

# MAS PROPOSES RULES TO REDUCE RISKS FACED BY RETAIL INVESTORS OF CRYPTOCURRENCIES AND TO REGULATE QUALIFIED STABLECOINS

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On 26 October 2022, the Monetary Authority of Singapore (the “MAS”) published two consultation papers on proposed measures intended to protect retail consumers in relation to trading in cryptocurrencies. In a media release on the same day, the MAS acknowledged that while trading in cryptocurrencies (also known as digital payment tokens or “DPTs”) is highly risky and therefore not suitable for the general public, cryptocurrencies do play a complementary role in the digital asset ecosystem. Thus, instead of banning the trading of cryptocurrencies outright, MAS intends to reduce the risks to retail consumers from speculative trading in cryptocurrencies.

The proposed rules cover three main areas – consumer access, business conduct and technology risks. In relation to consumer access, the measures include the requirement for DPT service providers to provide adequate risk disclosures to their retail customers sufficient to enable them to make an informed decision, the requirement for DPT service providers to ensure that retail investors undergo a risk awareness assessment before being allowed to trade cryptocurrencies, the prohibition of DPT service providers from allowing retail investors to use credit facilities (including credit cards) for cryptocurrency trading; and the prohibition of DPT service providers from offering incentives to retail customers for engaging their trading services. In relation to business conduct, DPT service providers will be required to implement proper segregation of customers’ assets from their own assets so as to reduce the risk of loss or misuse of customers’ assets. Having such robust arrangements in place will facilitate the return of customers’ assets in the event of insolvency of the DPT service provider. In relation to technology risks, similar to financial institutions, DPT service providers will be required to maintain high availability and recoverability of their critical systems.

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The MAS also mentioned that stablecoins could become a medium of exchange to facilitate transactions in the cryptocurrency ecosystem and proposed requirements relating to stablecoins which are crypto-assets designed to have a stable value, typically by being backed or pegged to an underlying asset such as a currency. Currently, stablecoins and its service providers fall under the Payment Services Act (the “PS Act”) and are regulated primarily for money laundering, terrorism financing and technology risks. In its consultation paper, the MAS commented on the inadequacy of the present framework as it does not regulate the promised backed value or any associated stabilisation mechanisms of stablecoins.

For non-bank issuers issuing single-currency pegged stablecoins (SCS) in Singapore with value in circulation of more than S\$5 million, the MAS intends to impose the requirement for them to obtain a major payment institution licence under the PS Act and be subject to value stability, disclosure duties and insolvency safeguards. Other types of stablecoins such as those pegged to a basket of currencies, commodities or algorithmic mechanisms, are deemed to be more volatile in terms of value and will continue to be treated as DPTs regardless of value in circulation. The first proposed regulation for issuers of SCS is in relation to ensuring the value stability of SCS – issuers must hold reserve assets that are at least equivalent to 100 per cent of the par value of the outstanding SCS in circulation, to back the issued SCS. Issuers must also be audited by an external party, and ensure timely redemption at par value for holders of its SCS. All SCS issued in Singapore may only be pegged to the Singapore dollar or any Group of Ten currencies. Issuers are also required to publish a white paper on their website providing relevant details about the SCS, including the rights and obligations of the issuer and holders, as well as risks that can affect the stability of the SCS value. Additionally, issuers must meet a base capital requirement of the higher of S\$1 million or 50 per cent of their annual operating expenses, and hold liquid assets which are valued at the higher of 50 per cent of annual operating expenses or an amount assessed by the issuer to be needed to achieve recovery or an orderly wind-down. It also bears noting that banks in Singapore will be allowed to issue SCS without adhering to the aforementioned reserve backing and prudential requirements if the SCS are issued as a tokenised form of bank liabilities.

The newly proposed measures addressing the associated risks of cryptocurrency trading will enhance the present cryptocurrency and broader fintech and financial markets regulatory regime in Singapore as Singapore continuously moves forward towards building an ever progressive, innovative, inclusive and responsibly regulated digital asset ecosystem.

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