



 DREW & NAPIER

MAS finalises stablecoin regulatory framework

17 August 2023

**LEGAL
UPDATE**

In this Update

The Monetary Authority of Singapore will proceed with a new regulatory framework which will apply to issuances in Singapore of single-currency stablecoins which are pegged to the Singapore dollar or any G10 currency. The Payment Services Act will be amended to include “Stablecoin Issuance Service” as a new payment service regulated under the Act.

This legal update summarises the new legal requirements that will be applicable to issuers of single-currency stablecoins which are regulated under the framework.



03
INTRODUCTION

04
NEW REQUIREMENTS

07
CONCLUDING THOUGHTS

KEYPOINT

The Monetary Authority of Singapore will proceed with a new regulatory framework which will apply to issuances in Singapore of single-currency stablecoins which are pegged to the Singapore dollar or any G10 currency. The Payment Services Act will be amended to include “Stablecoin Issuance Service” as a new payment service regulated under the Act, and covers activities related to stablecoin issuance such as custody of stablecoins and management of reserve assets backing the stablecoins.

INTRODUCTION

The Monetary Authority of Singapore (“**MAS**”) previously published a consultation paper on 26 October 2022, which detailed proposals on a new regulatory framework applicable to issuances of single-currency stablecoins (“**SCS**”) in Singapore (“**Stablecoin Consultation Paper**”). Having received and considered the various feedback to this consultation paper, the MAS has published its response (accessible [here](#)), which outlines the MAS’s finalised regulatory approach to SCS issuances in Singapore.

The Payment Services Act 2019 (“**PS Act**”) will be revised to include “Stablecoin Issuance Service” as a new payment service regulated under the Act. SCS that are under the SCS legal framework will be labelled as “MAS-regulated stablecoins” and only SCS regulated under the framework will be permitted to use such label.

The finalised regulatory approach does not deviate significantly from the proposals set out in the Stablecoin Consultation Paper and will apply to issuance of SCS by Singapore-based entities where the value of SCS in circulation exceeds S\$5 million. However, tokenised bank liabilities will be excluded from the scope of the SCS framework.

This legal update summarises the new legal requirements that will be applicable to an SCS issuer regulated under the framework (“**SCS Issuer**”), namely:

- (1) reserve asset requirements;
- (2) timely redemption of SCS to fiat;

- (3) no multi-jurisdictional issuance of SCS;
- (4) non-issuance SCS activities requirements;
- (5) systemic stablecoin arrangements; and
- (6) other requirements.

NEW REQUIREMENTS

(1) Reserve asset requirements

The MAS will be imposing the following requirements on the reserve assets used to back the SCS:

- (a) Composition of reserve assets: SCS Issuers will need to maintain a portfolio of reserve assets with very low risk, with a robust and resilient risk management policy covering aspects such as credit, liquidity and concentration risk.
 - (i) The valuation of the reserve assets must be maintained at a level that is at least 100% of the outstanding SCS (i.e. SCS that has not been redeemed) in circulation at all times.
 - (ii) As for what constitutes very low risk, MAS requires that these reserve assets be denominated in the currency of the stablecoin peg, be held in (A) cash, (B) cash equivalents, or (C) debt securities with up to three-month residual maturity and issued by (1) government or central bank of pegged currency; or (2) organisations that are of both a governmental and international character with a minimum credit rating of “AA-”.
- (b) Segregation and custody of reserve assets: SCS Issuers must hold the reserve assets of SCS in segregated accounts, separate from its own assets. Custody of such assets can be held by overseas-based custodians if they have a minimum credit rating of “A-” and have a branch in Singapore regulated by the MAS to provide custodial services.
- (c) Reserve asset audit frequency: Reserve assets will need to be independently attested to on a monthly basis with the report disclosed on the SCS Issuer’s website and submitted to MAS. An annual audit report will also need to be submitted to MAS.

(d) Prudential requirements:

- (i) Base capital: SCS Issuers must maintain a base capital that is the higher of S\$1 million or 50% of its annual operating expenses (“**OPEX**”).
- (ii) Solvency: Liquid assets need to be valued at higher of 50% of the annual OPEX or such amount assessed to be required to achieve recovery or an orderly wind-down. The amount assessed to achieve recovery or an orderly wind-down of an SCS Issuer will be subject to independent audits on at least an annual basis.
- (iii) Business restrictions: SCS Issuers will be prohibited from providing non-issuance related activities such as lending, staking, fund management services and dealing in digital payment tokens (“**DPT**”) other than the MAS-regulated SCS it issues. However, holding issued SCS on custody and facilitating the transfer of issued SCS to buyers is permitted. Furthermore, while the SCS Issuer will not be allowed to have a stake in any other entity, its parent company can do so and hold an interest in other entities which can carry out the aforementioned prohibited activities. In this regard, any potential conflicts of interest which may arise between the related entities will need to be considered and managed accordingly.

(2) Timely redemption of SCS to fiat

MAS will proceed with the requirement that SCS Issuers return the par value of MAS-regulated SCS to its holders within five business days of the request for redemption. This timeline for redemption applies only to parties that redeem directly with the SCS Issuer. The redemption requests can be made any time and the SCS should represent a direct legal claim for redemption of the SCS at par. In exceptional circumstances, MAS may also direct SCS Issuers to liquidate their reserve assets to meet redemption needs.

The redemption conditions (if any) will need to be reasonable and disclosed upfront, but the MAS has not stipulated what constitutes as “reasonable”.

(3) No multi-jurisdictional issuance of SCS

Acknowledging the nascent state of stablecoin regulations globally, at this preliminary stage, MAS will not allow multi-jurisdictional issuance for SCS that are recognised as an “MAS-regulated stablecoin”. This means that SCS Issuers may only issue the MAS-regulated SCS out of Singapore.

(4) Non-issuance SCS activities requirements

SCS will be treated as DPTs. Hence, entities conducting non-issuance SCS activities will be regulated under the PS Act if their services fall within the scope of DPT services under said Act.

The MAS has also prescribed the following specific requirements that are applicable to SCS-related intermediaries:

- (a) Timely transfer of SCS: DPT service providers will be required to process the transmission of MAS-regulated SCS within three (3) business days of the request.
- (b) Segregation of customers' SCS: SCS intermediaries will be required to segregate customers' MAS-regulated SCS from the intermediaries' own assets, but are allowed to commingle an individual customer's assets with other customers in an aggregated pool. The upcoming measures relating to segregation and custody of customers' assets that are applicable to DPT service providers will also apply. You may refer to this [link](#) for more details on these upcoming measures.

(5) Systemic stablecoin arrangements

The MAS will also proceed with its proposal to amend the PS Act to empower MAS to supervise systemic stablecoin arrangements in Singapore as designated payment systems. In addition, MAS will also be able to designate systemic stablecoin arrangements under the Payment and Settlement Systems (Finality and Netting) Act 2002, which will exempt designated stablecoin arrangements from the application of certain laws, e.g. insolvency laws, that might otherwise threaten the finality of transactions.

(6) Other requirements

Aside from the measures listed above, the MAS has also confirmed that the following requirements proposed in the Stablecoin Consultation Paper will be adopted:

- (a) Whitepaper: The SCS Issuer must issue a white paper setting out details such as the general information of the issuer, operations of the SCS, risks arising from use of the SCS and rights and obligations pertaining to the SCS.
- (b) AML/CFT: Existing anti-money laundering and countering the financing of terrorism standards which apply to DPT service providers and banks will apply to the SCS Issuer. These include requirements on customer due diligence, travel rule compliance and screening for sanctions compliance.
- (c) Technology and Cyber Risk Management: Existing technology and cyber risk management standards presently applicable to DPT service providers will also apply to SCS Issuers.

CONCLUDING THOUGHTS

The introduction of a new stablecoin regulatory regime enhances Singapore's existing comprehensive regulatory framework for the digital asset industry and reinforces Singapore's commitment to fostering a secure and transparent digital asset ecosystem. With a well-defined framework specifically tailored for stablecoins, Singapore is on the path to establishing a comprehensive and coherent regulatory environment for the broader digital assets landscape, contributing to increased clarity and accountability for all stakeholders involved.

If you have any queries on the upcoming changes, please feel free to reach out to our directors below.

The content of this article does not constitute legal advice and should not be relied on as such. Specific advice should be sought about your specific circumstances. Copyright in this publication is owned by Drew & Napier LLC. This publication may not be reproduced or transmitted in any form or by any means, in whole or in part, without prior written approval

If you have any questions or comments on this article, please contact:



Chua Tju Liang

Director, Corporate & Finance
Head, Blockchain & Digital Assets

T: +65 6531 4101

E: tjuliang.chua@drewnapier.com



Benjamin Gaw

Director, Corporate & Finance
Head, Healthcare & Life Sciences

T: +65 6531 2393

E: benjamin.gaw@drewnapier.com

 **DREW & NAPIER**

Drew & Napier LLC

10 Collyer Quay
#10-01 Ocean Financial Centre
Singapore 049315

www.drewnapier.com

T: +65 6535 0733

T: +65 9726 0573 (After Hours)

F: +65 6535 4906