



3 March 2026

To: **Members of the Hong Kong Institute of CPAs**
All other interested parties

Invitation to Comment: Proposed Practice Note 831, *Reporting on Reserve Assets of Licensed Stablecoin Issuers under the Stablecoins Ordinance*

Comments to be received by 3 April 2026

The Hong Kong Institute of Certified Public Accountants' (Institute) Auditing and Assurance Standards Committee (AASC) is seeking comments on the Proposed Practice Note (PN) 831 which has been posted on the Institute's website at:

<https://www.hkicpa.org.hk/en/Standards-setting/Standards/Open-for-comment-documents/Auditing-and-Assurance>

Background

The Stablecoins Ordinance (Cap. 656) establishes a regulatory regime for the issuance and marketing of specified stablecoins. Under the Stablecoins Ordinance and the Guideline on Supervision of Licensed Stablecoin Issuers (Guideline) issued by the Hong Kong Monetary Authority (HKMA), licensed stablecoin issuers are required to engage an independent external auditor acceptable to the HKMA to perform regular attestation of their reserve assets.

To support this requirement, the AASC has developed **Proposed PN 831, *Reporting on Reserve Assets of Licensed Stablecoin Issuers under the Stablecoins Ordinance***. This PN provides guidance for auditors in fulfilling their responsibilities through reasonable assurance engagements conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. Specifically, it addresses independent attestation on reserve assets required under paragraph (b) of section 5(6) of Schedule 2 to the Stablecoins Ordinance and paragraph 2.7.3 of the Guideline, covering areas such as auditor's responsibilities, reporting considerations and suggested procedures for auditor's reporting.

Subject to consultation feedback and the Institute's due process, PN 831 is intended to take effect for engagements beginning on or after 1 April 2027, with early application permitted.

Request for Comments

The AASC invites comments on all aspects of the Proposed PN 831 and welcomes all viewpoints, whether in agreement or disagreement with the proposed contents. In parallel with this consultation, the AASC is also seeking feedback from relevant regulators.

In particular, we welcome comments on:

- Whether the Proposed PN 831 provides clear and appropriate guidance on the scope and nature of auditors' responsibilities in respect of reserve asset attestation and reporting;
- The practicality and clarity of suggested procedures and example reports included in the appendices;
- The alignment of the proposed PN with the requirements of the Stablecoins Ordinance and the Guideline; and
- Any implementation issues, unintended consequences or areas where further clarification may be helpful.

All comments should be supported by specific reasoning and submitted in writing.

To ensure your feedback on Proposed PN 831 is considered, please submit your response by **3 April 2026**.

Comments may be sent by mail, fax or e-mail to:

Standard Setting Department
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
213 Queen's Road East
Wanchai, Hong Kong

Fax number (+852) 2865 6603

E-mail: commentletters@hkicpa.org.hk

Comments will be acknowledged and may be made available for public review unless otherwise requested by the respondent.

3 March 2026
Invitation to Comment

Response Due Date
3 April 2026

Proposed Practice Note 831

Reporting on Reserve Assets of Licensed Stablecoin Issuers under the Stablecoins Ordinance



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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PRACTICE NOTE 831

**REPORTING ON RESERVE ASSETS OF LICENSED STABLECOIN ISSUERS
UNDER THE STABLECOINS ORDINANCE**

(Issued [●]; Effective for engagements beginning on or after 1 April 2027
with early application permitted)

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Practice Note (PN) 831, *Reporting on Reserve Assets of Licensed Stablecoin Issuers under the Stablecoins Ordinance* should be read in the context of the *Preface to the Hong Kong Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements* which sets out the application and authority of PNs.

PRACTICE NOTE

831

**REPORTING ON RESERVE ASSETS OF LICENSED STABLECOIN ISSUERS
UNDER THE STABLECOINS ORDINANCE**

The purpose of Practice Notes issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) is to assist the auditor in applying Hong Kong Engagement Standards of general application to particular circumstances and industries.

Practice Notes are persuasive rather than prescriptive. However they are indicative of good practice and have similar status to the explanatory material in Hong Kong Engagement Standards. This Practice Note provides guidance to assist the auditor to fulfill the objectives of the engagement. The auditor should be prepared to explain departures when called upon to do so.

Introduction

1. The Stablecoins Ordinance (Cap. 656) (the “Ordinance”) came into effect on 1 August 2025. It establishes a regulatory regime governing the issuance and marketing of fiat-referenced stablecoins (“stablecoins”) issued in Hong Kong, or any stablecoins that reference the Hong Kong dollar regardless of the place of issuance. Under the Ordinance, any person carrying on any of the following activities must obtain a licence from the Monetary Authority (the “HKMA”):
 - Issues a specified stablecoin in Hong Kong;
 - Issues a specified stablecoin that purports to maintain a stable value with reference to Hong Kong dollars in or outside Hong Kong, or
 - Actively markets its issuance of specified stablecoins to the public of Hong Kong.
2. According to the Ordinance and paragraph 2.7.1 of the Guideline on Supervision of Licensed Stablecoin Issuers (the “Guideline”) issued by the HKMA, licensed stablecoin issuers (“licensees”) must disclose to the public, among other things, the following,
 - Reserve assets management policy;
 - Composition and market value of its reserve assets; and
 - Results of regular independent attestation and audit of its reserve assets.
3. This Practice Note (“PN”) aims to assist the auditor of licensees in fulfilling their reporting responsibilities in providing regular independent attestation on the reserve assets of licensees under the Ordinance and Guideline.
4. It should be noted that certain terms in the Ordinance may be matters for legal interpretation. There may, therefore, be circumstances in which, notwithstanding the guidance given in this PN, members may wish to seek legal advice.
5. Within the Ordinance, the term “Monetary Authority” refers to a person appointed by the Financial Secretary under the Exchange Fund Ordinance. The HKMA is the government authority in Hong Kong, headed by the Monetary Authority, responsible for the licensing of persons who conduct regulated stablecoin activities in Hong Kong. In this PN, the “HKMA” generally refers to the organisation as a whole, while “Monetary Authority” is used when quoting from the Ordinance or in the auditor’s reports required under the Ordinance.
6. Appendix 7 of this PN is an extract of provisions from the Ordinance and Guideline that are relevant to the licensee’s preparation of the Reserve Report and auditor’s independent attestation which became effective on 1 August 2025. While every effort has been made to ensure accuracy, the legislation itself is the sole authority of law. This PN should therefore be read and applied in conjunction with the relevant legislation.

Reporting on the licensee's attestation

7. According to paragraph 2.7.3 of the Guideline, a licensee should engage a qualified and independent external auditor that is acceptable to the HKMA to perform attestation on a regular basis at a frequency that is acceptable to the HKMA. These attestations must address the following matters:
 - The market value and composition of the licensee's reserve assets,
 - The par value of the licensee's outstanding specified stablecoins in circulation, and
 - Whether the licensee's reserve assets are adequate to fully back the par value of the outstanding specified stablecoins in circulation as of the last business day of the period covered by the attestation report,¹ and as of at least one randomly selected business day during such period.
8. The Guideline requires that the attestation report from the independent auditor must cover two specific days: the last day of the attestation period and one random day during that period.
9. The licensee should prepare a report as of these specific dates covering the matters in paragraph 7 above (hereafter referred to as "Reserve Report"). The auditor will perform an attestation on the Reserve Report prepared by the licensee. The licensee must submit the attestation report to the HKMA within one month following the last business day of the attestation period and disclose each attestation report publicly in a prominent location on its website.
10. Paragraphs 31 to 43 of this PN provide guidance on the auditor's reporting responsibilities under paragraph (b) of section 5(6) of the Ordinance, as further detailed in paragraph 2.7.3 of the Guideline.
11. The Institute's Auditing and Assurance Standards Committee has determined that a reasonable assurance engagement in accordance with Hong Kong Standard on Assurance Engagements (HKSAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and as set out in this PN be generally suitable for the auditor's attestation required under paragraph 2.7.3 of the Guideline.

Audit of the licensee's financial statements

12. This PN does not provide detailed guidance on general audit procedures for the audit of a licensee's financial statements, nor does it apply to other auditor's reports other than those specified in paragraph 7 of this PN. For guidance on auditor's reports on audits of financial statements under the Hong Kong Standards on Auditing ("HKSA"), please refer to HKSA 700, *Forming an Opinion and Reporting on Financial Statements*. For guidance on auditor's reports for the purposes of the Companies Ordinance, please refer to Practice Note 600.1 (Revised), *Reports by the Auditor under the Companies Ordinance (Cap. 622)*.
13. Notwithstanding the above, paragraph 2.7.4 of the Guideline requires that a licensee's annual financial audit should cover its reserve assets. Paragraph 8.2.5 further specifies that the licensee should submit to the HKMA on an annual basis its audited financial statements prepared in accordance with the applicable accounting standards, which should cover the reserve assets backing the specified stablecoins it issues. The audited financial statements should be submitted to the HKMA within four months of the financial year-end.
14. It has been clarified with the HKMA that the requirement in paragraph 2.7.4 of the Guideline concerning reserve assets does not constitute a separate or additional assurance engagement

¹ In this PN, the terms "attestation report" and "assurance report" are used interchangeably when referring to the auditor's reporting on the licensee's Reserve Report.

beyond the scope of an annual financial statement audit. Furthermore, the HKMA confirms that no extra disclosures specifically related to the reserve assets are required in the licensee's financial statements beyond those required by the applicable financial reporting standards or other professional and regulatory requirements.

15. In summary, the requirement set out in paragraph 2.7.4 of the Guideline on the audit of the licensee's reserve assets is satisfied through the annual audit of the licensee's financial statements.
16. When auditing a licensee's financial statements, the audit of reserve assets generally focuses on the following assertions under HKSA 315 (Revised 2019):²
 - **Existence:** reserve assets recorded existed at the reporting date.
 - **Rights and obligations:** the licensee holds or controls the rights to reserve assets.
 - **Accuracy, valuation and allocation:** The reserve assets have been included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments have been appropriately recorded, and related disclosures have been appropriately measured and described.
 - **Completeness:** All reserve assets that should have been recorded have been recorded.

Management's responsibilities

Engaging a qualified and independent auditor to perform attestation

17. Management is responsible for preparing the Reserve Report, which must contain the specific information required by the Guideline mentioned in paragraph 7 of this PN. Additionally, management should engage a qualified and independent auditor to perform regular attestations on the information included in the Reserve Report.
18. Pursuant to paragraph 2.7.3 of the Guideline, the licensee is expected to discuss their proposed independent auditor with the HKMA and agree on the frequency of the regular independent attestation prior to finalizing the auditor engagement.
19. The subject matter information on which the auditor reports should include:
 - Management's assertions.
 - The Reserve Report for the last day of the reporting period and for one other randomly selected date of that period, which will be selected by the auditor and communicated to the licensee after the end of the reporting period, such as during the course of fieldwork.
 - Criteria which management have selected and developed to prepare their assertions and Reserve Report.
20. The management's assertions should cover the key points included in paragraph 2.7.3 of the Guideline and address:
 - Reserve assets disclosed are held by the licensee in compliance with the requirements of the Ordinance and the Guideline.
 - The par value of the outstanding specified stablecoins disclosed represents a complete and accurate amount of the relevant stablecoin in circulation.
 - The value of the reserve assets is equal to or greater than the par value of the specified stablecoin.

² Paragraphs 12(a) and A188 to A191 of HKSA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

Assertion-based attestation

21. The HKMA expects the independent auditor's report to be assertion-based. The auditor's conclusion will focus on the assertions made by management as part of their preparation of the Reserve Report.
22. Within the Guideline, particularly in chapter 2 and chapter 3, there are a number of requirements that management of the licensee must fulfill, which may be relevant to the preparation of the Reserve Report and management's assertions. They include but are not limited to:
 - Full backing: In relation to each type of specified stablecoins the licensee issues, the market value of the specified reserve assets pool backing the type of specified stablecoins is at all times at least equal to the par value of the outstanding specified stablecoins of the type in circulation.
 - Calculation of market value: A consistent and prudent approach should be adopted to calculate the market value of assets. In general, the measurement basis should be consistent with the applicable financial reporting standards, such as the HKFRS Accounting Standards, applied by the licensee in the preparation of financial statements. The calculation method and the sources of the market prices should be reasonable, reliable, and able to reflect prevailing market prices, and the valuation should be conducted at the bid price which is the more prudent price for the sale of a financial asset where applicable. Other reserve assets may normally be held at amortised cost, e.g., bank deposits and may not have a market in which they are traded (and hence a market value). Management should consider the principles in the Guideline and consider the reliability and prudence of their chosen measurement approach and whether there is a need to make an adjustment from the basis used under the applicable financial reporting standards.
 - A consistent and transparent approach to calculating the par value of the outstanding specific stablecoins in circulation.
 - No mismatch between the approaches for calculating market value of reserve assets and par value of the outstanding specified stablecoins in circulation. For this requirement, the focus should not be on the measurement approach but on what is included. For example, if a portion of stablecoins is not included or separately disclosed in the Reserve Report as they are restricted, the portion of reserve assets backing those should be similarly excluded or separately disclosed.
 - Specified stablecoins that are temporarily restricted from being accessed, transferred and redeemed by specified stablecoin holders should be fully backed.
 - Composition of reserve assets: The Guideline includes specifics on what can be included as an eligible reserve asset. For tokenised representations of the eligible assets, the licensee should demonstrate to the satisfaction of the HKMA how the concerned tokenised representations of the eligible assets fulfil the requirement of high quality, high liquidity and minimal investment risks.
 - Reference currency: The currency of the eligible reserve assets backing a pool of specific stablecoins should be the same currency as the specific stablecoins. If the licensee has issued stablecoins in more than one referenced currency and the reserve assets are pooled, the ratio of assets in each currency should match the ratio as that to which the specific stablecoins are referenced, with flexibility allowed on a case-by-case basis, subject to prior written approval of the HKMA.

Management reserve report and assertions

23. Appendix 1 of this PN illustrates the presentation and disclosure of management's assertions. This illustration is provided solely for the purpose of demonstrating the information required under paragraph 2.7.3 of the Guideline for auditor's independent attestation.
24. The illustration is neither exhaustive nor definitive. Management must tailor the Reserve Report to the specific facts and circumstances of the licensee.
25. At a minimum, the Reserve Report should include:
 - Reserve assets
 - Total amount
 - Analysed by type of asset as outlined in paragraph 2.3.1 of the Guideline
 - Analysed by currency
 - Specified stablecoins
 - Total amount
 - Analysed by currency
 - A breakdown showing:
 - Amounts in circulation and freely exchangeable
 - Amounts redeemed awaiting settlement
 - Amounts under forms of restriction, with details of the restrictions
 - The resulting total of amounts of stablecoins in circulation
 - The extent to which the reserve assets exceed the par value of the specified stablecoin

Management's disclosure of criteria

26. The Reserve Report should include the criteria that management has developed and used to prepare the Reserve Report and support its assertions.
27. The example criteria that management may consider are set out below. This is a non-exhaustive list, and management could consider whether to include any additional criteria that would allow users of the report to better understand the assertions they make and based upon which the independent auditor makes their conclusion.

Reserve assets:

- Reserve assets for each specified stablecoin are segregated from any other pool of reserve assets the licensee maintains and the assets of the licensee, are held under acceptable trust arrangements, and meet the requirements of "eligible assets" in the Guideline.
- The disclosed value of the reserve assets would not be impacted by any fees or other charges from the custodial arrangements for the reserve assets which would compromise the full backing of the specified stablecoins.
- If marketable debt securities are held, the basis which management has used to assess them as being "of high liquidity".
- If the licensee has specified stablecoins in more than one currency, its assets should be held in those currencies in the same proportion as the stablecoins issued. If the assets are not held in the same proportion, the currency mismatch must remain within the limits agreed

upon with the HKMA and the licensee should disclose the basis for such currency mismatch in the Reserve Report.

- The measurement basis of each of the types of assets.
- If assets are measured at amortised cost under the applicable financial reporting standards and are reported in the Reserve Report using that measurement basis, an assessment that the fair value is not materially different.
- Extent to which reserve assets held are issued by related parties.

Specified stablecoins:

- All blockchains and/or smart contracts on which the stablecoins exist have been disclosed.
- All stablecoins which are pending redemption have been appropriately disclosed in the total outstanding amount.
- All stablecoins where redemption may be restricted have been disclosed and a summary of the reasons for restriction have been disclosed.
- Any terms or conditions in the white paper for the specified stablecoin which may impact the amounts in circulation.

The extent to which the reserve assets exceed the par value of the specified stablecoin:

- That a surplus of reserve assets over the par value of the specified stablecoins exists.

Other matters:

- The existence of any events between the end of the reporting period and the date of management's assertions that would be relevant to users of the specified stablecoins.

Keeping of proper records and documents

28. A licensee should establish effective information and accounting systems to record all business activities in a timely and accurate manner to enable effective and efficient preparation of management information and provide appropriate audit trails to demonstrate effectiveness of controls. A licensee may demonstrate the effectiveness of such systems and controls by arranging independent assessments from qualified third parties.
29. Books and records, covering both access to on-chain transaction and off-chain transactions should be retained by the licensee for a sufficiently long period, taking into account relevant statutory and regulatory requirements. In the case of companies incorporated in Hong Kong, the Companies Ordinance (Cap. 622) mandates a minimum retention period of seven years for company records.
30. If the information and accounting systems of a licensee are located outside of Hong Kong, the licensee should establish effective arrangements to ensure access to the systems, as well as to enable on-site examinations or off-site reviews, whether announced or not, by authorised parties including the HKMA.

Auditor's responsibilities and reporting requirements

Type of Engagement

31. As explained in HKSAE 3000 (Revised), in a reasonable assurance engagement, the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner's conclusion. The practitioner's conclusion is expressed in a form that conveys the practitioner's opinion on the outcome of the measurement or evaluation of the underlying subject matter against criteria. Reference should be made to HKSAE 3000 (Revised) for details of a reasonable assurance engagement.

32. In the context of this engagement under HKSAE 3000 (Revised), the subject matter information is management's assertions. The criteria are those that management selects and develops to prepare the Reserve Report which should align with the requirements in the Ordinance and Guideline. Paragraphs 55 to 58 of this PN provide guidance on the auditor's considerations regarding management's criteria.

Overview of the reporting process

33. The following are illustrative steps that the auditor would consider. The list is non-exhaustive and auditors should exercise professional judgment in determining the nature, timing and extent of procedures appropriate to specific engagement circumstances.
- a. Scoping and planning
- Assemble the engagement team including any necessary experts.
 - Obtain an understanding on matters related to the engagement and the licensee's reserve assets management, including a review of all relevant correspondence and communications between the licensee and the HKMA. Matters to be covered include, but are not limited to:
 - The licensee's reserve assets management policy (e.g., policies on over-collateralisation) and whether it meets the requirements in the Ordinance or the Guideline;
 - The types of eligible assets acknowledged by the HKMA, including any ratios, limits or conditions applicable to particular asset classes;
 - In situations involving currency mismatch, the HKMA's written approval including any caps or limits for currency composition; and
 - The frequency of the attestation engagement agreed with the HKMA.
 - Issue a letter of engagement confirming the agreed terms.
 - Undertake planning and risk assessment prior to fieldwork.
- b. Execution
- Arrange meetings with the licensees and/or the HKMA as needed, particularly if substantive issues arise during the engagement.
- c. Finalisation and reporting
- Finalise the auditor's report.
 - Obtain a management representation letter from the licensee.
 - Issue the final report to the licensee for submission to the HKMA and disclosure on its website.

Engagement acceptance and continuance

34. The engagement partner shall be satisfied that the firm's policies or procedures for the acceptance and continuance of client relationships and assurance engagements have been followed by the firm, and shall determine that conclusions reached in this regard are appropriate. General guidance on acceptance and continuance is set out in paragraphs 27 to 30 and A35 to A59 of HKSAE 3000 (Revised).
35. In evaluating the ethical requirements relevant to the engagement, the auditor is reminded to follow Section 620 of Chapter F of the HKICPA Code of Ethics for Professional Accountants and perform Customer Due Diligence. Entities licensed under the Ordinance may be newly formed entities or newly established joint ventures. The auditor should exercise professional

skepticism when identifying the client and the beneficial owners. Where the licensee is an established stablecoin issuer, consideration should be given to their regulatory status in one or more jurisdictions and the associated risk of money laundering and terrorist financing.

36. When undertaking the attestation engagement, the auditor would recognise that the parties interested in the report include:
- The licensee that engages the auditor;
 - The HKMA; and
 - Members of the public who hold, plan to hold, or have an interest in stablecoins issued by the licensee.
- The auditor would manage the expectations of all parties.
37. It is important to note that the Guideline requires the licensee to disclose each attestation report to the public at a reasonably prominent location on its website. The auditor should take note of the public availability of the attestation report when planning and performing the engagement and coordinate with the licensee to include appropriate disclaimer language on their website relating to the use of the attestation report.
38. The auditor should ensure that the scope of the engagement is clear, so that the licensee agrees, accepts and understands the areas to be examined, the relevant criteria to be applied for the attestation, the form of reporting of the overall findings, the content and structure of the report to be provided and the type and extent of procedures to be undertaken.
39. When approached to undertake the attestation engagement under the Ordinance and the Guideline, during the discussion of the scope, the auditor would consider the professional skills required to undertake the engagement.
40. In particular, the auditor would need to have knowledge and understanding of the HKMA's regulatory requirements and the statutory provisions relevant to the scope of the engagement, the technical aspects of stablecoins and related capabilities necessary for the performance of the engagement.
41. The auditor would need to consider whether previous or existing professional relationships could present a conflict of interest in accepting the engagement. If the auditor becomes aware of relationships with the licensee which could be construed as a conflict of interest, the auditor would advise the licensee of this issue and all parties have to be satisfied that the auditor is able to undertake the engagement with the necessary independence and objectivity.
42. The auditor and the licensee would agree on the terms of the engagement in relation to the auditor's work performed under the Ordinance and the Guideline, which would be recorded in an engagement letter or other suitable form of written contract. General guidance on engagement letters is set out in paragraphs 27 to 29 and A57 to A59 of HKSAE 3000 (Revised).
43. An example of engagement letter is set out in Appendix 6 to this PN.

Reporting considerations

Materiality

44. The materiality threshold is a matter of professional judgment. Materiality should be considered by the auditor when determining the nature, timing and extent of procedures; and evaluating the effect of misstatements. The auditor would normally report all relevant matters other than those considered to be immaterial. Paragraphs 45 to 51 provide further guidance for the auditor on materiality for the purpose of their reporting responsibilities.
45. A matter in respect of management's assertions on the reserve assets reporting is material if its omission or misstatement could reasonably be expected to influence the decisions of the

users of the information disclosed. Materiality is considered in the context of quantitative factors such as relative magnitude and qualitative factors. This would include considering the nature and extent of the effect of these factors on the evaluation or measurement of management's assertions on the reserve assets reporting, and the interests of, for example, stablecoin holders. The assessment of materiality and the relative importance of quantitative and qualitative factors are matters for the auditor's professional judgment based on the specific circumstances of the engagement.

46. The auditor would need to be aware that specific findings included in the report may form the basis of supervisory or enforcement action by the HKMA. Therefore, it is important that all relevant matters, which are considered material in the circumstances, be included in the assurance report. When evaluating whether and how to report a specific finding, the auditor would need to recognise that materiality for reporting under the Ordinance may be different to that used in the context of an audit of the financial statements of the licensee. The auditor would take into account the HKMA's role, for example by considering the findings in the context of the HKMA's supervisory objectives and requirements set out in the Guideline.
47. For example, a misstatement in the number of stablecoins in circulation or market value of the reserve assets may not be material quantitatively, but if it leads to a breach of the Ordinance requirements, e.g., the market value of the specified reserve assets pool for each type of specified stablecoins must at all times be at least equal to the par value of the outstanding specified stablecoins of the type in circulation, such a misstatement will be considered as material qualitatively.
48. For example, while management's assertions are expected to include fair value and high-level composition of reserve assets, any material misstatements in the market value of more than one type of reserve assets could be considered significant even if the overall impact of various misstatements may work to offset each other leading to only a small impact on the overall market value of the reserve assets.
49. In evaluating whether, on the basis of the work undertaken, the management's assertions have been prepared, in all material respects, the auditor should assess whether the misstatements aggregated by them during the engagement are material, both individually and in aggregate.
50. The auditor should consider the concept of materiality in relation to management's assertions on the reserve assets being reported upon. Such reporting provides a smaller base against which to measure materiality compared with the financial statements taken as a whole. Consequently, the auditor's procedures will ordinarily be more extensive than if the same disclosures of reserve assets were to be audited in connection with a reasonable assurance report on the entire financial statements of the licensee.
51. If the auditor has identified a material misstatement, the auditor should communicate the misstatement to the appropriate level of management on a timely basis, and consider the need to report it to those charged with governance.

Management's controls over the preparation of the assertions

52. The auditor should obtain an understanding of the design and operating effectiveness of management's internal controls over the preparation of the Reserve Report and management's assertions. Such controls include but are not limited to those over data integrity, valuation methodologies, asset reconciliation, reporting accuracy and regulatory compliance. The auditor should integrate this control understanding within their assurance procedures to determine the nature, timing, and extent of substantive testing, consistent with HKSAC 3000 (Revised) requirements. Appendix 2 of this PN outlines suggested procedures for the attestation.
53. In the event that observations are identified in relation to the licensee's control systems during the course of auditor's work, the auditor may consider communicating these control observations to the licensee's management and those charged with governance as the auditor deems appropriate.

54. The auditor should consider whether additional procedures will be needed to understand the control environment around reserve assets reporting if:
- The auditor is not the statutory auditor: the auditor should obtain sufficient understanding of the licensee's control environment, risk assessment processes and information systems specifically relevant to the preparation of the Reserve Report through more extensive inquiries, inspections and observations including walkthroughs.
 - The auditor is the statutory auditor of the licensee but has not completed a full audit cycle for the current period: the auditor may not be able to rely on the operating effectiveness of controls tested in prior periods. Accordingly, the auditor should perform procedures to obtain or update their understanding of the licensee's current control environment specifically focusing on any significant changes in internal controls and those controls directly relevant to the data and assertions in the Reserve Report.

In either case, the auditor should note that the attestation engagement does not fulfill any statutory or regulatory requirements for an audit of the licensee's financial statements.

Management's criteria for the assertions

55. The auditor should evaluate the criteria that management has developed and applied for preparing assertions regarding stablecoins and reserve assets. Management's criteria should be clear, consistent and disclosed in the Reserve Report to inform the basis of the preparation of the Reserve Report. The auditor is expected to assess whether management's criteria align with both the Ordinance and the Guideline, such as those mentioned in paragraph 27 of this PN.
56. Section 5(5) of the Ordinance and paragraph 2.3.1(iii)(d) of the Guideline stipulate that where reserve assets are marketable debt securities, they must be of high liquidity.
- (a) The auditor should review the latest correspondence between the licensee and the HKMA to confirm that the licensee's policy on marketable debt securities has been acknowledged by the HKMA and to evaluate that the marketable debt securities purchased and held by the licensee as at the reporting date are consistent with that policy.
- (b) If the licensee is unable to provide evidence of the HKMA's acknowledgement on its marketable debt securities policy, the auditor should perform procedures to determine whether the licensee's marketable debt securities meet the eligible asset criteria in paragraph 2.3.1(iii) of the Guideline, other than the requirements for high liquidity.
57. However, if the auditor is unable to ascertain the HKMA's acknowledgement mentioned in paragraph 56(a) and management asserts in the Reserve Report that the marketable debt securities they held are highly liquid, the auditor should consider including an Other Matter paragraph³ in the assurance report. The Other Matter paragraph draws attention to the fact that the auditor did not perform procedures to ascertain the high liquidity requirement of these assets under the Ordinance and Guideline. The example assurance report in Appendix 3 of this PN includes an illustrative Other Matter paragraph to draw attention in this regard.
58. If the licensee's Reserve Report and accompanying management's assertions indicate that its reserve assets are not adequate to fully back the par value of the outstanding specified stablecoins in circulation as of the report dates, the auditor should consider the implications for the assurance report. Provided that the assertions are consistent with the facts and circumstances, and the auditor has obtained sufficient appropriate evidence, it would be appropriate to issue an unmodified opinion accompanied by an Emphasis of Matter paragraph.⁴ The Emphasis of Matter should draw attention to this fact as disclosed in the Reserve Report and management's assertions. An illustrative Emphasis of Matter paragraph for this situation is provided in Appendix 4 of this PN.

³ Paragraph 73 of HKSAE 3000 (Revised) provides guidance on an Other Matter paragraph in the assurance report.

⁴ Paragraph 73 of HKSAE 3000 (Revised) provides guidance on an Emphasis of Matter paragraph in the assurance report.

Understanding and evaluation of the minting and burning process

59. When evaluating the stablecoin operations of the licensee, the auditor should understand the technical standards used, the relevant distributed ledger(s) upon which such specified stablecoins are issued, and any smart contracts used. The auditor should obtain an understanding of the minting and burning process during the initial attestation. For subsequent attestations, the auditor should confirm and document changes to the process.
60. For each specified stablecoin issued by the licensee, the auditor should consider that the licensee has identified all lifecycle operations to deploy, configure and maintain policies related to minting and burning activities (e.g., minting approvals or thresholds, fiat currency disbursement approvals, and automated minting or burning) in accordance with the licensee's terms and the Guideline. As part of understanding the minting and burning process of the licensee, the auditor should also review the roles and responsibilities of management and assess whether appropriate segregation of duties and safeguards are implemented.
61. The auditor should obtain an understanding of the technological elements used by the licensee and consider the impact of information technology (IT) to the risk of material misstatement in the Reserve Report regarding the licensee's issuance and redemption of its specified stablecoins. This includes the security infrastructure, consensus mechanism (e.g., the ability to pause minting in an emergency), system capacity and scalability, the availability and results of third-party assessments on IT controls, resilience against common attacks (e.g., protocols for recovering tainted tokens and/or freezing tokens) and historical security performance. The auditor should obtain evidence that continuous monitoring is in place and that policies and procedures exist for responding to material changes in underlying technology or cyber incidents which have or may have a material adverse effect on the operation of specified stablecoins.
62. The auditor should determine whether the licensee has performed security assessments to identify potential security concerns or vulnerabilities and implement remedial actions to address the concerns prior to either the launch of a stablecoin or during system modifications. The auditor is expected to assess independent third-party smart contract security reports to evaluate the resilience of the contract security to withstand cyber security threats. In addition, the auditor should inspect management's functional testing results by way of observation, re-performance and/or inquiry with relevant personnel to determine whether the tests meet the requirements listed in paragraph 6.5.5 in the Guideline.
63. The auditor should obtain a sufficient understanding of the nature and significance of the services provided by third service providers and their impact on the licensee's internal control relevant to the engagement to provide a basis for the identification and assessment of potential risks of material misstatement. The auditor should obtain sufficient information or evidence of the service providers' IT controls to identify and understand the risks that may arise from such arrangements and their materiality to the licensee's business activities, processes and systems. This includes but is not limited to service providers responsible for the custody of customers' assets during the minting process. In particular, the auditor should assess whether the licensee has implemented appropriate measures to adequately address the risks related to the minting and burning process.

Verification using public explorers or firm's own tools

64. For the purpose of ascertaining the accuracy of the reported volume of stablecoins in circulation, the auditor should, where practicable, obtain evidence from the relevant distributed ledger(s) to agree the outstanding supply, as an external source, to management's records of minting and burning activity. Such information may be obtained by means of public block explorers, third-party solutions or an auditor's proprietary tool, having regard to the reliability, completeness and timeliness of the data source and the associated control considerations.
65. When using information obtained from public block explorers, third-party solutions or the auditor's proprietary systems for the regular independent attestation, the auditor should evaluate the sufficiency and appropriateness of such evidence, including consideration of the

source's independence, completeness and accuracy of indexed data, accessibility and continuity of service, security safeguards and change management over the source systems. Where reliance is placed on third-party providers, the auditor should assess the provider's competence and operational resilience, including the availability of independent assessments and ongoing monitoring arrangements. It is important for the auditor to evaluate the reliability of the tools used by performing corroborative procedures and cross-checks commensurate with risk, and document the nature, timing and extent of procedures, key judgments and the basis for reliance on external or internal tools.

66. Additionally, information obtained from public block explorers, third-party solutions or the auditor's proprietary systems where the reliability of the tool is not sufficiently assessed should be corroborated through alternative means (e.g., cross-referencing multiple explorers, direct contract-level queries or independent recalculation from on-chain events) to mitigate the risk of undue reliance on a single potentially fallible source.

Written representations

67. Written confirmation of oral representations reduces the possibility of misunderstandings between the auditor and the appropriate party(ies). The person(s) from whom the auditor requests written representations will ordinarily be a member of senior management or those charged with governance depending on, for example, the management and governance structure of the appropriate entity(ies), which may vary by entity, reflecting influences such as different legal backgrounds, and size and ownership characteristics.
68. The auditor would follow the guidance in HKSA 580, *Written Representations* and obtain a letter of representation from management covering, inter alia, the following areas:
- (a) Acknowledging management's responsibility for establishing and maintaining adequate accounting and non-accounting records and systems of control to ensure that the licensee's reserve assets reporting has been correctly prepared from its books and records;
 - (b) The licensee has complied with the applicable requirements set out in the Ordinance and the Guideline in respect of reserve assets management and reporting at all times;
 - (c) The licensee has appropriate internal controls over the selecting or developing of suitable criteria as the basis for management's assertions and the reporting of management's assertions in the reserve report;
 - (d) The criteria used in respect of the reporting of the market value of the licensee's reserve assets is consistent with the accounting policies adopted by the licensee in preparation of its annual financial statements;
 - (e) Management are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud and error and have disclosed to the auditor the following:
 - Their knowledge of fraud or suspected fraud affecting the entity involving management, employees who have significant roles in internal controls; or others where the fraud could have a material effect on the books of accounts, records and supporting documentation in respect of the licensee's reserve assets management and reporting;
 - Their knowledge of any allegations of fraud or suspected frauds, affecting the licensee's books of accounts, records and supporting documentation in respect of its reserve assets management and reporting communicated by employees, former employees or others;
 - The results of their assessment of the risk that the books of accounts, records and supporting documentation in respect of the licensee's reserve assets reporting may be materially misstated as a result of fraud.

- (f) Stating that all transactions undertaken by the licensee have been properly reflected and recorded in accounting and any other records and for the preparation of the licensee's reserve assets reporting, such records properly reflect the true nature of all transactions;
 - (g) They have made available to the auditor all books of accounts, records and supporting documentation (e.g., records and documents, correspondences with the HKMA, etc.) in respect of the licensee's reserve assets management and reporting, additional information that the auditor requests from the licensee for the purpose of the engagement, and unrestricted access to persons from the licensee from whom the auditor determines it necessary to obtain evidence;
 - (h) Stating whether there have been any communications between regulatory authorities and the licensee concerning non-compliances with laws and regulations which would have a material effect on the information presented in the licensee's reserve assets reporting;
 - (i) Management has communicated to the auditor all deficiencies in internal control systems and procedures and financial reporting practices of which they are aware of that could have a material effect on the information presented in the licensee's reserve assets reporting;
 - (j) Management believes the effects of those misstatements aggregated by the auditor during the engagement are immaterial, both individually and in the aggregate, and do not constitute non-compliance with the applicable requirements of the Ordinance and the Guideline regarding the licensee's reserve assets reporting. A summary of such misstatements should be included in or attached to the written representations.
69. Other representations may include:
- Maintenance of a pool of reserve assets for that type of specified stablecoins ("specified reserve assets pool") and that the specified reserve assets pool is segregated from any other pool of reserve assets maintained by the licensee.
 - The specified reserve assets pool for each type of specified stablecoins is held in the same reference asset as that referenced by the type of specified stablecoins.
 - Each specified reserve assets pool is adequately protected against claims by other creditors of the licensee in all circumstances; and is kept separate from any other funds paid to, or maintained or received by, the licensee.
 - The reserve assets are of high quality and high liquidity with minimal investment risks in accordance with the requirements of the Guideline.
70. The auditor may also request other representations where appropriate.
71. Representations by management cannot be a substitute for other evidence that the auditor could reasonably expect to be available. If a representation by management is contradicted by other evidence, the auditor should investigate the circumstances and, when necessary, reconsider the reliability of other representations made by management.
72. Representations by the appropriate party(ies) cannot replace other evidence the auditor could reasonably expect to be available. Although written representations provide necessary evidence, they do not provide sufficient appropriate evidence on their own about any of the matters with which they deal. Furthermore, the fact that the auditor has received management's written representations does not affect the nature or extent of other evidence that the auditor obtains.
73. An example representation letter is illustrated in Appendix 5 to this PN.

Effective date and transition

74. This PN is effective for engagements beginning on or after 1 April 2027, with early application permitted.

Appendices:

**Reporting under paragraph (b) of section 5(6) of Schedule 2 of the Ordinance
and paragraph 2.7.3 of the Guideline**

Appendix 1 – Illustrative presentation and disclosure of management’s assertions

Appendix 2 – Suggested procedures for auditor’s reporting

Appendix 3 – Example report by the auditor

Appendix 4 – Examples of Emphasis of Matter paragraph and modifications to the assurance opinion

Appendix 5 – Example management representation letter

Appendix 6 – Example engagement letter

Appendix 7 – Extract of the Ordinance and the Guideline

APPENDIX 1

Illustrative presentation and disclosure of management’s assertions

The following disclosure is provided for illustrative purposes only. It includes the types of tokens as defined under the terms set by the token issuer.

These illustrations should be adapted and tailored to reflect the specific facts and circumstances relevant to the licensee.

[FRS] Reserve Report as of [random date] and [period-end date] at 11:59 PM Hong Kong Time

ABC Limited (the “Company”) is responsible for the completeness, accuracy and validity of the [FRS] Reserve Report as of [random date] and [period-end date] at 11:59 PM Hong Kong Time (the “Report Dates”).

MANAGEMENT’S ASSERTIONS

Management of the Company asserts that as of the Report Dates:

- The market value of the Company’s reserve assets backing the [FRS] was at least equal to the par value of the outstanding [FRS] in circulation; and
- The composition and valuation of the reserve assets backing the [FRS] and the par value of the outstanding [FRS] in circulation have been prepared in accordance with the established criteria.

Criteria:

- The reserve assets backing the [FRS] disclosed in Part 3 are held by the Company in compliance with the requirements of the Stablecoins Ordinance (Cap. 656) and Guideline on Supervision of Licensed Stablecoin Issuers issued by the Hong Kong Monetary Authority.
- The par value of the [FRS] in circulation disclosed in Part 2 is complete and accurate .
- [The currency allocation of reserve assets backing the [FRS] disclosed in Part 4 is complete and accurate.]
- The value of the reserve assets backing the [FRS] in Part 3 is equal to or greater than the par value of the outstanding [FRS] in circulation disclosed in Part 2.
- [Where reserve assets backing the [FRS] are held in currencies other than the reference currency of the [FRS], the proportion of such assets and the associated currency mismatch are within the limits agreed with the Hong Kong Monetary Authority.]
- [Specify any other criteria]

PART 1 – SUMMARY

		(HK\$'000)	
		<u>Value at Random date on [date]</u>	<u>Period-end position as of [date]</u>
(1)	Total par value of the [FRS] in circulation		
(2)	Total market value of specified reserve assets backing the [FRS] in circulation		

PART 2 – PAR VALUE OF THE [FRS] IN CIRCULATION

(HK\$'000)

	Summary of Par Value	<u>Blockchain ABC</u>	<u>Blockchain DEF</u>	<u>Blockchain GHI</u>	<u>Total</u>
	Period-end position as of [date]:				
(1)	Total [FRS] Minted				
(2)	Total [FRS] Redeemed				
(3)	Adjustments: <i>[please specify, e.g. unissued tokens; permanently restricted tokens; etc.]</i>				
(4)	Total Redeemable [FRS] in Circulation				
	Random date position as of [date]: (as defined in the criteria below)				
(5)	Total Redeemable [FRS] in Circulation				

PART 3 – COMPOSITION OF RESERVE ASSETS BACKING THE [FRS]

(HK\$'000)

	Summary of Reserve Assets	<u>Value at Random date on [date]</u>	<u>Period-end position as of [date]</u>
(1)	Cash		
(2)	Bank deposits with a term of no longer than three months		
(3)	Marketable debt securities:		
(i)	Claims on or Guaranteed by Governments		
(ii)	Claims on or Guaranteed by Central Banks		
(iii)	Claims on or Guaranteed by public sector entity, qualified international organisation or multilateral development bank		
(iv)	Cash receivable from overnight reverse repurchase agreements with minimal counterparty risk, collateralised by assets set out in (iii)		
(v)	Investment funds that invest in assets set out in (i), (ii), (iii) and/or (iv) dedicated for the sole purpose of managing the reserve assets of a licensee		
(6)	Other types of assets		
	Total Value of Reserve Assets		

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PART 4 – CURRENCY ALLOCATION OF RESERVE ASSETS BACKING THE [FRS] (HK\$'000)

	Currency	Value at Random Date [Date]	Period-end position as of [Date]	% of Total Reserves (Period-end)
(1)	[Reference Currency, e.g., HKD]			
(2)	[Non-Reference Currency, e.g., USD]			
(3)	[Other Currencies, if any]			
	Total Reserve Assets			

Note: As of [Date(s)], [YY]% of the total reserve assets are held in [Non-Reference Currency]. This proportion is within the limit of [Approved Limit]% as agreed with the Hong Kong Monetary Authority.

APPENDIX 2

Suggested procedures for auditor's reporting

The nature and extent of procedures required to report on management's assertions are matters of the auditor's professional judgment based on the circumstances of the engagement. The suggested procedures outlined in this appendix are illustrative only; they are neither exhaustive nor intended to apply to every reporting engagement.

Auditors should apply HKSAE 3000 (Revised) when conducting these suggested or other procedures. Under HKSAE 3000 (Revised), the auditor shall exercise professional judgment in planning and performing an assurance engagement, including determining the nature, timing and extent of procedures to ensure sufficient appropriate evidence is obtained as the basis for the practitioner's conclusion and document matters which support that conclusion. For the purposes of the management's assertions prepared by the licensee, the auditor should perform procedures covering the last business day of the period covered by the attestation report and a randomly selected business day during such period.

If, after applying the suggested or other procedures, the auditor becomes aware of misstatements in management's assertions, after considering the reporting requirements to those charged with governance and the HKMA, the auditor's responsibility extends no further than stating in the assurance report that the auditor is aware of the identified misstatements. For examples of suggested modified wording for the assurance report, please refer to Appendix 4 of this PN.

	Objective	Recommended Procedures
#1	To report whether the market value and composition of the licensee's reserve assets in the Reserve Report has been prepared, in all material respects, in accordance with the criteria set forth in the Reserve Report	<ul style="list-style-type: none"> • Obtain an understanding of the licensee's policies and procedures as related to reserve assets management. Paragraph 33 of this PN discusses examples of matters that may be covered. Where the auditor considers it necessary, they may evaluate the design of controls relevant to the reserve assets management and determine whether they have been implemented by performing procedures in addition to inquiry of the personnel responsible for the subject matter information. • Inspect the licensee's latest correspondence with the HKMA to confirm that the licensee's policy on marketable debt securities has been acknowledged by the HKMA and to evaluate that the marketable debt securities purchased and held by the licensee as at the reporting date are consistent with that policy. <ul style="list-style-type: none"> ➢ If the licensee is unable to provide evidence of the HKMA's acknowledgement on its marketable debt securities policy, the auditor should perform procedures to determine whether the licensee's marketable debt securities meet the eligible asset criteria in paragraph 2.3.1(iii) of the Guideline, other than the requirements for high liquidity. • Obtain and inspect the cash account opening agreement and other trust arrangement agreements to verify the following: <ul style="list-style-type: none"> ➢ Type of account (i.e., demand deposit, saving account, current account, trust account, etc) ➢ Purpose of account (i.e., for the sole benefit of token holders, cannot be used to fund operations, segregated from other accounts of the entity, including general corporate funds.)

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		<ul style="list-style-type: none"> ➤ Authorised signatories are appropriate • Confirm the composition and balances of the reserve assets through sending external confirmations on the test date(s) and whether any assets have been pledged or encumbered to obtain evidence of management's assertions that reserve assets are unencumbered accounts of the licensee. In case of non-responses to confirmation requests or if confirmation is not used, perform procedures to test the existence, rights and obligations and completeness of the licensee's reserve assets holdings. The reliability of the evidence obtained by external confirmations depends, among other factors, upon the auditor applying appropriate procedures in designing the external confirmation request, performing the external confirmation procedures, and evaluating the results of the external confirmation procedures. Factors affecting the reliability of confirmations include the control the auditor exercises over confirmation requests and responses, the characteristics of the respondents, and any restrictions included in the response or imposed by management. • Validate if the attributes from management's assertions agree to the confirmations. Review documents, such as minutes from board of directors' meeting, agreements, i.e., terms of use to validate that the licensee is not leveraging or pledging the assets. • Agree the amounts reported in the confirmation replies to the general ledger or appropriate records. Verify that there are no reconciling items or test any reconciling items included in the reconciliation. • Evaluate management's measurement basis on the market value of the reserve assets and perform necessary procedures to evaluate the asset price and foreign exchange rates, if applicable, used by the licensee against independent source. • Recalculate and populate the subtotals and totals the disclosed in the Reserve Report to verify their mathematical accuracy.
#2	<p>To report whether the par value of the outstanding specified stablecoins in circulation in the Reserve Report has been prepared, in all material respects, in accordance with the criteria set forth in the Reserve Report</p>	<ul style="list-style-type: none"> • Obtain an understanding of the licensee's policies and procedures as related to minting and burning activities, token management and wallet and private key management. This includes evaluating the design of controls relevant to the minting and burning activities and determining whether they have been implemented by performing procedures in addition to inquiry of the personnel responsible for the subject matter information. • For selected transactions, trace the net amount of tokens minted or destroyed to blockchain records and to cash activity at the bank.

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		<ul style="list-style-type: none"> • Obtain the supply of tokens (i.e., the activity of tokens minted less burned) on the test date from blockchains using public block explorers, third-party solutions, or the auditor’s proprietary systems. • The reliability of information obtained from a blockchain depends upon the effectiveness of the underlying blockchain technology and mechanisms that dictate whether transactions are validated and therefore added to the blockchain ledger as well as the method used to access such information. Therefore, in evaluating the information obtained from a blockchain that is used as audit evidence, obtain an understanding of the underlying blockchain (e.g., consensus mechanism and level of decentralisation of the blockchain). • Agree the contract address for each blockchain to the relevant contract deployment record/contract address used for the previous monthly attestation and verify that it has not changed. • Review subsequent activity for any unusual transactions. If any unusual transactions are identified, inquire of management and trace to supporting documentation. • Obtain the reconciliations for the stablecoins as of the test date(s) and perform the following for each test date: <ul style="list-style-type: none"> ➢ Trace the supply of tokens from the licensee’s blockchain data to the blockchains ➢ Test reconciling items, both the existence and completeness, included in the calculation of outstanding specified stablecoins in circulation, including but not limited to pre-minted tokens, blockchain timing differences, access denied tokens. ➢ Perform necessary procedures to determine if the reconciling items are properly included or excluded from management’s definition of outstanding specified stablecoins in circulation in accordance with the criteria. • Ascertain the type of the smart contract if it is an upgradable contract. If the contract has been changed, inquire about the nature of the change and trace the change to associated management testing and approval.
#3	To report whether the licensee’s reserve assets are adequate to fully back the par value of the outstanding specified stablecoins in circulation as of the period-end date and random date	<ul style="list-style-type: none"> • Calculate and reconcile the balance of outstanding specified stablecoins in circulation (tested through #2) with the balance of the licensee’s reserve assets (tested through #1) and agree to amounts reported in the Reserve Report.

APPENDIX 3 Example report by the auditor

INDEPENDENT AUDITOR'S ASSURANCE REPORT ON PARAGRAPH (b) OF SECTION 5(6) OF SCHEDULE 2 OF THE STABLECOINS ORDINANCE

To the [Board of Directors] of ABC Limited (the "Company")

Pursuant to paragraph (b) of section 5(6) of Schedule 2 to the Stablecoins Ordinance (the "Ordinance") and paragraph 2.7.3 of the Guideline on Supervision of Licensed Stablecoin Issuers (the "Guideline") issued by the Hong Kong Monetary Authority, we have been requested to report on the accompanying [Reserve Position of Fiat-Referenced Stablecoin (FRS) Issuer] as of [random date] and [period-end date] at 11:59 PM Hong Kong Time of the Company ("Reserve Report") in respect of information required under paragraph 2.7.3 of the Guideline.

Scope

This report covers the Reserve Report and does not extend to any other return or information submitted to the Hong Kong Monetary Authority by the Company.

[Directors'] Responsibilities

In relation to this report, the [directors] have a responsibility to ensure that:

- a. the Company has adequate and appropriate systems of control to ensure that its reserve assets are subject to regular independent attestation and audit; and
- b. the correct preparation of the Reserve Report in accordance with the Ordinance and the Guideline and from the books and records of the Company, for submission to the Hong Kong Monetary Authority.

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Management 1⁵, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's Responsibilities

Our responsibility is to report whether the following management's assertions in the Reserve Report have been prepared, in all material respects, in accordance with [specify the criteria, e.g., the criteria set forth in the Reserve Report]:

- The market value of the Company's reserve assets backing the [FRS] was at least equal to the par value of the outstanding [FRS] in circulation; and
- The composition and valuation of the reserve assets backing the [FRS] and the par value of the outstanding [FRS] in circulation have been prepared in accordance with [specify the criteria].⁶

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 831, *Reporting on Reserve Assets of Licensed*

⁵ HKSQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

⁶ The auditor should tailor the presentation of management's assertions in the assurance report to reflect the actual assertions made by the Company.

Stablecoin Issuers under the Stablecoins Ordinance (“PN 831”) issued by the HKICPA. We have planned and performed our work to obtain reasonable assurance to form our conclusion on management’s assertions. The nature, timing and extent of procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement, whether due to fraud or error, in the Reserve Report. In making those risk assessments, we considered internal control relevant to the Company’s preparation of the Reserve Report, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.

We have planned and performed such procedures as we considered necessary with reference to the procedures recommended in PN 831, which included examining evidence obtained from the Company regarding the Company’s preparation of the Reserve Report. These procedures do not represent an audit of the books and records of the Company.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Inherent Limitations

Systems of controls designed to address specific control objectives are subject to inherent limitations of any internal control structure, and accordingly, errors or irregularities may occur and not be detected. Such measures cannot guarantee protection against fraudulent collusion especially on [information reported in the Report].

Opinion

Based on the foregoing, in our opinion, management’s assertions including the market value and composition of the Company’s reserve assets backing the [FRS] and the par value of the outstanding [FRS] in circulation in the Reserve Report have been prepared, in all material respects, in accordance with [specify the criteria].

[Other Matter

We draw attention to Section 5(5) of Schedule 2 to the Ordinance and Paragraph 2.3.1(iii)(d) of the Guideline. These provisions stipulate that where reserve assets of a licensed stablecoin issuer are marketable debt securities, they must be of high liquidity. In this regard, we did not perform procedures or provide any assurance as to whether the Company’s marketable debt securities in the Reserve Report fulfill the requirements of high liquidity.⁷

This report is limited to a point in time as of [period-end date] and [random date]. We did not perform procedures or provide any assurance at any other date or time in this report.]

Intended Users and Purpose

This report is solely prepared for you to satisfy the conditions in paragraph 2.7.3 of the Guideline in connection with the Reserve Report, and is not intended to be, and should not be, used by anyone else or for any other purpose. We agree that a copy of this report may be provided to the Hong Kong Monetary Authority without further comment from us. We expressly disclaim any liability or duty to any other party for the content in this report. This report relates only to the items specified above and does not necessarily extend to any financial statements of the Company taken as a whole.

[Name of firm]

Certified Public Accountants (Practising) [or Certified Public Accountants]

[Auditor’s Address]

Hong Kong

[Date]

* Delete where not applicable

⁷ This paragraph is applicable if the auditor is unable to ascertain that the Company’s marketable debt securities policy has been acknowledged by the HKMA and management asserts in the Reserve Report that such securities are highly liquid. For further guidance, please refer to paragraph 56 of this PN.

APPENDIX 4

Examples of Emphasis of Matter paragraph and modifications to the assurance opinion

The auditor shall express a modified conclusion in accordance with paragraphs 72 to 77 of HKSAE 3000 (Revised). In the context of the Reserve Report, this may occur where a misstatement that is material is identified in the Reserve Report, or when the reserve assets in the Reserve Report do not exceed the par value of the outstanding specified stablecoins in circulation as of the report date(s) and management's assertion states otherwise. For guidance on materiality considerations in the Reserve Report, please refer to paragraphs 44 to 51 of this PN.

However, if the Reserve Report and management's assertions disclose and report that the reserve assets do not exceed the par value of the outstanding specified stablecoins in circulation, which are consistent with the facts and circumstances and the auditor has obtained sufficient appropriate evidence on the Reserve Report, the auditor does not modify its opinion. Instead, the auditor issues an unmodified opinion and includes an Emphasis of Matter paragraph to highlight this situation. Paragraph 73 of HKSAE 3000 (Revised) provides guidance on an Emphasis of Matter in the assurance report. An illustrative Emphasis of Matter paragraph is provided below.

The auditor should determine the type of modification that is appropriate to the circumstances of the engagement and modify the wording of the assurance opinion accordingly as required in paragraph 69(l)(v) of HKSAE 3000 (Revised). Further guidance is set out in paragraphs 74 to 77, A183, A189 to A192 of HKSAE 3000 (Revised).

Examples:

The following examples of Emphasis of Matter paragraph and modified opinions are for guidance only and are not intended to be exhaustive or applicable to all situations. They are based on the illustration in Appendix 3.

	Types of Reporting	Examples of issues
(a)	Emphasis of Matter	The reserve assets for the specified stablecoins in the Reserve Report do not exceed the par value of the outstanding specified stablecoins in circulation as of the report date(s) and management's assertion states the same.
(b)	Modified Opinion	The market value and composition of the Company's reserve assets for the specified stablecoins in the Reserve Report has not been prepared, in all material respects, in accordance with the specified criteria.
(c)	Modified Opinion	The par value of the outstanding specified stablecoins in circulation in the Reserve Report has not been prepared, in all material respects, in accordance with the specified criteria.
(d)	Modified Opinion	The Company's reserve assets do not exceed the par value of the outstanding specified stablecoins in circulation as of the report dates but management's assertion states otherwise.

Illustrations:

1. Emphasis of Matter paragraph

Emphasis of Matter

We draw attention to the disclosures in the Reserve Report and management's assertions, which indicate that the licensee's reserve assets for the [FRS] are not adequate to fully back the par value of the outstanding [FRS] in circulation as of [insert date]. Our conclusion is not modified in respect of this matter.

2. Qualified Opinion

Basis for Qualified Opinion

- Based on the information and explanations supplied to us, we are aware that the [*describe identified discrepancies*] in the Reserve Report has not been prepared, in all material respects, in accordance with [*specify the criteria*]. [*Describe the impact to the assurance report, e.g., It is not practicable for us to quantify the impact of this on the Reserve Report as of [period-end date/ random date]. / The discrepancies are set out in the appendix to this report.*]

Qualified Opinion

Based on the foregoing, in our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, management’s assertions including the market value and composition of the Company’s reserve assets backing the [FRS] and the par value of the outstanding [FRS] in circulation in the Reserve Report have been prepared, in all material respects, in accordance with [*specify the criteria, e.g., the criteria set forth in the Reserve Report*].

... ..

3. Adverse Opinion

Where the auditor has identified exceptions to the information in the Reserve Report, and in the auditor’s professional judgment, the effect of the matter(s) is/are so material and pervasive as to require an adverse conclusion.

Basis for Adverse Opinion

[*Describe matters giving rise to the adverse opinion*]

Adverse Opinion

Based on the foregoing, due to the significance of the matters discussed in the Basis for Adverse Opinion section of our report, management’s assertions including the market value and composition of the Company’s reserve assets backing the [FRS] and par value of the outstanding [FRS] in circulation in the Reserve Report have not been prepared, in all material respects, in accordance with [*specify the criteria, e.g., the criteria set forth in the Reserve Report*].

... ..

APPENDIX 5

Example management representation letter

The following specimen letter is for reference only and will need to be modified according to the circumstances of individual licensees. General guidance on written representations is set out in paragraphs 67 to 72 of this PN and paragraphs 56 to 60 and A137 to A140 of HKSAE 3000 (Revised).

[Licensee's letterhead]

[Audit Firm]
[Address]

[Date of Auditor's report]

Dear Sirs

This representation letter is provided in connection with your engagement pursuant to paragraph (b) of section 5(6) of Schedule 2 to the Stablecoins Ordinance (the "Ordinance") and paragraph 2.7.3 of the Guideline on Supervision of Licensed Stablecoin Issuers (the "Guideline") issued by the Hong Kong Monetary Authority to report on the [Reserve Position of Fiat-Referenced Stablecoin (FRS) Issuer] as of [the period-end date] and [the random date] of ABC Company Limited (the "Company") (the "Reserve Report") in respect of information required under paragraph 2.7.3 of the Guideline.

We confirm that (, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves):

The Reserve Report

1. We acknowledge our responsibility for preparing the Reserve Report for the purposes of compliance with the requirements of paragraph (b) of section 5(6) of Schedule 2 of the Ordinance and paragraph 2.7.3 of the Guideline.
2. We have fulfilled our responsibilities for establishing and maintaining adequate accounting and non-accounting records and systems of control to ensure that the Reserve Report has been correctly prepared from the books and records of the Company, and that the Company complies with the provisions of the Ordinance and the Guideline at all times.
3. We confirm that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud and error and confirm the following:
 - We have disclosed our knowledge of fraud or suspected fraud affecting the Company involving management, employees who have significant roles in internal control; or others where the fraud could have a material effect on the books of accounts, records and supporting documentation in respect of the Company's reserve assets management and reporting.
 - We have disclosed our knowledge of any allegations of fraud or suspected frauds, affecting the Company's books of accounts, records and supporting documentation in respect of its reserve assets management and reporting communicated by employees, former employees or others.
 - We believe that the risk that the books of accounts, records and supporting documentation in respect of the Company's reserve assets reporting may be materially misstated as a result of fraud is not significant, based on the results of our assessment.
4. There have been no contraventions by the Company of any of its duties under the Ordinance and Guideline during the period from [date] to [date] or which were the subject of correspondence during this period.

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5. We are not aware of any matter which adversely affects the preparation and presentation of the information in the Reserve Report to a material extent.
6. The Reserve Report has been prepared in accordance with [specify the criteria for preparation].
7. We acknowledge our responsibility for the selection and development of the criteria used as the basis for management's assertions and confirm that such criteria are suitable for the purpose of the Reserve Report. We have implemented appropriate internal controls over the selecting or developing of suitable criteria as the basis for management's assertions and the reporting of management's assertions in the Reserve Report.
8. We confirm that the criteria used in respect of the reporting of the market value of the reserve assets is consistent with the accounting policies adopted by the Company in preparation of the Company's annual financial statements.
9. We have read the draft assurance report and have agreed with the facts and statements set out in the draft report in respect of your engagement.
10. We have maintained a pool of reserve assets for [specify the FRS] ("specified reserve assets pool") and that the specified reserve assets pool is segregated from any other assets maintained by the Company.
11. The specified reserve assets pool for [specify the FRS] is held in the same reference asset as that referenced by the [FRS].
12. Each specified reserve assets pool is adequately protected against claims by other creditors in all circumstances; and is kept separate from any other funds paid to, or maintained or received by the Company.
13. The specified reserve assets pool maintained by the Company are of high quality and high liquidity with minimal investment risks in accordance with the requirements set out in the Guideline.

Information Provided

14. The Reserve Report provided to you for the purpose of this engagement [is][will be] the one to satisfy the conditions in paragraph 2.7.3 of the Guideline.
15. All transactions undertaken by the Company have been properly reflected and recorded in its accounting and non-accounting records and for the preparation of the Reserve Report, such records properly reflect the true nature of all transactions.
16. All of the following information has been made available to you for the purposes of performing your procedures on the Reserve Report:
 - i) All accounting and non-accounting records and supporting documents, information and explanations necessary in respect of and for an understanding of the information in the Reserve Report;
 - ii) All policies and procedures manuals for the preparation of the Reserve Report and required under the Ordinance and Guideline;
 - iv) All instructions, correspondence and minutes or notes of meetings with the Hong Kong Monetary Authority;
 - v) Other information which may be relevant to the preparation of the Reserve Report; and
 - vi) Unrestricted access to persons within the Company from whom you determine it necessary to obtain audit evidence.

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17. [We are responsible for the preparation of other information included in the Reserve Report. We confirm that the Reserve Report and any other information provided to you are consistent with one another, and the other information does not contain any material misstatements.]
18. We have disclosed to you all communications between Company and the Hong Kong Monetary Authority and other regulatory authorities concerning non-compliance with laws and regulations or deficiencies in internal control systems and procedures and financial reporting practices which could have a material effect on the information presented in the Reserve Report.
19. We have communicated to you all deficiencies in internal control of which we are aware of that could have a material effect on the information presented in the Reserve Report.
20. [We have considered the summary of misstatements attached to this letter and believe the effects of those misstatements aggregated by you during the engagement are immaterial, both individually and in the aggregate, and we consider that those misstatements do not constitute non-compliance with the applicable requirements of the Ordinance and the Guideline regarding our preparation of the Reserve Report.]
21. All events subsequent to the date of the Reserve Report that require adjustment to or disclosure in the Reserve Report have been adjusted or disclosed.

[Any other matters that the auditor may consider necessary (see paragraphs 56 to 57 of HKSAE 3000 (Revised))]

Yours faithfully

[For and on behalf of.....]

Director* / Chief Executive*

CFO* [or other title as appropriate]

* Delete where not appropriate

APPENDIX 6

Example engagement letter

The following engagement letter is for reference only and will need to be adapted according to individual requirements and circumstances. General guidance on an engagement letter is set out paragraphs 27 to 28 and A57 to A58 of HKSAE 3000 (Revised).

The [Board of Directors]
ABC Company
[Address]

[Date]

Dear Sirs

Objective of services

- 1.1 You have requested that we report on the [Reserve Position of Fiat-Referenced Stablecoin (FRS) Issuer] of ABC Company (the “Company”) in respect of information required under paragraph 2.7.3 of the Guideline on Supervision of Licensed Stablecoin Issuers (the “Guideline”) issued by the Hong Kong Monetary Authority as of the period-end date[s] and random date[s] to be selected and determined by us in accordance with paragraph 2.7.3 of the Guideline from [date] and [date] (the “Reserve Report[s]”). We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our work will be conducted with the objective of our expressing a conclusion on the Reserve Report[s].

Responsibilities of the directors

- 2.1 Paragraph 2.7.3 of the Guideline require the Company to engage a qualified and independent external auditor that is acceptable to the Hong Kong Monetary Authority to perform attestation on a regular basis at a frequency that is acceptable to the Hong Kong Monetary Authority, on:
- (a) The market value and composition of its reserve assets backing the specified stablecoins;
 - (b) The par value of the outstanding specified stablecoins in circulation; and
 - (c) Whether its reserve assets are adequate to fully back the par value of the outstanding specified stablecoins in circulation as of the last business day of the period covered by the attestation report, and as of at least one randomly selected business day during such period.

Paragraph 2.7.3 of the Guideline requires the Company to submit the attestation report to the Hong Kong Monetary Authority within one month following the last business day of the period covered by the attestation report, and disclose each attestation report to the public at a reasonably prominent location on its website.

- 2.2 Under paragraph (b) of section 5(6) of Schedule 2 of the Stablecoins Ordinance (the “Ordinance”), it is the [director’s] responsibility to ensure the Company must have in place and implement adequate and appropriate systems of control to ensure that its reserve assets are subject to regular independent attestation and audit.
- 2.3 It is the [director’s] responsibility to ensure the correct preparation of the Reserve Report[s], from the books and records of the Company, for submission to the Hong Kong Monetary Authority. This includes the responsibility for selecting and developing suitable criteria for the preparation of the Reserve Report[s] that are appropriate for the purpose of the reporting.

- 2.4 The [directors] are responsible for making available to us, all records and documents relating to the preparation of the Reserve Report[s], all records relating to the establishment and maintenance of internal control systems, copies of all correspondence, minutes or notes of meetings and discussions held between the Company and the Hong Kong Monetary Authority relevant to our examination of the Reserve Report[s], and any other information relevant to the matters referred to in paragraphs 2.1 and 2.2 above.

Responsibilities of the auditor

- 3.1 Our duty as auditor is to report to you whether or not, in our opinion, management's assertions including the market value and composition of the Company's reserve assets and par value of the outstanding [FRS] in circulation in the Reserve Report[s] have been prepared, in all material respects, in accordance with [specify the criteria, e.g., the criteria set forth in the Reserve Report]
- [3.2 We are required to read the other information included in the Reserve Report[s]. If on reading that other information, we identify a material inconsistency between that other information and information in paragraph 2.1 above; or become aware of a material misstatement of fact in that other information that is unrelated to matters appearing in the Reserve Report[s], we will take further action as appropriate.]#
- 3.3 The report is solely prepared for you for onward submission to the Hong Kong Monetary Authority pursuant to paragraph (b) of section 5(6) of Schedule 2 of the Ordinance and paragraph 2.7.3 of the Guideline and is not intended to be, and should not be, used by anyone else or for any other purpose and we expressly disclaim any liability or duty to any other party in this respect.

Scope of work

- 4.1 Our work will be carried out in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 831, *Reporting on the Reserve Assets of Licensed Stablecoin Issuers under the Stablecoins Ordinance* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). We will perform such procedures as we consider necessary to enable us to form our opinion on the matters as stated in paragraph 2.1. These procedures do not comprise an audit.
- 4.4 As part of our procedures, we will request you to provide written confirmation concerning representations which we have received from you during the course of the engagement on matters having a material effect.
- 4.5 The responsibility for keeping the Hong Kong Monetary Authority informed about the affairs of the Company rests with you, and we shall advise you if, during the course of our work, we become aware of any matters that we consider you should report to the Hong Kong Monetary Authority. We may be required by law or regulation or may consider it appropriate to report such matters directly to the Hong Kong Monetary Authority. However you should appreciate that our work should not be relied upon to disclose all irregularities that may exist.

[Set out other terms of the engagements as appropriate]

Reporting and distribution

- 5.1 We will agree that a copy of the report once issued may be provided to the Hong Kong Monetary Authority without further comment from us.

Fees

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- 6.1 Our fees are computed on the basis of the time spent on your affairs by the partners and our staff and on the levels of skill and responsibility involved plus out-of-pocket expenses. Fees will be due and payable on presentation.

Agreement of terms

- 7.1 Once it has been agreed, this letter will remain effective, from one appointment to another, until it is replaced. Please sign and return the enclosed copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our report on the Reserve Report[s] including our respective responsibilities.

Yours faithfully

DEF & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

We agree to the terms of this letter.

[Director, for and on behalf of the board of ABC Company Limited]

APPENDIX 7

Extract of the Ordinance and Guideline

This appendix provides a summary of the Ordinance and Guideline that are relevant to the licensee's preparation of the Reserve Report and the auditor's reporting under paragraph (b) of section 5(6) of Schedule 2 of the Ordinance and paragraph 2.7.3 of the Guideline. This appendix is not exhaustive and is not a substitute from reading the Ordinance and Guideline in full.

Stablecoins Ordinance

Schedule 2 Minimum Criteria

...

Part 2 Criteria

...

5. Reserve assets management

(1) ...

...

(6) A licensee must have in place and implement—

(a) adequate and appropriate risk management policies and procedures for managing its reserve assets to ensure that they are properly managed so that valid redemption requests can be honoured without undue delay; and

(b) adequate and appropriate systems of control to ensure that its reserve assets are subject to regular independent attestation and audit.

(7) A licensee must make adequate and timely disclosure to the public on—

(a) its reserve assets management policy;

(b) an assessment of the risks arising from its reserve assets and the management of the risks;

(c) the composition and market value of its reserve assets; and

(d) the results of regular independent attestation and audit of its reserve assets.

...

Guideline on Supervision of Licensed Stablecoin Issuers

...

2. Reserve assets management

2.7. Disclosure and reporting

2.7.1. Section 5(7) of Schedule 2 to the Ordinance stipulates that a licensee must disclose to the public, among other things, its reserve assets management policy, the composition and market value of its reserve assets as well as the results of regular independent attestation and audit of its reserve assets. Paragraph (b) of section 5(6) of Schedule 2 to the SO sets out the minimum criteria with regard to the systems of control on independent attestation and audit.

2.7.2. ...

2.7.3. A licensee should engage a qualified and independent external auditor that is acceptable to the HKMA to perform attestation on a regular basis at a frequency that is acceptable to the HKMA, on: (i) the market value and composition of its reserve assets, (ii) the par value of the outstanding specified stablecoins in circulation, and (iii) whether its reserve assets are adequate to fully back the par value of the outstanding specified stablecoins in circulation as of the last business day of the period covered by the attestation report, and as of at least one randomly selected business day during such period. The licensee should submit the attestation report to the HKMA within one month following the last business day of the period covered by the attestation report, and disclose each attestation report to the public at a reasonably prominent location on its website.

2.7.4. A licensee’s annual financial audit should cover its reserve assets (see paragraph 8.2.5). Separately, the licensee should review its reserve assets management policies and procedures regularly and at least on a quarterly basis. Any shortcomings identified during such review should be promptly addressed and reflected in the updated policies and procedures. The policies and procedures, as well as any material changes, should be approved by the board of directors (“Board”). The licensee should also conduct regular audits to assess whether its reserve assets are managed in compliance with the policies and procedures, as well as applicable regulatory requirements. The licensee should report the audit outcomes, including any material findings, to the HKMA in a timely manner and promptly provide the audit report and relevant supporting documents to the HKMA upon request.

... ..

8. Business practices and conduct

... ..

8.2. Disclosure and reporting

... ..

8.2.5. A licensee should submit to the HKMA on an annual basis its audited financial statements prepared in accordance with the applicable accounting standards, which should cover the reserve assets backing the specified stablecoins it issues. The audited financial statements should be submitted to the HKMA within four months of the financial year-end.

... ..