Fintech Series

Guidance Notes on Stablecoins

Issued under section 7(1)(a) of the Financial Services Act and section 6(1)(d) of the Virtual Asset and Initial Token Offerings Services Act

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1. Background

1.1 A stablecoin is a type of virtual asset[1] that relies on stabilisation tools to maintain a stable value relative to one or several fiat currencies[2] or other reference asset.

1.2 The use of stablecoins within the virtual asset ecosystem has increased rapidly in recent years. Stablecoins were originally considered safe, as compared to the

[1] As defined in Section 2 of the VAITOS Act.
[2] As defined in Section 2 of the VAITOS Act.

volatility of other virtual assets, and were used as an entry point for trading in virtual assets. However, with the rise in decentralised finance ("DeFi") applications, stablecoins are being used for several other purposes and can impact on risks to the financial system.

1.3 In this respect, following the enactment of the Virtual Asset and Initial Token Offerings Services Act ("VAITOS Act"), the Financial Services Commission, Mauritius ("FSC") has deemed it appropriate to issue these Guidance Notes to inform industry stakeholders about its regulatory policy on stablecoins.

1.4 These Guidance Notes neither derogate nor restrict the powers vested upon the FSC by the law, and should be read together with the VAITOS Act, relevant Acts[3], applicable Acts[4], and such other guidelines and circulars as may be issued by the FSC.

1.5 The FSC may direct any licensee or any other person, to comply with these Guidance Notes and failure to do so may entail regulatory actions and constitute an offence.

[3] As defined in section 2 of the Financial Services Act.
[4] As defined in section 2 of the VAITOS Act.

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1.6 Investors are reminded that the Bank of Mauritius (the central bank) does not recognise stablecoin as a legal tender nor as a form of payment instrument that is regulated by the central bank.

2. Categorisation of Stablecoins

2.1 Stablecoin designs reflect two broad types of mechanisms: asset-linked and algorithmic, with some approaches being a hybrid of the two:

2.1.1 **Asset-linked stablecoins** purport to link the stablecoins at issue to physical or financial assets, in order to maintain a stable value relative to the referenced asset(s). They can accordingly be categorised into currency-based, financial instrument-based, commodity-based and virtual asset-based stablecoins.

2.1.2 **Algorithmic stablecoins** attempt to maintain a stable value *via* protocols that provide for the increase or decrease of the supply of the stablecoins in response to changes in demand. While the amount to be increased or decreased may be based on an algorithm, the actual issuance or destruction may not be automatic.

2.2 Since algorithmic stablecoins are generally unbacked virtual assets, they are deemed much more risky than asset-linked stablecoins. Consequently, investors in Mauritius are advised not to deal with fully-algortihmic stablecoins.

3. Underlying characteristics of asset-linked stablecoins

3.1 To achieve stability, asset-linked stablecoins are generally backed or collateralised by underlying funds, securities or other assets, including virtual assets (collectively, "reserve assets"). The reserve assets are, depending on the type of asset and at the discretion of the issuer, usually:

3.1.1 deposited at commercial banks;

3.1.2 deposited at central banks[5]; or

3.1.2 held by custodians.

[5] The monetary policy environment does not currently allow for this scenario in Mauritius.

3.2 The mechanism by which a stablecoin's value is maintained in relation to the underlying reserve assets may vary based on the design of the stablecoins or contractual arrangements. As a result:

3.2.1 Depending on the structure, stablecoin holders may or may not have a redemption right against the issuer or direct claim on the reserve assets.

3.2.2 Reserve assets may or may not be available to be used in case of a redemption request, and may or may not benefit from consumer and investor protection arrangements or other similar schemes.

4. Regulatory treatment of stablecoins

4.1 The regulatory focus of the FSC is on the core function and purpose of any particular stablecoin (i.e. substance over form) and the tried and tested principle of 'same risks, same rules', while taking into account the specific features of each stablecoin arrangement.

4.2 Stablecoins, that may be digitally traded or transferred, and used for payment or investment purposes, are considered as virtual assets[6] as defined in the VAITOS Act. As such, relevant provisions of the VAITOS Act will apply and the FSC will act as the competent Authority / Supervisor.

4.3 Any offer for sale of stablecoins to the public in exchange for fiat currency or another virtual asset is considered as "initial token offerings" or "ITO" and the issuer of the said stablecoins shall be registered as an "issuer of initial token offerings" under section 25(5) of the VAITOS Act.

4.4 Issuers of stablecoins shall be subject to the provisions of the VAITOS Act and, in addition, be required to:

4.4.1 maintain the higher of MUR 5 million or 50 % of their annual operating expenses, as minimum unimpaired stated capital;

4.4.2 hold, at all times, liquid assets which are valued at the higher of 50 % of their annual operating expenses, or such amount of liquid assets as deemed

[6] As defined in Section 2 of the VAITOS Act

sufficient by the issuers of stablecoins to ensure for orderly winding-up, subject to the prior approval of the FSC;

4.4.2 implement a robust operational risk and resilience framework to maintain the availability and safe custody of reserve assets;

4.4.3 adopt and publicly disclose policies related to:

(i) the valuation and composition of reserve assets; and

(ii) the redemption of stablecoins, including whether redemption requests will be met on demand or with a time lag.

4.4.4 disclose the value of the reserve assets at least daily and the composition of the reserve assets at least weekly; and

4.4.5 appoint an independent expert, which is acceptable to the FSC, to conduct a valuation of the assets backing the stablecoins, on an annual basis or such higher frequency as may be determined by the FSC.

4.5 Moreover, whenever a person, as a business, conducts one or more of the following activities or operations in the context of a stablecoin arrangement –

(a) exchange between stablecoins and fiat currencies or other forms of virtual assets;
(b) transfer of stablecoins;
(c) safekeeping or administration of stablecoins or instruments enabling control over the stablecoins;
(d) participation in, and provision of, financial services related to an issuer's offer and/or sale of a stablecoin;

such person shall apply for the relevant licence to act as a Virtual Asset Service Provider under the VAITOS Act.

4.6 The FSC may impose additional requirements on a stablecoin arrangement to address any specific risks or circumstances, consistent with its statutory objectives, the provisions of the VAITOS Act and such other standards/guidelines as may be issued by international standard setters[7].

4.7 It shall therefore be unlawful for any person to issue and/or provide relevant services with respect to stablecoins in or from Mauritius, without holding the relevant licence, approval and/or registration from the FSC, issued in accordance with the relevant laws.

5. Other specific regulatory treatments

5.1 Some stablecoin arrangements may be subject to the regulatory requirements of other enactments in Mauritius. These scenarios, as highlighted hereafter, can arise and will receive the following regulatory treatment:

5.1.1 A stablecoin that is linked to individual securities, by means of a contractual right for delivery of the individual securities to the stablecoin holder, would be considered as securities.

[7] For example, the Prudential Standards issued by the Basel Committee on Banking Supervision - [Prudential treatment of cryptoasset exposures](#).

5.1.2 A stablecoin that is linked to:

(a) a collective investment of funds in a portfolio of securities, or other financial assets, real property or non-financial assets as may be approved by the Commission; and

(b) which also confers a contractual claim on the aforementioned portfolio to the stablecoin holder,

would be considered as a collective investment scheme.

5.1.3 A stablecoin that is linked to commodities is not straightforward to categorise.

In that respect:

(a) Where a stablecoin merely confers an ownership right (instead of a contractual claim) on the underlying commodities to its holders, it would not be considered as securities.

(b) Where there is a contractual claim on the underlying commodities, a stablecoin may be classified as a derivative and would be considered as securities.

5.1.4 The application of 5.1.1 to 5.1.3 shall be subject to the prior assessment of the specific types of stablecoins by the FSC, in line with the provisions of the relevant legislations and/or guidelines as may be issued on virtual assets.

6. Prudential requirements for reserve assets

6.1 Where stablecoin holders have a redemption right or direct claim on the reserve assets, the issuer of the stablecoin and/or any other person responsible for holding custody of the reserve assets, shall ensure that the reserve assets are sufficient so that the full value of the stablecoin would be redeemable.

6.2 For the purpose of paragraph 6.1, the following prudential standards should be applied to reserve assets:

6.2.1 Reserve assets may not be pledged, re-hypothecated, or re-used, except for the purpose of creating liquidity to meet reasonable expectations of requests to redeem stablecoins.

6.2.2 The value of the reserve assets (net all non-stablecoin claims on these assets) must, at all times, equal or exceed the aggregate peg value of all outstanding stablecoins.

6.2.3 If the reserve assets expose the stablecoin holders to risks in addition to the risks arising from the reference assets[8], the value of the reserve assets must sufficiently overcollateralise the redemption rights of all outstanding stablecoins. The level of overcollateralisation must be sufficient to ensure that even after stressed losses are incurred on the reserve assets, their value exceeds the aggregate value of the peg of all outstanding stablecoins.

6.2.4 For stablecoins that are pegged to one or more currencies, the reserve assets must be comprised of assets with minimal market and credit risk. The

8 For example, consider a stablecoin that is redeemable for a given currency amount (i.e the currency amount is the reference asset) but is backed by bonds denominated in the same currency (i.e the bonds are the reserve asset). The reserve assets will give rise to credit, market and liquidity risks that may result in losses relative to the value of the reference asset.

assets shall be capable of being liquidated rapidly with minimal adverse price effect.

6.2.5 Furthermore, reserve assets must be denominated in the same currency or currencies in the same ratios as the currencies used for the peg value. A *de minimis* portion of the reserve assets may be held in a currency other than the currencies used for the peg value, provided that the holding of such currency is necessary for the operation of the stablecoin arrangements and all currency mismatch risk between the reserve assets and peg value has been appropriately hedged.

6.3 Whenever a discrepancy or shortfall of reserve assets is identified by the issuer of the stablecoin and/or any other person responsible for holding custody of the reserve assets, the situation must be resolved without undue delay. The issuer of the stablecoin and/or any other person responsible for holding custody of the reserve assets may, for example, transfer additional reserve assets out of their own funds to cover the value of the discrepancy or shortfall, so long as the effect of the transfer is such that those additional reserve assets are held on the same basis as all other assets initially held in the reserve.

7. Note for Investors

7.1 Although stablecoins have the potential to enhance the efficiency of the financial services sector, they may also generate risks for investors.

7.2 The risks for investors are always dependent on the specific nature and structure of the stablecoins.

7.3 Stablecoins are not necessarily subject to reduced price volatility nor should they be considered as intrinsically safe investments.

7.4 Investors are therefore urged to act prudently whenever they are solicited by third parties to invest in stablecoins and to ensure that they deal only with regulated entities.

7.5 Investors are reminded that their investment in stablecoins are not protected by any statutory compensation arrangements in Mauritius.

7.6 These Guidance Notes should not be construed as legal, financial or other professional advice. Investors are encouraged to seek their own advice prior to investing in stablecoins.

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