas that need attention when developing the stablecoins business.

Although these requirements do not explicitly require the applicant to obtain the express consent of

the local regulator as a precondition, given that the cryptocurrency that the stablecoins belongs to is subject to strict restrictions in many countries/regions, such opinion will undoubtedly play a significant role in the outcome of communication. Therefore, **an applicant who can obtain the express support or even endorsement of the local regulator will significantly enhance the recognition of the applicant by HKMA and accelerate the progress of the application for licenses.**

Conclusion

When the frenzy for stablecoins in the market gradually calms down, we predict that the number of finalists in this competition will fall short of market expectations. The attitude of the HKMA undoubtedly indicates that **the issuers of stablecoins, as an on-chain financial infrastructure, is destined to be subject to the strictest financial regulatory scrutiny together with the off-chain commercial banks and payment institutions.**

We believe that, rather than driving a race to the issue of homogenous stablecoins, **HKMA hopes to use stablecoins as a medium of exchange to practice the regulatory vision of supporting the development of tokenized products as set out in the Hong Kong Digital Asset Development Policy Statement 2.0, to provide incentives for the tokenization of real-world assets and financial assets, and to promote the compliant development and prosperity of on-chain finance.**

Important Announcement

This Newsletter has been prepared for clients and professional associates of Han Kun Law Offices. Whilst every effort has been made to ensure accuracy, no responsibility can be accepted for errors and omissions, however caused. The information contained in this publication should not be relied on as legal advice and should not be regarded as a substitute for detailed advice in individual cases.

If you have any questions regarding this publication, please contact:

Beijing	David LI Tel: +86 10 8525 4668 Email: david.li@hankunlaw.com	Attorney-at-law
Shanghai	Kelvin GAO Tel: +86 21 6080 0920 Email: kelvin.gao@hankunlaw.com	Attorney-at-law
Shenzhen	Jason WANG Tel: +86 755 3680 6518 Email: jason.wang@hankunlaw.com	Attorney-at-law
Hong Kong	Dafei CHEN Tel: +852 2820 5616 Email: dafei.chen@hankunlaw.com	Attorney-at-law
Haikou	Hanmeng LI Tel: +86 898 3665 5003 Email: hanmeng.li@hankunlaw.com	Attorney-at-law
Wuhan	Jiao MA Tel: +86 27 5937 6200 Email: jiao.ma@hankunlaw.com	Attorney-at-law
Singapore	Lan YU Tel: +65 6013 2966 Email: lan.yu@hankunlaw.com	Attorney-at-law
New York	Mike CHIANG Tel: +1 516 960 2071 Email: mike.chiang@hankunlaw.com	Attorney-at-law
Silicon Valley	Melody HE Tel: +852 2820 5686 Email: melody.he@hankunlaw.com	Attorney-at-law
