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Consultation Paper on the Prudential Treatment of Cryptoasset Exposures (P003-2025)

1 Introduction

The Asia Securities Industry & Financial Markets Association (“**ASIFMA**”) ¹, on behalf of our members, welcomes this opportunity to comment on the March 2025 Consultation Paper on the Prudential Treatment of Cryptoasset Exposures (P003-2025) published by the Monetary Authority of Singapore (“**MAS**”) as well as the accompanying proposed amendments to MAS Notice 637 on Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore and other MAS prudential regulatory notices (collectively, “**the Proposals**”).

The purpose of the Proposals is to, among other things, implement in Singapore the standards issued by the Basel Committee on Banking Supervision (“**Basel Committee**”) entitled ‘*Prudential treatment of cryptoasset exposures*’ and ‘*Disclosure of cryptoasset exposures*’ (collectively, “**Basel Cryptoasset Standards**”).

ASIFMA and its members appreciate the work undertaken by MAS:

- (a) in its capacity as a member of the Basel Committee, to develop and formulate the Basel Cryptoasset Standards at the global level; and
- (b) in its capacity as Singapore’s prudential and financial services regulator, to implement the Basel Cryptoasset Standards in Singapore and, together with other Singapore regulators and

¹ ASIFMA is an independent, regional trade association comprising a diverse range of over 165 leading financial institutions from both the buy and sell side, including banks, asset managers, professional service 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, competitive and efficient 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.

government departments, to promote innovation and establish a comprehensive legal and regulatory framework for cryptoassets in Singapore.

We note at the outset that, subject to certain subsequent technical amendments, the Basel Cryptoasset Standards were mostly finalised in December 2022, when cryptoassets were largely unregulated or under-regulated in many jurisdictions. However, during the 2.5 years since December 2022, the global legal, policy and regulatory landscape for cryptoassets has evolved significantly. Many major jurisdictions have now proposed or enacted laws and regulations to comprehensively regulate cryptoassets as well as related activities and market participants, in line with the 'same activity, same risk, same regulation' principle as well as global standards published by the Financial Stability Board ("FSB"),² the International Organization of Securities Commissions ("IOSCO")³ and the Financial Action Task Force ("FATF").⁴ In particular, one major Basel Committee member jurisdiction, the United States, led by its new government administration, has adopted a slew of 'crypto-friendly' rules and regulations as it seeks to become the "crypto capital of the planet".⁵ Given the significant impact that the United States has on global financial markets and regulatory trends, its crypto-friendly policies will likely influence policymaking in other jurisdictions and at international standard-setting bodies such as the Basel Committee.

In Singapore, MAS has made significant progress within a short period of time to establish a comprehensive legal and regulatory framework for cryptoassets that covers, among other things, tokenised bonds,⁶ funds⁷ and stablecoins⁸. In this regard, the industry supports MAS's efforts to strengthen Singapore's leadership in digital asset markets. Having said this, the industry remains concerned about the capital requirements reflected in the current version of the Basel Cryptoasset Standards and, consequently, the Proposals, especially the punitive regulatory capital treatment of

² See e.g., FSB, *Global Regulatory Framework for Crypto-asset Activities* (17 July 2023), available at: <https://www.fsb.org/2023/07/fsb-global-regulatory-framework-for-crypto-asset-activities>.

³ See e.g., IOSCO, *Policy Recommendations for Crypto and Digital Asset Markets – Final Report* (16 November 2023), available at: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD747.pdf>.

⁴ See e.g., FATF, *Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers* (28 October 2021), available at: <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Guidance-rba-virtual-assets-2021.html>.

⁵ See e.g., *See Executive Order on Strengthening American Leadership in Digital Financial Technology* (23 January 2025), available at: <https://www.whitehouse.gov/presidential-actions/2025/01/strengthening-american-leadership-in-digital-financial-technology>; U.S. Securities and Exchange Commission ("SEC"), *SEC Crypto 2.0: Acting Chairman Uyeda Announces Formation of New Crypto Task Force* (21 January 2025), available at: <https://www.sec.gov/newsroom/press-releases/2025-30>; Office of the Comptroller of the Currency ("OCC"), *OCC Clarifies Bank Authority to Engage in Certain Cryptocurrency Activities* (7 March 2025), available at: <https://www.occ.treas.gov/news-issuances/news-releases/2025/nr-occ-2025-16.html>; Federal Deposit Insurance Corporation ("FDIC"), *FDIC Clarifies Process for Banks to Engage in Crypto-Related Activities* (28 March 2025), available at: <https://www.fdic.gov/news/press-releases/2025/fdic-clarifies-process-banks-engage-crypto-related-activities>; *Financial Innovation and Technology for the 21st Century Act ("FIT21")* (a draft legislation which is designed to provide regulatory clarity necessary for the digital asset industry in the United States to prosper).

⁶ See e.g., *Guardian Fixed Income Framework*, available at: <https://www.mas.gov.sg/publications/monographs-or-information-paper/2024/guardian-fixed-income-framework>.

⁷ See e.g., *Guardian Funds Framework*, available at: <https://www.mas.gov.sg/publications/monographs-or-information-paper/2024/guardian-funds-framework>.

⁸ See e.g., MAS, *MAS Finalises Stablecoin Regulatory Framework* (15 August 2023), available at: <https://www.mas.gov.sg/news/media-releases/2023/mas-finalises-stablecoin-regulatory-framework>.

digital assets that use public permissionless blockchains, which appears to diverge from the overall path being taken by MAS and the Singapore Government to support digital assets innovation.⁹ In this respect, we respectfully encourage MAS to focus on developing prudential and other regulations that support the international competitiveness of Singapore banks in the digital assets space and Singapore's goal to become a global digital assets hub.

This letter contains thematic comments and recommendations (**Section 3**) as well as specific comments and recommendations regarding the Proposals and the implementation, interpretation, and application of the Basel Cryptoasset Standards in Singapore (**Section 4**). An executive summary of our thematic and specific comments and recommendations is set out immediately below in **Section 2**.

We are grateful to Andrew Fei at King & Wood Mallesons for his support in preparing this letter based on input from our members.

2 Executive summary

Thematic comments: We respectfully submit that MAS should take into account the following themes when it is: (i) formulating policies (in its capacity as a member of the Basel Committee) regarding the prudential treatment of banks' cryptoasset exposures and (ii) implementing (in its capacity as Singapore's prudential regulator) the Basel Cryptoasset Standards in Singapore:

- (a) **“Same activity, same risk, same regulation” and “technology neutral”:** The prudential regulation of cryptoassets should follow the overarching principles of “same activity, same risk, same regulation” and being “technology neutral”. We respectfully note that aspects of the Basel Cryptoasset Standards and, consequently, the Proposals, appear to depart from the “technology neutral” approach by singling out a particular type of blockchain technology.

For example, cryptoassets (including tokenised assets and stablecoins) that use public permissionless blockchain technology are effectively excluded from inclusion in Group 1 cryptoassets because they cannot practically satisfy classification conditions 3 and 4, thus resulting in a very punitive 1,250% risk weight (which is the highest risk weight under the Basel capital framework) for these types of cryptoassets, even though they pose essentially the same risk as their “traditional” counterparts. In this respect, we note that an increasing number of tokenised assets and virtually all stablecoins today use public permissionless blockchains.

This differential treatment based on the technological infrastructure used for the issuance and trading of financial assets would stifle innovation at, and undermine the global competitiveness of, Singapore banks, lead to market distortions and force banks to convert digital assets back to traditional forms (“de-tokenisation”) to benefit from prudential regulatory savings. A more nuanced approach that considers the underlying risk characteristics of assets, regardless of the type of technology being deployed, would better support sustainable innovation in the cryptoasset ecosystem.

⁹ See e.g., MAS, *MAS Announces Plans to Support Commercialisation of Asset Tokenisation* (4 November 2024), available at: <https://www.mas.gov.sg/news/media-releases/2024/mas-announces-plans-to-support-commercialisation-of-asset-tokenisation>.

- (b) **Global reassessment, refinement and recalibration:** The Basel Cryptoasset Standards need to be continuously reassessed, refined and recalibrated at the global level to take into account fast-developing legal, policy and regulatory shifts in major jurisdictions as well as technological advancements and enhancements to the cryptoassets ecosystem. As the Basel Committee itself has acknowledged, solutions to existing issues associated with certain aspects of cryptoasset-related activities may develop rapidly. We believe MAS is uniquely positioned to continue to play an important role in developing and calibrating the global Basel Cryptoasset Standards iteratively. MAS's unique position owes to the fact that it is the primary architect of the comprehensive legal and regulatory framework for cryptoassets in Singapore and has first-hand experience regulating and supervising cryptoasset-related activities and transactions.
- (c) **Taking into account local circumstances:** Singapore's implementation of the Basel Cryptoasset Standards should take into account Singapore's local circumstances while maintaining general consistency with the global framework. In particular, MAS should take into account Singapore's comprehensive legal and regulatory framework for digital assets and related activities, MAS's own familiarity with cryptoassets and DLT and the role of Singapore banks in digital innovation. We encourage MAS to escalate key issues identified locally to the Basel Committee to ensure consistent global calibration.

Specific comments: In this consultation response, we would like to make the following specific recommendations in relation to the Proposals and the implementation, interpretation and application of the Basel Cryptoasset Standards in Singapore:

- (d) **Public permissionless blockchains and Group 1 cryptoasset eligibility:** The Proposals are aligned with the Basel Committee's position on public permissionless blockchains. In practice, imposing the highest possible risk weight under the Basel capital framework on public permissionless blockchain-based cryptoassets (including tokenised assets and stablecoins) is tantamount to an outright ban on banks and their affiliates participating in this increasingly important segment of the cryptoasset ecosystem, thereby stifling banking sector innovation and pushing these activities outside regulated and supervised financial institutions.

We believe that banks should be allowed to conduct a Group 1 cryptoasset eligibility assessment in relation to public permissionless blockchains on a case-by-case basis. As long as banks can satisfy that relevant risks have been adequately addressed, the use of public permissionless blockchains by Group 1 cryptoassets should remain possible. While we recognise the importance of globally consistent regulatory standards, we note that DLT and other technologies supporting the cryptoasset ecosystem are developing rapidly. We therefore urge MAS to keep its position open, adopt a measured "wait and see" approach while continuing to monitor fast-moving technological and policy developments in other jurisdictions regarding the regulatory treatment of public permissionless blockchains, and to adjust the Proposals accordingly. To this end, we believe that the Proposals should specifically empower MAS to quickly recalibrate MAS Notice 637 to align Singapore's position with rapidly changing policies towards public permissionless blockchains as well as other aspects of the Basel Cryptoasset Standards.

- (e) **Implementation timing against the backdrop of global implementation uncertainty:** While we understand the desire to adhere to the Basel Committee's implementation timeline, we note that Singapore remains one of the few jurisdictions to have even begun the process of implementing the Basel Cryptoasset Standards. Several Basel Committee member jurisdictions, such as the United Kingdom ("UK"), are generally delaying implementation of Basel capital reforms to allow more time for greater clarity to emerge about plans for Basel implementation in the United States.

One disadvantage of finalising the Proposals ahead of other jurisdictions is that, over the next few years, there could be significant shifts in the legal, policy and regulatory treatment of cryptoassets in major Basel Committee member jurisdictions such as the United States, which may, in turn, lead to material changes to the Basel Cryptoasset Standards at the global level. We therefore respectfully ask MAS to actively monitor the pace at which other jurisdictions are implementing the Basel Cryptoasset Standards and to adjust the timing of their implementation in Singapore. This way, Singapore's digital assets ecosystem will not be placed at a competitive disadvantage compared to the United States and European Union ("EU") because Singapore banks are subject to significant capital charges for their cryptoasset-related activities at a time when virtually none of their international counterparts are.

- (f) **Treatment of "non-private" cryptoassets:** In contrast to the Basel Cryptoasset Standards as well as the FSB's definition of "cryptoasset" as an asset issued by the *private* sector, the definition of "cryptoasset" in the Proposals omits the word "private", indicating that cryptoassets issued by both the private and public sectors fall within scope of the Basel Cryptoasset Standards as implemented in Singapore. The inclusion of public sector digital assets within the scope of application of the Proposals means that tokenised and natively digital bonds issued by governments around the world (including the Singapore Government if it chooses to issue such bonds in the future) would be treated as "cryptoassets".

For example, if the Singapore Government were to decide to issue bonds using a public permissionless blockchain, the risk-weight for those bonds would likely skyrocket to 1,250%, because they would not be eligible for inclusion in Group 1a or 2a. Given Singapore banks' extensive holdings of Singapore Government bonds, the inclusion of public sector digital assets as "cryptoassets", when combined with the punitive capital treatment of public permissionless blockchains, mean that the Proposals will hinder the Singapore Government's ability to issue bonds that use public permissionless blockchains, at a time when other public sector entities are issuing such bonds. Considering the foregoing, we respectfully request that public sector cryptoassets be excluded from the scope of the Proposals for the time being, at least until the Basel Committee changes its position on the treatment of public permissionless blockchains.

- (g) **The definition of "cryptoassets" should be clarified to exclude DLT or blockchain-based books and records systems:** The Proposals go beyond the globally agreed upon definition of "cryptoasset" set out in the Basel Cryptoasset Standards by covering not only assets and dematerialised securities that are "issued through DLT" but also assets and dematerialised securities that are merely "**represented through**" DLT. We are concerned that this approach may cause assets and securities that merely use DLT or blockchain-based books and records systems to fall within the scope of the Basel Cryptoasset Standards as implemented in Singapore. In many cases where DLT is used for settlement or recordkeeping, no asset is actually "*issued through DLT*". In fact, no distinct digital asset is created at all. Rather, the execution or recording of transfers of ownership occurs via DLT, which serves as an "electronic version" of traditional registers and databases. Reliance on DLT for recordkeeping or settlement purposes should not increase the risk or liquidity profile of the underlying assets themselves. Accordingly, we recommend that MAS aligns with Paragraph 60.2 of SCO60 of the global Basel

standards and removes the reference to “or represented” in the definition of “cryptoasset”. In addition, it would be helpful to clarify that the use of DLT as an electronic version of traditional registers and databases would not lead to the underlying traditional assets being treated as “cryptoassets” under the Proposals.

- (h) **Treatment of ETPs that invest in cryptoassets:** We submit that the regulatory capital and prudential treatment of exchange-traded products (“ETPs”) which invest in cryptoassets should focus on the underlying risk exposures. As the market matures, further analysis is necessary to calibrate an appropriate risk-weight for these assets. In addition, the exchange-traded nature of ETPs (including those that invest in cryptoassets) means that they can be easily liquidated/redeemed, which is an essential characteristic of eligible collateral under the Basel capital framework. Therefore, we respectfully submit that ETPs which invest in cryptoassets should be eligible as collateral subject to an appropriate haircut, reflecting their liquidity and market efficiency.
- (i) **Infrastructure risk add-on:** We respectfully submit that, taking into account local circumstances in Singapore (including MAS’s familiarity with DLT and the positive statements MAS has made regarding DLT), MAS should consider removing the infrastructure risk add-on concept from the Proposals. Having said this, should MAS believe it is appropriate to still include the concept of the infrastructure risk add-on in Singapore’s implementing rules to maintain consistency with the global Basel standards, we would welcome a statement from MAS that it will seek meaningful public consultation concerning any proposal to increase the infrastructure risk add-on (which will initially be set at zero).
- (j) **Classification assessment materials:** The Proposals require a bank to consult MAS before classifying a cryptoasset or instrument into a group that the bank has not previously used to classify any cryptoasset or instrument, and to provide relevant supporting materials and information on its governance structure, policies and processes for classification of cryptoasset exposures to MAS. In addition, when a bank intends to acquire a cryptoasset exposure, it must notify MAS of the classification of the cryptoasset or instrument at least one month prior to the expected acquisition date. These requirements place significant compliance burdens on banks to submit their classification assessment and supporting documents (including legal opinions and analysis) to MAS on a timely basis, especially if the Basel Cryptoasset Standards will be implemented in Singapore beginning on 1 January 2026, which is less than 9 months away. In this respect, we welcome the opportunity to work with MAS to develop some common classification assessment templates, which would help streamline the preparation, submission, and review of classification assessments.
- (k) **Group 2 Exposure Limit:** The Basel Cryptoasset Standards and, consequently, the Proposals, significantly limit the amount of a bank’s exposure to Group 2 cryptoassets (“**Group 2 Exposure Limit**”). We respectfully submit that the Group 2 Exposure Limit makes it prohibitive for banks to offer services and products related to Group 2 cryptoassets for the benefit of their clients and will drive those services and products away from the regulated banking sector. Therefore, we urge MAS to consider whether it is appropriate to introduce the Group 2 Exposure Limit in Singapore. Having said this, should MAS believe it is appropriate to still include the concept of a Group 2 Exposure Limit in Singapore’s implementing rules to maintain consistency with the global Basel standards, we would like to recommend certain modifications to the limit, which strike an appropriate balance between providing banks with sufficient flexibility to engage in Group 2 cryptoasset-related activities while addressing prudential regulatory concerns.

- (I) **Other comments and recommendations:** We refer to the recommendations set out in the joint submission to the Basel Committee from the Global Financial Markets Association, the Futures Industry Association, the Institute of International Finance, the International Swaps and Derivatives Association, and the Financial Services Forum (“**the Global Associations Joint Submission**”, see [Annex A](#) to this letter) in response to the Basel Committee’s December 2023 proposed amendments to the Basel Cryptoasset Standards.¹⁰ We believe that the recommendations in the Global Associations Joint Submission should be reflected in the Proposals and, where applicable, the Basel Cryptoasset Standards. Therefore, we respectfully request that MAS consider these recommendations when finalising the Proposals.

3 Thematic comments

We respectfully submit that MAS should take into account the following themes when it is: (i) formulating policies (in its capacity as a member of the Basel Committee) regarding the prudential treatment of banks’ cryptoasset exposures and (ii) implementing (in its capacity as Singapore’s prudential regulator) the Basel Cryptoasset Standards in Singapore:

3.1 “Same activity, same risk, same regulation” and “technology neutral”

A key theme in this letter is the need for the prudential regulation of cryptoassets to follow the overarching principles of “same activity, same risk, same regulation” and being “technology neutral”. These overarching principles are emphasised by the FSB in its global regulatory framework for crypto-asset activities.¹¹ MAS has also expressly stated that it adopts a technology-neutral approach to supervision and observes the principle of “same activity, same risk, same regulation”.¹²

In this regard, we respectfully note that aspects of the Basel Cryptoasset Standards and, consequently, the Proposals, appear to depart from the “technology neutral” approach by singling out a particular type of blockchain technology. For example, cryptoassets (including tokenised assets and stablecoins) that use public permissionless blockchain technology are effectively excluded from inclusion in Group 1 cryptoassets because they cannot practically satisfy classification conditions 3 and 4,¹³ thus resulting in a very punitive 1,250% regulatory capital treatment for these types of cryptoassets, even though they

¹⁰ The Global Associations Joint Submission is available at: <https://www.bis.org/bcbs/publ/comments/d567/gfma.pdf>.

¹¹ See FSB, *FSB Global Regulatory Framework for Crypto-asset Activities* (17 July 2023), available at: <https://www.fsb.org/uploads/P170723-1.pdf>.

¹² See e.g., MAS, *FAQs on the Payment Services Act* (19 April 2024) at para. 23.6 (“MAS takes a **technology-neutral** stance and will examine the characteristics of the stablecoin to determine the appropriate regulatory treatment”); MAS, *Financial Stability Review* (November 2022) at 104 (“To the extent that crypto ecosystem activity and vulnerabilities are similar to those in the traditional financial system, a principle of “**same activity, same risk, same regulatory outcomes**” can guide the design of regulation.”)

¹³ This is because classification conditions 3 and 4 for Group 1 cryptoassets require, among other things, that “*node validators must be regulated and supervised, or subject to appropriate risk management standards*”. For cryptoassets based on public permissionless networks (which have many node validators), it is not feasible for a bank to ensure that all node validators are regulated and supervised or subject to appropriate risk management standards, making it practically impossible for these cryptoassets to be classified as Group 1.

pose largely the same risk as their “traditional” counterparts.¹⁴ In this respect, we note that most so-called “traditional” financial assets (such as bonds) are already in dematerialised and electronic form. Thus, the Basel prudential framework’s different treatment for cryptoassets versus “traditional” financial assets is in fact based on the type of technology network being used. We further note that an increasing number of tokenised assets and virtually all stablecoins today use public permissionless blockchains.

This artificial distinction based on the technological infrastructure used for the issuance and trading of financial assets fails to consider the fundamental risk characteristics of the underlying assets themselves, which should be the primary factor in determining their prudential regulatory treatment. The Basel Cryptoasset Standards’ categorical exclusion of Group 1b and Group 2 cryptoassets from collateral eligibility is another example of taking a non-technology neutral approach that inadvertently disincentivises the adoption of technological innovations that can enhance market efficiency and transparency.

The repercussions of the Basel Cryptoasset Standards’ differential treatment based on the type of technology infrastructure would only be exacerbated with time, as jurisdictions such as the United States embrace “open public blockchains”,¹⁵ and as DLT, tokenisation, stablecoins and CBDCs enter mainstream finance. Some experts forecast that the tokenisation market alone will grow 50 times to US\$16.1 trillion by 2030, representing 10% of global GDP.¹⁶ We note that this prediction was made before the United States recently moved towards becoming a more crypto-friendly jurisdiction.

Going forward, we believe an increasing portion of financial and other assets will be in digitally native¹⁷ or tokenised¹⁸ form. If the prudential treatment of these cryptoassets is vastly different from their non-crypto counterparts merely because of the particular type of technology (e.g., public permissionless blockchain) that they use, this would stifle innovation at, and undermine the global competitiveness of,

¹⁴ For example, as we point out in Section 5 of this letter, there does not appear to be any compelling policy reason why bonds issued by the same government entity would receive a 0% risk-weight (being the lowest risk-weight possible under the Basel capital framework) when issued in traditional form but receive a 1,250% risk-weight (being the highest risk-weight possible under the Basel capital framework) simply because it uses a public permissionless blockchain.

¹⁵ See *Executive Order on Strengthening American Leadership in Digital Financial Technology* (23 January 2025), available at: <https://www.whitehouse.gov/presidential-actions/2025/01/strengthening-american-leadership-in-digital-financial-technology> (“It is therefore the policy of my Administration to support the responsible growth and use of digital assets, blockchain technology, and related technologies across all sectors of the economy, including by: (i) protecting and promoting the ability of individual citizens and private-sector entities alike to access and use for lawful purposes open public blockchain networks” (emphasis added)).

¹⁶ See BCG, *ADDX report: Asset tokenization to grow 50x into US\$16 trillion opportunity by 2030* (22 September 2022), available at: <https://addx.co/insights/bcg-addx-report-asset-tokenization-to-grow-50x-into-us-16-trillion-opportunity-by-2030>.

¹⁷ In this respect, we respectfully seek clarification from MAS that digitally native assets that have the same characteristics from a credit, market and liquidity risk perspective (regardless of whether they are issued on a public or private blockchain), should be treated the same as the equivalent ‘tokenised traditional assets’ under the Basel Cryptoasset Standards (including their implementation in Singapore) and should, consequently, attract the same risk-weight. This approach would be consistent with the ‘same activity, same risk, same regulation’ principle.

¹⁸ In relation to the prudential treatment of tokenised traditional assets, we respectfully request clarification from MAS that the mere act of tokenising an asset should *not* result in the creation, for prudential regulatory purposes, of a new asset that is separate and apart from the underlying traditional asset. If tokenisation were to give rise to two separate assets for prudential regulatory purposes (one in traditional form and another in DLT form), this would result in double-counting and would have severely adverse consequences for banks from a regulatory capital and balance sheet perspective.

Singapore banks, could lead to various market, capital, liquidity and pricing distortions, as well as other unintended economic consequences. One potential consequence is that regulated banks may be forced to “de-tokenise” their assets (by converting them back to “traditional” forms) in order to receive favourable regulatory capital treatment or to meet collateral eligibility requirements. De-tokenisation increases operational complexity and undermines the efficiency and cost-saving advantages that make DLT and tokenisation appealing in the first place.¹⁹

We respectfully submit that a more nuanced approach that recognises the underlying risk characteristics of assets, regardless of the particular technological infrastructure used, would better align with the overarching principle of “same activity, same risk, same regulation” and being “technology neutral”. Such an approach would also support the sustainable and responsible development of the cryptoasset ecosystem, creating fit-for-purpose regulations that adequately mitigate relevant risks while allowing banks to innovate in a sustainable and responsible manner.

3.2 Global reassessment, refinement and recalibration

Another key theme in this letter is the need for the Basel Cryptoasset Standards to be continuously reassessed, refined and recalibrated, at the global level, to take into account fast-developing legal, policy and regulatory shifts in major jurisdictions as well as technological advancements and enhancements to the cryptoassets ecosystem. As the Basel Committee itself has acknowledged, solutions to existing issues associated with certain aspects of cryptoasset-related activities may develop rapidly.²⁰ In this respect, we believe MAS is uniquely positioned to continue to play an important role in developing and calibrating the global Basel Cryptoasset Standards iteratively. MAS’s unique position owes to the fact that it:

- (a) is directly involved in formulating the Basel Cryptoasset Standards at the Basel Committee level;
- (b) is the primary architect of the comprehensive legal and regulatory framework for cryptoassets in Singapore;
- (c) has first-hand experience regulating and supervising cryptoasset-related activities and transactions;
- (d) has direct experience with developing and applying tokenisation, digitisation, distributed ledger technologies (“DLT”) and other cryptoasset-related techniques and technologies in real-world transactions, e.g., as part of Project Guardian²¹ and other initiatives; and
- (e) has formulated and is implementing various other policies that are consistent with the Singapore Government’s vision to turn Singapore into a global digital assets hub.

¹⁹ Similarly, if the prudential treatment of the same underlying asset is vastly different merely because of the particular type of technology platform being used, some banks could be incentivised to choose between different types of technologies purely for the purpose of gaining a more favourable capital treatment, which would be inconsistent with a technology-neutral approach to regulation and supervision.

²⁰ See Basel Committee, *Consultative document on cryptoasset standard amendments* (December 2023) (“*The Committee acknowledges that technical solutions to many of these issues may develop rapidly in the future and would welcome ongoing feedback from industry participants on the risks of permissionless systems and the development of mitigants.*”), available at: <https://www.bis.org/bcbs/publ/d567.pdf>.

²¹ Project Guardian is a collaborative initiative between policymakers (including MAS) and the financial industry to enhance liquidity and efficiency of financial markets through asset tokenisation.

Given MAS's and Singapore's unique position, we highly encourage MAS to continue to share its insights, expertise and first-hand experience regarding tokenisation, digitisation, DLT and other cryptoasset-related matters with the members of the Basel Committee,²² with the ultimate goal of enabling the long-term, sustainable and responsible development of the global digital asset ecosystem. To this end, ASIFMA and our members would be pleased to continue to offer our support in whatever way MAS considers appropriate.

3.3 Taking into account local circumstances

Another key theme in this letter is the need for Singapore's implementation and/or interpretation of the Basel Cryptoasset Standards to take into account local circumstances while maintaining general consistency with the global Basel framework. In particular, when implementing the Basel Committee's cryptoasset classification conditions and risk-weights in Singapore, MAS should take into account, and be cognisant of the following:

- (a) cryptoasset-related activities take place within Singapore's fast-emerging comprehensive legal and regulatory framework, which is developed and directly overseen by MAS;
- (b) cryptoassets (especially tokenised traditional securities, digitally native securities and stablecoins) in Singapore are issued by MAS licensed/regulated entities, including as part of MAS's Project Guardian framework;
- (c) MAS's own familiarity with cryptoassets and DLT; and
- (d) Singapore banks have an important role to play in spearheading innovation in the digital asset ecosystem in Singapore and across the region.

We also encourage MAS to escalate key issues identified during the local consultation and implementation process to the Basel Committee, leveraging its unique position as described above. Consistent global calibration and implementation of the Basel Cryptoasset Standards not only promotes the Basel Committee's objective of full and consistent implementation of the Basel framework across major jurisdictions, it also fosters innovation in Singapore because a number of Singapore-incorporated banks to which MAS Notice 637 and other MAS prudential requirements apply are also subsidiaries of global banking groups that are subject to Basel standards as implemented in their home country jurisdiction on a global consolidated level. Therefore, even if a particular issue were adequately addressed at the local implementation level in Singapore, if it is not addressed at the global and home country level, the banking group as a whole would still be subject to potentially punitive regulatory capital treatment in relation to the relevant cryptoasset exposure(s).

²² In this respect, we believe that the Basel Cryptoasset Standards (including their implementation in Singapore) should more clearly distinguish between the prudential treatment of (i) digital assets (which are simply traditional assets that use a different technology, namely DLT) and (ii) true 'cryptoassets' (which, outside the context of the Basel Cryptoasset Standards, narrowly refers to unbacked cryptocurrencies which may experience significant market price volatility).

4 Specific comments

Besides the general thematic comments and recommendations mentioned above, we also recommend some specific approaches to implementing, interpreting, and applying the Basel Cryptoasset Standards in Singapore that facilitate responsible and sustainable innovation by banks. These specific recommendations are set out further below in this consultation response.

We would like to note that as discussions regarding the calibration and implementation of the Basel Cryptoasset Standards continue to evolve globally, the comments provided by ASIFMA in this response to the Proposals should not be considered as final. ASIFMA and our members will continue to assess the Basel Cryptoasset Standards over the near term and form our positions more fully.

4.1 Public permissionless blockchains and Group 1 cryptoasset eligibility

Under the Basel Cryptoasset Standards and, consequently, the Proposals, cryptoassets such as tokenised traditional assets and stablecoins that use public permissionless blockchains are effectively ineligible for inclusion in Group 1. This is because classification conditions 3 and 4 for Group 1 cryptoassets require, among other things, that “*node validators must be regulated and supervised, or subject to appropriate risk management standards*”. A node validator is defined as “*an entity that verifies or votes on which transaction blocks are added to the distributed ledger network*”.²³ For cryptoassets based on public permissionless networks (which have many node validators), it is not feasible for a bank to ensure that all node validators are regulated and supervised or subject to appropriate risk management standards, making it practically impossible for these cryptoassets to be classified as Group 1.

Furthermore, since tokenised traditional assets and stablecoins typically would not have the market capitalisation, daily trading volume and other attributes necessary to satisfy the hedging recognition criteria to be classified as Group 2a cryptoassets, they would likely fall under Group 2b and receive a punitive 1,250% risk-weight.²⁴ In practice, imposing the highest possible risk weight under the Basel

²³ As currently proposed, classification condition 3 would require the functions of the cryptoasset and the network on which it operates to be designed and operated to sufficiently mitigate any material risks. Banks would face major impediments to concluding that cryptoassets based on public permissionless blockchains meet this condition. Although banks can manage and mitigate risks related to their own engagement with the network, banks cannot uniformly attest to the operation of aspects of a distributed and decentralised network that they do not own or otherwise maintain any contractual or other rights to operate and administer. Banks can be expected to dynamically assess the design of such networks through existing operational resilience and operational risk principles, including the design of their operation. However, the global and disaggregated nature of these networks would make full oversight of all aspects of their operation wholly infeasible.

²⁴ In order for a bank seeking to maintain a total capital ratio of 8% while holding a Group 2b cryptoasset with a face value of \$1, it must set aside \$1 worth of regulatory capital to support the Group 2b cryptoasset. This is because \$1 (regulatory capital) divided by \$12.5 (risk-weighted asset) equals 8% (total capital ratio). This is why a 1,250% risk-weight is often described as a “dollar-for-dollar” capital charge.

In reality, however, many banks maintain regulatory capital ratios that are well in excess of the minimum requirements. If, for example, a bank seeks to maintain a total capital ratio of 16% while holding a Group 2b cryptoasset with a face value of \$1, it must set aside \$2 worth of regulatory capital (more capital than the face value of the Group 2b cryptoasset itself) to support the Group 2b cryptoasset. This is because \$2 (regulatory capital) divided by \$12.5 (risk-weighted asset) equals 16% (total capital ratio).

This regulatory capital treatment of cryptoassets that use permissionless blockchains could make it uneconomical for Singapore banks to meaningfully participate in this increasingly important segment of the global cryptomarkets,

capital framework on public permissionless blockchain-based cryptoassets is tantamount to an outright ban on banks and their affiliates participating in this increasingly important segment of the cryptoasset ecosystem, thereby stifling banking sector innovation and pushing these activities outside regulated and supervised financial institutions. By pushing these activities out of the regulated banking perimeter, regulators everywhere will have less visibility in the evolution of cryptoasset ecosystem, its various market participants, and the complexity of emerging cryptoasset products and services. It is also crucial to recognize that banking organisations possess robust risk management frameworks to address the risks associated with public permissionless blockchains, and their participation in the cryptoasset market under appropriate regulatory oversight would ensure that these activities are conducted within a secure and controlled environment, thereby supporting innovation while safeguarding financial stability.

The practical consequences of imposing a 1,250% risk weight on public permissionless blockchain-based cryptoassets can be illustrated by examining the prudential treatment of stablecoins under the Basel Cryptoasset Standards. As the preferred payment tool of the web3 ecosystem, stablecoins will play an increasingly important role in the global digital economy. Many major jurisdictions have recognised this fact and have enacted or are in the process of enacting laws and regulations on stablecoins. However, the Basel Cryptoasset Standards, in their current form, would effectively ban banks and their affiliates from holding stablecoins in a non-custodial capacity. This is because virtually all stablecoins today use public permissionless blockchains and the Basel Cryptoasset Standards effectively impose a 1,250% risk-weight on all public permissionless blockchain-based cryptoassets, making it prohibitively expensive for banks and their affiliates to invest in or hold such assets. As Group 2 cryptoassets, the stablecoins that exist in the market today will also be subject to the restrictive Group 2 Exposure Limit, which is further discussed in below in Section 4.8.

We respectfully submit that the Basel Cryptoasset Standards should include a set of Group 1b classification conditions that can actually be met by the stablecoins that exist in the market today, rather than expecting them to adhere to unrealistic and impractical standards such as requiring them to use

at a time when their U.S. and EU counterparts, in stark contrast, are being *encouraged* by their governments to support public blockchains. By imposing such stringent capital requirements on regulated banks, the Proposals could also have the effect of pushing out these cryptoasset-related activities to unregulated entities, thereby increasing systemic risks rather than mitigating them.

We further submit that the credit risks associated with a traditional bond and a permissionless blockchain-based tokenised bond from the same issuer are fundamentally the same. The Proposals, however, fail to recognize this credit risk equivalence, leading to a disproportionate capital treatment for the tokenised version of the same asset, purely by reason of the particular type of blockchain technology it uses. As we point out in Section 5 of this letter, there does not appear to be any compelling policy reason why bonds issued by the same government entity would receive a 0% risk-weight (being the lowest risk-weight possible under the Basel capital framework) when issued in traditional form but receive a 1,250% risk-weight (being the highest risk-weight possible under the Basel capital framework) simply because it uses a public permissionless blockchain.

While it is important to acknowledge that public permissionless blockchains may present certain risks, it is equally crucial to establish a set of fit-for-purpose criteria that appropriately differentiate these technology-related risks from traditional credit risks. By doing so, we can avoid prudential measures that seemingly conflate technological risks with traditional credit risks. A more nuanced approach would involve setting clear standards for permissionless blockchain usage that address specific technology-related concerns without imposing blanket, highly conservative risk-weights that hinder innovation by regulated banks.

Ultimately, it is imperative that the prudential framework for cryptoassets is reflective of the actual risks involved. This includes recognising the equivalence of credit risks associated with traditional and tokenised versions of the same asset while ensuring that any additional risks associated with blockchain technology are addressed through targeted, rather than blunt, prudential regulatory measures. Such an approach will support the sustainable development of the cryptoasset market while safeguarding financial stability and the overall safety and soundness of the banking sector.

private permissioned blockchains. By establishing achievable Group 1b classification conditions, regulators can ensure that stablecoins are effectively integrated into the banking and financial systems, while still maintaining robust oversight and mitigating associated risks.

While we recognise the importance of globally consistent regulatory standards, we note that DLT and other technologies supporting the cryptoasset ecosystem are developing rapidly. In fact, although the Basel Committee reaffirmed its position on public permissionless blockchains in December 2023, it also *“acknowledge[d] that technical solutions to many of these issues [associated with permissionless blockchains] may develop rapidly in the future and would welcome ongoing feedback from industry participants on the risks of permissionless systems and the development of mitigants.”*²⁵

Similarly, the Basel Committee stated in its August 2024 report on permissionless blockchains that *“[w]hile technology-based mitigants are not yet mature and have not been tested under periods of stress, rapid developments may generate new solutions (and risks) which may benefit from further examination.”*²⁶

Therefore, we urge MAS (in its various capacities, including as a key member of the Basel Committee) to revisit its position on a regular basis, taking into account the latest technological advancements and enhancements to the cryptoassets ecosystem. Specifically, we encourage MAS to:

- (a) provide examples of perceived “material risks” associated with public permissionless blockchains, considering both the consequences and the likelihood of these risks eventuating in the first place,²⁷ and distinguishing between robust and mature blockchain networks such as Ethereum (which are already “battle tested” with a large diverse community and ecosystem) and newer public blockchains; and
- (b) actively engage with digital asset market participants (including regulated financial institutions) to consider how these “material risks” associated with public permissionless blockchains can be

²⁵ See Basel Committee, *Consultative document on cryptoasset standard amendments* (December 2023), available at: <https://www.bis.org/bcbs/publ/d567.pdf>.

²⁶ See Basel Committee, *Working Paper 44: Novel risks, mitigants and uncertainties with permissionless distributed ledger technologies* (28 August 2024), available at: <https://www.bis.org/bcbs/publ/wp44.pdf>.

²⁷ Under the Basel Cryptoasset Standards and, consequently, the Proposals, classification condition 3 for Group 1a cryptoassets requires that *“the functions of the cryptoasset and the network on which it operates, including the DLT or similar technology on which it is based, do not pose any **material risks** that could impact the transferability, settlement finality or, where applicable, redeemability of the cryptoasset”*. We respectfully submit that in assessing whether a particular risk associated with a blockchain network is “material”, both the magnitude of the consequences and the likelihood of the risk occurring in the first place should be taken into account. For example, while the consequences a 51% attack on the Ethereum network can be significant in terms of impairing settlement finality, the likelihood of it ever occurring is extremely low. This is because in order to mount a 51% attack on the Proof-of-Stake (“PoS”) consensus mechanism used by the Ethereum network, an attacker would need to control approximately 51% of all ETH (being the native token of the Ethereum blockchain) in circulation. The current price of ETH also makes a 51% attack on the Ethereum network extremely expensive and impractical, especially considering the additional complexities and risks involved in executing such an attack.

As a more general observation, we wish to point out that the focus of classification condition 3 should be on functional outcomes rather than design attributes of blockchain networks. For instance, the robustness of a public blockchain such as Ethereum is achieved through a combination of decentralisation and skin-in-the-game economic incentives, which align the interests of all participants to ensure robustness. This functional approach differs from relying on centralised entities or specific design features. An outcome-based approach should allow for greater adaptability in the context of emerging technologies.

addressed (e.g., by implementing smart contract denylisting / allowlisting (i.e., blacklisting / whitelisting) capabilities and/or by exploring layer 2 solutions such as those described in the EU's recent report on blockchains (discussed further below)).

In addition, we understand that the Basel Committee's position on public permissionless blockchains is reflective of the strong views held by certain Basel Committee member jurisdictions at the time that position was first adopted and subsequently reaffirmed in December 2023. Since then, we note that several major Basel Committee member jurisdictions – notably the EU and the United States (as discussed below) – are embracing public permissionless blockchains.

EU's position on permissionless blockchains: In November 2024, the EU published a report entitled '*Enhancing financial services with permissionless blockchains*'.²⁸ The report examines the potential of public permissionless blockchains to enhance traditional financial services. It highlights the key advantages of utilising an open base layer, including transparency, inclusivity, and increased competition. The report concludes that public permissionless blockchains represent a promising alternative to permissioned platforms, with the potential to reduce dependencies and mitigate monopolistic market structures on a platform level. Significantly, the report emphasises that compliance does not necessarily require a platform-wide gatekeeper or other forms of base layer regulation but can instead be implemented higher up on the technology stack.

Below is a key passage from the EU report, which compares public permissionless blockchains with the internet:

"Similar to the internet, many of the applications built on this foundational infrastructure will likely be centralized and regulated. Yet, an open and neutral base layer fosters innovation, competition, and the development of new use cases. Opting for a permissioned base layer could be unnecessarily restrictive, introduce dependencies, and potentially foster monopolistic market structures at the most foundational level."
(emphasis added)²⁹

This statement from the EU is consistent with the reasoning set out in the Global Associations Joint Submission, which is that banks and indeed the entire global economy have been using permissionless networks for decades because the internet and email are both permissionless (i.e., open) networks. However, even though the internet and email are permissionless at the network layer, there are many forms of permissioning that have been implemented at the application layer, which are designed to enhance security and to ensure that products and services can be delivered via the internet in a safe, prudent and compliant manner that does not pose financial stability, compliance or investor protection risks. For example, a significant and growing portion of secure banking transactions and services are carried out via the internet and email. Yet, none of these transactions are automatically subject to a punitive 1,250% risk-weight under the Basel standards simply because they rely on permissionless networks.

²⁸ See EU, *Enhancing financial services with permissionless blockchains* (November 2024), available at: <https://op.europa.eu/en/publication-detail/-/publication/cab54e8e-ad3b-11ef-acb1-01aa75ed71a1/language-en>.

²⁹ Ibid at page 36.

Please refer to the Global Associations Joint Submission for details regarding our recommendations on the prudential treatment of cryptoassets that use public permissionless blockchains.³⁰ In essence, we continue to believe that banks should be allowed to conduct a Group 1 cryptoasset eligibility assessment in relation to public permissionless blockchains on a case-by-case basis. As long as banks can satisfy that relevant risks have been adequately addressed, the use of public permissionless blockchains by Group 1 cryptoassets should remain possible.

It is also important to recognise that the question of permissioned or permissionless is not binary and that there are many options in between these extremes. In particular, public blockchain architecture is tending towards having multiple layers (e.g., layer 1, layer 2, layer 3, etc.) with the different layers having various characteristics driven by different business requirements. These different layers can all follow common technical specifications that lead to a high degree of interoperability. For example, it is perfectly possible to imagine a “layer 2” that has been built specifically for the financial industry with various forms of permissioning that is anchored to a public “layer 1” blockchain. The best analogy to think of is how many companies (including banks) today have high-security internal websites and proprietary applications that follow the general standards of the internet and use the public internet to communicate with other websites and applications.

In addition, we note that technology now exists to allow the issuer or other administrator in respect of a cryptoasset to designate specific validators for transactions relating to that cryptoasset, even though the cryptoasset itself actually exists on a public permissionless blockchain. Where this technology is deployed, a mechanism can be introduced (including via smart contracts) to ensure that only node validators that are “*regulated and supervised, or subject to appropriate risk management standards*” are designated as validators in respect of the cryptoasset.³¹ We respectfully seek clarification from MAS that where this mechanism is in place, the requirement that “*node validators must be regulated and*

³⁰ In addition to the arguments raised in the Global Associations Joint Submission regarding the treatment of public permissionless blockchains under the Basel Cryptoasset Standards, we note that categorically excluding all public permissionless blockchain-based cryptoassets from the favourable prudential treatment conferred on Group 1 cryptoassets is tantamount to placing a *de facto* ban on banks investing in such cryptoassets. As a result, many banks would have no choice but to limit their investments to only permissioned blockchain-based cryptoassets. Setting aside their limited utility in the digital asset ecosystem, private permissioned blockchains are expensive to develop and have very high barriers of entry. Consequently, only the largest banks with the most resources are able to develop these types of blockchain technology. The vast majority of banks that do not have this kind of resources must either use a competitor bank’s blockchain network or avoid investing in many categories of digital assets altogether.

³¹ Using the Ethereum network as an example, we note that directed order flows on Ethereum uses wallet-configurable Remote Procedure Call (“**RPC**”) endpoints to route transactions through specific channels. RPC endpoints act as communication bridges between wallets and the blockchain, allowing users to send transactions and interact with the network. These endpoints are necessary because they provide a standardised way for wallets to communicate with the blockchain, handle request formatting and manage responses from the network, making the transaction path transparent and traceable at each step. For instance, widely used wallets like MetaMask typically connect to the Ethereum mainnet through default RPC endpoints like Infura, but users can easily switch to custom RPC endpoints, such as Flashbots Protect or MEV blocker by updating a simple network setting. Once set, these custom RPCs directs user transactions privately to a private relay, bypassing Ethereum’s public mempool. Here, specialised block builders competitively assemble transactions into blocks and bid through relays for inclusion rights. Validators, in turn, select the most advantageous block through the MEV Boost protocol to finalise transactions on-chain. Because each participant in this chain—from the RPC endpoint provider to builders, relays and validators—is identifiable, transactions remain fully traceable from submission through to finalisation. Services such as Flashbots Protect and MEVBlocker ensure transparency by publicly disclosing the transactions that they have routed, thereby reinforcing end-to-end accountability.

supervised, or subject to appropriate risk management standards” would be satisfied, and therefore, the cryptoasset in question is capable of being classified as Group 1.

More recently, in April 2025, the European Commission launched a targeted consultation on obstacles to capital markets integration across the EU.³² Significantly, in its consultation paper, the European Commission asked the following questions regarding the prudential treatment of public permissionless blockchains under the Basel Cryptoasset Standards, signalling the EU’s identification of this issue as a potential obstacle to the development of the capital markets as well as the EU’s willingness to revisit this issue:

“36) Basel prudential standards on crypto exposures applicable to credit institutions assign group 2 status to tokenised assets, including tokenised financial instruments, that are issued and recorded on permissionless distributed ledgers. The transitional prudential treatment of exposures to tokenised assets in the Capital Requirements Regulation currently applicable does not make a distinction based on the type of underlying distributed ledger. Do you believe that prudential rules should differentiate between permissioned and permissionless distributed ledgers?”

....

37) Do you believe that risks from permissionless blockchains, in particular operational risks and other risks set out in the BIS Working paper on novel risks, mitigants and uncertainties with permissionless distributed ledger technologies, can be mitigated?”

United States government supports “open public blockchains”: The United States government, under its new administration, is fundamentally shifting its policy towards cryptoassets. On 23 January 2025, just a few days into the new administration, the U.S. President issued an executive order entitled ‘*Strengthening American Leadership in Digital Financial Technology*’ (“**Digital Assets Executive Order**”).³³ Among other things, the Digital Assets Executive Order would establish the President’s Working Group on Digital Asset Markets, which is tasked with proposing a U.S. regulatory framework on the issuance and operation of digital assets (including stablecoins) in the United States.

Significantly, the Digital Assets Executive Order sets out the U.S. government’s strong support for **open public blockchains**. Section 1 of the Digital Assets Executive Order states:

“It is therefore the policy of my Administration to support the responsible growth and use of digital assets, blockchain technology, and related technologies across all sectors of the economy, including by: (i) protecting and promoting the ability of individual citizens and private-sector entities alike to access and use for lawful purposes open public blockchain networks without persecution, including the ability to develop and deploy software, to participate in mining and validating, to transact with other persons without unlawful censorship” (emphasis added).

³² See European Commission, *Targeted consultation on obstacles to capital markets integration across the EU* (15 April 2025), available at: https://finance.ec.europa.eu/document/download/8c77fb5f-4fe6-4fa0-8fe6-293a94c43b26_en?filename=2025-markets-integration-supervision-consultation-document_en.pdf.

³³ See *Executive Order on Strengthening American Leadership in Digital Financial Technology* (23 January 2025), available at: <https://www.whitehouse.gov/presidential-actions/2025/01/strengthening-american-leadership-in-digital-financial-technology>.

The U.S. government's strong support for open public blockchains would likely result in a significant change in U.S. financial regulators' attitudes towards these types of blockchains. For example, in stark contrast to the previous U.S. government administration, U.S. financial regulators have begun to embrace open public blockchains. We note that shifts in U.S. regulatory policy can take place quite quickly. For example, just a few days into the new U.S. administration, the U.S. Securities and Exchange Commission ("**SEC**") has already rescinded the accounting guidance known as Staff Accounting Bulletin No. 121 ("**SAB 121**"), which made it economically prohibitive for U.S. financial institutions to provide cryptoasset custody services.³⁴

More recently, U.S. banking regulators have clarified that U.S. banking institutions may engage in permissible crypto-related activities (including activities involving new and emerging technologies such as cryptoassets and digital assets) without receiving prior regulatory approval.³⁵ Significantly, the OCC published Interpretive Letter 1183 to confirm that participation in independent node verification networks such as distributed ledgers are permissible for national banks and federal savings associations.³⁶

In January 2023, the U.S. federal banking regulators under the previous U.S. administration made the following statement regarding public permissionless blockchains: "*issuing or holding as principal crypto-assets that are issued, stored, or transferred on an open, public, and/or decentralized network, or similar system is highly likely to be inconsistent with safe and sound banking practices.*"³⁷ Significantly, the U.S. federal banking regulators under the current U.S. administration have formally **withdrawn** this statement,³⁸ evidencing a significant shift in their policy towards public permissionless blockchains.

As U.S. regulators and regulated institutions embrace public blockchain-based cryptoassets, the U.S. is poised to become one of the most – if not the most – important market for cryptoassets and related financial services. Thus, U.S. policies towards open public blockchains will have a significant impact on the Basel Committee's position, given the size and influence of the U.S. banking sector.

In light of the foregoing, we urge MAS to keep its position open, adopt a measured "wait and see" approach while continuing to monitor fast-moving developments in other jurisdictions and internationally

³⁴ See SEC, *Staff Accounting Bulletin No. 122* (23 January 2025) ("This staff accounting bulletin ("SAB") rescinds the interpretive guidance included in Section FF of Topic 5 in the Staff Accounting Bulletin Series entitled *Accounting for Obligations to Safeguard Crypto-Assets an Entity Holds for its Platform Users*"), available at: <https://www.sec.gov/rules-regulations/staff-guidance/staff-accounting-bulletins/staff-accounting-bulletin-122>.

³⁵ See e.g., FDIC, *FDIC Clarifies Process for Banks to Engage in Crypto-Related Activities* (28 March 2025), available at: <https://www.fdic.gov/news/press-releases/2025/fdic-clarifies-process-banks-engage-crypto-related-activities>.

³⁶ OCC, *OCC Clarifies Bank Authority to Engage in Certain Cryptocurrency Activities* (7 March 2025), available at: <https://www.occ.treas.gov/news-issuances/news-releases/2025/nr-occ-2025-16.html>.

³⁷ See Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency, *Joint Statement on Crypto-Asset Risks to Banking Organizations* (3 January 2023), available at: <https://www.fdic.gov/news/press-releases/2023/pr23002a.pdf>.

³⁸ See Board of Governors of the Federal Reserve System, [***]*Federal Reserve Board announces the withdrawal of guidance for banks related to their crypto-asset and dollar token activities and related changes to its expectations for these activities* (24 April 2025) ("*Finally, the Board, together with the Federal Deposit Insurance Corporation is joining the Office of the Comptroller of the Currency in withdrawing from two 2023 statements jointly issued by the federal bank regulatory agencies regarding banks' crypto-asset activities and exposures*"), available at: <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250424a.htm>.

regarding the regulatory treatment of public permissionless blockchains, and to adjust the Proposals accordingly. We believe that the Proposals should specifically empower MAS to quickly recalibrate MAS Notice 637 to align Singapore's position with rapidly changing policies towards public permissionless blockchains as well as other aspects of the Basel Cryptoasset Standards. For example, the Proposals should include a provision which allows MAS to immediately "switch off" the ineligibility of public permissionless blockchain-based cryptoassets for inclusion in Group 1 **if** the Basel Committee or a significant portion of Basel Committee member jurisdictions (with "significant portion" being determined by taking into account the size of their respective banking sectors and the extent of their cryptoasset-related activities) change their position on the matter.

4.2 Implementation timing against the backdrop of global implementation uncertainty

The original globally agreed upon implementation date for the Basel Cryptoasset Standards was 1 January 2025.³⁹ However, the Basel Committee has decided to delay the implementation date by one year, to 1 January 2026.⁴⁰ MAS's Consultation Paper states that the Proposals are intended to take effect on 1 January 2026 (which is less than 9 months away), in line with the Basel Committee's implementation timeline.

While we understand the desire to adhere to the Basel Committee's implementation timeline, we note that Singapore remains one of the few jurisdictions to have even begun the process of implementing the Basel Cryptoasset Standards. According to the Basel Committee's September 2024 Basel III implementation dashboard,⁴¹ **only 3 out of 20** Basel Committee member jurisdictions (now 4 out of 20 if we include Singapore) – namely, Hong Kong, the EU and Canada – had published draft rules to implement the Basel Cryptoasset Standards. Therefore, at this stage, it seems highly unlikely that more than a fifth of Basel Committee member jurisdictions would be able to fully implement the Basel Cryptoasset Standards by the Basel Committee's implementation date of 1 January 2026. In any event, we respectfully submit that the proposed effective date of 1 January 2026 (which is less than 9 months away) does not provide Singapore banks with sufficient time to properly and adequately prepare for compliance with the Basel Cryptoasset Standards.

Significantly, the implementation timeline for the United States is highly uncertain, not just in relation to the Basel Cryptoasset Standards, but in relation to other aspects of the Basel III final reform package as well. Indeed, MAS's proposal to implement the Basel Cryptoasset Standards by 1 January 2026 against the backdrop of much global uncertainty about implementation timing is in stark contrast to the position taken by the UK. In January 2025, the UK Prudential Regulation Authority ("**PRA**") announced its decision to delay the implementation of 'Basel 3.1' in the UK by one year until 1 January 2027. The UK PRA expressly stated that the reason for the delay is to "*allow[] more time for greater clarity to emerge about plans for [Basel] implementation in the United States*", especially "*[g]iven the current*

³⁹ See Basel Committee, *Governors and Heads of Supervision endorse global bank prudential standard for cryptoassets and work programme of Basel Committee* (16 December 2022) ("The Basel Committee's oversight body endorses a global prudential standard for banks' exposures to cryptoassets, **for implementation by 1 January 2025**.").

⁴⁰ See Basel Committee, *Basel Committee publishes final disclosure framework for banks' cryptoasset exposures and targeted amendments to its cryptoasset standard* (17 July 2024).

⁴¹ See Basel Committee, *RCAP on timeliness: Basel III implementation dashboard* (updated on 2 October 2024), available at https://www.bis.org/bcbs/implementation/rcap_reports.htm.

*uncertainty around the timing of implementation of the Basel 3.1 standards in the US, and taking into account competitiveness and growth considerations.*⁴²

The need to take into account “competitiveness and growth considerations” should resonate with MAS because Singapore is looking to establish itself as a global digital asset hub. If other aspiring digital asset hubs around the world (especially the United States, which is poised to become the “crypto capital of the planet”) are not rushing to implement the Basel Cryptoasset Standards which, in their current form, could significantly disincentivise the banking sector’s involvement in certain digital assets-related activities, this begs the question of whether Singapore should become one of the first major jurisdictions in the world to fully and faithfully implement⁴³ the Basel Cryptoasset Standards. In particular, the conservative prudential treatment of certain types of cryptoassets under the Basel Cryptoasset Standards (such as tokenised assets and stablecoins that use public permissionless blockchains) can significantly undermine Singapore’s aspirations to become a global digital assets hub because the Proposals would place Singapore banks at a severe competitive disadvantage compared to their international peers, especially banks headquartered in the EU or the United States.

Another disadvantage of finalising the Proposals ahead of other jurisdictions is that, over the next few years, there could be significant shifts in the legal, policy and regulatory treatment of cryptoassets in major Basel Committee member jurisdictions such as the United States, which may, in turn, lead to material changes to the Basel Cryptoasset Standards at the global level. Indeed, the fast-evolving nature of the cryptoasset markets is such that the Basel Committee has already amended the Basel

⁴² See UK PRA, *The PRA announces a delay to the implementation of Basel 3.1* (17 January 2025), available at <https://www.bankofengland.co.uk/news/2025/january/the-pra-announces-a-delay-to-the-implementation-of-basel-3-1>. The EU is reportedly also considering its options after the UK announced it was delaying implementation of Basel capital rules until 2027. See Reuters, *EU says it is considering its options after BoE delays Basel bank rules* (17 January 2025) available at: <https://www.reuters.com/business/finance/eu-says-basel-bank-rules-everyones-interests-after-uk-delay-2025-01-17>.

More recently, the European Commission proposed maintaining the current Basel liquidity rules to strengthen EU financial markets. The European Commission explained its proposal as follows: “First, the [European] Commission’s monitoring show that other major jurisdictions, **notably the US**, the UK, Switzerland, Canada and Japan are permanently deviating from the Basel standard as regards the prudential calibration for SFTs with a maturity of less than 6 months. The current transitional treatment in CRR is aligned with that of key jurisdictions. A tighter NSFR treatment would oblige EU banks to raise additional funds on capital markets and to pass on those additional costs to their clients. Maintaining the transitional treatment will ensure a level-playing field for EU banks in an area which is prone to international competition.” See European Commission, *Commission proposes maintaining current liquidity rules to strengthen EU financial markets* (31 March 2025), available at: https://finance.ec.europa.eu/news/commission-proposes-maintaining-current-liquidity-rules-strengthen-eu-financial-markets-2025-03-31_en.

⁴³ In this respect, we note for the sake of completeness that the EU has put in place a transitional regime for the prudential treatment of cryptoasset exposures. However, this transitional regime departs quite significantly from the Basel Cryptoasset Standards. For example, Article 501d(2) of the EU Capital Requirements Regulation (as amended) (“**CRR III**”) generally divides cryptoasset exposures into the following three categories (which are quite different to the Group 1a, Group 1b, Group 2a and Group 2b classifications under the Basel Cryptoasset Standards):

- (a) cryptoasset exposures to tokenised traditional assets, which shall be treated as exposures to the traditional assets that they represent for regulatory capital purposes;
- (b) exposures to asset-referenced tokens whose issuers comply with the EU Markets in Crypto-Assets Regulation (“**MICA**”) and that reference one or more traditional assets, which shall be assigned a risk-weight of 250%; and
- (c) crypto-asset exposures other than those referred to in (a) and (b) above, which shall be assigned a risk-weight of 1,250%.

Cryptoasset Standards less than two years after they were first “finalised”. It would be quite unfortunate for Singapore to finalise implementation of the current version of the Basel Cryptoasset Standards, only for these global standards to be changed shortly thereafter. This may explain why other major jurisdictions such as the UK are adopting a ‘wait and see’ approach to implementation, not just in relation to the Basel Cryptoasset Standards, but also the Basel III final reform package more broadly.

Considering the foregoing, we respectfully ask MAS to keep its position open, adopt a measured “wait and see” approach while continuing to monitor the pace at which other jurisdictions are implementing the Basel Cryptoasset Standards and to adjust the timing of their implementation in Singapore. This way, Singapore’s digital assets ecosystem will not be placed at a disadvantage because Singapore banks are subject to highly conservative capital charges for their cryptoasset-related activities at a time when none of their international counterparts are.

4.3 Treatment of “non-private” cryptoassets

The Basel Cryptoasset Standards define “cryptoassets” as “**private** digital assets that depend on cryptography and distributed ledger technologies (DLT) or similar technologies” (emphasis added). Furthermore, the Financial Stability Institute’s summary of the Basel Cryptoasset Standards describes cryptoassets as “a type of **private sector** digital asset that depends primarily on cryptography and distributed ledger or similar technology” (emphasis added)⁴⁴. The FSB’s definition of “cryptoasset” also uses the term “issued by the private sector”.⁴⁵

Thus, it is generally understood that the Basel Cryptoasset Standards only covered cryptoassets issued by private sector entities as opposed to public sector entities such as governments and central banks. This understanding is further supported by the fact that the Basel Cryptoasset Standards expressly state that “*The prudential treatment of central bank digital currencies (CBDCs) is not described within the Basel Framework.*” CBDCs are issued by central banks, which are public sector entities.

However, the definition of “cryptoasset” in the Proposals omits the word “private”, indicating that public sector issued cryptoassets (such as tokenised government bonds) may be within scope of the Basel Cryptoasset Standards as implemented in Singapore.

Regarding the inclusion of CBDCs and other public sector digital assets within the scope of application of the Proposals, we would like to respectfully make the following observations:

- (a) Removing the word “private” from the definition of “cryptoasset” would be a departure from the Basel Cryptoasset Standards. This may give rise to a question as to why this departure from the Basel Cryptoasset Standards is justified, but a departure from the Basel Committee’s position on public permissionless blockchains is not justified. As explained further below, removing the word “private” may appear to be a small change, but it could mean that certain tokenised government bonds would attract a punitive 1,250% risk-weight.
- (b) The inclusion of public sector digital assets within the scope of application of the Proposals means that tokenised and natively digital bonds issued by governments around the world (including those issued by the Singapore Government in the future) would be treated as

⁴⁴ See Financial Stability Institute, *Prudential treatment of cryptoasset exposures – Executive Summary* (31 May 2023), available at: https://www.bis.org/fsi/fsisummaries/crypto_exposures.htm.

⁴⁵ See FSB, *High-level Recommendations for the Regulation, Supervision and Oversight of Crypto-asset Activities and Markets: Final report* (17 July 2023), available at: <https://www.fsb.org/wp-content/uploads/P170723-2.pdf>.

“cryptoassets”. Under MAS Notice 637, traditional government bonds typically receive a low risk-weight of 0%, 20% or 50%, depending on the credit quality of the sovereign issuer.

Based on its current credit ratings, Singapore government bonds would generally receive a 0% risk-weight under MAS Notice 637. However, if the Singapore Government were to decide to issue bonds using a public permissionless blockchain, the risk-weight for those bonds would skyrocket to 1,250%, because they would not be eligible for inclusion in Group 1a or 2a.⁴⁶ Also, being excluded from Group 1a means that Singapore banks would not be able to recognise public permissionless blockchain-based Singapore Government bonds (i) as eligible collateral for risk mitigation purposes under MAS Notice 637; or (ii) as high-quality liquid assets (“HQLAs”) for purposes of meeting minimum liquidity requirements.

- (c) There does not appear to be any compelling policy reason why bonds issued by the same government would receive a 0% risk-weight (being the lowest risk-weight possible under the Basel capital framework) when issued in traditional form but receive a 1,250% risk-weight (being the highest risk-weight possible under the Basel capital framework) simply because it uses a public permissionless blockchain. Given Singapore banks’ extensive holdings of Singapore Government bonds, the inclusion of public sector digital assets as “cryptoassets”, when combined with the punitive capital treatment of public permissionless blockchains, could mean that the Proposals will hinder the Singapore Government’s ability to issue bonds that use public permissionless blockchains, at a time when other public sector entities are issuing such bonds. For example, we note that the European Investment Bank (“EIB”) has issued bonds on the public Ethereum blockchain in as early as 2021.⁴⁷ We respectfully request MAS to consider whether allowing MAS Notice 637 to hinder the Singapore Government’s ability to issue bonds on public permissionless blockchains is the most appropriate path forward, especially in light of the EU’s and U.S. government’s favourable policies towards public permissionless blockchains. Deviating from the more favourable policies taken in these other major jurisdictions may also adversely impact Singapore’s ambitions of becoming a global digital asset hub.

In light of the foregoing, we respectfully request that public sector cryptoassets be excluded from the scope of the Proposals for the time being, at least until the Basel Committee changes its position on the treatment of public permissionless blockchains.

4.4 The definition of “cryptoassets” should be clarified to exclude DLT or blockchain-based books and records systems

The Basel Cryptoasset Standards include the following statement on the scope of application of the term “cryptoasset”:

*“Dematerialised securities (securities that have been moved from physical certificates to electronic book-keeping) that are **issued through DLT** or similar technologies are considered to be within the scope of [the Basel Cryptoasset Standards] and are referred to as tokenised traditional assets, whereas those dematerialised securities that use electronic versions of traditional registers and*

⁴⁶ Generally, a single issuance of Singapore Government digital bonds be unlikely to have the market capitalisation, daily trading volume and other attributes necessary to satisfy the hedging recognition criteria for the bonds to be classified as Group 2a cryptoassets.

⁴⁷ See EIB, *EIB issues its first ever digital bond on a public blockchain* (28 April 2021), available at: <https://www.eib.org/en/press/all/2021-141-european-investment-bank-eib-issues-its-first-ever-digital-bond-on-a-public-blockchain>.

databases which are centrally administered are not within scope” (emphasis added).⁴⁸

In contrast, the Proposals define “cryptoasset” as a digital asset that is “issued **or represented** through” (emphasis added) cryptography and DLT or similar technologies.⁴⁹ The Proposals further provide that the term “cryptoasset” “includes dematerialised securities that are issued **or represented** through the above technologies but does not include dematerialised securities that use electronic versions of registers and databases which are centrally administered and are not issued **or represented** through the above technologies” (emphasis added).

Significantly, the Proposals go beyond the globally agreed upon definition of “cryptoasset” set out in the Basel Cryptoasset Standards by covering not only assets and dematerialised securities that are “issued through DLT”, but also assets and dematerialised securities that are merely “**represented through**” DLT. We are concerned that this approach may cause assets and securities that merely use DLT or blockchain-based books and records systems to fall within the scope of the Basel Cryptoasset Standards as implemented in Singapore. In this respect, we note that in many cases where DLT is used for settlement or recordkeeping, no asset is actually “issued through DLT”. In fact, no distinct digital asset is created at all. Instead, the execution or recording of transfers of ownership occurs via DLT, which serves as an “electronic version” of traditional registers and databases. We further note that reliance on DLT for recordkeeping or settlement purposes should not increase the risk or liquidity profile of the underlying assets themselves. Where the underlying traditional assets can still be accessed through the traditional custodian network that is holding the assets, it may not be appropriate to apply conservative risk weightings or capital charges solely because of the use of DLT for evidencing transfers of ownership.

The financial markets would greatly benefit from clarification that the use of DLT as an electronic version of traditional registers and databases would not lead to the underlying traditional assets being treated as “cryptoassets” under the Basel Cryptoasset Standards and the Proposals. Otherwise, banks will be disincentivised from participating in innovative DLT-based solutions that are designed to improve market efficiencies.

In light of the foregoing, we recommend that MAS aligns with Paragraph 60.2 of SCO60 of the global Basel standards and removes the reference to “or represented” in the definition of “cryptoasset”. In addition, it would be helpful to clarify that the use of DLT as an electronic version of traditional registers and databases would not lead to the underlying traditional assets being treated as “cryptoassets” under the Proposals. Our recommendations can be implemented by making the following changes to the definition of “cryptoasset” in proposed Annex 2A of MAS Notice 637:

*“cryptoasset means a digital asset that is issued **or represented** through –*

- (a) cryptography; and*
- (b) DLT or similar technologies.*

⁴⁸ See SCO 60.2 of the Basel framework.

⁴⁹ See proposed Annex 2A of MAS Notice 637.

*This includes dematerialised securities that are issued **or-represented** through the above technologies but does not include dematerialised securities that use electronic versions (including electronic versions based on DLT or similar technologies) of registers and databases which are centrally administered and are not issued **or-represented** through the above technologies;”*

4.5 Treatment of ETPs that invest in cryptoassets

We submit that the regulatory capital and prudential treatment of ETPs which invest in cryptoassets should focus on the underlying risk exposures. For example, regardless of whether a bank is holding Bitcoin directly or via a spot Bitcoin ETP, it faces the same price risk. As the market matures, further analysis is necessary to calibrate an appropriate risk-weight for these assets.

Additionally, the exchange-traded nature of ETPs (including those that invest in cryptoassets) means that they can be easily liquidated/redeemed, which is an essential characteristic of eligible collateral under the Basel capital framework. Therefore, we respectfully submit that ETPs which invest in cryptoassets should be eligible as collateral subject to an appropriate haircut, reflecting their liquidity and market efficiency. We believe that balancing regulatory measures with the evolving nature of financial technologies is essential for fostering innovation and ensuring market stability.

4.6 Add-on for infrastructure risk for Group 1 cryptoassets

To account for the fact that DLT is a relatively new technology, the Basel Cryptoasset Standards and, consequently, the Proposals, permit an infrastructure risk add-on to apply to the capital requirement for exposures to Group 1 cryptoassets. Specifically, proposed paragraph 9A.3.1 of MAS Notice 637 provides as follows:

“Where the Authority is of the view that the technological infrastructure underlying a cryptoasset poses additional risks, even in cases where the cryptoasset complies with the classification conditions set out in paragraphs 9A.2.10 to 9A.2.23 and is classified as a Group 1 cryptoasset, the Authority may impose an add-on to the capital requirements for infrastructure risk for exposures to Group 1 cryptoassets.”

We note that the Hong Kong Monetary Authority (“**HKMA**”) has publicly stated that “[t]he add-on for infrastructure risk . . . will initially be set as zero”.⁵⁰ We would welcome a similar public statement from MAS to clarify its position. In fact, in light of MAS’s familiarity with, and first-hand experience in, using DLT, we expect (and hope) that in Singapore the infrastructure add-on will remain at zero for the foreseeable future. We also encourage MAS to share its experiences in using DLT with other members of the Basel Committee.⁵¹ In this respect, we note that MAS has provided the following positive descriptions of blockchain and DLT:⁵²

⁵⁰ See HKMA, *Consultation Paper on Cryptoasset Exposures (CP 24.01)* (February 2024) at para 102, available at <https://brdr.hkma.gov.hk/eng/doc-ldg/docId/getPdf/20240207-3-EN/20240207-3-EN.pdf>.

⁵¹ MAS’ blockchain/DLT-themed initiatives include, among other things, Project Orchid (aims to build the foundational digital infrastructure and blueprint required for a future digital currency ready-platform), Ubin+ (collaborating with international partners on cross-border foreign exchange (FX) settlement using digital currencies) and Project Guardian (collaborative initiative with the financial industry that seeks to explore the economic potential and value-adding use cases of asset tokenisation).

⁵² See MAS’ webpage dedicated to blockchain and DLT, available at <https://www.mas.gov.sg/development/fintech/technologies---blockchain-and-dlt>

- DLT “[a]llows for increased security and protection of data and identity in the system.”
- “Blockchain can create an auditable source of information shared and verified across a network of organisations (e.g., KYC compliance).”
- “Blockchain can transfer payment across currencies almost instantly for a fraction of today’s cost and provide access to the unbanked in remote areas.”
- “Blockchain eases the existing pain points of buyers, sellers and financial institutions while opening the ecosystem to new non-traditional players.”
- “Blockchain shows promise to drive efficiency in the clearing and settlement process of digital assets through the use of coloured coins.”
- “Blockchain offers an immutable and irreversible source of information that can track the true ownership of a product across the supply chain.”
- “Blockchain can be used as a shared master data repository for common industry information allowing members to query the data.”
- “Blockchain provide a method for collectively recording and notarising any type of data, whose meaning can be financial or otherwise.”

We support the recommendation in the Global Associations Joint Submission that the infrastructure risk add-on should be removed in its entirety from the Basel Cryptoasset Standards. Alternatively, taking into account local circumstances in Singapore, we respectfully request that MAS consider removing the infrastructure risk add-on from MAS Notice 637.

Having said this, should MAS believe it is appropriate to still include the *concept* of the infrastructure risk add-on in Singapore’s implementing rules to maintain consistency with the global Basel standards, we would welcome a statement from MAS that it will seek meaningful public consultation in relation to any proposal to increase the infrastructure risk add-on from zero.

4.7 Classification Assessment Materials

The Proposals require a bank to “consult” MAS before classifying a cryptoasset or instrument into a group that the bank has not previously classified any cryptoasset or instrument, and to provide relevant supporting materials and information on its governance structure, policies and processes for classification of cryptoasset exposures to MAS. In addition, when a bank intends to acquire a cryptoasset exposure, it must notify MAS of the classification of the cryptoasset or instrument at least one month prior to the expected acquisition date.

We respectfully submit that these requirements place significant compliance burdens on banks to submit their classification assessment and supporting documents (including legal opinions and analysis, as applicable) (“**Classification Assessment Materials**”) to MAS on a timely basis, especially if the Basel Cryptoasset Standards will be implemented in Singapore beginning on 1 January 2026, which is less than 9 months away.

In addition, we seek MAS's clarification on what "consult" means in this context. For example, would a bank need to wait for MAS's positive confirmation of the bank's classification assessment and supporting documents before it can proceed to classify the cryptoasset or instrument? If the bank is not required to wait for MAS's confirmation, into which group should the cryptoasset or instrument be classified pending MAS's confirmation? Similarly, where a bank intends to acquire a cryptoasset exposure, must it wait for MAS's response to its notification before proceeding with the acquisition? If the bank is not required to wait for MAS's response, into which group should the cryptoasset exposure be classified pending MAS's response? In light of the large volume of notifications that MAS may receive on or around the 1 January 2026 proposed implementation date, we also query whether a one-month prior notification period would allow MAS sufficient time to provide individual responses.

ASIFMA and our members would welcome guidance from MAS regarding what form the Classification Assessment Materials should take. In particular, we welcome the opportunity to work with MAS to develop some common classification assessment templates, which would help streamline the preparation, submission and review of Classification Assessment Materials.

4.8 Group 2 Exposure Limit

The Basel Cryptoasset Standards and, consequently, the Proposals, significantly limit the amount of a bank's exposure to Group 2 cryptoassets. Specifically, a bank's total exposure to Group 2 cryptoassets must not exceed 1% of its Tier 1 capital. Banks breaching the 1% limit must notify MAS immediately and reduce their aggregate Group 2 cryptoasset exposures as soon as practicable such that they do not exceed the 1% limit. In addition, they must apply the highly conservative Group 2b capital treatment (i.e., 1,250% risk weight) to the amount by which the 1% limit is exceeded. If a bank's aggregate Group 2 cryptoasset exposures exceed 2% of its Tier 1 capital, then all of the bank's Group 2 cryptoasset exposures (including exposures under the limit) will be subject to the highly conservative Group 2b capital treatment (i.e., 1,250% risk weight).

We respectfully submit that the Group 2 Exposure Limit makes it prohibitive for banks to offer services and products related to Group 2 cryptoassets for the benefit of their clients and will drive those services and products away from the regulated banking sector. Therefore, we urge MAS to consider whether it is appropriate to introduce the Group 2 Exposure Limit in Singapore. Having said this, should MAS believe it is appropriate to still include the *concept* of a Group 2 Exposure Limit in Singapore's implementing rules to maintain consistency with the global Basel standards, we would like to recommend the following modifications to the limit, which strike an appropriate balance between providing banks with sufficient flexibility to engage in Group 2 cryptoasset-related activities while addressing prudential regulatory concerns:

- **Increasing the 1% limit.** The current calibration of the Group 2 Exposure Limit at 1% of a bank's Tier 1 capital is too restrictive and not proportional to the potential risks in relation to comparable limits under the global Basel framework. In fact, the limit is so restrictive that it effectively shuts banks out of being able to provide an appropriate level of products and services for Group 2 cryptoassets to their clients, especially considering the fact that banks generally manage their actual exposures at lower levels compared to regulatory exposure limits and — given the volatility in these underlying markets — the "buffer" to avoid a breach of such a low limit would need to be significant. This effectively translates to even lower capacity for the banks to make markets and meet their clients' demands and could result in banks carefully considering whether it is worth the build and implementation costs for such a low exposure amount. We also

note that other parts of the global Basel framework generally impose limits of 10% to 25% of the relevant regulatory capital base⁵³ and, in any event, the consequences of breaching any of these other limits is less punitive than what is set out in the Basel Cryptoasset Standards. We therefore suggest that the Group 2 Exposure Limit be recalibrated to a much higher level than the current 1%.

- **Improved netting methodology:** The current netting methodology used to calculate the Group 2 Exposure Limit is very restrictive, thereby preventing banks from receiving full recognition of netting for hedges. This limitation not only exacerbates the restrictive nature of the 1% limit but also fails to accurately reflect the true risk exposure of banks. By improving the netting methodology, prudential regulators can ensure that banks are better able to manage their Group 2 cryptoasset exposures in a manner that is both prudent and reflective of their actual risk profiles.
- **Application at the ultimate holding company level:** The Group 2 Exposure Limit should be applied at the level of the ultimate holding company of a bank group on a group-wide consolidated basis, rather than being strictly applied to each regulated banking entity within the group on an individual basis. Applying the limit to each banking entity could lead to inefficiencies, such as one bank subsidiary exceeding the limit while other bank subsidiaries within the same group remain within their limits, resulting in no breach at the group-wide consolidated level. While monitoring and reporting of exposures at each individual banking entity level to the relevant regulator in each jurisdiction may still be necessary, any excess exposure over the Group 2 Exposure Limit at an individual banking entity level should be exempted (e.g., through an appropriate application process) in a situation where there is no breach at the group-wide consolidated level.
- **Other recommendations:** We also support the technical recommendations set out in the Global Associations Joint Submission regarding the Group 2 Exposure Limit.⁵⁴

⁵³ See, e.g., the following paragraphs of the global Basel framework: CAP 30.22, 30.23 and 30.26 (Threshold Deduction for Non-Significant (<10%) Unconsolidated Financial Institutions); CAP 30.29 and 30.32(1) (Threshold Deduction for Significant (>=10%) Unconsolidated Financial Institutions); CAP 30.7 and 30.32(2) (Threshold Deduction for Mortgage Servicing Assets); CAP 30.9, 30.32(3) (Threshold Deduction for Temporary Difference Deferred Tax Assets); CAP 30.33 (Combined Threshold Deduction); LEX 20.1, 30.13, 30.07-30.13 and 30.23-30.31 (Large Exposure Limits).

⁵⁴ The technical recommendations set out in the Global Associations Joint Submission regarding the Group 2 Exposure Limit are as follows:

“Group 2 Exposure Limit (SCO 60.116 ff)

Exposures with no direct price risk to Group 2 assets

We would suggest that the BCBS clarifies that only direct exposures to Group 2 assets are included within the Group 2 exposure measure, for the purposes of the Group 2 Exposure Limit (and not exposures where there is no direct price risk to Group 2 assets). For further details, we refer the BCBS to section I.C. (page 20) of our response to the Second Consultation.

Client-cleared exposures

We suggest that BCBS not penalise client-clearing by including client-cleared exposures, where the bank acts as clearing member to clear trades for clients, in the Group 2 cryptoassets exposure limit. If these exposures are included, the framework would undermine consensus reforms and discourage banks from facilitating the central clearing of cryptoassets linked derivatives, thereby limiting the risk-reducing effect on cryptoasset markets that central clearing has on other derivative markets and limiting hedging opportunities for market participants.

4.9 Other specific comments and recommendations

We refer to the recommendations set out in the Global Associations Joint Submission. We continue to believe that those recommendations should be reflected in the Proposals and, where applicable, the Basel Cryptoasset Standards. Therefore, we respectfully request that MAS take into account these recommendations when finalising the Proposals.

In addition, we have the following specific comments regarding MAS's Consultation Paper and the implementation, interpretation and application of the Basel Cryptoasset Standards in Singapore:

- Regarding Question 4 of the Consultation Paper, we respectfully request that MAS provide further guidance on the due diligence expected from banks and the level of collateralisation of a Group 1b cryptoasset that is deemed "sufficient." In this respect, we note that banks may not have full visibility into the stablecoin issuer to conduct comprehensive due diligence. Also, if each bank is to conduct its own due diligence based on available information, this could lead to a situation where different banks arrive at different conclusions in respect of the same stablecoin issuer. Therefore, clarification from MAS on the degree of discretion individual banks can exercise in making these assessments would be greatly appreciated.
- In relation to Question 5 of the Consultation Paper, we seek further guidance on how the basis risk test due diligence should be carried out. Specifically, we seek clarification on what reference or data sources should be used to assess and measure price deviations, given there could be multiple price sources available. Clear guidelines on this matter would help ensure consistency and accuracy in the assessment process.

For centrally cleared derivatives, the risk posed is already capitalised for the banks for clearing of derivatives with crypto assets in form of SA-CCR to cover the client counterparty credit risk, in addition to the mitigating benefits of central clearing. Introducing punitive requirements on banks centrally clearing crypto derivatives for clients will continue to push activity to the non-bank space, who are already the most active providers in this asset class.

Group 1 assets and the Group 2 exposure limit

We suggest that Group 1 cryptoassets that fail the classification conditions applicable to Group 1 cryptoassets should be excluded from the Group 2 cryptoasset exposure limit to the extent that the underlying traditional assets would be subject to the large exposure rules.

Group 2b cryptoassets and the Group 2 exposure limit

We suggest that Group 2b cryptoassets should be excluded from the scope of the Group 2 exposure limit. If not, we would suggest that Group 2b assets should not be considered for the purposes of the additional RWA requirements imposed by SCO 60.118 in the case of breaches of the 1% limit.

This is because this category of cryptoassets is already subject to a punitive capital treatment, namely, a 1250% risk weight applied to the max gross long or short position.

Formula at SCO 60.118

Why is the denominator in the formula at SCO 60.118 expressed as "2% of Tier 1 capital – 1% of Tier 1 capital", rather than "1% of Tier 1 capital"?

Furthermore, a main issue still with the formula at SCO 60.118 is that Group 2a cryptoassets are measured gross for the threshold test. So once a bank runs up against the limit, putting on effective hedges of Group 2a cryptoassets that would otherwise be recognised as a benefit in RWA calculations results in an increase in RWA; this would, inappropriately, disincentivise hedging. For further details, we refer the BCBS to our proposals at sections I.A.1. and I.A.2. (pages 12-17) of our response to the Second Consultation."

- In terms of Question 8 of the Consultation Paper, and with respect to Division 9, Sub-division 3, Paragraph 7.9.7(b) and Part IXA Division 1, Subdivision 1, Paragraph 9A.2.17-20 of MAS Notice 637, we seek clarification on whether the requirements therein to obtain an independent legal opinion only apply at the outset or if such opinions need to be updated periodically. If periodic updates are required, we seek guidance from MAS on the required frequency of such updates. This kind of clarification is crucial for banks to ensure ongoing compliance in respect of their cryptoasset-related activities.

* * *

5 Conclusion

We are thankful of MAS and the Singapore Government's efforts to foster innovation and to create a coordinated regulatory framework for Singapore's growing cryptoassets ecosystem.

We are also supportive of MAS's efforts to put in place a regulatory regime that strikes an appropriate balance between safeguarding financial stability and embracing innovation. We believe that this delicate balance can be struck if the Basel Cryptoasset Standards — both at the global level and as implemented in Singapore — can reflect the recommendations and clarifications described in this letter and the Global Associations Joint Submission.

ASIFMA takes this opportunity to convey our support and desire for continued constructive and on-going dialogue between MAS and market participants to assist MAS in implementing the Basel Cryptoasset Standards in Singapore, including working with MAS to explore the interaction between the Basel Cryptoasset Standards and other aspects of the cryptoassets ecosystem.

We look forward to continued engagement with MAS on the issues set out in this consultation response. If you have further questions or would otherwise like to follow up, please contact Diana Parusheva-Lowery, ASIFMA's Managing Director and Head of Public Policy and Sustainable Finance, at DParusheva@asifma.org or +852 9822 2340.

We would also be happy to meet with you to discuss this consultation response if you deem it appropriate.

Sincerely,



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Annex A

Joint submission to the Basel Committee from the Global Financial Markets Association, the Futures Industry Association, the Institute of International Finance, the International Swaps and Derivatives Association, and the Financial Services Forum in response to the Basel Committee's December 2023 proposed amendments to the Basel Cryptoasset Standards

Link: <https://www.bis.org/bcbs/publ/comments/d567/gfma.pdf>