



Monetary Authority of Singapore

Consultation Paper  
P010-2024 – October 2024

# Consultation Paper on Proposed Regulatory Approach, Regulations and Notices for Digital Token Service Providers issued under the Financial Services and Markets Act 2022



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# 1. Preface

## Background

- 1.1. The Financial Services and Markets Act (the “FSM Act”) was passed in Parliament on 5 April 2022. Part 9 of the FSM Act provides the legislative framework for the regulation of: (a) individuals and partnerships who, from a place of business in Singapore, carry on a business of providing a digital token<sup>1</sup> (“DT”) service<sup>2</sup> outside Singapore; and (b) Singapore corporations that carry on a business, whether from Singapore or elsewhere, of providing a digital token service outside Singapore, collectively, “digital token service providers” or “DTSPs”.
- 1.2. To effect the objectives of Part 9 of the FSM Act, the Monetary Authority of Singapore (“MAS”) intends to prescribe or issue the following instruments:
  - (a) Financial Services and Markets Regulations (“FSM Regulations”);
  - (b) anti-money laundering and countering the financing of terrorism (“AML/CFT”) notices under the FSM Act;
  - (c) other notices under the FSM Act; and
  - (d) guidelines.
- 1.3. This Consultation Paper seeks views on the proposed instruments in 1.2 (a) to (d). Annex A sets out a list of questions asked in this paper. Annexes C to K, which are in separate documents, set out the proposed instruments. The FSM Act may be accessed at this [link](#).
- 1.4. MAS invites comments from participants in the financial industry and other interested parties.
- 1.5. Please note that all submissions received will be published and attributed to the respective respondent unless they expressly request MAS not to do so. As such, if respondents would like:
  - (a) their whole submission or part of it (but not their identity), or
  - (b) their identity along with their whole submission,

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<sup>1</sup> Digital tokens is defined under FSM Act to mean (a) a digital payment token as defined in the Payment Services Act 2019 or (b) a digital representation of a capital markets product as defined in the Securities and Futures Act 2001 which (i) can be transferred, stored or traded electronically; and (ii) satisfies such other characteristics as MAS may prescribe, but does not include an excluded DT.

<sup>2</sup> Digital token services refer to the services that are listed in Part 1 of the First Schedule of the FSM Act



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 libelous or offensive.

- 1.6. Please submit written comments by 4 November 2024 via the link provided [here](#).



## 2. Regulatory approach for Digital Token Service Providers

- 2.1. In June 2019, the Financial Action Task Force (“FATF”) adopted enhanced standards for virtual asset service providers (“VASPs”)<sup>3</sup> and required VASPs to be at least licensed or registered in the jurisdiction(s) where they are created<sup>4</sup>, to mitigate the risk of regulatory arbitrage (where no single jurisdiction has sufficient regulatory hold over a specific VASP due to the internet and digital nature of its business). In July 2020, MAS consulted on the proposed regulatory regime for DTSPs to be licensed under the FSM Act. The respondents were generally supportive of this regime.
- 2.2. As DTSPs are individuals, partnerships, or Singapore corporations that are operating from a place of business in Singapore or formed or incorporated in Singapore (as the case may be) but carry on a business of providing DT services outside Singapore, such persons may be more susceptible to money laundering or terrorism financing (“ML/TF”) risks due to the internet-based and cross-border nature of such services. In particular, MAS is cautious about such DTSPs with limited nexus to Singapore, and purportedly provide financial services outside Singapore, as there could be a greater risk of such DTSPs being engaged in or misused for illicit purposes to the detriment of Singapore’s reputation. MAS would be keen to understand why these DTSPs are or will be operating from a place of business in Singapore, or formed or incorporated in Singapore but only provide or will provide DT services outside of Singapore. One of the key considerations is that there should be conditions in place to allow for adequate regulatory oversight and supervision of the DTSPs’ activities for ML/TF risks.
- 2.3. In general, MAS envisages that in most cases, persons that are operating from a place of business in Singapore or incorporated or formed in Singapore will carry on a business of providing DT services in Singapore, and where applicable, are subject to licensing and ongoing requirements under the Payment Services Act 2019 (“PS Act”), Securities and Futures Act 2001 (“SFA”), and/or Financial Advisor Act 2001 (“FAA”). For the avoidance of doubt, a person that (a) is required to be licensed, approved or recognized or exempted from licensing, approval or recognition, under the SFA, in respect of a business in a capital markets product regulated activity, (b) is required to be licensed or exempted from licensing under the FAA, in respect of a business of providing a financial advisory service, or (c) is required to be licensed or

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<sup>3</sup> The enhanced FATF Standards imposes AML/CFT requirements on VASPs when they carry out the following virtual assets (“VA”) activities, which are assessed to pose significant ML/TF risks: (i) exchange between VA and fiat currencies; (ii) exchange between one or more forms of VA; (iii) transfer of VA; (iv) safekeeping and/or administration of VA or instruments enabling control over VA; and (v) participation in and provision of financial services related to an issuer’s offer and/or sale of a VA. A VA is defined by FATF as a digital representation of value that can be digitally traded, or transferred, and can be used for payment or investment purposes.

<sup>4</sup> In FATF’s context, this refers to the incorporation of companies or any other mechanism that is used to create a legal person (including limited liability partnerships and partnerships). In cases where the VASP is a natural person, they should be licensed or registered in the jurisdiction where their place of business is located.



exempted from licensing under the PS Act, in respect of a business of providing any digital payment token service, is not subject to licensing and ongoing requirements for DTSPs under the FSM Act.

- 2.4. In light of the considerations set out above, MAS intends to approach the licensing of DTSPs in a prudent and cautious manner as it envisages that there will be extremely limited circumstances under which MAS will grant an applicant a DTSP licence under the FSM Act. MAS will review applications for a DTSP licence on a case-by-case basis. In considering whether to grant a DTSP licence to an applicant under section 138(3) of the FSM Act, MAS will take into account whether the applicant meets the criteria set out below:
- (a) The applicant has a business model that makes economic sense, and is able to demonstrate to MAS' satisfaction, that it has valid reasons as to why it does not intend to carry on a business of providing DT services in Singapore despite operating in or being formed or incorporated in Singapore;
  - (b) The applicant does not operate in a manner that is of concern to MAS and is already regulated and supervised for its compliance with relevant internationally agreed standards, such as standards established by the Financial Stability Board, the International Organisation of Securities Commissions, and FATF. For example, the applicant should be able to demonstrate that its proposed provision of DT services is in compliance with the relevant internationally agreed standards;
  - (c) MAS does not have concerns with the business structure of the applicant in relation to, for example, the ability of the applicant to comply with regulatory obligations; and
  - (d) Any other criteria that may be relevant to the application (or applicant), as determined by MAS.
- 2.5. MAS intends to set out the criteria in para 2.4 above in the Guidelines on Licensing for DTSPs. In addition, MAS may also impose any of these criteria as licensing conditions as MAS deems appropriate.
- 2.6. Following the granting of a DTSP licence under the FSM Act, MAS intends to require the holder of a DTSP licence ("licensee") to notify MAS if there are any changes to the circumstances set out in the application, and/or person's operations and business model that would result in the licensee not meeting the requirements set out above. MAS may revoke the DTSP licence in any of the circumstances set out in section 141(2) of the FSM Act, including a failure by the licensee to comply with any condition or restriction imposed by MAS under the FSM Act.

## Transitional arrangements

- 2.7. In the Response to Feedback Received on the Consultation Paper on a New Omnibus Act for the Financial Sector dated February 2022, MAS had indicated that it did not intend to provide a transitional arrangement for DTSPs.



2.8. MAS maintains this position. However, to give the industry sufficient notice, we intend to publish the commencement notification for the FSM Act as well as all finalised versions of the subsidiary legislation and guidelines at least four weeks before the date of commencement of Part 9 of the FSM Act, the First and Second Schedules to the FSM Act, and other relevant miscellaneous or consequential amendments in the FSM Act (collectively, the “DTSP Provisions”). Once the regulatory regime for DTSPs comes into force, existing individuals, partnerships, or Singapore corporations that are operating from a place of business in Singapore or formed or incorporated in Singapore (as the case may be) that are conducting DT activities outside Singapore would be required to suspend or cease operations, unless they obtain a licence from MAS or are otherwise exempted from licensing.

## Licensing and ongoing requirements

2.9. To ensure that MAS has adequate supervisory oversight over DTSPs, even though they provide DT services outside Singapore, MAS expects an applicant to fulfil, among others, the following licensing criteria in addition to those in paragraph 2.4:

- (a) The applicant, who is a corporation, must appoint at least one executive director who is resident in Singapore, as set in FSM Act s138(3)(b)(i). Similarly, the applicant, who is a partnership or limited liability partnership, must respectively appoint at least one partner, or partner or manager, who is resident in Singapore, as set out in FSM Act s138(3)(c)(i) and (d)(i);
- (b) The applicant must satisfy MAS that it is fit and proper, in accordance with the Guidelines on Fit and Proper Criteria, as set out in FSM Act s138(3)(f)(i);
- (c) The applicant must have a permanent place of business in Singapore, as set out FSM Act s138(3)(a);
- (d) The applicant should perform a penetration test of its proposed DT services, remediate all high-risk findings identified, and conduct independent validation on the effectiveness of the remediation actions;
- (e) The applicant should have adequate compliance arrangements commensurate with the scale, nature, and complexity of their operations. This may take the form of:
  - (i) An independent compliance function in Singapore - The DTSP should put in place an independent compliance function in Singapore with staff who are suitably qualified. Compliance staff may perform other non-conflicting and complementary roles such as that of an in-house legal counsel;
  - (ii) Compliance support from holding company or overseas related entity - The DTSP may obtain compliance support from an independent and dedicated compliance team at its



holding company, or at an overseas related entity, provided that it is able to demonstrate that there is adequate oversight by the applicant's compliance officer, sole-proprietor, partners, or directors and CEO and other senior management; or

- (iii) Appropriate compliance management arrangements – The DTSP should put in place appropriate compliance management arrangements, including at least, the appointment of a suitably qualified compliance officer based in Singapore, at the management level. This individual is expected to have sufficient expertise and authority to oversee the compliance function of the applicant, although he may be assisted by other staff in day-to-day operations.
- (f) The applicant should have in place adequate independent audit arrangements to regularly assess the adequacy and effectiveness of its procedures, controls, and its compliance with all applicable regulatory requirements. The audit arrangements should be commensurate with the scale, nature, and complexity of its operations.
- (g) The applicant should be able to demonstrate that it is able to meet the annual audit requirements as set out in section 158 of the FSM Act.





## 3. Financial Services and Markets Regulations: Overview and requirements for licensees

- 3.1. This section will set out the proposed requirements for licensees under the FSM Regulations. The main parts of the FSM Regulations are as follows:
- (a) Control of provision of digital token services;
  - (b) Financial requirements;
  - (c) Business conduct requirements;
- 3.2. In addition to the FSM Regulations, a separate set of regulations containing provisions on the opportunity to be heard will be issued. These provisions, which are also set out in other MAS subsidiary legislation to support MAS' administration of the primary legislation, will apply to licensees.

### Control of Provision of Digital Token Services

- 3.3. The licence application, licence fees, and the document submission deadlines are set out in regulations 3 to 6 of the FSM Regulations.
- 3.4. Under regulation 8 of the FSM Regulations, a DTSP's licence will lapse under certain situations. For example, a DTSP licence will lapse if the licensee has ceased to carry on business in providing all of the DT services authorized to be provided by the licensee and has not resumed business in any of those DT services for a continuous period of 6 month after the date of such cessation of business.
- 3.5. A DTSP licence under Part 9 of the FSM Act is granted on a perpetual basis and licence fees are payable on an annual basis. Application fees are also payable for licence applications. These, along with the time of payment and prorating methodology on payment of fees are set out in the Schedule to the FSM Regulations. The manner of payment will be published in due course.

*Question 1. **Licensing processes, and fees.** MAS seeks comments on the processes and timelines for licence application and lapsing, as well as the fee structures and the quantum of the fees proposed.*



## Financial requirements

- 3.6. DTSPs are required to meet initial and ongoing financial requirements to ensure that they are at all times sufficiently resourced to conduct the DT services they are authorised to conduct under their licence.
- 3.7. The minimum initial and ongoing financial requirements proposed are as follows:
- (a) for DTSPs that are corporations – base capital of \$250,000; or
  - (b) for DTSPs that are partnerships or limited liability partnerships – total capital contribution of \$250,000; or
  - (c) for DTSPs that are individuals – maintain with the Authority security in the form of cash deposit of \$250,000.
- 3.8. This would ensure that DTSPs are well-capitalised, and would also demonstrate DTSPs’ commitment to maintain meaningful presence in Singapore. The components of base capital take into account losses such as interim losses or dividend pay-outs.

*Question 2. **Minimum financial requirements.** MAS seeks comments on the quantum and components of the proposed minimum financial requirements*

## Business Conduct

- 3.9. The duties of CEO, directors and partners of the licensee and audit requirements that apply to licensees are set out in the parts of the FSM Regulations on “Control of officers of licensees” and “Audit” respectively.

*Question 3. **Duties of the CEO, directors and partners of the licensee, and audit requirements.** MAS seeks comments on the proposed duties of the CEO, directors, and partners of the licensee. MAS also seeks comments on the audit requirements.*



## 4. Financial Services and Markets Notices: Overview

4.1. The full set of notices and guidelines that will be issued for the purposes of the commencement of the DTSP Provisions are as follows.

Notice no.	Name of Notice or Guideline	Location
<b>FSM-N27</b>	Notice to digital token services providers on prevention of money laundering and countering the financing of terrorism	Annex D
<b>FSM-N28</b>	Notice on reporting of suspicious activities and incidents of fraud	Annex E
<b>FSM-N29</b>	Notice on submission of regulatory return	Annex F
<b>FSM-N30</b>	Notice on Technology Risk Management	Annex G
<b>FSM-N31</b>	Notice on Cyber Hygiene	Annex H
<b>FSM-N32</b>	Notice on conduct	Annex I
<b>FSM-N33</b>	Notice on disclosures and communications	Annex J
<b>FSG-G01</b>	Guidelines on fit and proper criteria	Annex K

4.2. The following parts discuss the key proposals in the draft notices and guidelines:

- (a) Part 5 sets out proposals on anti-money laundering and countering the financing of terrorism (“AML/CFT”) requirements in FSM-N27;
- (b) Part 6 sets out proposals on reporting requirements, technology risk management and cyber hygiene in FSM-N28 to FSM-N31;
- (c) Part 7 sets out proposals on conduct requirements in FSM-N32, as well as proposals on disclosure and communication requirements in FSM-N33; and
- (d) Part 8 sets out proposals on amendments to guidelines that will apply to DTSPs.

4.3. All the notices and amended guidelines in Table 1 will come into force on the commencement of the DTSP Provisions.

4.4. FSM-N34 will not be published for consultation as it pertains to matters such as the form and manner of certain administrative procedures, e.g. submission of fees, form to be used for surrender of licence, etc.



- 4.5. As set out in paragraph 2.8, MAS intends to publish the commencement notification for the FSM Act as well as all finalised versions of the FSM Regulations, Notices, the Guidelines on Fit and Proper Criteria, and other guidelines at least four weeks before the commencement of the DTSP Provisions.

*Question 4. **General comments.** If you have comments on the measures proposed in parts 5-8, please set them out in response to this question.*



## 5. Financial Services and Markets Notices: AML/CFT requirements for Licensees

5.1. The AML/CFT requirements for licensees will include (but are not limited to) the following:

- Taking appropriate steps to identify, assess and understand their ML/TF risks;
- Developing and implementing policies, procedures, and controls—including those in relation to the conduct of customer due diligence (“CDD”), transaction monitoring, screening, suspicious transactions reporting and record keeping—to enable licensees to effectively manage and mitigate the risks that have been identified;
- Monitoring the implementation of those policies, procedures, and controls, and enhancing them if necessary; and
- Performing enhanced measures if higher ML/TF risks are identified, to effectively manage and mitigate those higher risks.

### Existing Customers

5.2. MAS intends to require licensees to perform CDD measures as required by paragraphs 6, 7 and 8 of the FSM notice in relation to all customers with whom the licensee had established business relations with prior to the licensee obtaining its DTSP licence, and who continue to be its customers upon the licensee obtaining its DTSP licence. Licensees are required to complete such measures within a time period from the date the licensee obtains its DTSP licence, to be determined by MAS. This would ensure that the licensee will apply the same CDD standards on all customers, regardless of when they were onboarded by the licensee.

*Question 5. **Existing Customers.** MAS seeks comments on the requirements for existing customers that were onboarded by the licensee prior to obtaining its licence. (Please refer to paragraph 6.54 and 6.55 of the draft FSM Notice)*



## Reliance on Third Parties

- 5.3. MAS intends to permit licensees to rely on a third party to perform CDD measures<sup>5</sup> required by the FSM Notice if the following requirements are complied with:
- (a) the licensee is satisfied that the third party it intends to rely upon is subject to and supervised for compliance with AML/CFT requirements consistent with standards set by the FATF, and has adequate AML/CFT measures in place to comply with those requirements;
  - (b) the licensee takes appropriate steps to identify, assess and understand the ML/TF risks particular to the countries or jurisdictions that the third party operates in;
  - (c) the third party is not one which the licensee has been specifically precluded by MAS from relying upon; and
  - (d) the third party is able and willing to provide, without delay, upon the licensee's request, data, documents or information obtained by the third party with respect to the measures applied on the licensee's customer, which the licensee would be required or would want to obtain.
- 5.4. MAS currently precludes financial institutions from relying on third parties that are holders of a payment services licence under the PS Act ("licensed payment service providers") or equivalent licences, due to the uneven level of AML/CFT controls across the payments sector. Given similar concerns with the level of AML/CFT controls of licensees and the higher ML/TF risks posed by them, MAS intends to also exclude these licensees, or financial institutions holding an equivalent licence and supervised by a foreign authority for compliance with AML/CFT requirements, from the definition of a "third party" in the FSM Notice.

*Question 6. **Reliance on Third Party** . MAS seeks comments on whether third party reliance is appropriate for the sector. (Please refer to paragraph 11 of the draft FSM Notice)*

- 5.5. MAS also intends to similarly exclude licensees from the definition of a "third party" in the corresponding paragraphs on "Reliance on Third Parties" in the AML/CFT Notices applicable to other financial institutions as set out in the proposed amendments in Annex B. This would mean that the financial institutions likewise cannot rely on a licensee, or a financial institution holding an equivalent licence and supervised by a foreign authority for compliance with AML/CFT requirements, as a third party to perform CDD measures. MAS also proposes amendments to clarify that financial institutions cannot place reliance on their branches and subsidiaries, parent entity, branches and subsidiaries of the parent entity and other related corporations, that are holders of only a payment services license under the PS Act or only

<sup>5</sup> The CDD measures refer to those required by paragraphs 6, 7 and 8 of the Notice with the exception of ongoing monitoring of business relations with customers.



a digital token service provider license under the FSM Act (or equivalent licenses). For the avoidance of doubt, the definition of a “third party” would not exclude those who are subject to and supervised by a foreign authority for compliance with AML/CFT requirements and also hold other types of financial services licenses (besides licences equivalent to a payment services license under the PS Act or a digital token service provider license under the FSM Act).

*Question 7. **Reliance on Third Party.** MAS seeks comments on the proposed amendments to the other AML/CFT notices.*

## Correspondent Account Services

- 5.6. Licensees may find themselves acting as intermediaries for other DTSPs or financial institutions. Where a licensee provides such correspondent account services (or similar services) to another financial institution that is operating in or outside Singapore, or where it engages a financial institution (which is not a bank in Singapore or a merchant bank in Singapore) that is operating in or outside Singapore to provide or facilitate the provision of correspondent account services, the FATF standards on correspondent banking apply to the licensee.
- 5.7. In line with the FATF standards, MAS intends to require all licensees, to perform the necessary risk mitigation measures when providing correspondent account services to another financial institution or when engaging another financial institution for correspondent account services, in addition to performing CDD measures<sup>6</sup>. Such risk mitigation measures include:
- (a) assessing the suitability of the financial institution by, amongst others, assessing its AML/CFT controls and ascertaining that they are adequate and effective,
  - (b) clearly understanding and documenting the respective AML/CFT responsibilities of the licensee and the other financial institution, and
  - (c) obtaining approval from the licensee’s senior management before providing correspondent account services or similar services to a new financial institution or before receiving correspondent account services or similar services from a new financial institution.

*Question 8. **Correspondent Account Services.** MAS seeks comments on whether the proposed requirements for Correspondent Account Services set out in paragraph 5.6 would be applicable to the sector. (Please refer to paragraph 12 of the draft FSM Notice)*

<sup>6</sup>As required under paragraphs 6, 7 and 8



## Bearer Negotiable Instruments and Cash Payouts

5.8. Bearer negotiable instruments and cash payouts are anonymous in nature and therefore susceptible to ML/TF risks. In order to mitigate such ML/TF risks, MAS proposes to:

- (a) prohibit licensees from issuing bearer negotiable instruments in any amount to a recipient or person appointed to act on behalf of a recipient;
- (b) prohibit licensees from paying cash in an amount that is equal to or exceeds S\$20,000 to a recipient or person appointed to act on behalf of a recipient; and
- (c) require licensees to use cheques to make payment of S\$20,000 and above, subject to certain conditions<sup>7</sup>.

*Question 9. **Bearer Negotiable Instruments and Cash Payouts.** MAS seeks comments on the proposal in paragraph 5.8 to apply the prohibition of issuance of bearer negotiable instruments and restriction on cash payout to licensees. (Please refer to paragraph 10 of the draft FSM Notice)*

## Value Transfer

5.9. The value transfer requirement in Paragraph 14 of FSM-N27 applies to licensees when effecting, receiving, or arranging for the value transfer of one or more digital tokens. A licensee that is an ordering institution must, amongst others, identify the value transfer originator and take reasonable measures to verify the value transfer originator's identity (if the licensee has not already done so as part of para 6 of FSM-N27) and record adequate details of the value transfer so as to permit its reconstruction, including but not limited to, the date of the value transfer, the type and value of digital token(s) transferred and the value date. A licensee that is an ordering institution must also (i) collect and document information on the value transfer originator and value transfer beneficiary, as required under paragraph 14, and (ii) immediately and securely submit the information to the beneficiary institution.

5.10. A licensee that is a beneficiary institution must, amongst others, take reasonable measures, including monitoring to identify value transfers that lack the required value transfer originator or value transfer beneficiary information.

5.11. A licensee that is an intermediary institution is , amongst others, required to retain all information accompanying a value transfer. A licensee that is an intermediary institution must also implement

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<sup>7</sup> Pursuant to para 10.4, the following conditions are to be complied with:- 1) the cheque is crossed and made payable to a customer who is an account holder with a bank in Singapore; and 2) the licensee maintains a register of all crossed cheques issued with the corresponding transaction reference numbers.





appropriate internal risk-based policies, procedures, and controls to determine (i) when to execute, reject, or suspend a value transfer lacking required value transfer originator or value transfer beneficiary information; and (ii) the appropriate follow-up action.

*Question 10. **Value Transfer Requirements for DT Services.** MAS seeks comments on the type of information that accompanies or relates to value transfers that would be relevant for law enforcement purposes, and the type of records that should be kept. Please also provide examples of how this requirement could be operationalised in practice, including industry-wide initiatives. (Please refer to paragraph 14 of the draft FSM Notice)*



## 6. Notices on reporting requirements, technology risk management and cyber hygiene

### Reporting requirements

- 6.1. To assist MAS in its regulation of DTSPs, licensees are required to report certain matters to MAS, including on a periodic basis.

*FSM-N28 (Notice on reporting of suspicious activities and incidents of fraud)*

- 6.2. Under FSM-N28, a licensee must lodge a report with MAS in the form, manner and within such time as specified in the notice, upon discovery of any suspicious activities or incidents of fraud if such activities or incidents are material to the safety, soundness, or reputation of the licensee.

*FSM-N29 (Notice on submission of regulatory returns)*

- 6.3. FSM-N29 introduces periodic regulatory submission of information related to the licensees' DT services, as part of MAS' ongoing supervision of DTSPs.
- 6.4. We propose to collect among others, account statistics, transaction value and volume as well as the value of digital tokens held for safeguarding or administration, on a monthly basis. This allows MAS to monitor the size of the business and volume of transactions carried out by licensees.
- 6.5. We intend to also collect information to allow MAS to understand and monitor the profile of each licensee's DT services for more targeted supervision. This includes information on, for example, the transactions involving higher risk customers and high-risk countries/jurisdictions, the jurisdictions the licensee provides DT services in, list of service providers that the licensee has service agreements and the jurisdictions from which such services are delivered to the licensee as well as statistics on transactions involving anonymity-enhancing technologies<sup>8</sup> that pose higher ML/TF risks.

**Question 11. Reporting requirements.** MAS seeks comments on the draft FSM-N28 and FSM-N29.

<sup>8</sup> The use of anonymity-enhancing technologies or mechanisms obfuscate the identities of the sender, recipient or holder of a digital payment token. Examples of such technologies are privacy wallets, mixers and tumblers and internet protocol anonymizers.



## Technology risk management and cyber hygiene requirements

- 6.6. DTSPs operate in a complex IT environment, and its ability to execute DT services for their customers is dependent on the underlying distributed ledger technology and other service providers in the network. Cyber-attacks and system outages at DTSPs can disrupt their operations and services, resulting in trading halts on the DT trading platforms and significant financial losses to their customers.
- 6.7. Hence, MAS proposes to issue FSM-N30 and FSM-N31 for the management of technology risks, including cyber security risks, the safe and sound use of technology to deliver financial services, and safe and sound use of technology to protect data.
- 6.8. Under FSM-N30, licensees will be required to:
- (a) put in place a framework and process to identify critical systems;
  - (b) ensure that the maximum unscheduled downtime for each critical system does not exceed a total of 4 hours within any period of 12 months;
  - (c) establish a recovery time objective of not more than 4 hours for each critical system;
  - (d) notify MAS as soon as possible, but not later than 1 hour, upon the discovery of a system malfunction or IT security incident, which has a severe and widespread impact on the licensees' operations or materially impacts the licensees' service to its customers, and submit a root cause and impact analysis report to MAS within 14 days; and
  - (e) implement IT controls to protect customer information from unauthorised access or disclosure.
- 6.9. Under FSM-N31, licensees will be required to secure administrative accounts against any unauthorised access or use, establish security standards, implement security patches in a timely manner, put in place network perimeter defence and malware protection, as well as implement multi-factor authentication for administrative accounts of critical systems and all system accounts used to access customer information through the internet.
- 6.10. Licensees will also be subject to MAS Guidelines on Risk Management Practices – Technology Risk, which requires financial institutions to establish sound and robust technology risk governance, and maintain cyber resilience. This includes the implementation of secure coding, robust cryptographic key management, and controls to ensure the availability and security of IT systems.



*Question 12. **Technology risk management and cyber hygiene requirements.** MAS seeks comments on the draft FSM-N30 and FSM-N31.*



## 7. Notices on Conduct and Disclosures and communications

- 7.1. FSM-N32 sets out conduct requirements, while FSM-N33 sets out disclosure and communications requirements for licensees in respect of the DT services provided outside of Singapore.
- 7.2. Under section 143(2) of the FSM Act, a licensee must appoint at least one person to be present, on such days and at such hours, as MAS may specify by notice in writing, at the licensee's permanent place of business to respond to any queries or related to AML/CFT, or complaints from any DT service user that uses any DT service provided by the licensee or is a customer of the licensee. Under FSM-N32, we propose to require such a person to be present at the permanent place of business for at least 10 days a month, and for at least eight hours for each of those days during its normal business hours, unless an exception applies. This is to ensure that the public has ample opportunity to reach the licensee.
- 7.3. Under FSM-N33, licensees will be required to provide their customers with a specified risk warning statement in order to ensure that customers of licensees understand that they are exposed to the risk of the licensees losing their value.
- 7.4. MAS also proposes to require the scope of regulation of a licensee under the FSM Act to be accurately represented. This is to ensure that the public has a correct understanding of the extent to which each licensee's is regulated under the FSM Act. Where MAS alerts any licensee of a third party that has made a false or misleading statement about the licensee's scope of regulation, the licensee will be required to request the third party to correct the statement. To avoid doubt, this does not require the licensee to take legal action against the third party.

*Question 13. **Requirements on conduct, disclosure, and communications.** MAS seeks comments on the draft FSM-N32 and FSM-N33. In particular, please let us have your views on the requirements relating to the proposed operating days and hours (under FSM-N32). In addition, MAS seeks comments on the disclosure requirements as well as requirements concerning false or misleading scope of regulation.*



## 8. Guidelines applicable to licensees

- 8.1. Consequential to the enactment of the DTSP Provisions, Guideline No. FSG-G01 (Guidelines on Fit and Proper Criteria) will be amended to apply to all licensees.
- 8.2. Guidelines that apply to all financial institutions such as the Guidelines on Risk Management Practices – Technology Risk, Guidelines on Business Continuity Management and Guidelines on Outsourcing do not need to be amended, and will apply to all licensees.

*Question 14. **Guidelines.** MAS seeks comments on the application of the guidelines referred to paragraphs 8.1 and 8.2 to licensees.*



## 9. Annex A – List of Questions

- Question 1. **Licencing processes, and fees.** MAS seeks comments on the processes and timelines for licence application and lapsing, as well as the fee structures and the quantum of the fees proposed. 9
- Question 2. **Minimum financial requirements.** MAS seeks comments on the quantum and components of the proposed minimum financial requirements 10
- Question 3. **Duties of the CEO, directors and partners of the licensee, and audit requirements.** MAS seeks comments on the proposed duties of the CEO, directors, and partners of the licensee. MAS also seeks comments on the audit requirements. 10
- Question 4. **General comments.** If you have comments on the measures proposed in parts 5-8, please set them out in response to this question. 12
- Question 5. **Existing Customers.** MAS seeks comments on the requirements for existing customers that were onboarded by the licensee prior to obtaining its licence. (Please refer to paragraph 6.54 and 6.55 of the draft FSM Notice) 13
- Question 6. **Reliance on Third Party .** MAS seeks comments on whether third party reliance is appropriate for the sector. (Please refer to paragraph 11 of the draft FSM Notice) 14
- Question 7. **Reliance on Third Party.** MAS seeks comments on the proposed amendments to the other AML/CFT notices. 15
- Question 8. **Correspondent Account Services.** MAS seeks comments on whether the proposed requirements for Correspondent Account Services set out in paragraph 5.6 would be applicable to the sector. (Please refer to paragraph 12 of the draft FSM Notice) 15
- Question 9. **Bearer Negotiable Instruments and Cash Payouts.** MAS seeks comments on the proposal in paragraph 5.8 to apply the prohibition of issuance of bearer negotiable instruments and restriction on cash payout to licensees. (Please refer to paragraph 10 of the draft FSM Notice) 16
- Question 10. **Value Transfer Requirements for DT Services.** MAS seeks comments on the type of information that accompanies or relates to value transfers that would be relevant for law enforcement purposes, and the type of records that should be kept. Please also provide examples of how this requirement could be operationalised in practice, including industry-wide initiatives. (Please refer to paragraph 14 of the draft FSM Notice) 17
- Question 11. **Reporting requirements.** MAS seeks comments on the draft FSM-N28 and FSM-N29. 18
- Question 12. **Technology risk management and cyber hygiene requirements.** MAS seeks comments on the draft FSM-N30 and FSM-N31. 20



- Question 13. **Requirements on conduct, disclosure, and communications.** MAS seeks comments on the draft FSM-N32 and FSM-N33. In particular, please let us have your views on the requirements relating to the proposed operating days and hours (under FSM-N32). In addition, MAS seeks comments on the disclosure requirements as well as requirements concerning false or misleading scope of regulation. 21
- Question 14. **Guidelines.** MAS seeks comments on the application of the guidelines referred to paragraphs 8.1 and 8.2 to licensees. 22





## 10. Annex B – Proposed amendments to other AML/CFT notices

### Proposed Amendment (I)<sup>9</sup>

For the purposes of paragraph x, “third party” means –

...

(b) a financial institution which is subject to and supervised by a foreign authority for compliance with AML/CFT requirements consistent with standards set by the FATF (other than a ~~holder of a payment services licence under the PS Act, or equivalent licences~~ Foreign FI); and

(c) the parent entity, the branches and subsidiaries of the parent entity, and other related corporations, of a payment service provider (~~except where such entity is a holder of a payment services licence under the PS Act, or equivalent licences~~ other than an Entity X).

...

(xi) “Foreign FI” means a financial institution which (i) is subject to and supervised by a foreign authority for compliance with AML/CFT requirements consistent with standards set by FATF; (ii) holds a licence equivalent to a payment services licence under the [PS Act] or a digital token service provider licence under the FSM Act; and (iii) does not hold any other financial services licence other than the licence mentioned in (ii) .

(xii) “Entity X” means an entity which (i) holds a payment services licence under the [PS Act] or a digital token service provider licence under the FSM Act, or equivalent licences; and (iii) does not hold any other financial services licence other than the licence mentioned in (i) .

### Proposed Amendment (II)<sup>10</sup>

For the purposes of paragraph x, “third party” means –

...

(b) a financial institution which is subject to and supervised by a foreign authority for compliance with AML/CFT requirements consistent with standards set by the FATF (other than a ~~holder of a payment services licence under the Payment Services Act 2019, or equivalent licences~~ Foreign FI); and

(c) in relation to an approved trustee, its branches, subsidiaries, parent entity, the branches and subsidiaries of the parent entity, and other related corporations (~~other than an~~ Entity X)

...

(xi) “Foreign FI” means a financial institution which (i) is subject to and supervised by a foreign authority for compliance with AML/CFT requirements consistent with standards set by FATF; (ii) holds a licence equivalent to a payment services licence under the [PS Act] or a digital token service provider licence under the FSM Act; and (iii) does not hold any other financial services licence other than the licence mentioned in (ii).

<sup>9</sup> Proposed Amendment (I) will be applied to MAS Notice PSN01 and MAS Notice PSN02

<sup>10</sup> Proposed Amendment (II) will be applied to MAS Notice SFA 13-N01(Approved Trustees)



(xii) “Entity X” means an entity which (i) holds a payment services license under the [PS Act] or a digital token service provider license under the FSM Act, or equivalent licences; and (iii) does not hold any other financial services licence other than the licence mentioned in (i).

**Proposed Amendment (III)<sup>11</sup>**

For the purposes of paragraph x, “third party” means –

...

- (b) a financial institution which is subject to and supervised by a foreign authority for compliance with AML/CFT requirements consistent with standards set by the FATF (other than a ~~holder of a payment services licence under the PS Act, or equivalent licences~~ Foreign FI);
- (c) in relation to a [FI] incorporated in Singapore, its branches, subsidiaries, parent entity, the branches and subsidiaries of the parent entity, and other related corporations (~~other than an Entity X~~); or
- (d) in relation to a [FI] incorporated outside Singapore, its head office, its parent entity, the branches and subsidiaries of the head office, the branches and subsidiaries of the parent entity, and other related corporations (~~other than an Entity X~~).

...

(xi) “Foreign FI” means a financial institution which (i) is subject to and supervised by a foreign authority for compliance with AML/CFT requirements consistent with standards set by FATF; (ii) holds a licence equivalent to a payment services license under the [PS Act] or a digital token service provider license under the FSM Act; and (iii) does not hold any other financial services licence other than the licence mentioned in (ii).

(xii) “Entity X” means an entity which (i) holds a payment services license under the [PS Act] or a digital token service provider license under the FSM Act, or equivalent licences; and (iii) does not hold any other financial services licence other than the licence mentioned in (i).

**Proposed Amendment (IV)<sup>12</sup>**

For the purposes of paragraph x, “third party” means –

...

- (b) a financial institution which is subject to and supervised by a foreign authority for compliance with AML/CFT requirements consistent with standards set by the FATF (other than a ~~holder of a payment services licence under the Payment Services Act 2019, or equivalent licences~~ Foreign FI);
- (c) in relation to a financial adviser incorporated in Singapore, its branches, subsidiaries, ~~parent entity~~, the branches and subsidiaries of the parent entity, and other related corporations (~~other than an Entity X~~); or
- (d) in relation to a financial adviser incorporated outside Singapore, its head office, ~~its parent entity~~, the branches and subsidiaries of the head office, the branches and subsidiaries of the parent entity, and other related corporations (~~other than an Entity X~~).

...

<sup>11</sup> Proposed Amendment (III) will be applied to MAS Notice 1014 (Merchant Banks), MAS Notice 314 (Direct Life Insurers), MAS Notice 626 (Banks), MAS Notice 824 (Finance companies), MAS Notice SFA04-N02 (Capital Market Intermediaries), MAS Notice TCA-N03 (Trust Companies), MAS Notice PSM-N01 (FIs dealing in Precious Stones and Precious Metals).

<sup>12</sup> Proposed Amendment (IV) will be applied to MAS Notice FAA-N06 (Financial Advisers).



(xi) “Foreign FI” means a financial institution which (i) is subject to and supervised by a foreign authority for compliance with AML/CFT requirements consistent with standards set by FATF; (ii) holds a licence equivalent to a payment services license under the [PS Act] or a digital token service provider license under the FSM Act; and (iii) does not hold any other financial services licence other than the licence mentioned in (ii).

(xii) “Entity X” means an entity which (i) holds a payment services license under the [PS Act] or a digital token service provider license under the FSM Act, or equivalent licences; and (iii) does not hold any other financial services licence other than the licence mentioned in (i).

**Proposed Amendment (V)<sup>13</sup>**

For the purposes of paragraph x, “third party” means –

- ...
- (b) a financial institution which is subject to and supervised by a foreign authority for compliance with AML/CFT requirements consistent with standards set by the FATF (other than a ~~holder of a payment services licence that entitles the person to carry on a business of providing a money changing service or a cross-border money transfer service, or both, who are holders of a money-changer’s licence or a remittance licence (as the case may be) immediately before the appointed date, or equivalent licences~~ Foreign FI)
- ...

(xi) “Foreign FI” means a financial institution which (i) is subject to and supervised by a foreign authority for compliance with AML/CFT requirements consistent with standards set by FATF; (ii) holds a licence equivalent to a payment services license under the [PS Act] or a digital token service provider license under the FSM Act; and (iii) does not hold any other financial services licence other than the licence mentioned in (ii).

**Proposed Amendment (VI)<sup>14</sup>**

A VCC shall ensure that the eligible financial institution it engages will only rely on a third party to perform the measures as required by paragraphs 7, 8 and 9 if the following requirements are met:

- (a) the third party is –

- ...
- (i) a financial institution which is subject to and supervised by a foreign authority for compliance with AML/CFT requirements consistent with standards set by the FATF (other than a ~~holder of a payment services licence under the Payment Services Act 2019, or equivalent licences~~ Foreign FI)
- ...

(xi) “Foreign FI” means a financial institution which (i) is subject to and supervised by a foreign authority for compliance with AML/CFT requirements consistent with standards set by FATF; (ii) holds a licence equivalent to a payment services license under the [PS Act] or a digital token service provider license under the FSM Act; and (iii) does not hold any other financial services licence other than the licence mentioned in (ii).

<sup>13</sup> Proposed Amendment (V) will be applied to MAS Notice PSN01AA (Transitional arrangement for exempted persons providing account issuance services)

<sup>14</sup> Proposed Amendment (VI) will be applied to MAS Notice VCC-N01 (Variable Capital Companies)



**Proposed Amendment (VII)<sup>15</sup>**

For the purposes of paragraph x, “third party” means –

...

- (b) a financial institution which is subject to and supervised by a foreign authority for compliance with AML/CFT requirements consistent with standards set by the FATF (other than a ~~holder of a payment services licence under the PS Act~~ Foreign FI); and

...

(xi) “Foreign FI” means a financial institution which (i) is subject to and supervised by a foreign authority for compliance with AML/CFT requirements consistent with standards set by FATF; (ii) holds a licence equivalent to a payment services licence under the [PS Act] or a digital token service provider licence under the FSM Act; and (iii) does not hold any other financial services licence other than the licence mentioned in (ii).

**Proposed Amendment (VIII)<sup>16</sup>**

For the purposes of paragraph x, “third party” means –

...

- (b) a financial institution which is subject to and supervised by a foreign authority for compliance with AML/CFT requirements consistent with standards set by the FATF (other than a ~~Foreign FI holder of a payment services licence under the Payment Services Act 2019, or equivalent licences~~); and

...

(xi) “Foreign FI” means a financial institution which (i) is subject to and supervised by a foreign authority for compliance with AML/CFT requirements consistent with standards set by FATF; (ii) holds a licence equivalent to a payment services licence under the [PS Act] or a digital token service provider licence under the FSM Act; and (iii) does not hold any other financial services licence other than the licence mentioned in (ii).

<sup>15</sup> Proposed Amendment (VII) will be applied to MAS Notice 626A (Credit Card or Charge Card Licensees))

<sup>16</sup> Proposed Amendment (VIII) will be applied to SFA03AA-N01 (Depository)