



Monetary Authority of Singapore

Response to Feedback Received

P008 – 2022 – 3 July 2023

Response to Public Consultation on Proposed Regulatory Measures for Digital Payment Token Services (Part 1)



Contents

1. Preface	3
2. Measures Relating to Segregation and Custody of Customers' Assets	5
3. Measures Relating to DPTSPs' Lending and Staking of Retail Customers' Assets	16



1. Preface

- 1.1. On 26 October 2022, MAS issued a consultation paper setting out its proposed regulatory measures for licensed and exempt¹ payment service providers that carry on a business of providing a digital payment token (“DPT”) service under the Payment Services Act 2019 (“PS Act”) (collectively known as “DPT service providers” or “DPTSPs”).
- 1.2. The consultation period closed on 21 December 2022. MAS received many responses from a wide range of respondents, including industry associations, DPTSPs and other financial institutions, professional services firms as well as interested individuals. Arising from the feedback received during the consultation process and requests for further clarification received from respondents, MAS had followed up with further engagements and consultations with relevant stakeholders. MAS would like to thank all respondents for their suggestions and contributions, which MAS has carefully considered and taken into account in MAS’ policy responses.
- 1.3. MAS will publish the response to the consultation feedback in parts. Part 1 of the consultation response, covered in this paper, focuses on the requirements for segregation and custody of customers’ assets. These requirements will be formalised through guidelines and legislative amendments to the Payment Services Regulations 2019 which is open for public consultation until 3 August 2023 [[link](#)]. Part 2 of the consultation response will cover the remaining regulatory measures, including those on consumer access safeguards.
- 1.4. The list of respondents who submitted their feedback to the proposed segregation and custody requirements under Questions 6 to 10 of the consultation paper is set out in Annex A and their submissions are set out in Annex B. The annexes may be accessed at this [link](#). MAS has carefully considered the feedback received and has incorporated them where appropriate. Comments that are of a wider interest, together with MAS’ responses, are set out below.
- 1.5. In addition, MAS had consulted on the broad regulatory approach on market integrity in the October 2022 consultation paper. The submissions to the good industry practices suggested under Questions 15 and 16 of the consultation paper are set out in Annex C of this paper, which may be accessed at this [link](#). Most respondents agreed with MAS’ observations on good industry practices to address concerns on the risks of market manipulation and abusive trading practices, and some respondents suggested that MAS should impose further measures to prevent market abuse and unfair trading practices. In

¹ These include persons who are currently operating under the transitional exemption as they have been providing DPT services before the commencement of the PS Act and have notified MAS pursuant to the Payment Services (Exemption for Specified Period) Regulations 2019. These entities are not licensed under the PS Act but are allowed to continue to provide DPT services while their licence applications are being reviewed by MAS.



this regard, MAS is following up with a new public consultation paper setting out specific regulatory measures that DPTSPs should put in place to ensure market integrity and prevention of market abuse. The consultation paper can be accessed at this [link](#).



2. Measures Relating to Segregation and Custody of Customers' Assets

Segregation of Customers' Assets

- 2.1. To safeguard customers' assets² in the event of DPTSPs' insolvency, MAS had proposed to require DPTSPs to segregate customers' assets from their own assets, and to hold these customers' assets on trust for the benefit of the customer. Such arrangements will help to mitigate the risk of loss or misuse of customers' assets during the DPTSP's ordinary course of business and facilitate the return of customers' assets in the event of the DPTSP's insolvency.
- 2.2. Most respondents supported the proposal, noting that it would be consistent with the existing requirements imposed on capital markets services licensees under the Securities and Futures Act 2001 ("SFA"), which also require customers' assets to be deposited in a trust account. Several respondents however suggested that DPTSPs should be allowed to commingle customers' assets with their own assets, as long as the customer had consented to this arrangement and the DPTSP has warned the customer of the risk of losing all its DPTs.
- 2.3. Several respondents suggested that segregation of customers' assets should mean the use of separate blockchain addresses for customers' assets and the DPTSPs' own assets. Other respondents noted that, in practice, there may be a short period of time during which a DPTSP keeps its own assets and customers' assets in the same account.
- 2.4. The majority of respondents agreed that a DPTSP should be allowed to deposit a customer's assets in the same trust account as the assets of the DPTSP's other customers. However, a few respondents disagreed, suggesting that DPTSPs should be required to segregate each customer's assets from other customers' assets in separate blockchain addresses ("individual segregation"), which could provide customers with greater transparency by allowing them to identify and verify their own holdings.

² For the purposes of this response paper, customers' assets do not include customers' moneys unless otherwise stated. The measures to safeguard customers' moneys are set out separately in paragraphs 2.7 to 2.9.



MAS' response

- 2.5. MAS will proceed with the proposal to require a DPTSP to ensure that its customers' assets are properly segregated from the DPTSP's own assets and held on trust for the benefit of its customers. This includes keeping customers' assets on a separate set of blockchain addresses from those containing the DPTSP's own assets. MAS disagrees with the suggestion to allow DPTSPs to commingle their customers' assets with their own assets, even with customer consent. The recent failures in the cryptocurrency space underscores the importance of DPTSPs having effective asset segregation requirements to protect customers' assets.
- 2.6. MAS will also proceed with the proposal to allow a DPTSP to deposit a customer's assets in a trust account together with assets of its other customers. In other words, individual customers' assets can be commingled in an aggregated pool, but this pool must be kept separate from the DPTSP's own assets. The risks of such arrangements, as well as steps taken by the DPTSP to mitigate them, will have to be clearly disclosed by the DPTSP to its customers. While certain customer segments, for example institutional customers, may prefer their assets to be individually segregated, MAS notes that there are also other customers who do not consider individual segregation to be necessary, given the costs that may be passed on to them. MAS will continue to monitor the developments on this front, taking into consideration the needs of the industry and the interests of consumers.

Safeguarding of Customers' Moneys

- 2.7. Several respondents noted that there are existing requirements under the PS Act³ that require certain payment service providers to safeguard customers' moneys by: (i) obtaining an undertaking from a safeguarding institution; (ii) obtaining a guarantee given by a safeguarding institution; or (iii) depositing moneys in a trust account maintained with a safeguarding institution. They suggested that DPTSPs should be subject to the same means of safeguarding customers' moneys.
- 2.8. While the existing requirements under the PS Act permit only certain financial institutions in Singapore⁴ to be used to safeguard customers' moneys, one respondent suggested that DPTSPs should be allowed to keep customers' moneys with foreign institutions licensed outside of Singapore, to better facilitate non-Singapore dollar currency transactions.

³ Section 23 of the PS Act.

⁴ This refers to a bank in Singapore; a merchant bank that holds a merchant bank licence, or is treated as having been granted a merchant bank licence, under the Banking Act 1970; a finance company licensed under the Finances Companies Act 1967; or a financial guarantee insurer.



MAS' response

- 2.9. MAS will extend the existing requirements on the safeguarding of customers' moneys to DPTSPs. As with the existing requirements, customers' moneys will be required to be safeguarded with financial institutions in Singapore, which will facilitate the recovery of customers' moneys in the event of a DPTSP's insolvency.

Daily Reconciliation of Customers' Assets

- 2.10. A majority of respondents supported the proposal that DPTSPs conduct daily reconciliation of customers' assets and customers' moneys. On the frequency of reconciliation, one respondent was of the view that daily reconciliation would not be practical, while another respondent suggested that DPTSPs be allowed to reconcile customers' assets less frequently if they do not exceed specified value thresholds. A few other respondents suggested instead that customers' assets should be reconciled more frequently, such as on a real-time basis.
- 2.11. Several respondents sought clarification on the records that DPTSPs would be required to keep in relation to the customers' assets. Several respondents also suggested that DPTSPs be required to publish "Proof of Reserves"⁵, which could provide transparency and evidence of the DPTSPs' holdings of customers' assets.

MAS' response

- 2.12. MAS will proceed with the proposal to require daily reconciliation of customers' assets, including moneys, and for the reconciliation to be performed at the entity-level, instead of on a group-level or on a consolidated basis. These are in line with reconciliation requirements for capital markets intermediaries under the Securities and Futures (Licensing and Conduct of Business) Regulations (Rg 10) ("SF LCB Regs").
- 2.13. MAS will also require DPTSPs to keep transaction records, and maintain separate books and records for each customer with details of the customer's assets at all times. These details include the amount and description of the customer's assets deposited with the DPTSP, the movement of assets to and

⁵ "Proof of Reserves" may be understood to refer to a method of verifying that an entity has sufficient reserves backing the assets it holds in custody on behalf of its customers.



from the customer's custody account, and the names of the safeguarding institutions with whom the customer's assets are deposited or held.

- 2.14. On the suggestion that DPTSPs be required to publish "Proof of Reserves", MAS notes that "Proof of Reserves" do not necessarily address the liabilities of the DPTSP and would hence be limited in its use as a reconciliation and verification tool. Instead, MAS will require DPTSPs to be independently audited on their compliance with the segregation and custody requirements, as noted in paragraph 2.28 below.

Statement of Account

- 2.15. Most respondents agreed with the proposal to require DPTSPs to provide customers with a statement of account, comprising information on the customer's assets and transactions, minimally on a monthly basis.
- 2.16. Several respondents suggested that DPTSPs could be exempted from the requirement to provide statements of account under similar exemptions as those provided under the SF LCB Regs, such as where a DPTSP allows customers to obtain account information on a real-time basis. This is in view that many DPTSPs have digital applications with self-service functionalities that allow customers to obtain the latest account information on a real-time basis. The respondents nevertheless acknowledged that the current exemptions under the SF LCB Regs apply only where the customer is an accredited investor, expert investor, institutional investor, or related corporation.⁶

MAS' response

- 2.17. MAS will proceed with the proposal to require DPTSPs to provide monthly statements of account to customers. MAS agrees that the provision of account information on a real-time basis would be beneficial for customers, including retail customers. Hence, MAS will permit DPTSPs to do so, in lieu of monthly statements of account. Additionally, similar to the exemptions under the SF LCB Regs, DPTSPs will also be exempted from the requirement to provide monthly statements of account to all customers if:
- i. there is no change to any particulars since the date on which the last statement of account was made; or

⁶ Regulation 40(1) of the SF LCB Regs.



- ii. the customer has requested, in writing, not to receive the statement of account on a monthly basis from the DPTSP.

Risk Management Controls for Customers' Assets

2.18. MAS sought comments on the proposed risk management controls to safeguard the private keys and storage of customers' DPTs. These control measures include:

- i. instituting processes that restrict any one staff from being able to authorise and effect the movement, transfer or withdrawal of customers' DPTs;
- ii. controlling movement or transfer of DPTs between the DPTSP's pre-approved hot, warm and cold wallets⁷;
- iii. implementing operational controls to prevent the loss of cryptographic keys of DPTs that are held or managed by DPTSPs;
- iv. storing a suitably high proportion of customers' DPTs in cold wallets; and
- v. establishing a compensation process to handle any loss of such customers' DPTs, arising from incidents that are attributable to the operations of the DPTSP.

2.19. Respondents were generally supportive of the proposed risk management controls for ensuring the integrity and security of customers' assets. Many respondents emphasised the importance of putting in place effective measures to safeguard private keys of customers' DPTs. Several respondents suggested that DPTSPs be provided with the flexibility to implement appropriate measures proportionate to the risks posed by their business models. They highlighted the importance of balancing risk management controls with operational demands, such as the timely withdrawal of DPTs.

2.20. A number of respondents sought guidance on the control measures for movement and transfer of customers' DPTs. They noted that several jurisdictions required the personnel or controllers who have access to customers' DPTs to reside within the jurisdiction, or the devices which stored customers' DPTs to be located within the jurisdiction. Several respondents acknowledged that these controls could help to better protect customers' assets, and sought clarification on MAS' expectations of these risk management controls.

⁷ Hot wallets are digital wallets which are connected to the internet and are always online. Warm wallets are hybrid between hot and cold wallets. Cold wallets are wallets which are not connected to the internet.



- 2.21. A number of respondents also sought guidance on the percentage of customers' DPTs which should be held in cold wallets. Many respondents were supportive of requiring DPTSPs to store a suitably high proportion of customers' DPTs in cold wallets, agreeing with the need to ensure the security of customers' DPTs, while noting that some amount of customers' DPTs should be allowed to be kept in hot or warm wallets for operational efficiency. On one hand, several respondents sought clarity on whether MAS would set a specific threshold of customers' DPTs to be stored in cold wallets, noting that several jurisdictions had done so. On the other hand, some respondents suggested that DPTSPs be provided with the flexibility to determine the appropriate proportion, and one other respondent suggested that DPTSPs be required to keep DPTs in cold wallets only when they are in excess of specified value thresholds.

MAS' response

- 2.22. MAS will proceed with the proposed risk management controls. Specifically, MAS will require DPTSPs to maintain adequate systems, processes, controls, human resources, and governance arrangements to ensure the integrity and security of customers' assets and mitigate the risk of any loss of customers' assets, in a manner that is commensurate with the nature, scale, and complexity of their business.
- 2.23. MAS has carefully considered the feedback and useful suggestions from respondents, who also asked for details of the risk management controls to be expected of DPTSPs. To provide guidance for the operational controls in handling customers' assets held by DPTSPs and the measures expected of DPTSPs in mitigating the risk of dissipation of customers' assets, DPTSPs should put in place robust and effective measures to ensure that the movement of customers' assets is controlled by senior managers and personnel who reside in Singapore. These senior managers and personnel should be authorised to facilitate the return of customers' assets where required by MAS or in court proceedings.
- 2.24. MAS will also require DPTSPs to implement operational controls to prevent the loss of cryptographic keys of DPTs that are held or managed by DPTSPs. MAS had considered implementing a specific requirement for DPTSPs to have devices storing means of access⁸ to customers' DPTs located in Singapore. This would be a form of additional control, and would facilitate operational access to customers' assets. MAS had sought further views from industry stakeholders on the feasibility and effectiveness of this requirement, and carefully considered the feedback received to assess the readiness of custody infrastructure to safeguard such means of access in Singapore. After considering the ongoing global regulatory and technological developments, MAS will not, at this time, be implementing any requirement to have the devices located in Singapore. MAS will continue to monitor

⁸ This generally refers to private keys, seed keys or backup recovery packages.



developments in this space, and review whether there is a need to implement this, or consider other types of requirements to enhance the integrity, security and recoverability of customers' assets.

- 2.25. In the meantime, MAS strongly encourages DPTSPs to take proactive steps to adopt technological solutions that enable the development of local custody solutions and strong risk management expertise, including putting in place appropriate and practical arrangements to keep such devices locally, that will strengthen the risk management controls of their business in Singapore. For clarity and transparency to consumers, DPTSPs should assess and clearly disclose to customers their custody arrangements as to the location of devices, and whether such arrangements affect the ability of the DPTSP and its customers to recover customers' assets.
- 2.26. With regard to the storage of customers' DPTs in cold wallets to mitigate the risk of loss of customers' assets due to security breaches or external theft, MAS has considered the feedback received from respondents on the suitable proportions of customers' DPTs that should be stored in cold wallets, and will proceed as follows:
- i. MAS considers that a minimum proportion requirement should be set to provide clarity on MAS' expectations for DPTSPs to store customers' DPTs in cold wallets. MAS has taken into account the supportive feedback on needing to have a sufficiently high proportion of customers' DPTs kept in cold wallets, while also having the flexibility for some to be kept outside cold wallets for operational efficiency. As such, MAS considers that an appropriate balance to strike is to have DPTSPs keep at least 90% of customers' DPTs in cold wallets, while allowing up to 10% to be kept in other wallets (e.g., hot wallets);
 - ii. DPTSPs are also expected to conduct periodic reviews and consider keeping a higher than 90% proportion of customers' assets in cold wallets, while taking into account their business and operational needs and other security controls that can mitigate the risk of loss of customers' assets; and
 - iii. DPTSPs should also disclose to customers their policies on storage arrangements for customers' assets, including information on the circumstances under which the DPTSP keeps the customers' assets in storage media that are connected to the Internet (e.g., hot wallets), the DPTSP's considerations in doing so, the measures that the DPTSP has in place to mitigate the risk of loss, and processes for handling any losses of customers' assets, such as compensation arrangement or insurance.
- 2.27. DPTSPs are also expected to adopt good risk management practices, including best practices stipulated under the Technology Risk Management Guidelines⁹, which among others, apply principles such as "never alone", "segregation of duties", and "least privilege". MAS expects DPTSPs to put in place

⁹ Guidelines on Risk Management Practices – Technology Risk ([link here](#)).



stringent processes and controls with strong governance and oversight by senior managers who have good knowledge and capability to safeguard against technology risk and be responsible for the safety and operation of the business.

- 2.28. Licensed DPTSPs are currently required to be audited annually in respect of their observance of the requirements under the PS Act. With the introduction of these segregation and custody requirements, the audits will also include an assessment on DPTSPs' compliance with these requirements as well.

Requiring an Independent Custodian

- 2.29. MAS sought views on whether to require DPTSPs to appoint an independent custodian to hold customers' assets and whether there are other more effective measures to address concerns over the risk of internal fraud or misappropriation.
- 2.30. Several respondents agreed with requiring DPTSPs to appoint an independent custodian, as they were of the view that the independent custodian: (i) provides an independent verification of customers' assets held in custody; and (ii) can reduce financial contagion risks and facilitate a liquidator's administration of customers' assets in the event of the DPTSP's insolvency.
- 2.31. However, the majority of respondents disagreed, as they were of the view that requiring an independent custodian may: (i) introduce significant concentration risks, given the limited number of independent custodians available; (ii) introduce additional operational risks and liquidity risks; or (iii) not be feasible, as independent custodians do not support the full range of DPTs that a DPTSP might offer to its customers. Several respondents suggested that the requirement be imposed only on DPTSPs which are larger in scale or more complex, or where the customers' assets exceed a specified value threshold.
- 2.32. Two respondents suggested that a DPTSP's custody function should be separated from its operation of an exchange and other similar trading functions, which would be comparable to existing practices in the securities space.

MAS' response

- 2.33. MAS has carefully considered the consultation feedback. MAS notes that there is a limited number of established independent third-party custodians at this time. In addition, we also note that mandating



that DPTSPs only hold customers' assets with independent third-party custodians is not currently an approach required by global regulators or standard-setting bodies.

- 2.34. On balance, MAS will not, at this time, be mandating the use of independent custodians for customer assets. To mitigate the risk of internal fraud and misappropriation of customer assets, MAS will require that DPTSPs maintain a separate custody function that is operationally independent from other business units. This means that DPTSPs are required to adopt good risk management practices, including relevant best practices stipulated under MAS' Risk Management Practices for Internal Controls¹⁰, that reduce the risk of any loss of customers' assets due to internal fraud or negligence. Among other internal controls, DPTSPs should:
- i. have proper checks and balances with periodic reviews to assess the effectiveness of the overall risk management framework;
 - ii. ensure adequate segregation of duties to guard against the risk of unauthorised transactions, fraudulent activities and manipulation of data for personal gain or for concealment of irregularities or financial losses; and
 - iii. conduct periodic reviews of the responsibilities of key personnel to minimise areas of potential conflicts of interest and ensure that there are independent checks for proper segregation of duties.
- 2.35. While considering the feedback received, MAS also noted that the use of an independent custodian could function as an additional layer of control to further mitigate the risk of misappropriation and internal fraud. Whatever the custody arrangements DPTSPs choose to put in place, MAS expects DPTSPs to continually review, identify, assess and implement appropriate arrangements that could further strengthen the overall governance and controls for safeguarding customers' assets, which may include appointing an independent custodian.
- 2.36. Where a DPTSP appoints an external service provider to support its custody of customers' assets, the DPTSP will need to consider, among others, the following measures to:
- i. assess and ensure that the service provider maintains adequate risk management controls to ensure the integrity and security of customers' DPTs;
 - ii. disclose the safeguarding arrangements, terms and conditions and attendant risks to its customers; and

¹⁰ Guidelines on Risk Management Practices – Internal Controls ([link here](#)).



- iii. assess and ensure that the service provider puts in place controls to reduce the risk of loss of assets due to fraud or negligence on the part of the service provider.

2.37. MAS will continue to monitor developments in this space, including ongoing regulatory developments that may call for further guidance on segregation of customer assets, and independence of the custody function.

Disclosures to Customers

2.38. Most respondents agreed with the proposal for DPTSPs to provide clear written disclosures to customers on the segregation arrangements of customers' assets. Several respondents suggested specific areas which the disclosures should address, such as:

- i. conditions under which withdrawal of customers' assets may be suspended (e.g., use of foreign custodians);
- ii. whether customers' assets are used for purposes besides transactions specifically instructed by customers;
- iii. any service providers used by the DPTSP, and if this will involve the transfer of risk between such entities; and
- iv. any other relevant arrangements that DPTSP has put in place to protect customers' assets, if the DPTSP becomes insolvent.

2.39. Several respondents sought clarification on the form of the disclosures. One respondent suggested that DPTSPs be required to make disclosures prominently along the customer journey and in plain English. Another respondent suggested that the written disclosures need to be provided to retail customers only, similar to disclosure requirements under the SFA.

MAS' response

2.40. MAS will require a DPTSP to disclose in writing to its customers –

- i. the terms and conditions, including the arrangements for receiving instructions from the customers and providing information to the customers, and applicable fees and costs;



- ii. that the customers' assets are segregated from the DPTSP's own assets, and held for the benefit of the customers;
 - iii. whether the customers' assets will be commingled with the assets of other customers and, if so, the risks of such commingling; and
 - iv. the consequences for the customers' assets if the DPTSP becomes insolvent, and the arrangements by the DPTSP to protect customers' assets.
- 2.41. The disclosures should be made to all customers in a clear, legible, and concise manner. As the disclosures should be specific to the arrangements of the DPTSP, there will not be a prescribed template or form. MAS welcomes the industry to work together to consider developing standard formats, if this would help customers better understand the risks involved.



3. Measures Relating to DPTSPs' Lending and Staking of Retail Customers' Assets

- 3.1. In the consultation paper, MAS proposed that: (i) DPTSPs should not mortgage, charge, pledge or hypothecate retail customer's DPTs; and (ii) for non-retail customers, DPTSPs should provide a clear risk disclosure document and obtain the customer's explicit consent.
- 3.2. In considering the scope of "retail customer", MAS had noted in the consultation paper that the current framework in place for the classification of customers under the SFA is a useful reference. MAS also sought feedback on options to more clearly define whether and how the value of DPT holdings should be taken into account in a customer's net personal assets when determining eligibility as an accredited investor ("AI"). MAS will be responding to the feedback received on this proposal in the second part of consultation responses. For the purposes of this section, the reference to "retail customer" is to the current classification of retail customers and AI under the SFA.
- 3.3. MAS had observed that DPTSPs may offer attractive yields through lending or staking arrangements. These advertised yields are often much higher than that offered in the traditional financial system, even though the sources of underlying revenue streams may be unclear, unsustainable, or in some cases outrightly fraudulent schemes. Given this, MAS and several respondents have noted that there is potential for significant consumer harm for retail customers if DPTSPs continue to enable or facilitate retail customers to enter into arrangements for these unregulated activities, and in some instances, on unregulated platforms. The proposed restriction is therefore only in relation to DPTSPs' arrangements to lend or stake retail consumers' DPTs, which often also involve unregulated third-party platforms or protocols. The proposal does not restrict retail customers from entering into staking or lending arrangements, outside the DPTSP's platform.
- 3.4. Most respondents agreed that lending and staking posed significant risks to customers' assets, noting that there has been a few platform or protocol failures where consumer losses had been significant. Several respondents also highlighted that retail customers often did not understand what lending and staking arrangements entailed, and could become confused or possibly be misled as to the risks of, and their rights under, such arrangements. This could also lead to a lack of clarity or understanding for the retail customer on the extent of regulatory remit over such activities, especially if the retail customer was entering into such arrangements via a regulated DPTSP's platform.
- 3.5. Several respondents suggested that DPTSPs should continue to be allowed to facilitate lending and staking of retail customers' assets, provided that they clearly disclose the risks and obtain customers' explicit consent to do so. Respondents suggested that the risk disclosures could include information



such as the identity of the counterparty, spread and fees involved, contractual relationship between the customer and the counterparty, investment strategies, and conflicts of interest.

- 3.6. Several respondents cautioned that restricting DPTSPs from facilitating the lending and staking of retail customers' assets could lead retail customers to turn to unregulated platforms. Respondents also suggested that DPTSPs could provide a safer avenue for lending and staking of retail customers' assets, by performing due diligence. Other respondents suggested that DPTSPs could be allowed to facilitate the lending and staking of retail customers' assets, subject to transaction limits.
- 3.7. On staking arrangements specifically, several respondents suggested that staking arrangements could contribute to the proper functioning of blockchain networks that operate on proof-of-stake consensus mechanisms, would involve cash flows which are more transparent, and would generally not involve the same kind of credit risks associated with lending arrangements.

MAS' response

- 3.8. MAS has carefully considered the feedback received from respondents. While respondents generally did not support restricting DPTSPs from facilitating lending and staking of retail customers' assets, MAS has observed from recent collapses of crypto-asset lending and staking programmes involving retail customers globally¹¹ that the lending and staking of customers' assets continue to be a source of significant consumer harm, as customers' assets that they had expected to be returned to them could no longer be recovered.
- 3.9. MAS would like to clarify, in response to feedback received, that retail customers are not prohibited from handling their own assets (e.g. self-staking), including the lending and staking of those assets. Where retail customers wished to engage in these unregulated activities or transact with unregulated platforms or protocols directly (e.g. staking-as-a-service, or pooled staking), they are not prohibited from doing so. However, retail customers will be doing so at their own risk. As with all financial decisions, consumers must take primary responsibility to do their own due diligence, understand the choices they wish to make and obtain the needed information. Retail customers are advised to exercise utmost caution given the high risks of engaging in unregulated activities, and are reminded to be fully aware of the risks and potential for significant losses.
- 3.10. However, MAS has strong concerns with DPTSPs playing a role in facilitating the lending and staking of retail customers' assets. In most cases, once the assets of the retail customer are lent or staked, they

¹¹ The Straits Times, 20 January 2023. "Crypto lending unit of Genesis files for US bankruptcy as crisis deepens"; CNBC, 29 July 2022. "The death of easy money: Why 20% annual returns are over in crypto lending".



may no longer belong to or be controlled by the retail customer, and would not be protected by the segregation and custody requirements imposed on DPTSPs.

- 3.11. Furthermore, retail customers are generally regarded as having less resources to analyse technical information, obtain professional advice, or understand the risks in a meaningful way. Retail customers are also less able to withstand large losses, as compared to institutional investors or more well-resourced customers. In addition, as respondents have also noted, it may not always be clear to retail customers whether or not they continue to deal with an MAS-regulated entity or regulated activity when they enter into staking and lending arrangements via the regulated DPTSP.
- 3.12. MAS has observed that there can be significant consumer harm that results from staking and lending activities, and the inherent conflicts of interest a DPTSP has in facilitating such activities. MAS is of the view that risk disclosures are not sufficient to mitigate the potential consumer harm that arises from DPTSPs' facilitation of lending and staking of retail customers' assets via the DPTSPs' platforms. MAS is taking a more prudent approach at this juncture to restrict DPTSPs from facilitating the lending and staking of retail customers' assets.
- 3.13. As regards the feedback received on the differences between lending and staking arrangements, while MAS agrees that the specific risk profile of various types of staking arrangements would differ, the feedback did not appear sufficient to conclude that staking arrangements, as a class, would necessarily be safer than lending arrangements. While staking arrangements could involve different types of risks (e.g., operational and technological risks), this did not necessarily mean that the probability of risks materialising would be lower, that the quantum lost by the retail customer would be lower, nor that the risks would be more easily understood by retail customers. Furthermore, staking arrangements are often intermediated arrangements, which also additionally introduces credit risks that are associated with lending arrangements. Hence, DPTSPs will be restricted from facilitating staking arrangements for retail customers, in addition to lending of retail customers' assets. Given that staking is still an evolving space, MAS will continue to closely engage the industry and monitor the technological developments.
- 3.14. MAS reminds the public once again that regulations alone are not sufficient to protect consumers from losses, given the extremely risky and speculative nature of DPT trading. Consumers must also remain vigilant and not deal with unregulated entities, including those based overseas, as they risk losing all their assets.
- 3.15. For non-retail customers, there is no restriction on DPTSPs enabling or facilitating the entry to staking or lending arrangements by these customers, and MAS will proceed with the proposal for DPTSPs to provide a clear risk disclosure document and obtain the customer's explicit consent, before lending or staking the customer's assets.