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 2021

1. Background

1.1 "Stablecoins" are virtual assets that aim to maintain a stable value relative to a specified asset, or a pool or basket of assets.

1.2 Depending on its structure and use case, a stablecoin may exhibit characteristics of financial instruments or payment instruments and may be subject to prudential, market conduct and systemic risk oversight under applicable regulatory frameworks.

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

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1.4 In this respect, following the enactment of the Virtual Asset and Initial Token Offerings Services Act 2021 (“VAITOS Act”), the Financial Services Commission, Mauritius (“FSC”) is issuing these Guidance Notes to inform industry stakeholders about its regulatory policy on stablecoins.

1.5 These Guidance Notes must be read in conjunction with applicable international standards issued by International Organization of Securities Commission, Financial Stability Board, Basel Committee on Banking Supervision and other relevant international standard setting bodies, as set out in the **Annexure – International Standards on Stablecoin Arrangements**.

1.6 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 constitutes an offence.

1.7 No person shall issue and/or provide stablecoin-related services in or from Mauritius without holding the relevant licence and/or registration under the VAITOS Act and, where applicable, without the relevant ‘no-objection’ or relevant licence from the Bank of Mauritius.

1.8 (a) These Guidance Notes do not derogate from the obligation of any person under the Financial Services Act, the National Payment Systems Act, or any other enactment.

(b) Any person who intends to offer a stablecoin as a payment instrument in Mauritius will be required to hold a relevant licence issued by the Bank of Mauritius under the National Payment Systems Act.

Only the categories of stablecoins which are specified by the Bank of Mauritius to be a payment instrument under the National Payment Systems Act, may be used to obtain money, goods or services or to otherwise make payment or transfer money within Mauritius provided that the virtual asset service provider or issuers of initial token offerings, as the

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case may be, is licensed by the Bank of Mauritius as a payment service provider under the National Payment Systems Act.

(c) A Payment Intermediary Services licensed under the Financial Services Act and conducting business activities exclusively outside Mauritius shall obtain a no objection of the Bank of Mauritius if it intends to use or facilitate the use of stablecoins pegged to a fiat currency, as a payment instrument.

1.9 Any stablecoin pegged to fiat currencies, other than Mauritian Rupee and used for investment purposes only, in Mauritius, would be regulated by the FSC.

1.10 Any stablecoin issued in and from Mauritius, which is pegged to a fiat currency (including the Mauritian Rupee), shall fall under the regulatory purview of the FSC but will also require a no-objection from the Bank of Mauritius.

1.11 Investors are reminded that stablecoin is not recognised as a legal tender in Mauritius.

2. Categorisation of Stablecoins

2.1 Stablecoin designs reflect the following two broad types of mechanisms:

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). In certain cases, stablecoin arrangements, may also provide, directly or indirectly, yield, interest or other forms of remuneration to holders.

2.1.2 **Algorithmic stablecoins** are generally unbacked virtual assets and 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 Subject to the risk characteristics associated with certain stablecoin arrangements, including potential price volatility and the provision of yield or other forms of remunerations, the FSC will not consider applications for the issuance, distribution, or facilitation of algorithmic stablecoins or yield-bearing stablecoins in or from Mauritius.

2.3 Stablecoins that reference other virtual assets as underlying assets (including those that reference virtual assets that have traditional assets as underlying assets) shall not be considered as stablecoins by the FSC and shall therefore not be subject to these Guidance Notes.

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, other than virtual assets, (collectively, "reserve assets"), as approved by the FSC.

The reserve assets are, depending on the type of asset and at the discretion of the issuer:

3.1.1 deposited at commercial banks;

3.1.2 deposited at central banks[1]; or

[1] This is currently not applicable in Mauritius.

3.1.3 held by custodians[2].

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

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 are considered as virtual assets as defined in Section 2 of the VAITOS Act and therefore may be digitally traded or transferred and used for payment or investment purposes. Accordingly, relevant provisions of the VAITOS Act will apply and the FSC will act as the Regulatory and Supervisory Authority, except otherwise specified under these Guidance Notes.

4.3 Any direct 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 concurrently be required to:

[2] "Custodian" in this respect refers to a person holding a Custodian services (non-CIS) licence under the Financial Services Act, or any other person duly licensed as a custodian in an equivalent foreign jurisdiction and approved by the FSC.

4.4.1 maintain the higher of MUR 5 million or 50 percent of their annual operating expenses or such percentage of reserve assets as may be determined by the FSC, as minimum unimpaired stated capital;

4.4.2 hold, at all times, liquid assets comprising of cash and cash equivalents, Bank of Mauritius securities, Government of Mauritius Securities, high quality central bank securities, Government securities and bank deposits, which are valued at the higher of 50 percent of their annual operating expenses, or such amount of liquid assets as deemed sufficient by the issuers of stablecoins to make provision for orderly winding-up, subject to the prior approval of the FSC;

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

4.4.4 adopt and publicly disclose policies related to:

(i) the valuation and composition of reserve assets;

(ii) the redemption of stablecoins, which shall be met at par value and within 5 days from any request from stablecoin holders;

(iii) the ownership rights of the reserve assets and governance arrangements for the management thereof.

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

4.4.6 appoint an independent expert, which is acceptable to the FSC, to attest the value of the reserve assets, on a monthly basis and conduct an annual audit of the reserve assets;

4.4.7 Ensure that the stabilisation mechanism minimise fluctuations in market value relative to the peg value; and

4.4.8 Ensure that the reserve assets are invested with explicit legally enforceable objective for prompt redemption, including in periods of stress.

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 all the relevant licences to act as a Virtual Asset Service Provider under the VAITOS Act.

4.6 Issuers of stablecoins, custodians and Virtual Asset Service Providers involved in stablecoin arrangements are required to comply with existing –

(a) anti-money laundering and combatting the financing of terrorism and proliferation obligations which are applicable to Virtual Asset Service Providers and Issuers of Initial

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Token Offerings under the VAITOS Act and the applicable Acts relating to anti-money laundering and combatting the financing of terrorism and proliferation;

(b) information technology and cybersecurity obligations applicable to Virtual Asset Service Providers and Issuers of Initial Token Offerings under the VAITOS Act, Rules made under the VAITOS Act and the conditions of their licence or registration.

(c) establish a robust governance and risk management framework which are applicable to Virtual Asset Service Providers and Issuers of Initial Token Offerings under the VAITOS Act and the applicable Rules under the VAITOS Act. In addition, the board and senior management shall be collectively responsible for:

i The safety and soundness of the stablecoin arrangement;

ii Protection of stablecoin holders, particularly during periods of stress;

iii Clear and duly documented reporting and escalation procedures; and

iv The governance framework shall clearly identify the roles and responsibilities of all key participants / stakeholders in the stablecoin arrangement, including the issuer, custodians and Virtual Asset Service Providers involved in the stablecoin ecosystem.

(d) establish business continuity and disaster recovery plan proportionate to the scale and complexity of the stablecoin arrangement. Material incidents, including cyber incidents, operational disruptions or de-pegging events affecting the stability of the stablecoin, shall be promptly notified to the FSC together with remedial measures taken.

(e) Where reserve assets are held with a custodian, the issuer of the stablecoin shall ensure that such custodian is appropriately licensed, registered or otherwise regulated under the laws of Mauritius or other equivalent jurisdictions.

The board and senior management of the issuer shall also ensure that appropriate governance arrangements are established in respect of custodial relationships, including due diligence prior to the appointment of custodians, formal contractual arrangements governing the safekeeping of reserve assets, and ongoing oversight of the custodian's regulatory status and operational capabilities.

4.7 The FSC may impose additional requirements on a stablecoin arrangement to address specific risks or circumstances, including but not limited to accommodate the provisions of the VAITOS Act and such other standards/guidelines as may be issued by local supervisory authorities and international standard bodies.

5. Additional Regulatory treatments for hybrid stablecoin arrangements

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

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 shares as defined in the Securities (Collective Investment Schemes and Closed-end Funds) Regulations 2008.

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

(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 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 adequate to cover the full value of the stablecoin.

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

6.2.1 All the reserve assets used to back the stablecoins in circulation shall be held in distinct accounts and segregated from the stablecoin issuer's own assets.

6.2.2 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.

6.2.3 Reserve assets held or placed in custody shall be protected against claims of a custodian's creditors.

6.2.4 Reserve assets must be valued on a marked-to-market basis daily. 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 in circulation or held by the issuer.

6.2.5 If the reserve assets expose the stablecoin holders to risks in addition to the risks arising from the reference assets[3], 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.

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

6.2.7 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

3 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.

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 and contribute to increase the rate of financial innovation, they may also generate new risks for investors and the financial sector at large.

7.2 The risks for investors are always dependent on the specific nature and structure of the stablecoins and as such may be idiosyncratic as well.

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 investments in stablecoins are not protected by any statutory compensation arrangement(s) 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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ANNEXURE – INTERNATIONAL STANDARDS ON STABLECOIN ARRANGEMENTS

1. Purpose

1.1 This Annexure shall be read together with the Guidance Notes on Stablecoins and the Virtual Asset Service Providers and Issuers of Initial Token Offerings and relevant subsequent Rules, Financial Services Act and National Payment Systems Act 2018 ("NPS Act").

1.2 This Annexure is intended to:

(i) outline relevant international standards and principles issued by international standard setting bodies, including Basel Committee on Banking Supervision ("BCBS"), International Organization of Securities Commissions ("IOSCO"), Financial Stability Board ("FSB").

(ii) establish common grounds to support regulatory coordination between the Financial Services Commission, Mauritius ("FSC") and the Bank of Mauritius ("BoM").

1.3 The Annexure does not create new obligations beyond those set out in the Guidance Notes.

2. International standards bodies (BCBS, IOSCO, FSB)

2.1 International standard bodies, as set out above, converge on the principle of "same activity, same risk, same regulation." This principle requires that stablecoin arrangements be regulated according to their economic function, risk profile, and their role within the financial system, including where they perform functions analogous to payments, clearing, settlement, or securities-market infrastructure.

2.2 The stablecoin arrangements are recognised as comprising inter-linked functional components, including issuance; redemption; reserve assets management and stabilisation mechanisms; and transfer/transaction functions.

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2.3 International standard bodies further emphasise the application of enhanced prudential, governance and transparency requirements, and, for systemically important arrangements, potential alignment with Committee on Payments and Market Infrastructures–IOSCO Principles for Financial Market Infrastructures (PFMI).

2.4 The FSB sets out core expectations for stablecoin arrangements, including: (i) comprehensive and coordinated regulatory oversight; (ii) robust governance and risk-management frameworks; (iii) transparent and frequent reporting and disclosures, including independent assurance on reserves; (iv) clear, enforceable redemption rights, including redemption at par for single-fiat-reference stablecoins; and (v) effective cross-border supervisory cooperation, given the global nature of stablecoin issuance and usage.

2.5 The IOSCO guidance emphasises: (i) full, fair and complete disclosure to users on reserve composition, stabilisation mechanisms, and redemption rights; (ii) segregation and safeguarding of reserve assets held with appropriately regulated custodians; (iii) conflict-of-interest management between issuers, custodians, trading platforms, and intermediaries; (iv) application of securities-market conduct and investor-protection principles where stablecoins function as investment instruments; and (v) alignment of systemically important stablecoin arrangements with the CPMI–IOSCO PFMI.

2.6 The BCBS provides prudential expectations for banks and regulated financial institutions with exposure to stablecoins or cryptoassets generally, including: (i) high-quality, liquid reserve assets capable of maintaining value under stress; (ii) conservative capital and liquidity requirements to manage market, credit and operational risks; (iii) daily valuation and risk monitoring of reserve assets; (iv) robust operational resilience, including cyber-risk controls; and (v) policies that prevent over-reliance on unregulated counterparties or custodians. Where banks engage in the issuance, custody, or reserve management of stablecoins, BCBS requires adherence to its Cryptoasset Prudential framework.

3. Common provisions applicable for stablecoin arrangements

3.1 Governance arrangements

3.1.1 A stablecoin arrangement shall have clearly identified persons or entities responsible for governance, issuance, reserve management, redemption execution, custody oversight and operational resilience.

3.1.2 The governance framework shall include effective conflict-of-interest management arrangements and appropriate independent control functions, proportionate to the scale, complexity and risk profile of the arrangement.

3.2 Reserve assets: quality, segregation, safeguarding and valuation

3.2.1 Reserve assets shall be of high quality and high liquidity, capable of timely liquidation with minimal adverse price impact, and managed to minimise market and credit liquidity.

3.2.2 Reserve assets shall be:

(a) segregated from the issuer's own assets;

(b) protected against claims of a custodian's creditors; and

(c) not pledged, re-used or rehypothecated except to generate liquidity for meeting reasonable redemption expectations.

3.3 Redemption rights, stabilisation mechanisms and par value

3.3.1 Any person involved in stablecoin arrangements ("users") shall be provided with clear, enforceable redemption rights against the issuer and/or the reserve assets, supported by a stabilisation mechanism designed to maintain stable value and mitigate.

3.3.2 For stablecoins referenced to a single fiat currency, international standards support redemption at par into fiat.

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3.3.3 Where users may not be entitled to redemption at par value (or otherwise), issuers and intermediaries shall ensure that the nature and limitations of any redemption right are prominently disclosed and not misleading.

3.4 Transparency, disclosure and independent assurance

3.4.1 Stablecoin arrangements shall provide comprehensive and transparent information enabling users and relevant authorities to understand the arrangement, including governance, conflicts, redemption, operations, risk management framework and financial condition.

3.4.2 Public disclosures and supervisory reporting should include, at minimum, information on: (a) reserve asset value and composition; (b) governance and risk factors; and (c) redemption policies and user rights.

3.5 Operational resilience, cyber risk and incident response

3.5.1 Stablecoin arrangements shall implement robust operational resilience frameworks addressing cyber security, smart-contract risks (where applicable), third-party dependencies and outsourcing arrangements, and recovery capabilities.

3.5.2 Material incidents, including cyber incidents, operational disruptions or de pegging events, shall be promptly notified to the relevant authorities.

3.6 Prudential safeguards, stress preparedness and orderly wind-down

3.6.1 Users shall maintain prudential safeguards proportionate to the arrangement's risk profile, including adequate capital and liquidity buffers, and a capacity to meet redemption demands under stress.

3.6.2 Stablecoin arrangements should maintain appropriate planning to support recovery, resolution or orderly wind-down under applicable legal/insolvency frameworks.

3.7 Prohibited/high-risk models (policy alignment)

3.7.1 The issuance, distribution or facilitation of algorithmic and yield-bearing stablecoins are not permitted.

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