Proposed Regulatory Approach for Stablecoin-Related Activities

MAS

Monetary Authority of Singapore

Contents

1   Preface

1.1   The Monetary Authority of Singapore (MAS) published a consultation paper relating to the scope of e-money and digital payment tokens (DPT) on 23 December 2019. The paper was an early attempt to explore how MAS might need to review its regulatory approach to accommodate stablecoins with the potential to become more widely used as payment instruments. The feedback received was mixed, with no conclusive recommendations, reflecting the nascent stage of the industry back then.

1.2   Since then, there have been various industry and international regulatory developments which have gone beyond the original issues discussed in the previous consultation paper. MAS today sets out in this paper a proposed framework to regulate stablecoin issuers and intermediaries.

1.3   MAS invites comments from banks, licensees and regulated entities under the Payment Services Act 2019 (PS Act), other financial institutions and interested parties (including members of the public and users of stablecoins).

Please note that all submissions received will be published and attributed to the respective respondents unless they expressly request MAS not to do so. As such, if respondents would like:

 (i)   their whole submission or part of it (but not their identity), or

 (ii)   their identity along with their whole submission,

> **to be kept confidential, please expressly state so in the submission to MAS. MAS will only publish non-anonymous submissions. In addition, MAS reserves the right not to publish any submission received where MAS considers it not in the public interest to do so, such as where the submission appears to be libellous or offensive.**

1.4   Please submit written comments through the link below by 21 December 2022:

> https://go.gov.sg/mas-cp-stablecoins-2022

1.5   Should you encounter any technical difficulties in your submission, please send your enquiry to payment_services@mas.gov.sg.

2   Introduction

Developing Singapore's digital asset ecosystem

2.1   MAS seeks to develop an innovative and responsible digital asset ecosystem in Singapore. The innovative combination of tokenisation and distributed ledgers offers transformative economic potential, by allowing anything of value to be represented in digital form, fractionalised, and to be stored and exchanged on a ledger that keeps an immutable record of all transactions.

2.2   A digital asset ecosystem needs credible and reliable mediums of exchange to facilitate transactions. The extreme price volatility of cryptocurrencies rules them out as a medium of exchange. MAS regards cryptocurrencies as highly hazardous for retail investors, and has proposed additional measures[1] to address the risk of consumer harm.

2.3   MAS sees potential in stablecoins performing the role of a credible digital medium of exchange, provided they are well-regulated and are backed by arrangements that give a high degree of assurance of value stability. Apart from securely-backed and well-regulated stablecoins that are issued by non-banks, banks may also issue stablecoins as a liability on their balance sheet to perform a similar function.

Regulatory developments of stablecoins

2.4   Stablecoins are defined by the Financial Stability Board (FSB) as crypto-assets that aim to maintain a stable value relative to a specified asset (typically a unit of fiat currency or commodity), or a pool or basket of assets. In addition, like other cryptocurrencies, stablecoins are instruments which can be transferred either on a peer-to-peer basis using private crypto wallets, or through third-party service providers.

2.5   Globally, regulators are in the process of reviewing and implementing the appropriate measures on stablecoin-related activities such as issuance and custody services. While the FSB has published recommendations in October 2020 for regulating and supervising "global stablecoin" arrangements, international regulatory bodies continue to review and consult on further guidance, particularly to address financial stability risks of stablecoins.

2.6   MAS had consulted on the scope of e-money and DPT in December 2019, seeking views on whether the definitions of e-money and DPT remain appropriate in view of the emergence of stablecoins. The feedback received was inconclusive on how stablecoins should be included in MAS' regulatory framework, reflecting the nascent stage of

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[1] See separate consultation paper on "Proposed Regulatory Measures for Digital Payment Token Services" published on 26 October 2022.

development at the time. Since then, MAS has been engaging industry players and other regulators to understand the stablecoin ecosystem, as well as its regulatory implications.

2.7   This paper sets out MAS' policy thinking regarding the overall regulatory approach on stablecoin-related issuance and intermediation activities, and highlights the key requirements that we seek to impose on such activities. Details on the regulatory requirements, legislative amendments and transitional arrangements will be separately published for consultation after the finalisation of the regulatory approach.

3   Overall regulatory approach for stablecoins

Regulatory objectives

3.1   Stablecoins are treated as DPTs under the PS Act today. Correspondingly, entities that provide the service of dealing in and/or facilitating the exchange of stablecoins would fall within the scope of regulated DPT services. DPT service providers are regulated primarily for money laundering (ML) and terrorism financing (TF), and technology risks. They are also required to provide risk warning disclosures to customers.

3.2   As Singapore looks to develop a digital asset ecosystem, there is a need to put in place a regulatory regime that supports the development of credible and reliable stablecoins that facilitate digital transactions. The current regulatory treatment under the PS Act is not adequate to achieve this objective as it does not regulate to ensure that stablecoins maintain a high degree of value stability and any associated stabilisation mechanisms.

3.3   MAS' regulatory approach to stablecoins is framed by three key guiding objectives:

(a)   Support the development of value-adding payment use cases for stablecoins, and anchor strong stablecoin issuers as utility service providers for the digital asset ecosystem.

(b)   Adopt a progressive regulatory approach that is fit for purpose and provides for stepping up of measures as needed.

(c)   Maintain an open regime to accommodate different forms of stablecoins, including bank-issued ones.

3.4   As the current regulatory regime for DPTs remains relevant for non-stablecoin DPTs, MAS intends to set out a specific regulatory regime to address the regulation of stablecoin issuers and intermediaries.

Scope of regulations

3.5   A wide range of stablecoins currently exist, varying in terms of their asset-pegging, as well as the mechanism that upholds the stability of the stablecoins' value against the pegged asset(s). MAS intends to focus its regulatory regime on:

(a)   *Single-currency pegged stablecoins (SCS)* – As compared to other types of stablecoins (such as those pegged to a basket of currencies or other assets such as commodities), SCS has a stronger use case for payment and settlement.

Non-SCS will continue to be subject to the existing DPT regime under the PS Act. MAS views such stablecoins as being less stable in nominal value and should be treated differently from SCS.

In addition, even among SCS, there is variation in the stabilisation mechanism. MAS views stablecoins which are algorithmically-pegged, unbacked or backed by other cryptocurrencies to be more susceptible to volatility in value. Correspondingly, such stablecoins will also continue to be treated as DPTs.

(b)   *SCS issued in Singapore* – The immediate priority of MAS is to elevate the standard of SCS issued in Singapore. Our regulatory perimeter is thus scoped based on MAS' ability to directly impose requirements on the reserve management, redemption policies and prudential standards of the SCS issuer.

3.6   MAS intends to introduce a new regulated activity of "Stablecoin Issuance Service" under the PS Act. The regulatory objective is to maintain a high degree of value stability in SCS. Generally, an entity that is based in Singapore and performs the function of controlling the total supply of, and minting and burning of SCS, will qualify under the aforementioned new category. Correspondingly, all regulatory obligations for this new activity will be placed on this entity.

3.7   MAS views SCS differently from e-money for the purposes of regulating e-money issuance service under the PS Act. E-money is typically an account-based instrument where the e-money user has to first be onboarded by the e-money issuer as a customer before the e-money can be held by the user. Where the e-money takes a tokenised form and can be transferred on a peer-to-peer basis without going through the issuer, it would be carved out from e-money and treated as SCS. The corresponding proposed regulatory requirements on stablecoin issuance service will apply.

> **Question 1.   Scope of regulations.** MAS seeks comments on the regulatory scope, particularly on whether the focus on SCS is adequate and whether there may be reasons for MAS to extend its regulatory powers to SCS issued outside of Singapore.
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> **Question 2.   Stablecoin issuance service.** MAS seeks comments on whether it is sufficient to introduce an additional regulated payment service of stablecoin issuance, and whether there is a need to introduce any other regulated services specific to stablecoins.

4   Proposed regulatory framework and requirements for SCS issuers

Regulatory treatment of non-bank vs bank issued SCS

4.1   SCS can be issued by non-bank entities and banks. Non-bank entities could issue them as tokens backed or collateralised by a pool of assets. Banks may issue SCS as tokenised bank liabilities. Nonetheless, both forms of tokens can be transferred peer-to-peer and can be used in a similar manner, as means of payments and settlement.

Treatment of non-bank issuers

4.2   As outlined in paragraph 3.6, MAS will carve out a separate category to cater for SCS issuers under the PS Act. Where the SCS in circulation exceeds or is anticipated to exceed S$5 million in value, the issuer will have to obtain a major payment institution (MPI) licence to be recognised as an issuer of MAS-regulated SCS (see paragraph 4.9 for proposed term to be used). Correspondingly, requirements outlined in paragraphs 4.10 to 4.21 will apply.

4.3   SCS issuers that do not exceed the size threshold for MPI will only need to obtain a standard payment institution (SPI) licence should they provide regulated DPT services. Such issuers will not be subject to the additional requirements for SCS issuers outlined in paragraphs 4.10 to 4.21, so as to facilitate innovation in this space. Accordingly, they will also not be recognised as issuers of MAS-regulated SCS, given that there are no requirements to address the promise of peg and stability in value of the SCS issued. Nevertheless, any SCS issuer that wishes to be recognised as an issuer of MAS-regulated SCS may apply for an MPI licence and be subject to the additional requirements.
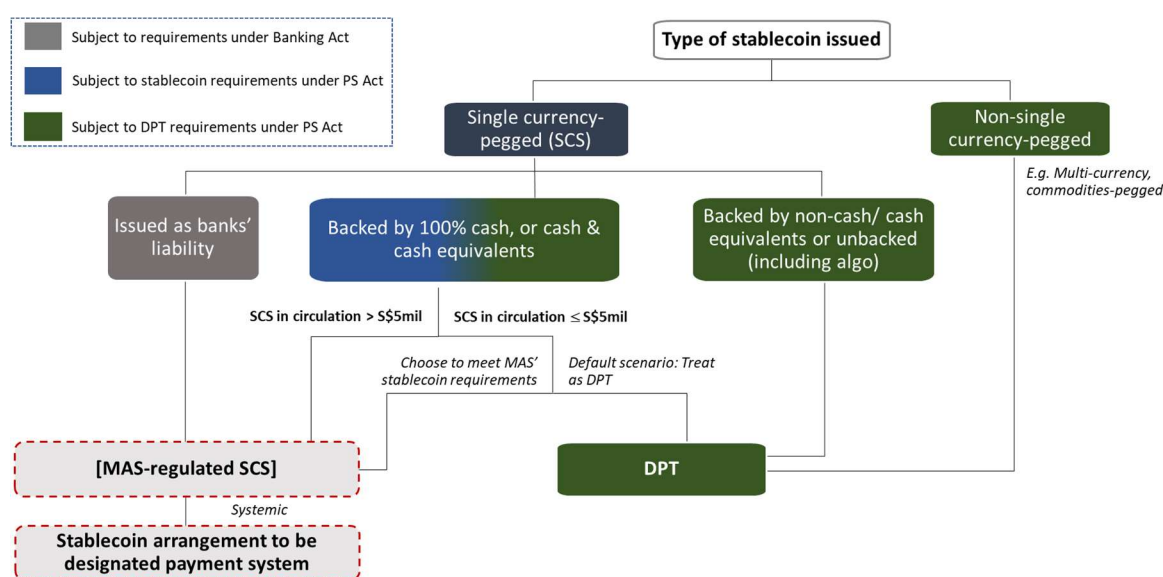
Treatment of bank issuers

4.4   Today, banks in Singapore are exempted from the requirement to obtain a licence under the PS Act to carry on a business of providing any payment service. This will continue to be the case when banks carry out the proposed Stablecoin Issuance Service.

4.5   MAS proposes not to impose additional reserve backing and prudential requirements on banks that issue SCS by tokenising liabilities of the bank, given that banks are already subject to stringent risk-based capital and liquidity, ML/TF, technology risk management and other requirements under the Banking Act.

4.6   Banks in Singapore could also choose to issue SCS by managing the underlying reserve assets such that they are segregated from the rest of the banks' assets, and SCS holders have claims only on this specific pool of segregated reserve assets. In this model, the banks will be subject to the same regulatory regime as SCS issuers, except the prudential requirements in paragraphs 4.20 and 4.21, in respect of the SCS issued in this manner. Such SCS issued by banks will similarly be recognised as MAS-regulated SCS. This treatment will serve the regulatory objective of maintaining a high degree of value stability of SCS.

4.7   Diagram 1 illustrates the regulatory framework for stablecoin issuers.

Diagram 1: Regulatory framework for stablecoin issuers

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

Appropriate term to differentiate MAS-regulated SCS from other stablecoins

4.8   Given the varying standards of stablecoins represented in the market and that most jurisdictions have not put in place a regulatory regime for stablecoins, it is important

to help users identify SCS which are regulated, and hence give greater assurance of their stability.

4.9   MAS proposes to introduce a common term or label for SCS issued by banks[2] and non-bank entities which are regulated for SCS issuance service under the PS Act. Intermediaries will also have to use the same term in their disclosures (see paragraph 5.3) where they offer such SCS, to differentiate them from other stablecoins offered. MAS is considering three possible options – "regulated stablecoin", "qualifying stablecoin" or "securely-backed stablecoin" to label such SCS.

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

Requirements imposed on regulated SCS issuers

4.10   Regulated SCS issuers[3] will have to meet existing ML/TF requirements, and technology and cyber risk management which are applicable to all regulated payment service providers and banks today.

4.11   The following sub-sections set out the proposed new requirements relating to maintaining a high degree of value stability of SCS, disclosure and insolvency measures. These will be applied to the following:

(a)   SCS issuers that hold MPI licences under the PS Act.
(b)   Banks that issue SCS as tokenised bank liabilities – only in respect of requirements in relation to timely redemption at par and disclosure.
(c)   Banks that issue SCS backed by reserve assets that are segregated from the bank's assets – in relation to all requirements, except for prudential requirements.

Please refer to Annex A for a summary of the key requirements.

4.12   MAS recognises that the use cases of SCS may evolve. Hence, MAS will continue to review the requirements imposed on SCS issuers, and preserve powers to impose

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[2] This includes both tokenised bank liability and bank-issued SCS in the manner set out in paragraphs 4.5 and 4.6 respectively.
[3] "Regulated SCS issuers" refers to bank issuers as well as non-bank issuers regulated for SCS issuance under the PS Act.

additional requirements to safeguard financial system stability or mitigate consumer harm where relevant.

Requirements to maintain a high degree of value stability of SCS

4.13   Reserve asset backing of SCS – SCS issuers offering MAS-regulated SCS must hold reserve assets to back the SCS issued. MAS proposes the following key requirements in relation to the reserve assets:

(a)   Reserve assets must be valued on a marked-to-market basis daily, and be equivalent to at least 100% of the par value of the outstanding SCS in circulation (including those held by the issuer) at all times.

(b)   Reserve assets can only be held in the form of cash, cash equivalents[4], or debt securities with no more than three months residual maturity and are issued by (i) the central bank of the pegged currency; or (ii) organisations that are of both a governmental and international character with a credit rating of at least "AA–".

(c)   Reserve assets must be denominated in the same currency as the pegged currency.

4.14   In addition, as a start, MAS proposes to only allow the issuance of SCS that are pegged to the Singapore dollar or Group of Ten (G10) currencies[5]. This considers the availability of high-quality liquid assets that would be fundamental to providing a strong backing for SCS.

4.15   SCS issuers must obtain independent attestation, such as by external audit firms, that the reserve assets meet the above requirements on a monthly basis. This attestation, including the percentage value of the reserve assets in excess of the par value of outstanding SCS in circulation, must be published on the issuer's website and submitted to MAS by the end of the following month (for the month being attested). SCS issuers must also appoint an external auditor to conduct an annual audit of its reserve assets and submit the report to MAS in relation to its compliance with MAS' requirements.

4.16   SCS issuers must hold all the reserve assets used to back the SCS in circulation in segregated accounts, separate from its own assets which are not reserve assets. The reserve assets must be held with licensed banks, merchant banks, finance companies or

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[4] "cash equivalents" means any deposit placed with a banking institution or deposit-taking institution, or any cheque, draft or other item drawn on a banking institution or merchant bank that is either payable immediately upon presentation or that is in the process of collection.
[5] The G10 currencies are the Australian Dollar, British Pound Sterling, Canadian Dollar, Euro, Japanese Yen, New Zealand Dollar, Norwegian Krone, Swedish Krona, Swiss Franc and the United States Dollar.

capital market services licensees (CMSLs) providing custodial services in Singapore. Where the SCS issuer is a bank in Singapore, the reserve assets can be held under its own custody.

4.17   Timely redemption at par – An SCS issuer must specify and disclose that all the holders of its SCS would have a direct legal right to redeem the SCS for the pegged currency at par value (or any other currencies of equivalent value), and that redemption requests can be made at any time with the SCS issuer. Any conditions that the SCS issuer wishes to impose for redemptions, such as fees and minimum redemption amount, must be reasonable and clearly disclosed on its corporate website and any other communication channels with the public regarding the SCS.

4.18   An SCS issuer should return the par value of the SCS to the SCS holder expediently, and in any case, no later than five business days from the date when a legitimate redemption request is received. A redemption request is generally deemed as legitimate if the SCS holder can meet the SCS issuer's onboarding requirements, including the applicable customer onboarding rules to mitigate ML/TF risks. During times of stress, a short redemption period requirement may exacerbate the risk of a run on the SCS and the SCS issuer. Where the SCS is used for payments, there may also be broader implications on the users of the SCS. To protect consumers or where it is in the interest of the public, MAS will exercise its powers as needed, such as directing the SCS issuer to liquidate the reserve assets within an appropriate specified period.

4.19   Disclosure requirements – An SCS issuer must publish a white paper on its corporate website, to disclose information such as the description of the SCS, rights and obligations of the SCS issuer and SCS holders, risks that can affect the stability of the SCS value and ability of the SCS issuer to fulfil its obligations etc, and update such information as needed. As a matter of good practice, a factsheet summarising the key information that is relevant to the SCS holders should also be published.

4.20   Prudential requirements – MAS sees a need to impose higher financial and prudential standards on SCS issuers compared to other payment service providers, given its potential as a provider of a medium of exchange to support the development of the broader digital asset ecosystem. MAS has considered the appropriateness of imposing a risk-based capital framework on SCS issuers at the onset, to account more comprehensively for the risks which the SCS issuer might undertake. However, given that the sector is still in its early phase of development, the compliance cost of such a regime may be disproportionately high. MAS thus proposes to impose a simplified capital regime with necessary restrictions to limit the risks to the SCS issuing entity.

4.21   MAS proposes the following requirements:

(a)   *Base capital* – Higher of S$1 million or 50% of annual operating expenses of the SCS issuer.

(b)   *Solvency* – To hold at all times, liquid assets[6] which are valued at higher of 50% of annual operating expenses or an amount assessed by the SCS issuer to be needed to achieve recovery or an orderly wind-down.

(c)   *Business restrictions* – An SCS issuer is not allowed to undertake other activities that introduce additional risks to itself. This includes investing in and extending loans to other companies, lending or staking of SCS and other DPTs, and trading of DPTs. This is to ringfence and mitigate risks to the SCS issuer in lieu of a comprehensive risk-based capital regime. Such activities can still be conducted from other related entities (e.g. sister company in which the SCS issuer does not have a stake).

Question 5.   Reserve asset requirements. MAS seeks comments on whether the proposed reserve asset requirements are appropriate, and whether there may be unintended consequences that may affect the development of Singapore's digital asset ecosystem.

Question 6.   Timely redemption of SCS to fiat. MAS seeks comments on whether the time period is reasonable, and whether there may be significant operational challenges or unintended consequences that MAS would need to consider in setting the redemption-related requirements.

Question 7.   Prudential requirements. MAS seeks comments on whether the prudential requirements outlined in paragraph 4.21 are risk proportionate. MAS welcomes suggestions on alternative approaches to address the risks.

Question 8.   Application to tokenised bank liabilities. MAS seeks comments on whether banks issuing tokenised bank liabilities should similarly be subject to the aforesaid redemption and disclosure requirements.

Question 9.   Application to bank-issued SCS backed by reserve assets that are segregated from the rest of the bank's assets. MAS seeks comments on whether there may be any proposed requirement that is not relevant for such bank-issued SCS, for example, if the risk may be addressed or mitigated in other manners.

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[6] Liquid assets is the sum of –
    (a)   cash and cash equivalents;
    (b)   debentures of the Government;
    (c)   negotiable certificates of deposit; and
    (d)   money market funds.

SCS issued in multiple jurisdictions

4.22   The same SCS may be issued in multiple jurisdictions by different entities that may have agreed on common issuance principles, or by other related companies of the same SCS issuer in Singapore. In such cases, it is likely that the SCS could be fungible notwithstanding that it is issued by different legal entities. Correspondingly, the stability of the SCS value will depend on whether other issuing entities are subject to equivalent regulatory requirements that seek to address the same risks.

4.23   While this is not a prevalent business model, the global nature of such activities opens up such opportunities, particularly as global regulatory approaches are still taking shape. Hence, MAS is only prepared to recognise SCS with multi-jurisdiction issuance as MAS-regulated SCS if there is sufficient assurance that the SCS as a whole is subject to sufficient regulatory oversight. Otherwise, the SCS issuer would only qualify for a licence to offer DPT services and not for SCS issuance service in Singapore.

4.24   MAS is considering two avenues to address this issue, and will apply this to multi-jurisdiction issued-SCS that are widely used[7]:

(a)   Require the SCS issuer in Singapore to obtain and submit to MAS an independent attestation on an annual basis that other significant[8] issuers of the SCS are deemed to meet equivalent standards relating to reserve backing and prudential requirements.

(b)   Establish regulatory cooperation among relevant regulatory bodies of the SCS to exchange information on operations of the SCS.

> **Question 10. Addressing SCS issued in multiple jurisdictions.** MAS seeks comments on whether the scenario outlined in paragraph 4.22 is a likely development and whether the approaches outlined in paragraph 4.24 are feasible. MAS welcomes suggestions on other approaches to address this issue.

5   Proposed requirements on SCS intermediaries

5.1   SCS will continue to be treated as DPTs for the purposes of non-issuance activities. Hence, entities offering SCS-related services will be regulated if the service falls within the scope of regulated DPT services under the PS Act. For the avoidance of doubt,

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[7] SCS could be considered "widely used" when it is for example, a top 5 SCS globally (by size of SCS in circulation), or if it is a top SCS used in Singapore.
[8] "significant issuer" could mean any issuer which issues at least 5%/10% of the total SCS in circulation.

MAS-regulated SCS issuers will not be required to apply for a licence for other DPT services, even if the issuance of SCS may entail the buying or selling of SCS.

Question 11. Scope of regulated SCS-related intermediation services. MAS seeks comments on whether there may be other specific activities related to SCS that are not caught as a regulated DPT service (including those under the Payment Services (Amendment) Act), and which MAS should regulate either as a new payment service or by amending the scope of an existing payment service.

Disclosure requirements

5.2   MAS does not intend to prohibit any form of stablecoins, including those which are issued overseas, to be used or offered by DPT service providers in Singapore. However, MAS proposes measures to help users distinguish SCS which are issued in Singapore and regulated by MAS, from the other stablecoins. This will allow users to make informed decisions on the risks of adopting different stablecoins.

5.3   DPT service providers which offer SCS will thus have to clearly label SCS which are regulated by MAS as proposed in paragraph 4.9. SCS which do not fall into this category will be subject to the same disclosure requirements today, under MAS Notice PSN08 on Disclosures and Communications.

Requirements on the timely transfer of SCS

5.4   MAS proposes to require DPT service providers which offer the service of arranging for the transmission of MAS-regulated SCS[9] to complete the transfer of SCS from one party to another in no more than three business days from the day the transfer request is received. This is in line with the money transmission requirement under MAS Notice PSN07 on Conduct, for domestic money transfer service today.

Question 12. Timely transfer of SCS. MAS seeks comments on whether three business days is a reasonable timeline for DPT service providers to transmit SCS from a payer to payee.

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[9] This will be a regulated DPT service when the amendments to PS Act, passed by Parliament in January 2021, come into effect.

Requirements on the segregation of SCS

5.5 Further, MAS proposes for entities providing services of transmission or custody of MAS-regulated SCS to hold and segregate customers' MAS-regulated SCS from other customers' assets (e.g. DPTs[10]) as well as its own assets in different custody accounts. This is to mitigate the risk of misuse of customers' SCS from the commingling of assets.

Question 13. Segregation of customers' SCS. MAS seeks comments on whether this measure is appropriate to mitigate the risk of misuse of customers' SCS.

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6   Systemic stablecoin arrangements

6.1 The transfer of SCS for payment purposes typically entails the operation of a system, a set of rules for transfer of SCS between users and a mechanism for validating transactions. This transfer function is comparable to the transfer function performed by a payment system. In this regard, the arrangements that collectively comprise the operations to facilitate transfers of SCS, i.e. a stablecoin arrangement, may be considered as a payment system.

6.2 MAS proposes to make relevant amendments to the PS Act to empower MAS to supervise stablecoin arrangements as payment systems. These amendments include definitions of "payment system" and "payment transaction". The amendments will empower MAS to collect information on a stablecoin arrangement from relevant persons in Singapore, such as SCS intermediaries and validators of transactions. This will allow MAS to monitor the development of such arrangements and make informed policy decisions, including the determination of a systemic stablecoin arrangement on a timely basis.

6.3 A stablecoin arrangement in Singapore could become systemic if any disruption to the stablecoin arrangement could cause further disruption to its users, cause systemic disruption to the financial system of Singapore, or affect public confidence in the financial system of Singapore. The considerations used to identify a systemic stablecoin arrangement include number, value and type of transactions processed by the stablecoin arrangement, value of SCS in circulation, number and type of users, markets served and market share of the stablecoin arrangement, interconnectedness and interdependencies with other financial market infrastructures and financial institutions, business and operational complexity, and available alternatives at short notice. At this point, based on

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[10] Please refer to separate consultation paper, "Proposed Regulatory Measures for Digital Payment Token Services" on proposed segregation requirements for custody of DPTs. This will apply to SCS.

MAS' environmental scan, no stablecoin arrangement in Singapore is likely to qualify as systemic.

6.4   MAS proposes to designate a systemic stablecoin arrangement as a designated payment system (DPS). MAS' regulatory framework and supervisory approach on DPSs can be found in the *Monograph on Supervision of Financial Market Infrastructures in Singapore*. To safeguard financial stability risk, MAS intends to review appropriate rules on key entities of a systemic stablecoin arrangement, such as higher financial and operational requirements, to be imposed on SCS issuers. These key entities will also be required to meet applicable international standards, including the Principles for Financial Market Infrastructures published by the Bank for International Settlements' Committee on Payments and Market Infrastructure and the International Organization of Securities Commissions.

6.5   In addition, MAS proposes to designate a systemic stablecoin arrangement under the Payment and Settlement Systems (Finality and Netting) Act 2002 (FNA) to provide finality to transactions effected through the arrangement. This will exempt designated stablecoin arrangements from the application of certain laws that might otherwise threaten the finality of transactions made through the system, including the law of insolvency. Currently, all DPSs are designated under the FNA to protect the smooth functioning of these payment systems.

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

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

Annex A

KEY REQUIREMENTS ON SCS ISSUERS

- These will be applied to the following:

   (a) SCS issuers that hold MPI licences under the PS Act.

   (b) Banks that issue SCS as tokenised bank liabilities – only in respect of requirements relating to timely redemption at par and disclosure.

   (c) Banks that issue SCS backed by reserve assets that are segregated from the rest of the bank's assets – in relation to all requirements, except for prudential requirements.

Risk		Requirements for SCS issuers
ML/TF	AML/CFT	• Existing AML/CFT standards on DPT service providers and banks, e.g. customer due diligence, travel rule, screening etc.
Tech/cyber	Technology & cyber risk management	• Existing technology and cyber risk management standards on DPT service providers and banks
Value stability *[NEW]*	Reserve assets	• Reserve assets (RA): Held in cash/ cash equivalents/ debt securities with up to three-month residual maturity and issued by (i) the central bank of pegged currency; or (ii) organisations that are both of a governmental and international character with a credit rating of at least AA–, that are at least equivalent to the par value of SCS in circulation at all times. Assets must be denominated in same currency as the pegged currency. RA to be valued on marked-to-market basis daily • Monthly disclosure (independently attested), yearly audit of RA • Segregation and custody of RA: With licensed banks, merchant banks and finance companies, and CMSLs licensed for custodial services in Singapore

	Redemption at par	• Direct legal claim for redemption at par, accept redemption requests at any time • Timely redemption (no later than five business days) • Any redemption conditions must be reasonable (e.g. fees, minimum redemption amount) and disclosed upfront
Lack of consumer awareness *[NEW]*	**White paper issuance**	• Requirement to issue white paper to disclose details, including description of issuer, its project, rights and obligations related to the token (e.g. redemption), risks etc.
Insolvency *[NEW]*	**Prudential**	• Base capital requirements: Higher of S$1mil or 6 months operating expenses • Prohibit provision of other non-issuance services e.g. lending of stablecoins/fiat, staking, trading; can be done from separate related entity in which the issuer does not have a stake
	Solvency	• Hold liquid assets which are valued at higher of 6 months' operating expenses or amount assessed by entity needed to achieve recovery or orderly wind-down

LIST OF QUESTIONS