

August 2023

MAS Publishes Response to Public Consultation on Proposed Regulatory Approach for Stablecoin-related Activities

On 15 August 2023, the Monetary Authority of Singapore (“**MAS**”) published its response to feedback received on its proposed regulatory approach for stablecoin-related activities (the “**Consultation Response**”). The Consultation Response represents MAS’ finalised regulatory approach towards stablecoins in Singapore.

This Client Update provides a summary of the key issues covered in the Consultation Response.

1. Background

MAS first published a consultation paper on 23 December 2019 as to the scope of e-money issuance services and digital payment token services and had sought views as to the regulatory treatment of e-money and digital payment tokens (“**DPTs**”).

In light of the rapid developments within the digital asset space since then, including the emergence of stablecoins, MAS published a further consultation paper on 26 October 2022 (the “**2022 Consultation Paper**”) inviting public feedback on its proposed regulatory approach for stablecoin-related issuance and intermediation activities.

The present Consultation Response that we are discussing herein sets out MAS’ responses to the feedback received from the public to the 2022 Consultation Paper and it represents MAS’ finalised policy posture as to the regulatory approach to stablecoins in Singapore.

2. Overall Regulatory Approach

(A) Stablecoin Issuance as a separate category of licensable payment service

Stablecoins are presently treated as DPTs under the Payment Services Act 2019 (“**PSA**”). As such, entities that deal in or facilitate transactions in stablecoins are generally considered to be providing DPT services and would be subject to licensing accordingly under the PSA.

However, MAS felt that the current PSA regulatory framework for DPT services was not adequate to ensure the development of reliable and credible stablecoins that could support digital transactions, as the framework did not provide for rules to ensure a high degree of value liability for stablecoins.

Hence, MAS will introduce into the PSA a new category of licensable payment service to be called “Stablecoin Issuance Service”. The objective of the regulatory regime for this new payment services would be to maintain a high degree of value stability in stablecoins that are single currency stablecoins.

Stablecoins that are not single currency stablecoins will be outside the scope of this regulatory regime.

Generally, the new regulatory regime will apply to any entity that is based in Singapore and that performs the function of controlling the total supply, minting and burning of single currency stablecoins. The regulatory regime will address activities that would typically be undertaken by an entity that issues a stablecoin, such as taking custody of the stablecoin, and managing the reserve assets that are used to back up the value of the single currency stablecoin.

As a start, MAS will confine the application of the new regulatory regime only to single currency stablecoins that are issued in Singapore and that are pegged to either the Singapore dollar or to any currency issued by member countries of the Group of 10 (“**G10 currencies**”). This is largely because there would generally be sufficient high quality liquid assets available to support these value of such single currency stablecoins.

In contrast, stablecoins that do not fall within the above group will continue to be treated as DPTs and be subject to the existing regulatory regime for DPT services under the PSA.

(B) Licensing Treatment of bank and non-bank issuers of MAS-regulated single currency stablecoins

In the 2022 Consultation Paper, MAS noted that stablecoins could be issued by banks as well as by non-bank entities. A bank may issue stablecoins as a tokenised form of its bank liabilities, while a non-bank entity could issue stablecoins as tokens to be backed or collateralised by a pool of assets.

The new regulatory regime will generally distinguish between stablecoins that are issued by banks and those that are issued by non-bank entities.

With respect to non-bank issuers, where the single currency stablecoins in circulation have a total value that exceeds or is expected to exceed S\$5 million, the issuer would be required to obtain a major payment institution licence (“**MPI licence**”). They would also correspondingly be required to comply with various ongoing regulatory obligations under the new regulatory regime (including pre-existing measures to address money-laundering and terrorism financing risks, technology and cybercrime risks, as well as new measures, to be discussed further below, designed to address new risk areas). Where the size threshold is not exceeded, then a non-bank entity would only need to obtain a standard payment institution licence (“**SPI licence**”). To facilitate innovation, an issuer holding only an SPI licence would generally be subject to a lesser set of regulatory obligations and would not be subject to the additional requirements (as discussed below).

With respect to bank issuers, where the stablecoin is issued as a tokenised form of a bank’s liability, additional reserve and prudential requirements would not be applied, since existing prudential requirements under the Banking Act 1970 would already apply to such liabilities. Where the stablecoin is issued and fully backed by reserves, then the same regulatory content (other than the prudential requirements) as for non-bank issuers would generally apply. Therefore, tokenised bank liabilities would generally be excluded from the new PSA framework, although MAS would retain the ability to impose additional requirements in the future if necessary.

3. Regulatory content of the new regime for MAS-regulated single currency stablecoins

(A) Reserve Asset Requirements

The following reserve asset requirements would apply:

- Composition of reserve assets: MAS will require issuers to maintain a portfolio of low-risk reserve assets. Issuers must have a robust and resilient risk management policy for its reserve assets, which should cover aspects such as credit, liquidity, and concentration risk. Where necessary, issuers must be able to demonstrate to MAS that appropriate buffers are in place to ensure that the valuation of their reserve assets is at least equal to 100% of the value of outstanding stablecoins in circulation.
- Separation and custody requirements: MAS will also require the reserve assets that are used to back the stablecoin should be held in segregated accounts, separate from its own assets. MAS will also permit reserve assets to be custodied with overseas custodians provided that such custodians have a minimum credit rating of “A-” and have a branch in Singapore that is already regulated by MAS for providing custodial services.
- Reserve asset audit requirements: MAS will require issuers to ensure that there would be independent, monthly attestations (such as by an external audit firm) that the reserve assets meet statutory requirements. The attestations must be published on the issuer’s website and submitted to MAS no later than the end of the following month.
- Prudential requirements (which would apply to non-bank issuers but would also apply to bank issuers if the stablecoin issued by the bank is backed by reserves):
 - Base capital – MAS will require the issuer to have a base capital fixed at either S\$1 million or 50% of the issuer’s annual operating expenses (whichever is higher). This requirement is deliberately set high to ensure that issuers have a strong financial commitment to carry on its business for the long term.

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- Solvency – MAS will require issuers to hold liquid assets valued at 50% of annual operating expenses or the amount assessed to be needed to achieve an orderly recovery or winding down of business (whichever is higher). This amount must be independently verified by independent audits on at least an annual basis.
 - Business restrictions – Issuers would not be permitted to provide other types of services that would expose them to additional risks beyond those by their primary business of issuing stablecoins.

(B) Timely Redemption of stablecoins to fiat currency

In relation to redemption, MAS will require issuers to return the par value of the redeemed stablecoin within 5 business days. This will only apply to redemption that occurs directly with the issuer.

In normal business conditions, redemption should be expedient and not delayed unnecessarily. In exceptional circumstances, MAS may direct an issuer to liquidate its reserve assets within a specified period to meet redemption needs.

(C) Stablecoins issued in Multiple Jurisdictions

MAS had initially sought views as to the regulatory treatment of single currency stablecoins that are issued in more than one legal jurisdiction.

However, after taking into account the difficulty in establishing regulatory equivalence in this nascent space, MAS has decided for now that it will not allow multi-jurisdictional issuance at this stage. Accordingly, under the new regulatory regime, issuers must issue their single currency stablecoins strictly out of Singapore if they wish for their stablecoin to be regulated under the new regulatory regime.

4. Requirements for Intermediaries that deal in stablecoins

(A) Regulation as DPT service providers

In relation to intermediation activities that do not involve issuance, in the 2022 Consultation Paper, MAS had proposed such activity be regulated under the existing regulatory regime for DPT services. Having considered feedback, MAS will go ahead with this, given that intermediary activities relating to stablecoins carry very much the same risk profile as intermediary activities relating to other types of DPTs. Thus, an entity that deals in stablecoins or facilitates their exchange into fiat currency (or vice versa) would be regulated as a DPT service provider under the PSA.

(B) Transmission within 3 business days

MAS will also require MAS-regulated stablecoins to be transmitted from payer to payee within three business days. MAS noted that this mirrors the existing money transmission standards for domestic money transfer services.

(C) Asset Segregation Requirements

Despite some concerns, MAS also decided that it would proceed to require intermediaries to segregate customers' stablecoin holdings from the intermediaries' own assets. This will be integrated with the upcoming measure for customers' DPT holdings to be segregated from the intermediaries' own holdings. It would be permissible for assets belonging to different customers to be commingled together in a single pool but there would have to be proper disclosure of the arrangements to all customers.

5. Stablecoin Arrangements that have systemic risks

MAS noted in the 2022 Consultation Paper that a stablecoin arrangement could carry systemic risks if any disruption in the stablecoin arrangement might cause systemic disruption to the financial system or affects the public's confidence in the financial system. Accordingly, MAS will proceed to provide for the ability to designate

a stablecoin arrangement and bring it under regulation from a systemic risk perspective, if this should prove necessary.

6. Conclusion

In an age where the digital asset space is developing swiftly, it is important for MAS to strike the delicate balance between supporting the use and development of stablecoins in Singapore and ensuring that it maintains financial stability and adequate protection for consumers. It remains to be seen how the introduction of the new regulated activity of stablecoin issuance service affects market players, and this will certainly be an interesting space to keep an eye on.

A copy of the MAS Consultation Response can be obtained [here](#), wherein a summary of the finalised key requirements can be found in Annex A.

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