

LEGAL
ALERT

Singapore
3 January 2018

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Proposed Regulation of Virtual Currency Services

On 21 November 2017, the Monetary Authority of Singapore (MAS) issued a second consultation paper on its proposed Payment Services Bill (“Bill”) which adopts an activity-based approach in the regulatory framework. Under the Bill, entities that undertake any of the following activities are required to be licensed:

- account issuance services;
- domestic money transfer services;
- cross border money transfer services;
- merchant acquisition services;
- e-money issuance;
- virtual currency services; and
- money-changing services.

This legal update focuses on the proposed regulation of virtual currency services under the Bill.

The new Payment Services Bill

MAS proposes to group licensees offering retail payment activities into 3 main licence classes, namely:

- money-changing licence;
- standard payment institution licence; and
- major payment Institution licence.

Money-changing licensees may only provide money-changing services, while licensees from the other two classes may provide any regulated service under the Bill. However, only a major payment institution licensee may carry out payment services above a specified monetary threshold.

Applicants for payment services licences must satisfy stipulated requirements, which include having a permanent place of business in Singapore or a registered office in Singapore. The applicant must appoint at least one executive director who is a Singaporean citizen or Singaporean Permanent Resident. In addition, a licensee must maintain the prescribed minimum paid up capital on an ongoing basis.

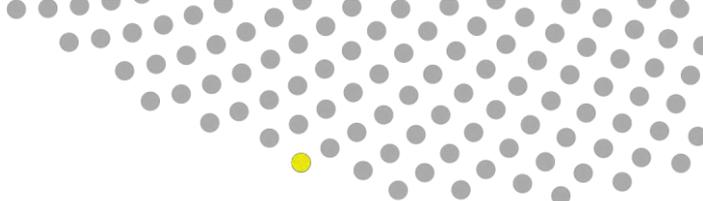
Regulation of Virtual Currency Services

The following are some key proposals under the Bill relating to the regulation of virtual currency services:

a) Licensing requirements

Providers of virtual currency services must hold a payment services license.

- **Virtual Currency Services.** Any entity that buys or sells virtual currency in exchange for another virtual currency or for any fiat currency, or facilitates the exchange of virtual currency, will be considered a provider of virtual currency services. Virtual currency exchanges that process funds or virtual currency must hold a payment services license.

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- **Virtual Currency.** Under the Bill, virtual currency is defined as any digital representation of value not denominated in any fiat currency and is accepted by the public as a medium of exchange for payment of goods or services or discharge of a debt. In addition, virtual currency can be transferred, stored or traded electronically. The MAS highlights that it is important to distinguish between e-money and virtual currency. Unlike virtual currency, e-money is denominated in fiat currency.

b) AML/CFT requirements

Virtual currency payment providers will be subject to anti-money laundering and countering the financing of terrorism (“**AML/CFT**”) requirements, which include identifying and verifying customer and beneficial owner identities, ongoing transaction monitoring, screening customer for money laundering and terrorism financing concerns, suspicious transaction reporting and record keeping. These requirements may be applied in varying degrees of intensity and frequency, depending on the virtual currency payment provider’s customer and transaction risk profiles.

c) Exclusions

- **Information Exchanges.** MAS makes a distinction between virtual currency exchanges and information exchanges. Mainstream online marketplaces and social media platforms that do not process funds or virtual currency are considered to act as information exchanges. Information exchanges are excluded from the proposed regulations as they do not pose the same potential ML/TF risks that virtual currency exchanges pose.
- **Limited purpose virtual currency.** MAS proposes not to regulate virtual currencies that are limited in user reach and scope of use. In-game assets and loyalty points will be excluded provided that they satisfy certain conditions, such as not being returnable, transferable, or capable of being sold to any person in exchange for money.

The consultation paper released by the MAS is available [here](#).

If you have any questions or require any additional information, please contact [Yap Lian Seng](#), [Heng Jun Meng](#) or the ZICO Law partner you usually deal with.

This alert is for general information only and is not a substitute for legal advice.