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MAS Publishes Response to Feedback Received on Proposed AML/CFT Notice for Approved Exchanges and Recognised Market Operators

On 13 January 2025, the Monetary Authority of Singapore (“**MAS**”) published its response to feedback received on its proposed notice on the prevention of money laundering and countering the financing of terrorism (“**AML/CFT**”) requirements for approved exchanges and recognised market operators formed or incorporated in Singapore (collectively referred to as “**Singapore organised market operators**”).

This client update summarises the key points from the consultation response.

Introduction

MAS had on 28 March 2024 published a consultation paper (the “**Consultation Paper**”) which proposed to introduce an AML/CFT notice that would require Singapore organised market operators to perform AML/CFT checks for all non-financial institution (“**non-FI**”) direct participants.

Following the consultation, MAS published a response to the feedback given in relation to the proposed AML/CFT notice (the “**Response Paper**”) on 13 January 2025.

This client update summarises the key clarifications provided by MAS in the Response Paper.

Background to the AML/CFT Notice

In the Consultation Paper, MAS had highlighted an increasing trend of organised market operators with business models that allow investors to trade directly on their organised market without the need for capital market intermediaries to facilitate access to them. As these investors who trade directly on organised markets are not subject to AML/CFT checks that would otherwise have been done by capital markets intermediaries, organised market operators that take on such investors are exposed to higher inherent money laundering (“**ML**”) and terrorism financing (“**TF**”) risks. To address such risks, MAS had proposed to introduce an AML/CFT notice which would require Singapore organised market operators to perform AML/CFT checks on non-FI direct participants.

MAS has since published the Response Paper along with Notice SFA02-N05 on the Prevention of Money Laundering and Countering the Financing of Terrorism – Approved Exchanges and Recognised Market Operators (the “**Notice**”) and the Guidelines to MAS Notice SFA02-N05 on Prevention of Money Laundering and Countering the Financing of Terrorism (the “**Guidelines**”) on 13 January 2025.

The Notice requires Singapore organised market operators to perform AML/CFT checks in relation to all non-direct-FI participants. These include (but are not limited to) the following:

- (a) taking appropriate steps to identify, assess and understand its ML and TF risks;
- (b) developing and implementing policies, procedures and controls to manage and mitigate AML/CFT risks, as well as monitoring their implementation and enhancing them where necessary;
- (c) identifying and assessing money laundering and terrorism financing risks that may arise in relation to the development of new products and new business practice, and the use of new or developing technologies;
- (d) performing customer due diligence (“**CDD**”) measures, which may include identifying and verifying the identity of a customer, its agent and beneficial owners and ongoing monitoring of business relations;
- (e) reporting suspicious transactions, keeping records and providing regular training in relation to AML/CFT to employees and officers.

The Notice should be read in conjunction with the Guidelines, which provide more specific guidance on the various requirements of the Notice. The Notice may be accessed [here](#) while the Guidelines may be accessed [here](#).

Key clarifications by MAS in the Response Paper

Scope of the Notice

MAS clarified that public listed companies which are non-FI direct participants on an organised market would be subject to AML/CFT checks under the Notice on an ongoing basis to mitigate ML/TF risks. However, a Singapore organised market operator will not be required to inquire if a beneficial owner exists in relation to a customer that is an entity listed and traded on the Singapore exchange, or overseas stock exchange that is subject to regulatory disclosure requirements and requirements relating to adequate transparency in respect of its beneficial owners.

MAS also stated that it will not exempt a Singapore organised market operator which also holds a capital markets services (“**CMS**”) licence from the Notice even though it would be subject to the AML/CFT requirements under MAS Notice SFA04-N02 by virtue of its status as a CMS licensee. It explained that the Notice requires Singapore organised market operators to conduct AML/CFT checks on persons that perform a trade-related activity on the organised market or that provide services as may be required to facilitate the completion of a trade-related activity on the organised market. As these may not be functions that a holder of a CMS licence is licensed to perform, MAS will not exempt a Singapore organised market operator which also holds a CMS licence from the Notice to ensure that ML/TF risks are addressed comprehensively.

Definitions of key terms

In the Response Paper, MAS clarified the scope of certain key terms used in the Notice.

a. Definition of “trade-related transaction” (previously termed “trade-related activity”)

In the Response Paper, MAS explained that digital payment tokens (“**DPTs**”) have been included in limb (b) of the definition of “trade-related activity”, alongside fiat currency and digital capital markets product token, as value could be transferred when transactions are settled following the completion of a trade-related activity. However, MAS observed that the scope of services provided by an organised market operator under the Securities and Futures Act 2001 does not include services that would be regarded as carrying on the business of providing payment services, such as facilitating the transfer or exchange of DPTs, which require a licence under the Payment Services Act 2019 (“**PS Act**”). Consequently, a Singapore organised market operator which provides DPT-related payment services under the PS Act must also be licensed under the PS Act and be subject to AML/CFT requirements under MAS Notice PS-N02.

b. Definition of “business relations” and “customer”

The Notice defines “business relations” to mean:

- (a) the opening or maintenance of an account by the Singapore market operator in the name of;
- (b) the allowing of a trade-related transactions to be performed on an organised market operated by the Singapore market operator by or through; or
- (c) the provision of services by the Singapore market operator, as may be required to facilitate the completion of a trade-related transaction on an organised market operated by the Singapore market operator, to;

a person other than a financial institution as set out in Appendix 2 of the Notice and the foreign equivalent of such a financial institution that is subject to and supervised for compliance with AML/CFT requirements consistent with standards set by the Financial Action Task Force (“**FATF**”).

In turn, the Notice defines a “customer”, in relation to a Singapore organised market operator, to mean a person:

- (i) with whom the Singapore organised market operator establishes or intends to establish business relations; or
- (ii) for whom the Singapore organised market operator undertakes or intends to undertake a transaction without an account being opened;

but does not include a person who is a financial institution as set out in Appendix 2 of the Notice and the foreign equivalent of such a financial institution that is subject to and supervised for compliance with AML/CFT requirements consistent with standards set by the FATF.

In relation to limb (c) of the definition of “business relations”, MAS clarified that trade confirmation services would fall within the scope of limb (c) in a scenario where a person conducts a trade-related transaction on an organised market operated by the Singapore organised market operator through an intermediated participant, but receives trade confirmation services directly from the Singapore organised market operator. MAS explained that by providing trade confirmation services directly to the person, the Singapore organised market operator would have sight of the trades conducted by the person on its platform and would be in a position to mitigate the ML/TF risks arising from the person’s trading activities, such as by filing suspicious transaction reports where necessary. Where market data services are concerned, this would not fall within the scope of limb (c) where a Singapore organised market operator provides market data services to a person who uses it solely for research, and the market data does not facilitate the completion of a trade-related transaction by the person on the organised market.

In relation to the list of FIs in Appendix 2 of the Notice, MAS clarified that regulated payment service providers are currently not included as the payment industry’s AML/CFT controls are relatively nascent and the regulation of such entities for AML/CFT may not be consistent globally. This means that a payment service provider trading on an organised market operated by Singapore organised market operators would still be considered a “customer” under the Notice, and AML/CFT checks would need to be performed on the payment service provider.

In determining whether a foreign equivalent of a financial institution is “subject to and supervised for compliance with AML/CFT requirements consistent with standards set by the FATF”, MAS clarified that the broad ML/TF risk factors are set out in paragraph 4-6 of the Guidelines to MAS Notice SFA02-N05. This includes, among others, independent and public assessment of the country’s or jurisdiction’s overall AML/CFT regime.

Lastly, MAS clarified that persons who conduct occasional transactions with a Singapore organised market operator without an account being opened would fall within limb (b) of the definition of a “customer” under the Notice.

c. Definition of “connected party”

In relation to the definition of a “connected party”, MAS stated that “natural persons having executive authority” include the Chairman and Chief Executive Officer.

Correspondent Accounts and Value Transfers

MAS explained that as the Notice applies to non-FI direct customers for which a Singapore organised market operator does not handle monies and assets, the AML/CFT requirements in relation to correspondent account services have not been included in the Notice. However, MAS expects a Singapore organised market operator to consider broad ML/TF risk factors such as its products, services, transactions and delivery channels, including the other FIs or intermediaries that it works with, as part of its enterprise-wide risk assessments for ML/TF risks, and take the appropriate risk mitigation measures.

Similarly, value transfer requirements have been excluded from the Notice as MAS observed that Singapore organised market operators do not send or receive DPTs or digital capital markets products tokens for its customers.

However, a Singapore organised market operator offering DPT-based derivatives contracts will be required to apply the AML/CFT requirements under the Notice on customers dealing with such products. In this regard, MAS explained that the scope of “business relations” in the Notice includes the opening or maintenance of an account in the name of the customer, which is not limited to the trading of products that are regulated as capital markets products under the SFA.

CDD requirements

MAS also provided the following guidance on the CDD requirements in the Notice:

- (a) Where a customer who is not a natural person provides a registered or business address but operates from a separate place of business, the Singapore organised market operator is required under paragraph 6.6(c)(ii) of the Notice to collect the address of the customer’s principal place of business.

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- (b) When verifying the residential address of a customer who is a natural person, the Singapore organised market operator may refer to the customer's national identity card, recent utility or telephone bill, bank statement or correspondence from a government agency.

Finally, MAS stated that it is looking into a suggestion to require Singapore organised market operators to obtain the details of all nationalities held by a customer for the purposes of CDD and will provide updates in due course.

Implementation Plan

The implementation timeframe for the Notice will be six months starting from 13 January 2025. This is to allow Singapore organised market operators to develop and implement the required policies, procedures and controls, as well as onboard its existing and new non-FI direct participants in accordance with the requirements set out in the Notice.

Conclusion

The new Notice on AML/CFT requirements for Singapore organised market operators demonstrates the continuing efforts by the Singapore authorities to strengthen its AML/CFT framework and align itself with the standards set by the FATF. Singapore organised market operators should carefully consider the new Notice, Guidelines and the clarifications provided by MAS in the Response Paper so that it would be ready to implement the necessary changes by the end of the six-month transition period.

Copies of the Consultation Paper and MAS' Response to the Consultation Paper can be accessed [here](#).

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