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MAS Announces New Regulatory Framework for Stablecoins

Introduction

On 15 August 2023, the Monetary Authority of Singapore ("**MAS**") released the finalised regulatory framework for stablecoins regulated in Singapore in its "[Response to Public Consultation on Proposed Regulatory Approach for Stablecoin-related Activities](#)" ("**Response**") where MAS responded to feedback received on MAS' earlier [public consultation](#) ("**Consultation**") which was published in October 2022 where MAS first set out its proposals for the new regulatory framework. You may read more about the Consultation in our earlier Legal Update, available [here](#). Stablecoins are digital tokens designed to maintain a constant value against one or more specified fiat currencies. MAS had previously identified that an innovative and responsible digital asset ecosystem needs credible and reliable mediums of exchange to facilitate transactions. MAS noted the potential for stablecoins to function as such mediums of exchange where they are well-regulated and give a high degree of assurance of value stability, and the new regulatory framework seeks to support the development of such stablecoins.

Legislative changes will need to be put in place to implement the regulatory framework for stablecoins, and MAS stated in its Consultation that it would separately publish the requirements, legislative amendments and transitional arrangements for consultation. That said, in its [media release](#), MAS "*encourages SCS issuers who would like their stablecoins recognised as "MAS-regulated stablecoins" to make early preparations for compliance*".

This Update provides a high-level outline of the key aspects of the regulatory approach to stablecoins under the new regulatory framework, spotlighting (where relevant) salient updates from the Response.

Regulatory Scope

In the Consultation, MAS noted that stablecoins are currently treated as digital payment tokens ("**DPTs**") under the Payment Services Act 2019 ("**PS Act**"). In the Consultation, MAS proposed to introduce a new regulated activity of "Stablecoin Issuance Service" under the PS Act to regulate

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Single-Currency Pegged Stablecoins ("**SCS**") pegged to the Singapore dollar or Group of Ten (G10) currencies¹ issued in Singapore under the new regulatory framework ("**SCS Framework**").

Other types of stablecoins, including SCS issued outside of Singapore or pegged to other currencies or assets, will not be prohibited from being issued, used or circulated within Singapore. These stablecoins will continue to be subject to the existing DPT regulatory regime. MAS stated it will continue to monitor developments in the stablecoin landscape, and will bring other types of tokens into the SCS Framework if necessary.

Key Features of the SCS Framework

Label for SCS regulated under PS Act

To help users identify SCS which are regulated under the PS Act, MAS will adopt the label "MAS-regulated stablecoin" for all SCS that fall within the SCS Framework. This label may only be used by SCS regulated under the SCS Framework. All other DPT service providers and persons will **not** be allowed to use the term "MAS-regulated stablecoin", or any derivatives of the term, to refer to tokens that are **not** regulated under the SCS Framework. In the event of contraventions, financial penalties and imprisonment (in the case of individuals) may apply.

New regulated payment service – "Stablecoin Issuance Service"

MAS indicated in the Consultation that generally, an entity that is based in Singapore and performs the function of controlling the total supply of, and minting and burning of MAS-regulated stablecoin, will be regulated as a provider of "Stablecoin Issuance Service" under the PS Act ("**SCS issuers**"). MAS stated in the Response that the new regulated activity will cover the necessary activities that a SCS issuer undertakes, including custody of SCS issued by the issuer and management of the reserve assets backing the SCS.

Regulatory treatment of non-bank and bank SCS issuers

SCS may be issued by non-bank entities and banks.

Non-bank SCS issuers. In the Response, MAS confirmed its policy approach (proposed in the Consultation) that only non-bank SCS issuers with SCS in circulation exceeding S\$5 million would be required to obtain a major payment institution ("**MPI**") licence to conduct "Stablecoin Issuance Service" and comply with other regulatory requirements to be imposed on MAS-regulated SCS issuers (please see below for a summary of the key regulatory requirements). Non-bank SCS issuers with SCS in

¹ The G10 currencies are Australian Dollar, British Pound Sterling, Canadian Dollar, Euro, Japanese Yen, New Zealand Dollar, Norwegian Krone, Swedish Krona, Swiss Franc and the United States Dollar.

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circulation **not** exceeding S\$5 million will not be subject to licensing and other requirements under the SCS Framework. Such non-bank SCS issuers should monitor their SCS in circulation and apply for and obtain the required MPI licence for "Stablecoin Issuance Service" if they anticipate or intend for their SCS in circulation to exceed S\$5 million.

Bank SCS issuers. As with other payment services currently regulated under the PS Act, banks will be exempted from licensing requirements for the new "Stablecoin Issuance Service". In the Consultation, MAS had noted that banks could issue SCS as tokenised bank liabilities or as SCS with underlying reserve assets segregated from the rest of the banks' assets ("**Bank-issued Reserve-backed SCS**"). In relation to the latter, MAS has proposed that the banks should be subject to the same regulatory requirements as MPI-issued SCS (please see below) except for the prudential requirements that the MPIs would be subject to. In relation to the former, MAS had previously proposed in the Consultation that they should not attract reserve backing and prudential requirements, but that they should be subject to timely redemption at par and disclosure requirements. In the Response, MAS acknowledged the feedback that there are differences in the value-stabilising mechanisms used for fully reserved asset-backed stablecoins and tokenised bank liabilities and the risks they pose to holders, and stated that they would exclude tokenised bank liabilities from the scope of the SCS Framework. MAS stated that nevertheless, MAS may in future as necessary impose additional requirements on SCS issued as tokenised bank liabilities, taking into consideration the design of such tokenised bank liabilities. MAS has the flexibility to consider these tokens as stablecoins under the SCS Framework, and may do so if a bank SCS issuer designs such tokens to meet standards that are deemed equivalent under the SCS Framework.

Key Regulatory Requirements Applicable to SCS Issuers

We briefly highlight certain salient aspects of the finalised key regulatory requirements that will be imposed on MPI-issued SCS and Bank-issued Reserve-backed SCS ("**MAS-regulated SCS**"). Please note that this is a non-exhaustive list. Please also refer to Annex A to the Response which sets out a summary of MAS' finalised key requirements.

Reserve assets requirements

Composition of reserve assets: SCS issuers offering MAS-regulated SCS will be required to hold reserve assets in the form of very low-risk assets denominated in the currency of the SCS peg (in the Consultation, MAS had proposed that they should be held in the form of cash, cash equivalents, or debt securities with no more than three months residual maturity and are issued by: (i) the government or central bank of the pegged currency; or (ii) organisations that are of both a governmental and international character with a minimum credit rating of "AA-". The valuation of the reserve assets must be maintained at at least 100% of the outstanding SCS in circulation at all times and marked-to-market daily.

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Segregation of reserve assets: SCS issuers will be required to hold the reserve assets in segregated accounts on trust separate from its own assets which are not reserves, and only with custodians that are financial institutions licensed to provide custodial services in Singapore or overseas-based custodians with a minimum credit rating of "A-" and a branch in Singapore regulated by MAS to provide custodial services.

Audit of reserve assets: MAS confirmed its proposals made in the Consultation for SCS issuers to have the reserve assets subject to independent attestation on a monthly basis (to be published on the issuer's website and submitted to MAS) and appoint an external auditor to conduct an annual audit of the reserve assets.

Timely redemption at par

Within five business days of receiving a legitimate redemption request from a holder of a MAS-regulated SCS (made directly to the SCS issuer), the SCS issuer must return the par value of the MAS-regulated SCS to the holder. The redemption conditions (if any) must be reasonable and disclosed upfront. The redemption request may be made at any time.

Disclosure

An SCS issuer must publish a white paper on its website disclosing information, including the description of the SCS, rights and obligations of the SCS issuer and SCS holders (e.g. redemption), risks that can affect the stability of the SCS value and ability of the SCS issuer to fulfil its obligations, and update the information as needed.

Anti-money laundering/countering the financing of terrorism ("AML/CFT")

An SCS issuer will be subject to AML/CFT requirements that are applicable to DPT service providers and banks (for example, customer due diligence and screening, etc.).

Technology and cyber risk

An SCS issuer will be subject to existing measures to manage technology and cyber risks that are applicable to DPT service providers and banks.

Prudential requirements

Base capital. In the Response, MAS confirmed that it would retain its proposal set out in the Consultation for MPI SCS issuers to be subject to a minimum base capital requirement of S\$1 million or 50% of annual operating expenses of the SCS Issuer.

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Business restrictions. The SCS issuer must not undertake any non-SCS issuance services (e.g. lending, staking, dealing in DPTs other than the SCS being issued and recognised as MAS-regulated stablecoin). MAS emphasised that SCS issuers must not be exposed to risks beyond the primary activity of SCS issuance, but notes that there may be necessary activities that SCS issuers carry out as part of business operations, e.g. custody of issued SCS, or facilitating the transfer of issued SCS to buyers.

Solvency. The SCS Issuer must hold liquid assets valued at higher of 50% of annual operating expenditure of the SCS Issuer or an amount assessed by the SCS Issuer as necessary to achieve recovery/ orderly wind-down. MAS had initially proposed in the Consultation that the amount assessed by the SCS Issuer as necessary to achieve recovery/ orderly wind-down should be independently verified. However, agreeing with feedback received, MAS will adjust the proposal to require that the amount assessed should be subject to independent audits on at least an annual basis.

Other Ancillary Regulatory Issues

SCS issued in multiple jurisdictions

At the onset, MAS will not allow multi-jurisdictional issuance. To be recognised as a “MAS-regulated SCS” under the SCS Framework, SCS issuers may only issue SCS solely out of Singapore. MAS explained that it is practically difficult to monitor and establish the adequacy and availability of reserve assets held in an overseas jurisdiction that may be utilised towards redemption requests in another jurisdiction.

SCS intermediaries

Entities offering non-issuance services related to a SCS will be regulated as a DPT service provider under the PS Act, if the services fell within the scope of regulated DPT services.

Requirements on DPT service providers providing services of transmission or custody of MAS-regulated SCS

Timely transfer of SCS: DPT service providers which offer the service of arranging for the transmission or custody of MAS-regulated SCS must complete the transfer of SCS from one party to another in no more than three business days from the day the transfer request is received.

Segregation of customers' SCS. SCS intermediaries must segregate customers' MAS-regulated SCS from the intermediaries' own assets. MAS will not require customers' MAS-regulated SCS to be further segregated from customers' other DPT. As SCS intermediaries will also be subject to regulations for

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DPT service providers, the upcoming measures² (announced earlier this year) relating to segregation and custody of customers' assets for DPT service providers will apply equally to SCS intermediaries.

Regulatory treatment of systemic stablecoin arrangements. In the Consultation, MAS proposed to amend the PS Act to empower MAS to supervise stablecoin arrangements (namely, arrangements that collectively comprise the operations to facilitate transfers of SCS) as payment systems. A systemic stablecoin arrangement will be designated as a Designated Payment System (DPS) under the PS Act and the Payment and Settlement Systems (Finality and Netting) Act 2002. This proposal received support from most respondents and MAS will proceed with the proposal.

Should you have any queries on the above developments, please feel free to contact our team members below who will be happy to assist.

² [Response to Public Consultation on Proposed Regulatory Measures for Digital Payment Token Services \(Part 1\) \(July 2023\)](#). You may be interested to read about related developments in our Legal Update on "[MAS Consults on Proposed New Requirements for Digital Payment Token Service Providers to Enhance Investor Protection and Market Integrity](#)".

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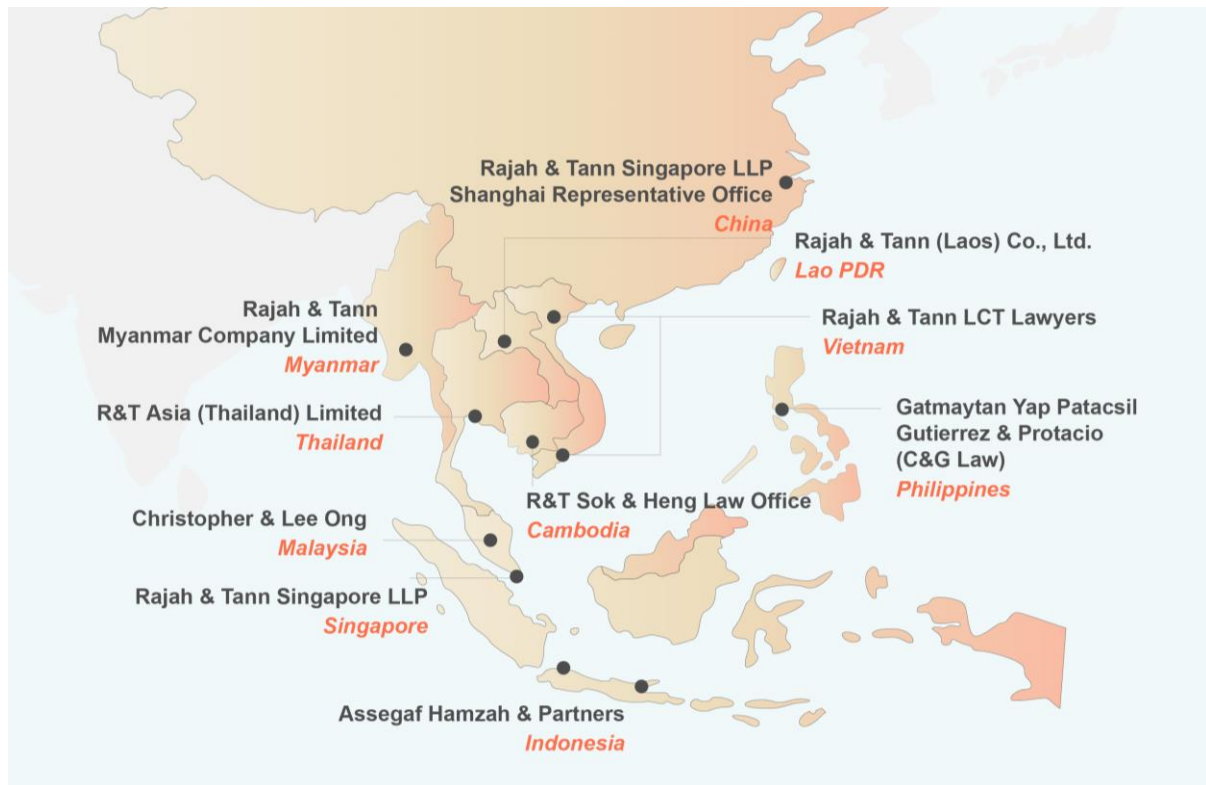
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