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Regulatory Update

26 October 2022

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# CONSULTATION PAPER ON PROPOSED REGULATORY MEASURES FOR DIGITAL PAYMENT TOKEN SERVICES AND STABLECOIN ISSUERS

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## INTRODUCTION

The Monetary Authority of Singapore (“**MAS**”) has published two consultation papers (the “**CPS**”) on the proposed treatment of cryptocurrency trading in Singapore. These CP cover activities by digital payment token service providers (“**DPT SPs**”) and stablecoin issuers. The new proposed measures, if adopted, will be incorporated into the Payment Services Act 2019 (the “**PSA**”).

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## PROPOSED REGULATORY MEASURES FOR FOR DPT SPs

The proposed measures in the first consultation paper apply to both licensed and exempt payment service providers under the PSA<sup>1</sup>. The proposed measures hope to achieve the aim of reducing risk to retail consumers engaged in speculative trading of Digital Payments Tokens (“DPTs”) through tackling consumer access, business conduct measures, as well as technological risks.

### *Consumer access measures*

MAS proposes that DPT SPs should carry out risk awareness assessments to ensure that retail investors have sufficient knowledge of the risks of DPT services before choosing to engage the service. It further suggests that the risks that retail investors should be aware of include the loss of funds arising from the volatile prices of DPTs, potential inability to sell DPTs due to illiquid market conditions or system failures, and losing possession of the DPTs due to theft, fraud, cyberattacks, or technological issues. Retail investors who have been assessed to possess insufficient knowledge of the inherent risks in trading DPTs should then be provided educational materials and be encouraged to be better acquainted with the required knowledge.

MAS also proposed to restrict DPT SPs from offering incentives directly to retail customers to participate in DPT services or to any person (i.e., existing customer or celebrity) to refer a DPT service to retail customers. This is to prevent such incentives from unduly influencing the decision of retail customers to purchase the DPT products or services.

Another proposed restriction involves the provision of credit facilities and leverage by DPT SPs to retail customers for the purposes of trading DPTs. As such, DPT SPs should also not be allowed to accept credit card or charge card payments made in connection with the provision of DPT services from retail customers.

The proposed consumer access measures apply only to retail investors resident in Singapore (as defined in the Securities and Futures Act 2001 (the “SFA”). DPT SPs do not need to put in place such measures for accredited and institutional investors (both as defined in the SFA).

### *Business conduct measures*

While there are currently business conduct measures (such as the keeping of transaction records, issuance of transaction receipts and display of exchange rates), MAS notes that there remains a host of unaddressed conduct risks posed by DPT SPs. MAS thus proposed to introduce business conduct requirements to establish baseline conduct norms for DPT SPs.

The first proposed measure involves the segregation of customer’s assets and risk management controls. MAS proposed that DPT SPs impose robust systems to identify and segregate customers’ assets from their own and hold the assets for the benefit of the customers. Customers should also be provided written disclosures of the custodial arrangement and risks involved in such an arrangement. It is also proposed that DPT SPs conduct daily timely reconciliation of all customers’ assets held in custody by the DPT SP

<sup>1</sup> Please note that this will include anyone in the transitional arrangement under the PSA.

and provide customers with a statement of account containing information on the assets and transactions at least once a month. Further, DPT SPs should not mortgage, charge, pledge, or hypothecate the DPTs of retail customers to safeguard retail customers against the risks of unregulated borrowing and lending.

Where DPT SPs engage in multiple business activities, MAS proposes that DPT SPs should set out and implement effective policies and procedures to aid in the identification of potential conflicts of interests, provide customers with sufficiently clear and precise disclosures as to the nature and sources of conflicts of interests, and set out the steps taken to mitigate them. Appropriate measures to mitigate conflicts of interests include segregation of duties, independent reporting lines and information barrier. Specifically, DPT SPs should not buy or sell DPTs for their own account or permit their related corporations to buy and sell DPTs for their own account on the DPT trading platform. DPTSPs should also disclose the way they handle and execute customers' orders and the capacity in which they are doing so.

Another proposed measure involves the requirement that DPT trading platform operators publish their policies and procedures on the process for selecting, listing, and reviewing DPTs, as well as the relevant governance policies in a clear and transparent manner to allow customers to make informed decisions on the DPT services offered.

Finally, MAS proposes that DPT SPs have in place adequate procedures and policies to handle customer complaints in an independent, prompt, and effective manner. Should customers be dissatisfied with the DPTSP's resolution of the complaint, the DPT SP should not hinder or prevent the retail customers from bringing disputes before the Singapore courts.

### *Technological and cyber risks*

Considering the complex technological environment in which DPT SPs operate, MAS proposes to mandate the requirements in the Notice of Technology Risk Management that are currently applicable to other types of financial institutions, such as banks, to DPTSPs. Some measures mandated in the notice include implementing frameworks to process and identify critical systems, establishing a recovery time objective of less than four hours for each critical system, and implementing IT controls to protect customer information from unauthorised access or disclosure.

### *Market integrity*

DPT trading platform operators are also encouraged to employ real time surveillance systems to monitor trading activities on the DPT platforms and putting in place systems, procedures, and arrangements to promote fair, orderly, and transparent trading of DPTs.

## PROPOSED REGULATORY MEASURES FOR STABLECOIN ISSUERS AND INTERMEDIARIES

Currently, dealing in and facilitating the trade of stablecoins falls under the same regulatory framework as DPT services providers under the PSA. This regulatory regime is primarily focuses on money laundering/terrorist financing as well as technological risks and is inadequate in tackling the characteristics unique to stablecoins such as the need for value stability. As such, the consultation paper sets out a proposed regulatory approach on the issuance of stablecoins and activities of intermediaries. However, at this point, MAS intends to focus its regulatory approach on single currency pegged stablecoins (“**SCS**”), specifically those where the value of SCS in circulation exceeds S\$5 million and are pegged to the Singapore dollar or Group of Ten (G10) currencies.

The proposed regulatory regime for stablecoins issuer distinguishes between bank and non- bank issuers. For non-bank issuers, where the SCS in circulation exceeds or is anticipated to exceed S\$5 million in value, the issuer will have to obtain a major payment institution (“**MPI**”) licence to be recognised as an issuer of MAS-regulated SCS and be subject to requirements for SCS issuers proposed below. Issuers who do not exceed this threshold will only need to obtain a standard payment institution (“**SPI**”) licence but will not be recognised as an issuer of MAS-regulated SCS and subject to requirements below.

There will be no additional reserve backing and prudential requirements on banks that issue SCS by tokenising liabilities of the bank. However, banks can also opt to issue SCS by managing underlying reserve assets such that they are segregated from the rest of the bank’s assets. Should the banks operate on this model, they will be subject to the same regulatory requirements as SCS issuers save for prudential requirements and will also be recognised as an issuer of MAS-regulated SCS.

### *Key proposed requirements for SCS issuers*

- I. **Reserve asset backing of SCS** – MAS-regulated SCS must hold reserve assets to back issued SCS. The reserve assets must be denominated in the same currency as the pegged currency, valued on a marked-to-market basis daily, and be equivalent to at least 100% of the par value of the outstanding SCS in circulation. The reserve assets can also only be held in cash, cash equivalents, or debt securities with no more than three months residual maturity and should be issued by either the central bank of the pegged currency or organisations that are both a governmental and international character with a credit rating of at least “AA-”. The SCS issuers must hold the reserve assets in segregated accounts separate from its own non- reserve assets, held with licensed banks, merchants, finance companies, or capital markets services licensees providing custodial services in Singapore.
- II. **Timely redemption at par** – Upon receiving a redemption request, the SCS issuer should return the par value of the SCS to the SCS holder no later than five business dates from the date the request was received.
- III. **Disclosure requirements** – SCS issuers must also publish a white paper disclosing details of the SCS, including the redemption rights of SCS holders. A

factsheet summarising the key information should also be published as a matter of good practice.

- IV. **Prudential requirements** – SCS issuers must at all times meet the base capital requirement of the higher of S\$1 million or 50% of annual operating expenses of the SCS issuer. They must also hold at all times liquid assets that are valued at higher of 50% of annual operating expenses or an amount assessed by the SCS issuer to be needed to achieve recovery or an orderly wind-down. An SCS issuer should also not be allowed to undertake other activities that introduces additional risks to itself such as investing or extending loans to other companies.

### *Key proposed requirements for SCS intermediaries*

For non-issuance activities, SCS will continue to be treated as DPTs. SCS intermediaries will thus still be treated as DPT service providers under the PSA. The key proposed requirements for SCS intermediaries are as follows.

- I. **Disclosure requirements** – DPT service providers which offer SCS will thus have to clearly label SCS which are MAS-regulated SCS. SCS that are not MAS-regulated SCS will be subject to existing disclosure requirements under MAS notice PSN08 on Disclosures and Communications.
- II. **Requirements on timely transfer of SCS** – DPT service providers which offer the service of arranging for the transmission of MAS-regulated SCS should complete the transfer of SCS between parties in no more than three business days from the day the transfer request is received.
- III. **Requirements on the segregation of SCS** – Entities providing services of transmission or custody of MAS-regulated SCS to hold and segregate customers' MAS-regulated SCS from other customers' assets as well as its own assets in different custody accounts.

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