



**WFE Response to MAS CP/P008: Proposed Regulatory Measures for Digital Payment Token Services & MAS CP/P009: Proposed Regulatory Approach for Stablecoin-Related Activities**

**21 December 2022**

## **Background**

The World Federation of Exchanges (WFE) is the global trade association for regulated exchanges and clearing houses. We represent the operators of over 250 market infrastructures, spread across the Asia-Pacific region (37%), EMEA (43%) and the Americas (20%), with everything from local entities in emerging markets to international groups based in major financial centres. In total, member exchanges trade around \$100 trillion a year and are home to some 60,000 companies, with an aggregate market capitalisation of around \$120 trillion. The 50 distinct central counterparty (CCP) clearing services (both vertically integrated and stand-alone) collectively ensure that traders put up \$1 trillion of resources to back their risk positions.

With extensive experience of developing and enforcing high standards of conduct, WFE members support an orderly, secure, fair and transparent environment for all sorts of investors and companies wishing to invest, raise capital and manage financial risk.

Founded in 1961, the WFE seeks outcomes that maximise financial stability, consumer confidence and economic growth. We also engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in an internationally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

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## **MAS CP/P008: Proposed Regulatory Measures for Digital Payment Token Services**

### **Q1: MAS seeks comments on the proposed scope of “retail customer” for consumer access measures.**

The WFE agrees with MAS’ assertion that: "retail customers may not be fully aware of the large losses that are likely to arise from speculative trading of markets that they do not fully understand." As a global trade body, we do not view it as appropriate to comment on the exact definition of retail customer as we recognise that different jurisdictions interpret the standard differently. Nevertheless, the WFE is supportive of the fundamental principle that retail customers should have enhanced safeguards versus institutional investors.

### **Q2: MAS seeks comments on the options for the treatment of DPT holdings for the purpose of determining a customer’s eligibility as an Accredited Investor (AI).**

As above.

### **Q6: MAS seeks comments on the proposed segregation measures relating to customers’ assets.**

The WFE agrees that customer assets ought to be segregated from a DPTSP’s own assets and that this segregation should be verifiable. This is standard industry practice in financial services and protects customers in the event of insolvency. Current TradFi industry practice for financial services could provide a useful starting point for how segregation can be achieved. This would also ensure a level playing field with traditional financial services.

### **Q11: MAS seeks comments on the proposed measures to identify and mitigate conflicts of interests. MAS also seeks comments on any other measures to identify and mitigate conflicts of interest**

The WFE broadly agrees with the risks identified by MAS relating to the identification of conflicts of interest.

In a typical trading environment, certain commercial activities that are frequently carried out by DPTSPs would not be allowed or would be closely regulated. Platforms often serve as (i) venues of exchange, operating the platform on which buyers and sellers trade virtual and fiat currencies; (ii) in a role similar to a traditional broker-dealer, representing traders and executing trades on their behalf; (iii) as money-transmitters, transferring virtual and fiat currency and converting it from one form to another; (iv) as owners of large virtual currency holdings; and, in some cases, (v) as issuers of a virtual currency listed on their own and other platforms, with a direct stake in its performance.

Due to regulation, exchanges cannot take on these multiple roles. They are also forbidden from trading on their own platform to prevent conflicts of interest. Examples of these conflicts have been seen on alternative trading venues where their operators have secretly enjoyed unfair informational advantages, which were used to front-run subscribers’ trades. There have also been examples where alternative trading venues have allowed certain customers informational advantages over others. Exchanges have extensive requirements to prevent conflicts of interest which prevent this type of activity.

Hence, considering the ongoing and potential conflicts of interests in the crypto market infrastructure, the same should be expected of DPTSPs. Therefore, we agree with MAS' proposals to mitigate conflicts of interest. We would also encourage further exploratory work looking at whether DPTs should be permitted to undertake all the activities they do or whether it may be more appropriate to segregate business functions entirely in favour of a more traditional market structure. This may help to better protect consumers from the types of failures we have recently seen around the world.

**Question 12. MAS seeks comments on the proposal for DPT trading platform operators to publish its policies and procedures on the process for selecting, listing, and reviewing DPTs, as well as the relevant governance policies. MAS also seeks comments on any other measures or disclosures to enhance market discipline on DPT trading platform operators, with regard to DPTs traded on their trading platforms.**

The WFE agrees in principle with the approach taken by MAS to seek to enhance disclosure of listings and governance policies. Requirements like these ensure quality of products and increase retail customer's awareness in the products they are investing in.

Nevertheless, we consider that MAS could go further as, by its own acknowledgement, "even with these proposed disclosures in place, the information disclosed by DPT trading platform operators will not be comparable to the product information required to be disclosed for securities that considers economic fundamentals." As these products are available to the public, the level of protection should be comparable to those requirements placed on traditional exchanges.

Exchanges provide a trusted space for investors by vetting products offered on their venues. For example, to list on the mainboard of Singapore Exchange (SGX) there are requirements on profitability:

*"Companies intending to join SGX's Mainboard must meet one of the following quantitative requirements:*

- *Minimum consolidated pre-tax profit of at least S\$30 million for the latest financial year with operating track record of at least 3 years;*
- *Profitable in the latest financial year, and has a market capitalisation of not less than S\$150 million based on the issue price and post-invitation issued share capital with operating track record of at least 3 years; or*
- *Operating revenue in the latest completed financial year and a market capitalisation of not less than S\$300 million based on the issue price and post-invitation issued share capital. Real Estate Investment Trusts and Business Trusts who have met the S\$300 million market capitalisation test but do not have historical financial information may apply under this rule if they are able to demonstrate that they will generate operating revenue immediately upon listing."*

Further requirements also apply, such as: "Where an issuer satisfies the profitability test, promoters cannot sell any of their shareholdings for 6 months after listing." This sort of requirement could prevent 'pump and dump' strategies where cryptocurrencies are initially listed and hyped up and the initial buyers all sell before the price drops. It may be prudent for MAS to consider enhancing these requirements to be comparable to those on regulated exchanges.

**Q14: MAS seeks comments on the proposed requirements for DPTSPs to establish a high level of availability and recoverability of critical IT systems that they use to support their business and services. MAS also seeks comments on the proposed incident reporting and customer information protection requirements.**

The WFE agrees with MAS that DPTSPs are particularly vulnerable to technology and cyber risks. We would encourage DPTSPs to study industry practices established elsewhere in financial services to help to mitigate these risks. For example, CPMI-IOSCO's published its '[Guidance on Cyber Resilience for Financial Market Infrastructures](#)' in June 2016.

**Q15: MAS seeks comments on effective systems, procedures and arrangements that DPT trading platform operators should implement, in order to promote fair, orderly, transparent trading of DPTs offered for sale on their trading platform.**

The WFE agrees that it is important to promote fair, orderly and transparent trading. Exchanges have rules in place to ensure this. For example, exchanges have in place business continuity plans that ensured they remained open during the COVID pandemic. Under their successful business continuity plans (including remote working), market infrastructures operated their business robustly as usual, with record volumes of trading. As such, DPTSPs and MAS could review exchange rulebooks to understand how the rules operate.

**Q16: MAS seeks comments on effective measures, including the implementation of market surveillance mechanisms, to detect and deter unfair trading practices.**

The WFE agrees that it is important to detect and deter unfair trading practices. Exchanges have rules in place to ensure this. As such, DPTSPs and MAS could review exchange rulebooks to understand how the rules operate. Exchanges also make use of trade surveillance technology in order to detect abusive practices. MAS could encourage DPTSPs to adopt similar technology.

## **WFE Response to MAS CP/P009: Proposed Regulatory Approach for Stablecoin-Related Activities**

**Q5: 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.**

In sum, WFE believes that the requirements are appropriate. MAS is proposing that stablecoin issuers obtain independent attestation (such as by external audit firms) that their reserve assets meet these requirements on a monthly basis. Additionally, it is recommended that issuers publish a whitepaper disclosing the rights of holders and further details on the token. These will all result in higher compliance and regulatory calibre for stablecoin issuers, alongside higher financial standards, and requirements.

From an operational perspective, it can be said that stablecoin issuers will need to operate more closely to traditional asset managers to the extent that the proposed regulations require stablecoin issuers to 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, positively contributing to regulatory certainty in the digital asset ecosystem.

It is important to note that the new requirements are focused on SCS stablecoins, which can be redeemed from a single centralised entity or company. They will largely only be imposed on SCS issued in Singapore that have a circulation exceeding S\$5 million in value. Other types of stablecoins – including those issued outside Singapore such as USDC and Tether, those backed by a basket of goods or currencies, those backed by other cryptocurrencies, and algorithmic stablecoins – will all continue to be treated as digital payment tokens under the Payment Services Act and will not be subject to these new requirements. Given this narrow targeting of the new requirements to SCS, it can be argued that they are not comprehensive enough. However, MAS has proposed various specific thresholds for capital reserve, segregation of assets, and redemption timelines to ensure that the SCS maintains a high degree of value stability.

**Q10: 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**

When looking at other jurisdictions in Asia, Japan has put in place [stablecoin regulation](#) (coming into force in June 2023), which restricts stablecoin issuance to Japanese-licensed banks, fund transfer agents and trust companies. In this regard, the Singaporean approach is feasible, while still being accommodative to stablecoin issuers considering that it does not prohibit non-bank stablecoin issuers, provided they can meet the various financial and prudential requirements as outlined in paragraph 4.24 and does not make it more prohibitive for foreign businesses to enter the market. Furthermore, the fact that tokenised versions of traditional assets have a similar prudential treatment to the non-tokenised version of that asset as long as these meet a set of conditions to ensure that they pose the same level of risks, should also be viewed positively.

Furthermore, after [consulting on requirements on stablecoin issuance](#) in January 2022, regulators in Hong Kong appear to be exploring an agile regulatory approach, acting on the basis of risk and in a proportionate manner, when targeting stablecoin-related activities. The issued discussion paper indicated that it is considering standards such as prudential requirements (including adequate financial resources and liquidity requirements), maintenance and management of

reserves of backing assets, and redemption requirements. While no specific thresholds or requirements have been floated so far, it appears Hong Kong is heading in the same direction as the MAS and Singaporean regulators.

In the US, the New York State Department of Financial Services, which licenses certain companies which issue US-dollar-backed stablecoins in New York, also implemented [new requirements for such companies in June 2022](#). Similar to the approach MAS has taken, the NYDFS' requirements are targeted at ensuring the redeemability of such stablecoins, and the stability of the asset reserves that back such stablecoins. This requires from the issuers that they hold reserves in a limited list of conservative and liquid investments such as cash and short-term US treasury bills.