

Singapore: New single-currency stablecoin regulatory framework

In brief

On 15 August 2023, the Monetary Authority of Singapore (MAS) announced the features of a new regulatory framework for single-currency stablecoins (SCS) that are issued in Singapore and pegged to the Singapore dollar or Group of Ten ("G10") currencies ("**SCS Framework**"). The SCS Framework takes into account the feedback that the MAS received following a public consultation paper published in October 2022,¹ and the MAS has issued response to feedback on the same.²

We highlight some key features of the SCS Framework below.

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Stablecoin Issuance Service

A "Stablecoin Issuance Service" (SIS) will be introduced as a new regulated activity under the Payment Services Act 2019 (PSA), which will include not just issuance but all necessary activities that a stablecoin issuer undertakes, such as the custody and management of the reserve assets backing the SCS. MAS will adopt differentiated treatment for bank vs non-bank SCS issuers.:

For non-bank SCS-issuers with more than SGD 5 million of total SCS in circulation:	Should apply for a Major Payment Institution (MPI) licence with the MAS to conduct SIS and meet the requirements under the SCS Framework for their SCS to be recognised as a "MAS-regulated stablecoin".
For non-bank SCS-issuers with less than SGD 5 million of total SCS in circulation:	Will not be subject to the requirements under the SCS Framework. Accordingly, they will not be allowed to refer to their SCS as "MAS-regulated-stablecoins". However, they will still need to employ other mechanisms to maintain the value stability of their SCS. If they anticipate or intend their total SCS circulation to exceed SGD 5 million, they can apply for the MPI licence for SIS.

¹ https://www.mas.gov.sg/-/media/mas-media-library/publications/consultations/pd/2022/consultation-on-stablecoin-regulatory-approach_finalised.pdf

² https://www.mas.gov.sg/-/media/mas-media-library/publications/consultations/pd/2023/response-to-consultation-on-stablecoins-regulation_15aug2023.pdf

For **bank SCS-issuers**, original proposals had contemplated the possibility of banks issuing SCS by tokenising liabilities. However, having taken on board feedback on the differences in the value-stabilising mechanisms used for fully reserve asset-backed stablecoins and tokenised bank liabilities and the risks they posed, the MAS will exclude this from the scope of the SCS Framework. The MAS did not rule out the possibility of imposing additional requirements on tokenised bank liabilities in the future either, stressing that it would take into consideration the design of such tokenised bank liabilities.

Requirements under the SCS Framework

Under the SCS Framework, a SCS-issuer who is keen to apply to the MAS for its SCS to be recognised and labelled as a "MAS-regulated stablecoin" must ensure that its SCS are issued from Singapore **and** meet the following requirements set out in the table below. Other digital payment token (DPT) service providers and persons will be prohibited from using the term "MAS-regulated stablecoin" or any derivatives or such term to refer to tokens not regulated under the SCS Framework.

Reserve assets	
Composition	<ul style="list-style-type: none"> • Reserve assets must be denominated in the currency of the stablecoin peg and held in cash/cash equivalents/debt securities with up to three-month residual maturity that is issued by either of the following: <ul style="list-style-type: none"> (a) A government or central bank of a pegged currency (b) An organisation that is both a governmental and international character with a minimum credit rating of "AA-" <p>Note: SCS-issuers must ensure that the valuation of their reserve assets is maintained at a level that is at least 100% of its outstanding SCS in circulation at all times. SCS-issuers must also maintain a robust and resilient risk management policy that covers credit, liquidity and concentration risk in relation to its reserve assets.</p>
Valuation	<ul style="list-style-type: none"> • The reserve assets must be at least equivalent to the par value of the SCS in circulation at all times and valued at mark-to-market basis daily.
Segregation and custody	<ul style="list-style-type: none"> • The reserve assets must be held in segregated accounts on trust for the investors in permitted custodians who are either of the following: <ul style="list-style-type: none"> (a) Financial institutions licenced for custodial services in Singapore by MAS (b) Overseas-based custodians with a minimum credit rating of "A-" and a branch office located in Singapore that is regulated by MAS to provide custodial services
Independent attestation and audit	<ul style="list-style-type: none"> • An independent attestation of the reserve assets must be conducted on a monthly basis and a report of which must be (1) disclosed on the SCS-issuer's website and (2) submitted to MAS no later than the end of the following month. • An audit of the reserve assets must be conducted and a report on this must be submitted to MAS

	on an annual basis .
Redemption at par	
Timely redemption of SCS to Fiat	<ul style="list-style-type: none"> • The SCS-issuer must return the par value of the MAS-regulated SCS within five business days upon direct request. • SCS-issuers are allowed to impose redemption conditions provided that they are reasonable and disclosed upfront.
Prudential requirements	
Base capital	<p>SCS-issuers are required to maintain one of the following as their base capital:</p> <ul style="list-style-type: none"> (a) A base capital higher than SGD 1 million (b) A base capital of 50% of its annual operating expenses
Solvency	<p>SCS-issuers must hold at all times, liquid assets (which include cash and cash equivalents, debentures of government, negotiable certificate of deposits and money market funds) which are valued at either of the following:</p> <ul style="list-style-type: none"> (a) Higher than 50% of its annual operating expenses (b) An amount assessed by the SCS-issuer to be needed to achieve recovery or an orderly wind-down, which must be independently verified and audited on an annual basis
Business restrictions	<p>SCS-issuers are prohibited from the following:</p> <ul style="list-style-type: none"> (a) Providing other non-issuance services (such as lending, staking, fund management and dealing in DPT other than the SCS that is issued and recognised as a MAS-regulated stablecoin)³ (b) Having a stake in any other entity
Disclosure requirements	
White paper issuance	<p>SCS-issuers must publish a white paper disclosing information relating to, but not limited to, the following:</p> <ul style="list-style-type: none"> (a) General information about itself (b) Operations of the SCS (including information about the value-stabilising mechanisms and technology adopted) (c) Risks arising from the use of SCS (d) Rights and obligations related to the SCS (i.e., how to redeem the SCS)

³ However, if the SCS-issuer has any other related entities, such activities can still be conducted by the related entities provided that the SCS-issuer does not have a stake in it.

Anti-money laundering/countering the financing of terrorism (AML/CFT), technology and cyber risk measures	
AML/CFT	<ul style="list-style-type: none">Existing AML/CFT standards on DPT service providers and banks (such as customer due diligence, travel rules and screening) continue to apply to SCS-issuers.
Technology and cyber risk	<ul style="list-style-type: none">Existing technology and cyber risk management standards on DPT service providers continue to apply to SCS-issuers.

The MAS will not allow multi-jurisdictional issuance at the onset and will required SCS-issuers to issue solely out of Singapore if they want to be recognised as a "MAS-regulated stablecoin". Other forms of stablecoins falling outside the SCS Framework will not be prohibited in Singapore but would still be subject to the existing DPT regulatory regime.

SCS intermediation activities

SCS-related intermediation services (except issuance) (non-issuance SCS activities) will be regulated similarly to DPT-related services as they carry the same risks. Therefore, an entity dealing in or facilitating the exchange of MAS-regulated stablecoins would still be regulated as a DPT service provider under the PSA. Requirements applicable to DPT services providers in relation to the segregation of customers DPT will similarly apply to SCS intermediaries in respect of SCS, and the timeline for transfers of SCS from payer to payer will be no more than three business days.

MAS will also retain the power to regulate systemic stablecoin arrangements in a similar manner to other designated payment systems under the PSA and Payment and Settlement Systems (Finality and Netting) Act 2002.

If you have any feedback or questions, please let us know.

The above is not intended to be exhaustive or to constitute legal advice.

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