6 January 2023

Submission through online form at <https://go.gov.sg/mas-cp-stablecoins-2022>
Monetary Authority of Singapore
10 Shenton Way
MAS Building
Singapore 079117

Re: ASIFMA response to the MAS' Consultation Paper on the Proposed Regulatory Approach for Stablecoin-related Activities

Dear Sir/Madam,

The Asia Securities and Financial Markets Association ("**ASIFMA**")[1] appreciates the opportunity to respond to the discussion questions set out in the Monetary Authority of Singapore's (the "**MAS**") Consultation Paper on the Proposed Regulatory Approach for Stablecoin-related Activities published on 26 October 2022 (the "**Consultation Paper**"). Feedback set out in this response has been collected from ASIFMA's Fintech Working Group and Crypto Sub-Working Group, which has been closely following global, regional, and local developments relating to virtual assets in recent years. We are grateful to ASIFMA law firm member Linklaters Singapore Pte. Ltd. for their support in drafting this response based on input from ASIFMA's Fintech Working Group and Crypto Sub-Working Group.

General comments

ASIFMA members ("**Members**") support the MAS' proposal to establish a regulatory framework for stablecoin activities that is consistent with international standards as they evolve and mature.

Members also encourage the MAS to continue its engagement with global standard-setting bodies and regulators to develop a consistent approach to the definition, categorisation, and regulatory treatment of stablecoins in order to minimise regulatory arbitrage across jurisdictions and to create a predictable, effective regulatory framework that will be fit for purpose in the long term. This should help to instil consumer confidence and promote investor protection, as well as support innovation in this sector.

[1] ASIFMA is an independent, regional trade association with over 160 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, law firms and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative, and competitive Asian capital markets that are necessary to support the region's economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the GFMA alliance with SIFMA in the United States and AFME in Europe, ASIFMA also provides insights on global best practices and standards to benefit the region. More information about ASIFMA can be found at: http://www.asifma.org/.

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Members believe that stablecoin-related activities should be regulated on a risk-based approach. The regulatory regime should aim to tackle the key risks posed by stablecoins in a proportionate manner, in particular giving priority to areas that pose higher degrees of risk. Taking this into account, Members agree that the MAS' initial focus should be targeted at single-currency designated stablecoins (the "**SCS**") which are issued in Singapore and that the regulatory framework should have flexibility to adapt as needed as the market further matures. There should further be an emphasis on implementing effective prudential regulation of issuers of stablecoins. Given the fast-paced nature of technology development in this area, there is a need to continuously assess ongoing risks of stablecoin-related activities, such as operational and cybersecurity risks, and embed that analysis in the regulatory approach.

ASIFMA wishes to thank the MAS for the opportunity to share this feedback on the Consultation Paper. Members are supportive of continued dialogue between the MAS and the industry as the regulatory regime is being developed to ensure the appropriate calibration of the twin objectives of effectively managing risk while also supporting innovation. We welcome the opportunity to contribute to further consultations on stablecoin regulation in the future.

Unless otherwise defined herein, the terms used in this response have the meanings assigned to them in the Discussion Paper. If you have any further questions or would like to discuss our response in further detail, please contact me.

Sincerely,

Laurence Van der Loo
Executive Director, Technology & Operations
Asia Securities Industry & Financial Markets Association

Responses to discussion questions

Question 1	**Scope of regulations. MAS seeks comments on the regulatory scope, particularly on whether the focus on SCS is adequate and whether there may be reasons for MAS to extend its regulatory powers to SCS issued outside of Singapore.**

Regulatory approach – general comments

As a starting point, Members are of the view that MAS should establish a clear definition of a "stablecoin" based on an identification of the rights conferred by, and risks involved in, stablecoins.

Further, Members are of the view that the use of distributed ledger technology ("**DLT**") and blockchain for infrastructure purposes by regulated financial institutions (e.g. for internal recordkeeping functions) should be distinguished from the use of stablecoins. Members emphasize that the proposed risk management standards for the use of stablecoins set out in this Consultation Paper should not apply to the use of DLT or blockchain infrastructure to support existing, regulated financial services and processes. This is because the use of DLT or blockchain for infrastructure purposes by financial institutions to support existing, regulated financial services and processes are currently regulated under existing laws and risk management frameworks. Imposing additional requirements as proposed in this Consultation Paper to the use of DLT or blockchain for infrastructure purposes may hinder innovation by these financial institutions.

Focus on SCS issued in Singapore

Members generally agree that the proposed regulatory scope should be focused on ensuring that SCS issued in Singapore maintain a high degree of value stability.

Currently, Members note that non-bank stablecoins that are backed by a single fiat currency have the largest market share amongst stablecoins and are likely to pose higher risks to monetary and financial systems than other stablecoins given their market share, particularly as SCS may be more tied to payment and settlement use cases. In addition, SCS would have the strongest use case for purchasing, settling, trading, and lending within the crypto-ecosystem and potentially the broader financial system.

Whether there are reasons for the MAS to extend its regulatory powers to SCS issued outside of Singapore

Members agree that as a first step, the priority should be on the standard of SCS issued in Singapore given the MAS' ability to directly impose regulatory requirements on the entities that issue such SCS.

Notwithstanding the above, Members agree that the proposed regulatory approach should be sufficiently broad and flexible to take into account any changes in systemic risks and international

standards of stablecoins in the longer term. Following the principle of "same risk, same regulation", there is a need to implement a progressive regulatory regime that ensures a level playing field and which is future proofed and capable of pivoting to address developments and innovations in the industry.

Singapore Deposit Insurance Scheme

Members wish to clarify if "MAS regulated SCS" pegged to SGD will be insured under the Singapore Deposit Insurance Scheme ("**SDIC**"). Members are of the view that such SCS issued as tokenised bank liabilities that are deposits would be subject to the SDIC, while such SCS issued and backed by reserve assets segregated from the rest of the bank's assets may not be subject to the SDIC.

Question 2	**Stablecoin issuance service. MAS seeks comments on whether it is sufficient to introduce an additional regulated payment service of stablecoin issuance, and whether there is a need to introduce any other regulated services specific to stablecoins.**

Members generally agree with the introduction of the new regulated activity of "stablecoin issuance service" under the Payment Services Act 2019 ("**PS Act**") and the list of activities proposed by the MAS which should fall under the regulatory ambit, recognising that, on a risk-based approach, the primary focus should be on SCS issuers (entities responsible for controlling the supply of SCS, and minting and burning of SCS).

Further, Members note that MAS-regulated SCS will continue to be treated as DPTs for the purposes of non-issuance activities, and any regulated secondary or ancillary activities associated with stablecoins will be regarded as DPT services under the PS Act. Members generally agree with the distinction in regulatory treatment made between stablecoin issuance services and SCS-related intermediation services (subject to our response in Question 11), following the principle of "same risk, same regulation", noting the different risks applicable to the two services.

Question 3	**Treatment of bank and non-bank SCS issuers. MAS seeks comments on whether the regulatory approach for bank and non-bank SCS issuers is appropriate and achieves an equivalent regulatory outcome for SCS issued in Singapore to be able to maintain a high degree of value stability of SCS.**

Regulatory approach – general comments

Members agree that the approach for bank and non-bank SCS issuers is appropriate and achieves an equivalent regulatory outcome for SCS issued in Singapore to be able to maintain a high degree of value stability of SCS.

Specifically in relation to the regulatory approach for bank SCS issuers, Members generally agree that such regulatory approach is appropriate, and would avoid overlap between the regulatory

requirements applicable to banks under the Banking Act 1970 ("**Banking Act**") and under the proposed requirements for SCS issuers.

Regulatory requirements should not apply to tokenised bank liabilities

However, Members believe that banks that issue SCS as tokenised bank liabilities that can be used either within or outside a bank's ecosystem (i.e. can be transferred on a peer-to-peer basis using private crypto wallets, or through third-party service providers) should not be subject to additional regulatory requirements (including requirements relating to timely redemption at par and disclosure), as banks and bank liabilities, such as deposits, are highly regulated and existing frameworks are appropriate to address banking activities carried out in this new electronic form. Additional requirements on such tokenised bank liabilities would cause a barrier to entry to banks looking to enter this space, which would be disadvantageous to the market as banks are highly regulated and trusted actors which bring stability to the digital assets space.

Please also see our response to Question 8 below.

Further to the above, Members are additionally of the view that the following types of tokens / SCS should be explicitly excluded from the definition of an "SCS" or "stablecoin":

- tokenised commercial bank money / deposit tokens: tokenised deposits, which evidence a deposit claim against an issuing bank subject to capital and fractional reserve requirements applicable to deposits;
- financial market infrastructure tokens: a digital unit of account issued by a financial market infrastructure to its participants reflecting deposits held at a central or commercial bank in a single fiat currency that may or may not pay interest; and
- settlement tokens: representations on distributed ledger technology of underlying traditional securities / financial instruments issued on a different platform (e.g. a traditional Central Securities Depository or registrar) where such representation itself does not satisfy the definition of a security or financial instrument under local law and is used solely to transfer or record ownership or perform other mid/back-office functions (e.g. collateral transfer, recording of ownership).

Members are of the view that further granular discussions on the regulatory characterisation / treatment of the above types of tokens / SCS are needed, and would welcome discussions with the MAS on the matter.

Question 4	**Label for MAS-regulated SCS. MAS seeks comments on whether it is appropriate to have a single label for bank and non-bank issued SCS that MAS regulates. MAS also seeks views on the three options to label the SCS, and whether there are alternative terms that may be**

	used to distinguish stablecoins that are regulated by MAS, from other types of stablecoins.
Members are of the view that SCS issued as tokenised banks' liabilities should not be labelled similarly to MAS-regulated SCS which are backed by segregated assets (regardless of whether these SCS are issued by banks or non-banks). This is because SCS issued as bank liabilities are structured differently from MAS-regulated SCS which are backed by segregated assets, pose different risks and have different use cases and purposes. Users should be able to distinguish between SCS issued as tokenised bank liabilities and other types of MAS-regulated SCS. Members recommend that SCS issued as banks' liabilities should be distinctly labelled and reflect the nature of the bank liability. Additionally, Members are of the view that bank and non-bank issued SCS that are backed by segregated assets should be separately labelled, unless non-bank SCS issuers are subject to prudential standards no less onerous than those imposed on banks (as proposed in our responses to Question 6 below). This is because there would be significant differences in oversight, compliance, controls and other consumer protection measures between banks and non-bank SCS issuers.	
Question 5	**Reserve asset requirements. MAS seeks comments on whether the proposed reserve asset requirements are appropriate, and whether there may be unintended consequences that may affect the development of Singapore's digital asset ecosystem.**
Members agree with the requirement for SCS issuers to have sufficient reserves for each MAS-regulated SCS issued or minted and currently in circulation. Members propose that the reserve assets used to back the MAS-regulated SCS in circulation should also be allowed to be held by a bank regulated/supervised by regulators in overseas jurisdictions (in addition to the financial institutions in Singapore set out in the Consultation Paper). Members have proposed that reserve assets backing SCS should be held in a bankruptcy remote manner, such that the reserves cannot be drawn into the bankruptcy estate of the issuer of the SCS. Reserves should be held with banks or custodians in accounts properly labelled for the benefit of the SCS holders i.e. "safeguarded client money/asset accounts". Non-cash reserves backing SCS should be additionally held in a manner so that they will not be drawn into the bankruptcy estate of the custodian holding the reserves and cannot be rehypothecated for any reason. Members have also commented that the MAS should also prescribe conditions for the withdrawal of funds by the SCS issuer from the custody accounts, such that reserves are not used for any purpose other than for redemption by SCS holders, for burns, or to pay certain prescribed fees. Members have also proposed that SCS issuers should also report debits from the custody	

accounts to the SCS issuer's own corporate account on a regular basis to the custodian and/or the MAS.

Members have also queried whether there should be parameters around ratios of each acceptable asset for reserves, especially where certain types of reserve assets (e.g. debt securities) could potentially impact the ability for the SCS issuer to ensure timely redemption of SCS. These ratios do not have to be overly prescriptive, but a range of the percentage that would be acceptable for each asset class may be considered. In particular, Members queried if an SCS issuer may choose to have the majority of reserve assets in debt securities and if so, whether this may run any risk on timely redemption for users.

Members have also commented that the scope of acceptable types of reserves should exclude other MAS-regulated SCS that are backed by reserve assets to avoid circularity.

Notwithstanding Members' support for the reserve asset requirements, Members observed that non-bank SCS issuers (like many other companies operating in the digital assets industry) currently find it difficult to obtain bank accounts as banks may be hesitant to deal with crypto-native companies. Members expect that the establishment of a robust regulatory framework would make banks more willing to provide services to non-bank SCS issuers. However, to the extent there is hesitancy within the banking industry, this may be an area which the MAS could provide appropriate guidance in order to ensure that non-bank SCS issuers are able to comply with the requirement to keep reserve assets with a bank and to ensure that there is a level playing field. Members have also queried whether reserve funds held by banks on behalf of non-bank SCS issuers should be interest bearing.

Additionally, in relation to banks that issue SCS as tokenised bank liabilities denominated in a non-SGD currency, Members would like to clarify whether customers' deposits backing such tokenized bank liabilities could be held offshore by the currency centre bank legal entity (e.g. USD held by the banking group's entity in the US), given that the same is allowed for fiat bank liabilities.

Finally, Members encourage the MAS to monitor international developments and align the proposed reserve asset requirements with international standards.

Question 6	**Timely redemption of SCS to fiat. MAS seeks comments on whether the time period is reasonable, and whether there may be significant operational challenges or unintended consequences that MAS would need to consider in setting the redemption-related requirements.**
Members do not have any comments to this proposal.	

Question 7	**Prudential requirements. MAS seeks comments on whether the prudential requirements outlined in paragraph 4.21 are risk proportionate. MAS welcomes suggestions on alternative approaches to address the risks.**
Members believe that it is vitally important to ensure that SCS issuers meet high prudential standards in order to adequately protect SCS holders. In line with the principle of "same activity, same risk, same regulation and supervision", Members suggest that non-bank SCS issuers should be subject to prudential standards no less onerous than those imposed on banks.	
Question 8	**Application to tokenised bank liabilities. MAS seeks comments on whether banks issuing tokenised bank liabilities should similarly be subject to the aforesaid redemption and disclosure requirements.**
Consistent with the response for Question 3 above, Members are of the view that for tokenised bank liabilities: • requirements on timely redemption of SCS should not be more onerous than current requirements imposed on bank deposit withdrawals. Banks will typically integrate the process for such redemption / withdrawals with their existing operational processes for bank deposits; and • requirements on disclosures should not be imposed on banks in relation to tokenised bank liabilities, as banks are already subject to existing requirements and practices applicable to the underlying liability. For example, banks currently address disclosure of rights and obligations of deposit holders through the terms and conditions relating to bank deposits. It is additionally worth stressing that tokenised bank liabilities should not require additional disclosures, because they do not carry certain types of novel risks that other types of SCS may have, such as those which attempt to maintain a peg by holding certain reserves.	
Question 9	**Application to bank-issued SCS backed by reserve assets that are segregated from the rest of the bank's assets. MAS seeks comments on whether there may be any proposed requirement that is not relevant for such bank-issued SCS, for example, if the risk may be addressed or mitigated in other manners.**
Members have no comments.	
Question 10	**Addressing SCS issued in multiple jurisdictions. MAS seeks comments on whether the scenario outlined in paragraph 4.22 is a likely development and whether the approaches outlined in paragraph 4.24 are feasible. MAS welcomes suggestions on other approaches to address this issue.**

Members believe that the scenario outlined in paragraph 4.22 is possible. Entities may particularly select different locations of issuance, either to address issuance in multiple currencies or operational needs for global issuance, or to meet regulatory requirements for issuance in other jurisdictions.

Members welcome the approach for SCS issued in multiple jurisdictions, as it would ensure that the same SCS issued in other jurisdictions would be subject to the same or similar requirements required for an MAS-regulated SCS issued in Singapore. Members expect that implementing this approach may be a practical challenge, although it is worth pursuing.

In respect of the requirement to obtain and submit independent attestations, members have suggested that non-bank SCS issuers should be required to do so every 6 months (instead of on an annual basis as currently proposed), as the current proposed timeline may be too long.

Members agree strongly that the MAS should work together with international regulators and standard-setting bodies to adopt a consistent approach to minimum requirements for SCS issuers.

Members believe that:

- there should be considerations for jurisdictional equivalence, so that overseas stablecoin arrangements can be recognised in Singapore with home regulators exercising consolidated supervision;
- it would be useful to establish clear standards on when offshore issuers are sufficiently interacting with Singapore markets to require submissions of attestations (as set out in paragraph 4.24(a) of the consultation paper); and
- the MAS may also consider setting out requirements / guidelines containing acceptable redemption arrangements for such SCS issued in multiple jurisdictions, to avoid confusion about the entity from which SCS holders may redeem their cash from.

Separately, Members queried how the approaches outlined in paragraph 4.24 of the consultation paper would apply to tokenised bank liabilities, especially tokenised bank liabilities that are issued by a banking group entity / foreign branch / head office of a bank in Singapore, and which are denominated in the jurisdiction of home currency centre (e.g. USD tokenised bank liabilities issued by a US banking group entity / branch / head office). Members believe that such additional requirements should not apply to tokenised bank liabilities and existing cross-border banking practices should apply instead.

Question 11	**Scope of regulated SCS-related intermediation services. MAS seeks comments on whether there may be other specific activities related to SCS that are not caught as a regulated DPT service (including those under the Payment Services (Amendment) Act), and which MAS**

	should regulate either as a new payment service or by amending the scope of an existing payment service.
Members believe that financial institutions which are regulated to conduct analogous activities should be given exemptions or deemed licences to prevent regulatory overlap and promote consistency. One example would be a recognised market operator that uses MAS-regulated SCS as a settlement rail for trades in securities carried out on their platform – arguably this could potentially fall within the scope of exclusion at paragraph 2(i) of Part 2 to the First Schedule to the PS Act. Members also wish to clarify whether a bank that facilitates the transfer of or provides custodial services in respect of SCS which are tokenised bank liabilities could be considered as conducting a SCS-regulated intermediation service. Members believe that this should not be the case for tokenised bank liabilities, which are carried out as part of a bank's normal banking business. As such, banks that carry out intermediation services in respect of tokenised bank liabilities should not be subject to consequential regulatory requirements which apply to DPT service providers regulated under the PS Act.	
Question 12	**Timely transfer of SCS. MAS seeks comments on whether three business days is a reasonable timeline for DPT service providers to transmit SCS from a payer to payee.**
Members agree that three business days is a reasonable timeline, although they have suggested that this timeline should be revisited in a few years' time to align with international standards and guidelines on settlement. Members wish to clarify whether exempt payment service providers (e.g. banks) which facilitate the transfer of MAS-regulated SCS would be subject to this requirement as well.	
Question 13	**Segregation of customers' SCS. MAS seeks comments on whether this measure is appropriate to mitigate the risk of misuse of customers' SCS.**
Members agree that the segregation of customers' MAS-regulated SCS from the DPT service provider's own assets would mitigate the risk of misuse of customers' SCS from the commingling of assets. However, Members consider the requirement to segregate a customer's MAS-regulated SCS from the same customer's other assets (e.g. DPTs) to be excessive. Members are of the view that it would be sufficient to segregate customers' assets from the SCS intermediary's assets to mitigate against the risk of misuse of customers' MAS-regulated SCS by the SCS intermediary. Members wish to clarify whether the segregation requirement would extend to requiring SCS intermediaries to open a separate custody account for each customer's MAS-regulated SCS.	

Question 14	**Regulatory treatment of systemic stablecoin arrangements. MAS seeks comments on whether to regulate and protect the smooth functioning of systemic stablecoin arrangements similar to other DPSs, by designating them under the PS Act and FNA. MAS also seeks comments on whether key entities of a systemic stablecoin arrangement should be subject to higher regulatory and supervisory standards to safeguard financial stability risk.**

Members believe that it is important for the regulatory regime to be sufficiently adaptable to address stablecoin arrangements that become systemically important.

Members agree that systemic stablecoin arrangements should be subject to higher financial and operational requirements. Members stressed that systemic stablecoin arrangements should be adequately regulated to safeguard against risks to economic stability resulting from evolutions in the delivery of financial services.

Members have however requested for further clarity on how DPS regulations would be applied to SCS arrangements that function on open infrastructures or a public blockchain (or across inter-connected / interoperable blockchains), especially in relation to supervision rights / information gathering rights.

With regards to tokenised bank liabilities, Members have commented that these liabilities would already be well regulated under the Banking Act as banking regulations contemplates systemically important operations. Introducing the potential for such stablecoin arrangements which involve tokenised bank liabilities to be regulated as a DPS may cause significant regulatory confusion for banks, as banks would be subject to multiple regulatory regimes in respect of these tokenised bank liabilities.

Question 15	**MAS' regulatory approach towards stablecoins. MAS seeks any other comments relating to MAS' regulatory approach towards stablecoins and stablecoin related activities, including any implementation issues that MAS should consider**

Members propose for the MAS to consider providing guidelines to address smart contract risks, particularly across different blockchains (e.g. on the blockchain interoperability of MAS-regulated SCS). For example, MAS could consider updating the Technology Risk Management Guidelines to provide specific guidance in this regard. Members stressed that given the potential for stablecoins to become a medium of exchange, risks relating to the underlying technology should be effectively mitigated against.

Members have also commented that it would be useful for the regulations to be agile and reviewed on a regular basis to ensure that it is fit for purpose.