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Singapore to grant licences to digital payments services providers in 'momentous' move for cryptocurrencies

- News that 'several' firms are in line to be licensed by the Monetary Authority of Singapore has been met with fanfare within the industry
- Move cements city's status as Asia's leading crypto-financial hub, experts say, as rivals such as Hong Kong have adopted stricter stances

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Singapore's central bank has told "several" digital payments service providers that they will be granted licences to operate in the city state, in a move analysts say cements its status as Asia's leading crypto-financial hub.

Jason Davis, an associate professor of entrepreneurship and family enterprise at Insead, said it was a "careful next step" into a new category of financial innovation.

Grace Chong, a lawyer from Simmons & Simmons who advises institutions on regulatory and

fintech matters in Singapore, said the development was timely.

"Technological change is upending finance and we are seeing strong institutional interest in digital assets," she said, adding that banks and asset managers had been building their digital assets offerings.

Previously, Australian cryptocurrency exchange Independent Reserve said it had received an "in-principle approval" from the Monetary Authority of Singapore (MAS) to be licensed as a regulated provider of digital payment token services. In a media statement, it said it was one of the first virtual asset service providers to be granted such approvals.

The MAS confirmed to *This Week In Asia* that it had notified several out of 170 applications it had received that it was "prepared to grant them payment services licences". But these applicants needed to put in place measures to meet its requirements to operate as a licensee, it added.

The announcement was greeted with fanfare within the industry. Chong said it was "momentous" for the crypto sector, and Kenneth Bok, the chief executive at blockchain advisory Blocks, said people were reacting positively. "I think it gives certainty to many legit crypto companies who have established operations here," said Bok.

The central bank's move comes as governments around the world continue to assess how best to regulate the borderless cryptocurrencies , which have rocketed in popularity, amid concerns that such markets could facilitate illegal activities like tax evasion and terrorism financing.

People are realising that Singapore regulators are more open to experimenting because it's a small economy and decisions can be made fasterSumit Agarwal

The United States has said it will require crypto transfers involving big amounts to be reported, while China has taken a tougher approach, launching a campaign against bitcoin trading and mining.

Observers said the news was likely to accelerate the number of cryptocurrency firms moving to Singapore. The city state has long been viewed favourably by those in financial services for its political stability and regulators that are open to experimentation.

Chong estimated that 90 digital payment token service providers were already operating under exemption in Singapore. Singapore in January last year adopted cryptocurrency legislation that required payment services to hold a financial licence, but it also exempted some firms and allowed them to operate while applying for the licence.

Firms with exemptions include Binance, one of the largest crypto exchanges in the world. Its founder and chief executive Changpeng Zhao has even set up home in the city state. Elsewhere, Binance is facing regulatory scrutiny, including in Britain, Germany, Hong Kong and Italy.

It also recently faced enforcement action across the border in Malaysia with the Securities Commission Malaysia saying Binance was illegally operating a Digital Asset Exchange and ordering its website and mobile apps to be disabled.

"Enabling cryptocurrency exchanges to operate in Singapore is an important part of the country's strategy to be friendly to businesses using new digital types of assets," said Davis, the Insead professor.

Sumit Agarwal, a professor of finance and economics at the National University of Singapore, said the development represented "slow and steady" progress in recognising the role of cryptocurrency in the new financial landscape.

"People are realising that Singapore regulators are more open to experimenting because it's a small economy and decisions can be made faster," he said.

The development also comes amid growing anxiety about Hong Kong's future as an international city. Agarwal said Hong Kong had been dealt several blows including the

2019 anti-government protests , the pandemic, and more recently, a "clampdown" by Beijing.

There had been concerns that Beijing's growing influence on Hong Kong's policies could harm the business climate, he said. "That creates fear in the minds of investors," he added.

Singapore's DBS to launch digital currency exchange

Hong Kong has adopted a stricter stance on digital assets compared to Singapore. The city, often viewed as a rival to Singapore, has previously said it would forbid licensed platforms from servicing retail investors and was enhancing its anti-money-laundering and counterterrorism financing regulations.

Agarwal said the new development to formalise cryptocurrency exchanges would grant the Singapore government greater oversight and control over activities.

He noted that central banks around the world had been navigating this space cautiously and trying to improve cryptocurrency exchanges. Authorities knew that without approved exchanges, transactions would go “underground” and it would be hard to track trades, he said.

Cryptocurrency volatility highlighted by China’s recent crackdown and Elon Musk comments

Already, the MAS had rejected two applications while 30 were withdrawn “after engagement with MAS”, the central bank said. It said some applicants did not meet its standards “in the area of money laundering and terrorism financing and technology risk controls”.

Zennon Kapron, director of fintech research and consulting firm Kapronasia, said Singapore was working to position itself as a leading crypto-jurisdiction.

He said crypto-exchanges around the world have generally pursued one of two strategies: “Tick all the boxes and make sure they are compliant, or operate in a regulatory grey area.”

Singapore was clearly looking for more established exchanges with strong operating and compliance procedures in place, similar to Independent Reserve, said Kapron.

US, China regulators have a problem with bitcoin. Singapore has solutions

Agarwal added that what Singapore wanted was to monitor the exchanges and make sure there were no illicit activities. “By creating these exchanges, all players – regulators, market participants, people who are trading and even buyers and sellers – know exactly what is going on,” he said.

Transactions on regulated exchanges were captured and governments able to review them, which was particularly important given fears over terrorism financing and money laundering, he said. Central banks could also track if there was tax evasion or corruption, he said. This is similar to how banks have to report transactions over US$10,000.

The upcoming approval of the first batch of service providers, including Australia’s Independent Reserve, would serve as a good test for Singapore authorities, said Agarwal. Once they were able to develop a successful model, it would be easily replicated for other exchanges.

Is cryptocurrency too risky for China?

Chong agreed, saying that MAS would adapt its rules as needed to make sure regulation remained “effective and commensurate with the risks posed”.

Davis, the associate professor, said he expected more cryptocurrency exchanges to seek approval to operate in Singapore but it was too early to say if this could herald any long-run advantages.

For example, one thing to watch was whether Singapore could attract firms working on newer and more “exciting” applications of crypto-blockchain technology, such as non-fungible tokens, he said.

“A real test will be if these companies and entrepreneurs prefer to preferentially locate in Singapore versus other jurisdictions,” said Davis. “The exchanges may be only the first step in the development of a thriving crypto-ecosystem in the heart of Southeast Asia.”

While there may be risks involved as the regulation of digital assets is relatively new, Davis suggested these could be mitigated if the authorities and companies are aligned in operating the crypto exchanges in a safe and transparent way. Operators should abide by regulations and seek advice from the central bank when embarking on major strategic decisions, he said.

Agarwal added that the risks were measured. If Singapore did not come up with ways to license exchanges, activities would still continue without checks, he reiterated. “I think the risks will be minimal. If Singapore doesn’t do it, it will also be losing business.”