



Milbank Insights

Global Corporate/M&A Group

Asia-Pacific Fintech: Strategic and Regulatory Considerations for Stablecoin M&A

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Executive Takeaways

- **License scarcity creates strategic value.** In APAC, Singapore's regulatory framework (known as the single-currency stablecoin (SCS) regime) and Hong Kong's new Stablecoins Ordinance establish high-barrier licensing frameworks, with Hong Kong signaling it will issue only "a handful" of licenses initially. Japan mandates a financial-institution wrapper for issuance. The UAE offers faster market access but introduces multi-regulator complexity across mainland and free-zone authorities.
- **Two key value drivers define investable targets.** (i) Regulatory licenses with scarcity premiums and (ii) a self-reinforcing cycle of liquidity network effects, scale and reserve float economics. First-mover advantage and infrastructure can create preliminary moats.
- **Complex and shifting regulatory landscape.** Regulatory approvals dominate transaction risk. However, in capped markets, acquisition may represent the only viable entry path. Sophisticated buyers build regulatory relationships proactively and structure deals to manage timing risk. For acquirers buying early-stage projects for regulatory optionality (over operational track record), structure milestone payments and other terms of the deal accordingly, tying them to key licensing and operational milestones.
- **Reserve adequacy is the core operational risk.** Maintaining adequate reserves and custody arrangements represents the central operational risk for stablecoin businesses. Due diligence should evaluate redemption frameworks, confirm legal protections for reserve assets in insolvency scenarios, and examine custodial concentration risks. Avoid allowing performance metrics to overshadow asset security concerns. Reserve reconciliation practices, legal segregation of customer assets, redemption compliance, and technical infrastructure audits should be a core focus area comparable to financial analysis.
- **Tailored warranty and indemnity structures are essential.** On top of standard protections, stablecoin M&A warranties and indemnities should target four risk buckets: reserves / custody, redemption, technology controls, and cross-border compliance. Core warranties should cover daily reserve sufficiency and eligible assets, no encumbrances over reserves, jurisdiction-specific redemption standards, compliance with banking / custodial arrangements and cybersecurity / private-key safeguards. Indemnities should provide dollar-for-dollar coverage for reserve shortfalls backed by escrow / holdback.

The Asset: Deconstructing the Stablecoin Model

Stablecoins are digital tokens designed to maintain a 1:1 value with a reference currency such as the US dollar. When well-regulated to preserve value stability, stablecoins can serve as a trusted medium of exchange and support innovation such as digital contracts and transactions. The capitalization of the global stablecoin market has exceeded US\$300 billion as of October 2025, representing 11% of all physical US dollar cash in circulation, with Tether (USDT) and USD Coin (USDC) holding the dominant market shares of approximately 60% and 25% respectively.

The most investable segment comprises fully reserved, fiat-backed stablecoins issued by licensed entities. Due to regulatory barriers to entry, algorithmic models alone may face no clear regulatory pathway in major jurisdictions and under key regulatory regimes – these tend to have limited acquisition value for licensed payment strategies.

A core operational risk is the disconnect between the 24/7 digital token and the traditional banking system where its reserves are held. This was demonstrated in March 2023 during the collapse of Silicon Valley Bank (SVB). Although SVB later resumed operations as a division of First Citizens Bank, at the time the price of USDC, a major stablecoin intended to always be worth US\$1.00, fell as low as US\$0.87 in what is known as a "depeg." This depeg occurred because the market feared that billions of dollars in USDC's cash reserves held at SVB had become inaccessible or unretrievable.

The event serves as a critical reminder: even a fully reserved stablecoin can lose its value if the market loses confidence in the real-world custody of its assets.

Key Value Drivers

- **Regulatory licenses as scarce assets.** Early licensees have significant first-mover advantages in distribution and partnerships. Capturing durable pricing power depends on building network effects and maintaining bank-grade compliance that together create switching costs for users and partners.
- **Network effects and liquidity.** The most liquid stablecoins often function as settlement rails for the digital-asset ecosystem. Stablecoin transaction volume exceeded US\$8.9 trillion in H1 2025 alone. Their high trading volumes and widespread integration make them easier to use, constituting a network effect which attracts more users and further solidifies their market position.
- **Reserve float economics.** Issuers earn reserve yield within strict regulatory constraints—that said, Tether reportedly generated US\$4.9 billion net profit in Q2 2025 from treasury yields alone, demonstrating the power of scale and the importance of reserve yields in the business model. In Hong Kong, the EU (MiCA), and the US (GENIUS Act), issuers are prohibited from paying interest or similar yield to holders.

These three value drivers operate synergistically rather than independently. Regulatory licenses provide the foundation for legitimate market access, which enables the building of liquidity and network effects, which in turn generates transaction volumes that make reserve float economics meaningful at scale. For M&A acquirers, the most attractive targets will demonstrate defensibility across all three dimensions or credible pathways to developing them. Targets with regulatory approval but limited network penetration may represent upside optionality. Conversely, high-volume operators without licensing face existential regulatory risk. The most attractive (but also expensive) acquisition candidates will balance current compliance infrastructure with proven ability to scale liquidity and capture reserve economics within their licensed jurisdictions.

The APAC Playing Field: A Jurisdictional Snapshot

Singapore: Operational and Accessible.

Singapore operates a two-tiered regulatory framework. All stablecoins are initially regulated as Digital Payment Tokens (DPTs) under the Payment Services Act (PSA), subject to baseline AML/CFT and technology risk requirements. In August 2023, MAS introduced the Single-Currency Stablecoin (SCS) framework for stablecoins pegged to the Singapore Dollar or any G10 currency, issued from Singapore, and exceeding SG\$5 million in circulation.

Issuers meeting the SCS requirements qualify for the "MAS-regulated stablecoin" designation, providing validation of higher regulatory compliance. Key requirements include: (i) a Major Payment Institution (MPI) license; (ii) minimum base capital of SG\$1 million (or 50% of annual operating expenses, whichever is higher); (iii) 100% reserve backing with monthly attestations and annual audits; and (iv) par-value redemption within five business days. Issuers conduct full AML/KYC on direct customers (including minting / redemption counterparties), while downstream holders are onboarded by intermediaries such as exchanges and wallets.

Stablecoins that do not qualify, such as those pegged to non-G10 currencies, multiple currencies or algorithmic stablecoins, remain under the DPT framework without the "MAS-regulated stablecoin" designation.

Hong Kong: High Bar, Scarcity-Driven Framework.

Hong Kong implemented its Stablecoins Ordinance in August 2025, establishing one of the world's more stringent frameworks for stablecoins. The Hong Kong Monetary Authority (HKMA) administers mandatory licensing for entities issuing stablecoins in Hong Kong or HKD-pegged stablecoins globally. Key requirements include: (i) HK\$25 million minimum paid-up capital; (ii) 100% reserve backing with high-quality liquid assets in matching currencies; (iii) T+1 redemption; (iv) weekly reporting; and (v) prohibition on interest payments. Reserve assets must be bankruptcy-remote and limited to cash, short-term government securities, and bank deposits under three months.

The HKMA has signaled it will issue only "a handful" of licenses in early 2026, creating acute scarcity. Hong Kong mandates direct customer KYC before any issuance or redemption, fundamentally limiting intermediary-based distribution and emphasizing direct customer relationships over broad retail scaling.

Japan: Financial-Institution Gatekeeping Model.

Japan restricts stablecoin issuance exclusively to licensed financial institutions—banks, trust companies and fund transfer service providers—through June 2023 amendments to the Payment Services Act. This creates high barriers to entry while potentially accelerating institutional adoption. The regime distinguishes between issuers and intermediaries. Intermediary

businesses providing exchange, custody, and transfer services must register with the Financial Services Agency (FSA) and comply with comprehensive AML/CFT requirements. FSA data shows over 12 million accounts and ¥5 trillion in deposits at registered crypto-asset service providers as of January 2025.

For M&A acquirers, the financial institution requirement narrows targets but offers acquisition pathways through partnerships with licensed banks or acquiring fund transfer service providers as stablecoin issuance platforms.

UAE: Speed to Market but Regulatory Fragmentation.

The UAE operates a fragmented multi-regulator structure. The Central Bank of the UAE (CBUAE) governs mainland payment tokens, while two financial free zones – Abu Dhabi Global Market (ADGM) and Dubai International Financial Centre (DIFC) – maintain independent regulatory regimes with separate licensing.

License portability is not automatic across jurisdictions. The regulatory landscape remains in flux. After June 2025, mainland regulations restrict merchant acceptance to AED-denominated tokens from CBUAE-licensed issuers or registered foreign tokens.

The UAE's advantage is speed to market with shorter licensing timelines than Hong Kong or Singapore. However, investors must conduct detailed jurisdictional mapping to determine regulatory authority over specific activities, customer types, and geographic operations—this requires specialized UAE regulatory expertise.

Other Regional Developments (Selected Examples).

Investors are also monitoring regulatory progress in other key APAC jurisdictions. Australia's Treasury has released consultation papers proposing stablecoin licensing frameworks, though final legislation remains pending. South Korea shows significant development, with major banks including Kookmin Bank and Woori Bank piloting won-denominated stablecoins with licensed crypto exchanges, signaling potential regulatory acceptance of bank-issued stablecoins. The Philippines' Bangko Sentral has issued guidance on virtual asset service providers, though comprehensive stablecoin regulation is not finalized. These emerging markets warrant monitoring for regulatory catalysts creating licensing windows or acquisition targets as frameworks solidify.

US and EU: Cross-Border Guardrails

Scaling an APAC-issued stablecoin beyond APAC generally requires compliance with US and EU regimes to access their far larger user bases.

- **United States.** The GENIUS Act is expected to come into effect and will, as its single most critical feature, establish a single federal license which will broadly pre-empt and replace the complex patchwork of 50+ state money transmitter licenses (which would otherwise apply to the stablecoin industry). Further, the GENIUS Act is reinforced by SEC staff guidance (April 2025) that states that “covered” fully reserved, USD-redeemable stablecoins are not securities, removing registration obligations for minting/redemption under specified conditions. The GENIUS Act will take effect no earlier than January 18, 2027, or 120 days after implementing rules are issued, whichever comes first. For dealmakers, acquiring or building toward a GENIUS-licensed vehicle is the most direct path to nationwide distribution and institutional partnerships in the US
- **European Union.** MiCA enables single-license passporting across all 27 member states, with issuance limited to credit institutions or E-Money Institutions (EMIs). Circle obtained a French EMI license and passports USDC across the EU, while non-compliant tokens such as USDT faced 2025 delistings by multiple EU exchanges, illustrating the commercial impact of MiCA compliance. EU authorization is therefore the gateway to a unified retail and institutional market with consistent supervisory expectations.

US and EU authorizations continue to set global benchmarks and drive valuation premiums, so APAC targets with credible paths to GENIUS or MiCA compliance are more valuable than APAC-only operators, making cross-border licensing a core part of M&A theses and integration roadmaps.

The Diligence Playbook: Core Areas of Inquiry

1. Regulatory Posture and Licensing

Verify each license, application, and all regulatory correspondence. It is critical to clarify the jurisdiction's KYC model: determine whether the issuer must onboard all token holders (Hong Kong) or whether downstream

holders can be KYC'd by intermediary exchanges and wallets (the shared-obligation model in Singapore, UAE, Japan, EU and US).

2. **Reserves, Custody and Redemption**

Analyse daily reserve reports, audit packages, and custody agreements. Test for custodian concentration and bankruptcy-remoteness (a legal structure to protect reserve assets if the issuer fails). Stress-test operational capacity: for Singapore, show a clear plan to liquidate assets to meet redemptions over five business days; for Hong Kong, demonstrate T+1 settlement across banking cut-offs.

3. **Technology and Control Keys**

Review smart contract audits, upgrade mechanics, and admin-key custody. A critical step is to reconcile the total supply of tokens on the blockchain with the reserves held in the bank across every chain and bridge. Verify that freeze and blacklist tooling is implemented where mandated.

4. **Third-Party Risk**

Distribution partners can create regulatory liability (the Paxos failure, discussed in further detail below). Underwrite partner compliance with the same rigour as your own. Assess the durability and diversification of the target's banking relationships as a core operational risk.

5. **Compliance Infrastructure**

Review the compliance team's seniority and resources. Sample Suspicious Activity Reports, transaction monitoring alerts, and sanctions screening procedures.

Advanced M&A Considerations: Diligence, Structure, Valuation and Recourse

1. **Approval Calendars**

Conditions precedent should include, among other things: (i) jurisdiction-specific regulatory and change of control approvals; (ii) endorsement of transfer of any key licenses; and (iii) any required approvals from financial and AML supervisors.

Market participants often cite three to six months per APAC jurisdiction for change of control approvals, but sophisticated buyers build tailored and realistic timelines into their deal structures. Regulatory processes are inherently uncertain; examiners surface new issues, documentation evolves through multiple rounds, and approval processes operate without hard deadlines. The most successful acquirers treat regulatory risk as a structuring challenge rather than a deal-breaker, using staged closings, clear allocation of responsibility regarding regulatory filings, reverse termination fees and interim reserve-quality covenants to manage timing uncertainty.

2. **Structuring Considerations**

For competitive assets with multiple bidders, regulatory protection becomes a bidding variable. Sellers with scarce licenses often command cleaner terms, which means buyers must price regulatory risk into their bids rather than relying on extensive contractual protections. The strategic question is not whether to accept regulatory uncertainty, but how to structure and price for it. Consider implementing regulatory milestone payments, where portions of the purchase price are contingent upon successful license transfer or change-of-control approval. This aligns incentives and provides sellers with confidence that buyers are committed to navigating the regulatory process effectively.

3. **What the License is Worth**

An acquisition can deliver 12-24 months of time advantage versus building organically, and in markets like Hong Kong where regulators have signaled limited license issuance, acquisition may represent the only viable entry path for the foreseeable future. The scarcity premium for existing licenses reflects not just time saved but access to a regulatory asset that cannot be obtained through organic application once caps are reached.

For pre-license applicants, the valuation calculus shifts from proven operations to regulatory probability. Acquirers are effectively buying optionality on regulatory approval, which requires underwriting the quality of the application, the strength of the team, and the robustness of the proposed compliance framework. Price these transactions as regulatory options, not operating businesses, and structure accordingly with milestone payments tied to license issuance.

4. **Technology and Infrastructure Due Diligence**

Beyond standard IT due diligence, stablecoin acquisitions require deep technical review of blockchain infrastructure, multi-signature wallet security, disaster recovery procedures for private key management, and real-time reserve monitoring systems. Consider implementing technology escrows for critical blockchain infrastructure. Acquirers must evaluate the target's regulatory architecture across multiple jurisdictions to identify potential conflicts or gaps.

5. **Tailored Warranties**

Aside from the generic fundamental and business warranties common in M&A documentation, the warranty suite for stablecoin transactions should cover: (a) daily reserve sufficiency and asset eligibility, (b) no undisclosed encumbrances over reserves, (c) redemption performance standards matched to local rules by jurisdiction, and (d) compliance with banking and custodial arrangements.

As a further layer of protection, consider adding warranties specific to stablecoin operations, including: (e) accuracy of blockchain token-supply reconciliation to fiat reserves, (f) operational effectiveness of freeze/blacklist controls required by regulators, (g) completeness of smart-contract audit findings and evidenced remediation, (h) compliance with cross-jurisdictional AML and other requirements (including the "Travel Rule" record retention and transmission requirements), and (i) adequacy of cybersecurity measures protecting private keys and reserve-custody infrastructure.

6. **Enhanced Indemnities and Recourse Structures**

Include a dollar-for-dollar indemnity for any reserve shortfalls identified in post-closing audits, backed by purchase-price escrows or holdbacks to ensure recoverability.

Given the unique risk profile in the stablecoin industry, use tiered indemnities with tailored survival periods and recourse provisions: (i) operational indemnities for reserve shortfalls/redemption failures with extended survival (2–3 years); (ii) regulatory indemnities for license/sanctions compliance breaches aligned to investigation timelines; and (iii) technology indemnities for smart-contract vulnerabilities or key-management failures. Where cash escrows are impracticable, consider synthetic escrow via standby letters of credit to balance seller liquidity needs with buyer protection.

7. **Valuation, Operations and Rate Sensitivity**

Circle's 2025 IPO represents a best-in-class outcome but is not a direct comparable for regional APAC targets operating at smaller scale. For these issuers, valuation hinges on demonstrating a credible path to acquisition by a strategic buyer.

Evaluate the target's position within the broader digital asset ecosystem, including relationships with major exchanges, institutional adoption, and integration into DeFi protocols. These network effects can create substantial strategic value that extends beyond traditional financial metrics. Consider contingent value rights tied to achieving specific adoption milestones or maintaining market share thresholds.

Ultimately, revenue is primarily a function of reserve yield and circulating supply. In a sustained zero-rate environment, reserve-float revenue approaches zero while compliance costs remain fixed. This fundamentally shifts the investment thesis from near-term cash flow to strategic value—acquiring payment rails, user bases, and scarce licenses. Many acquirers will look for long-term strategic positioning rather than immediate financial returns, which requires a different valuation approach and a longer time horizon. Rate environment is a material valuation input, but for strategic buyers, the regulatory asset and market position can justify the investment even in low-rate scenarios.

Case Studies: Lessons from the Market

Circle (USDC): The Compliance Playbook

Circle's compliance-first strategy has driven significant growth, with its market cap growing 78% in 2024. This approach created clear market access (an EU license under MiCA), institutional trust, and a strategic exit path, demonstrated by its April 2025 IPO filing.

Tether (USDT): The Incumbent's Dilemma

While network effects sustain its dominance, Tether's history of regulatory friction, including a US\$18.5M NYAG settlement in 2021 and its refusal to obtain an EMI license for MiCA compliance in the EU, limits its universe of potential acquirers.

Paxos (BUSD): The Partner Risk Principle

Regulators hold issuers liable for partner failures. Paxos faced a US\$48.5M NYDFS settlement for inadequate oversight of its relationship with a cryptocurrency exchange, proving that a partner's compliance failures become a direct liability.

PayPal (PYUSD): The Incumbent's Entry Strategy

PayPal demonstrated a successful entry strategy for incumbents by partnering with Paxos for its NYDFS regulatory oversight. This conservative approach, including navigating an SEC inquiry that was closed without action, allowed it to build a top-10 stablecoin while minimizing regulatory risk.

Terra/Luna: The Zero-Value Precedent

The collapse established the zero-value precedent for unbacked algorithmic models. The subsequent jury verdict finding the company liable for fraud and the US\$4.47 billion SEC settlement cemented the global regulatory view that such models have no viable pathway to licensure.

Investment Thesis and Outlook

Evolving factors such as prospective CBDCs and interest-rate shifts add uncertainty to planning horizons, but they also sharpen attention on robust reserves, scalable compliance, and prudent market access across key jurisdictions. Depending on objectives and timing, M&A can be one of several effective pathways to combine licensing footprints, operational capabilities, and governance standards into a multi-jurisdictional platform able to manage approvals, redemption obligations, and partner risk.

Milbank's global regulatory and transactions teams regularly advise sponsors, financial institutions, and strategic acquirers on technology, fintech and digital asset matters across APAC, the US, and the EU. Capabilities span EU MiCA authorization and passporting, and US GENIUS Act readiness, alongside M&A structuring, cross-border deal architecture, approval sequencing, and post-closing compliance integration. The team designs tailored investment agreements, structures, warranty, indemnity, and escrow solutions aligned to reserve and regulatory risk. Milbank would be pleased to discuss your objectives, timelines and jurisdictional scope and shape an execution plan tailored to the specific asset and markets involved.

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