

Asia Focus

Singapore: A Crypto Hub at the Crossroads of Innovation and Regulation

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Figure 1 : MAS headquarters



Source: Presto Research

Summary

- While the regulatory landscape surrounding Web3 remains murky across most of the world, Singapore has long been seen as a leader in providing a clear framework for various businesses and asset managers in the industry.
 - In this edition of Presto Research's Asia Focus series, we explore what makes Singapore so attractive for crypto businesses by examining the various components of the regulatory landscape.
 - We conclude the research piece with comments from Alex Svanevik and Hassen Naas, CEOs of Singapore-based Web3 companies Nansen and Laevidas respectively, who shared their views on why they think Singapore continues to be such an attractive base for crypto companies.
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1. Overview

As the digital asset landscape continues to evolve, Singapore has emerged as a beacon for crypto businesses and projects seeking to establish a foothold in Asia. The city-state's unique blend of regulatory clarity, technological infrastructure, and strategic location has made it an attractive destination for a diverse range of Web3 entities, from cryptocurrency exchanges and token issuers to blockchain infrastructure providers and decentralised finance (DeFi) protocols.

This report serves as a comprehensive guide for crypto entrepreneurs, investors, and established players considering Singapore as their base of operations. Our analysis delves into the critical aspects of the Singaporean crypto ecosystem, examining both the regulatory landscape and the real-world experiences of businesses operating within it.

Singapore's approach to crypto regulation is characterised by a delicate balance between fostering innovation and mitigating risks. The Monetary Authority of Singapore (MAS), as the primary financial regulator, has established a framework that provides clarity while remaining adaptable to the rapidly changing nature of blockchain technology and digital assets. This report outlines the roles of key bodies, including MAS and the Singapore Fintech Association, and their impact on various sectors of the crypto industry.

We explore the licensing requirements and regulatory considerations for a spectrum of crypto-related businesses, including exchanges, payment service providers, token issuers, crypto funds, custodians, OTC trading desks, blockchain infrastructure providers, DeFi protocols, NFT platforms, and stablecoin issuers. Our analysis highlights the nuanced approach taken by Singaporean regulators, addressing how different types of digital assets and services are classified and regulated under existing frameworks such as the Payment Services Act (PSA) and the Securities and Futures Act (SFA).

To provide a holistic view of Singapore's crypto ecosystem, this report incorporates insights and experiences from established crypto players based in the city-state. Through interviews and case studies, we explore the practical aspects of operating a crypto business in Singapore, including the process of obtaining necessary licences, navigating compliance requirements, accessing banking services, and leveraging Singapore's position as a gateway to the broader Asian market.

By combining regulatory analysis with real-world perspectives, this report aims to equip readers with the knowledge and insights necessary to make informed decisions about establishing or expanding crypto operations in Singapore. As the global crypto landscape continues to shift, understanding Singapore's unique position as a crypto hub at the intersection of innovation and regulation is crucial for anyone looking to capitalise on the opportunities presented by this dynamic market.

2. Regulatory Authorities and their Roles

Singapore's robust and progressive regulatory framework has played a crucial role in attracting Web3 founders, protocols, hedge funds, and venture capital firms. The city-state's approach to digital assets and blockchain technology is characterised by a balance between innovation and risk management. Two key regulatory bodies oversee the crypto and blockchain space:

(1) Monetary Authority of Singapore (MAS)

The MAS serves as Singapore's central bank and integrated financial regulator. Its jurisdiction extends to:

- Licensing and regulation of digital payment token (DPT) services under the Payment Services Act (PSA).
- Oversight of crypto derivatives trading on approved exchanges.
- Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) compliance for crypto businesses.
- Issuance of guidelines on digital token offerings and digital payment token services.

The MAS has been proactive in engaging with the industry, regularly updating its regulatory framework to address emerging risks and opportunities in the Web3 space.

(2) Accounting and Corporate Regulatory Authority (ACRA)

ACRA, while not specific to Web3, is relevant for entity formation and corporate compliance:

- Oversees the registration and regulation of business entities in Singapore
- Ensures compliance with corporate governance standards
- Maintains the register of companies, including those in the Web3 space

(3) Other relevant organisations

- Singapore Fintech Association: While not a regulatory authority, the Singapore Fintech Association plays a vital role in the ecosystem:
 - Acts as a bridge between the industry and regulators
 - Promotes Singapore as a fintech hub and fosters innovation
 - Provides a platform for collaboration between traditional finance and Web3 companies
 - Offers educational resources and networking opportunities for blockchain and crypto startups

The interplay between these entities creates a comprehensive ecosystem that supports Web3 innovation while maintaining Singapore's reputation for regulatory clarity and financial stability. This balanced approach has been instrumental in positioning Singapore as a preferred jurisdiction for Web3 founders and businesses.

Figure 2: Presto Labs' Singapore office

Source: Presto Labs

3. Rules & Types of Licences Required for Various Crypto Businesses

There are various licensing requirements for entities involved in the Web3/cryptocurrency industry - below we explore some types of businesses and their relevant licences.

(1) Payment Service Providers (including digital payment token exchanges):

- These fall under the Payment Services Act (PSA) and require a licence from MAS. There are two relevant licences:
 - Standard Payment Institution licence (SPI): For smaller operations
 - Major Payment Institution licence (MPI): For larger operations handling higher transaction volumes. There are currently 28 entities with an MPI under the Digital Payment Token Service business type, including Blockchain.com, Circle, Coinbase, etc.
- Both licences require compliance with AML/CFT regulations, risk management practices, and customer protection measures.

(2) Token Issuers

- The regulatory approach depends on the token type:
 - Security tokens: Fall under the Securities and Futures Act (SFA) and require a Capital Markets Services (CMS) licence.
 - “Utility” tokens: May not require specific licensing, but issuers should consider if they have other obligations, such as any obligations under the PSA if their token amounts to a digital payment token.

(3) Crypto Funds

- Depending on their structure and activities, they may require a CMS licence for fund management.

(4) Cryptocurrency Custodians

- Require a PSA licence for providing custodial services for digital payment tokens.
- Must comply with MAS guidelines relating to safeguarding of digital assets.

(5) OTC Trading Desks

- Depending on products traded, may require a CMS licence for dealing in capital markets products and/or a PSA licence for providing digital payment token services.
- Must comply with AML/CFT regulations.

(6) Blockchain Infrastructure Providers

- Generally don't require specific licences unless they engage in regulated activities.
- Must comply with general business laws.

(7) DeFi Protocols

- Currently operate in a regulatory grey area.

(8) NFT Platforms

- May require licences depending on the nature of NFTs traded (e.g., if NFTs are considered securities) or if the platform has fiat or DPT on/off ramps.
- Must comply with AML/CFT regulations if facilitating financial transactions.

(9) Stablecoin Issuers

- Subject to MAS's stablecoin regulatory framework implemented in August 2023.
- Single-currency stablecoins (SCS) pegged to the Singapore dollar or G10 currencies that are issued in Singapore will be subject to MAS's stablecoin regulatory regime. Other stablecoins will continue to be subject to the existing regulatory regime under the PSA.
- SCS issuers under the MAS stablecoin regulatory regime must comply with specific reserve backing, redemption, and disclosure requirements.

Other Key Considerations

- All entities must register with ACRA and comply with general corporate regulations.
- AML/CFT compliance is mandatory across all categories.
- Foreign entities may need to establish a local presence to obtain licences.
- The regulatory landscape is evolving, with MAS regularly updating guidelines and introducing new frameworks.

This overview provides a snapshot of the current regulatory environment. However, it is not intended to constitute legal advice. Given the rapid evolution of the crypto space, it's crucial for businesses to engage directly with MAS and/or seek legal counsel to ensure full compliance with the latest requirements.

4. Beyond Regulations: Why Singapore continues to be attractive in Web3

As explored in the above sections, the regulatory situation is comprehensive and offers clarity to a wide range of crypto industry participants. But Singapore's edge doesn't stop there: the long-standing reputation as an expat hub, the world-class education system, safety of the country and family-friendly infrastructure, and strategic location are all non-crypto specific factors that make the city-state an attractive base for founders. We hear from two founders about their decision to base their companies in Singapore.

Alex Svanevik, Nansen

Nansen is a leading on-chain analytics company based in Singapore. Co-founder and CEO, Alex Svanevik, spoke about his decision to base his company in Singapore:

Singapore is a place where East meets West, where private sector meets public sector, and where finance meets tech. It's one of the few countries in the world that was run several decades (until relatively recently) in "founder mode" - with Lee Kuan Yew. It's still run by the world's most competent government. For those reasons I think it's a great place to run a business.

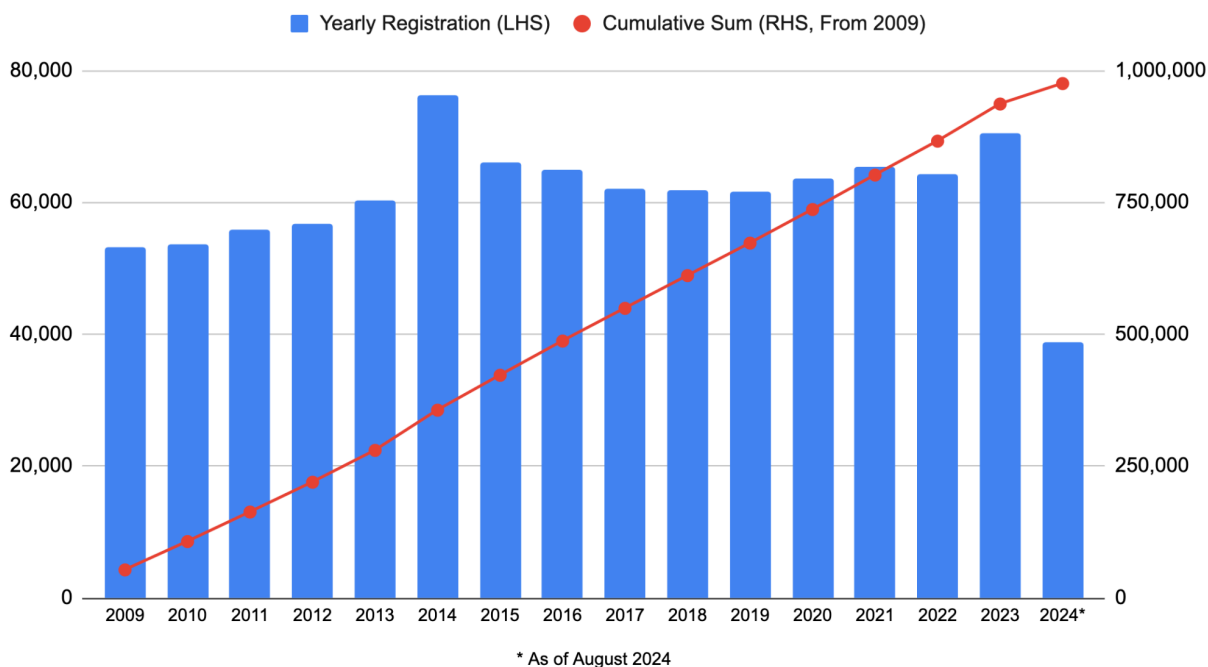
Svanevik's mention of Lee Kuan Yew's leadership highlights a crucial aspect of Singapore's success: its openness to foreign talent. Lee Kuan Yew himself emphasised this strategy, stating: "If Singapore depends on the talent they can produce out of 3 million people, it's not going to punch above its weight,... It's because we have been drawing talent from across the globe, South Asia, Northeast Asia, China, India and beyond that - you have a vibrant economy which is way beyond what three million Singaporeans with the talent they can produce can do."

This philosophy of embracing global talent has been a cornerstone of Singapore's economic strategy, contributing significantly to its appeal for entrepreneurs and businesses, including those in the Web3 space.

The attractiveness of Singapore as a business hub is not just anecdotal. Data from the Accounting and Corporate Regulatory Authority (ACRA) demonstrates a consistent upward trend in company registrations (Figure 3), while data from the Ministry of Manpower (MoM) shows a rebound in Employment Pass (EP) Growth in post-Covid (Figure 4):

Figure 3: The number of registered businesses in Singapore has been growing

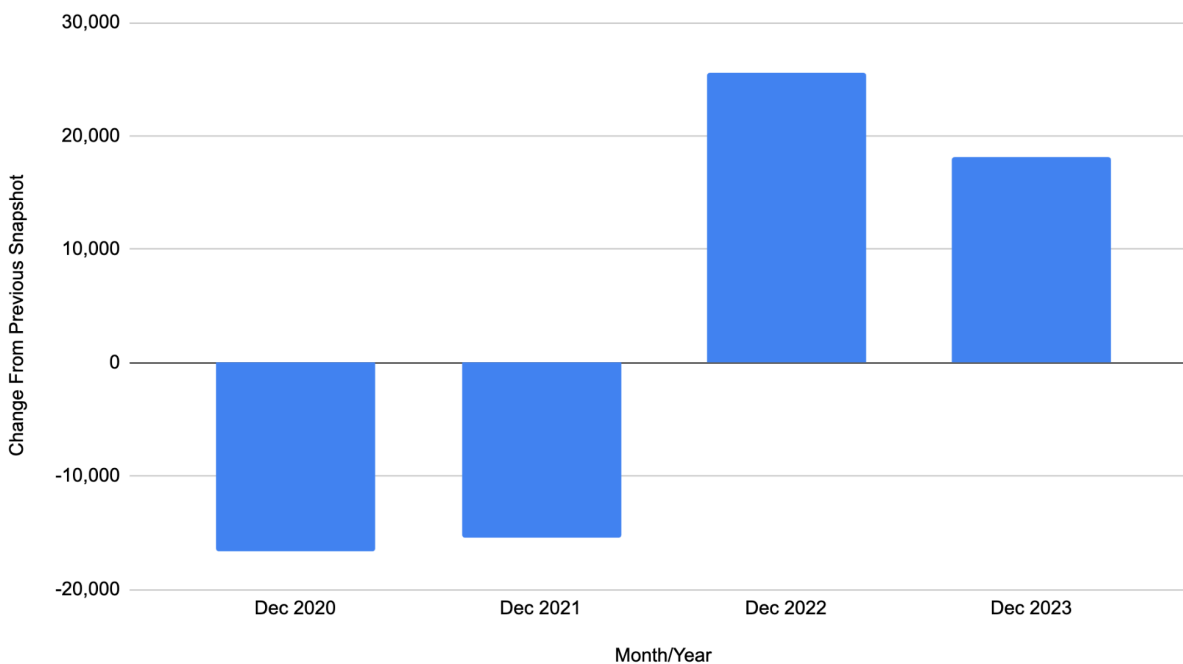
ACRA Company Registration



Source: ACRA via data.gov.sg

Figure 4: Despite a dip in the EP count during Covid, the bounce back has been strong

Change in Employment Pass Total Count



Source: Ministry of Manpower (MoM)

Hassen Naas, Laevitas

Laevitas is a quantitative data analytics company specialising in crypto derivatives. Hassen offers a unique perspective as a founder and CEO who moved his headquarters to Singapore.

The decision to move your company headquarters is not an easy one, particularly for a company in Web3 where the industry can be regarded with some scepticism in many jurisdictions. I think there exists this sort of self-fulfilling dynamic that continues to strengthen Singapore's position as an entrepreneurial tech (and now Web3) hub: businesses move here due to the merits such as clear regulations, ease of living, booming financial and technological sectors, high talent pool, and tax, which encourages regulators and the government to provide even clearer regulatory and business frameworks. This in turn motivates more businesses to be based in Singapore, which encourages regulators to make further improvements, etc, etc.

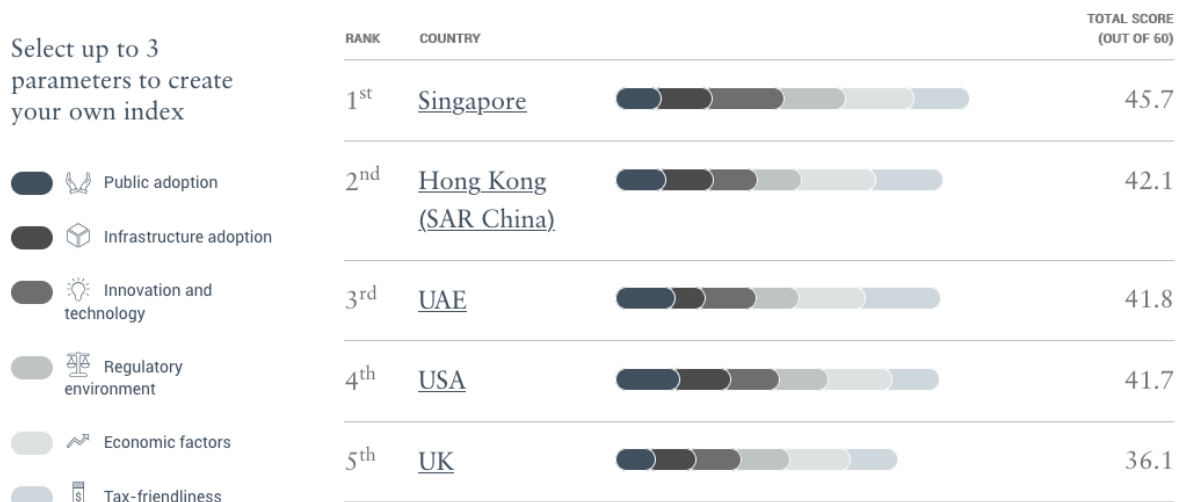
There is a great network of businesses and funds in Singapore, both crypto and non-crypto, and since moving here we have experienced all the benefits we expected and more. With many new updates in the pipeline, such as an alerting system for changes in market structure, orderbook imbalances, and TWAPs, we're excited to proudly continue our operations from Singapore.

Unsurprisingly, the supportive regulatory environment that Hassen mentioned has led to a high rate of crypto adoption. As investment migration consultancy firm Henley & Partner, published recently, Singapore leads the world in crypto adoption (Figure 5). Henley highlighted the robust regulatory environment, innovation & technology, and regulatory environment as key factors that pushed the city-state to the top of the 2024 list.

Figure 5 : Singapore leads in overall crypto adoption

The Henley Crypto Adoption Index 2024

Click on the legend to add or remove parameters to create your own index based on the factors that matter to you most. Click on a country for more information. Hover over the chart to see individual scores for each parameter.



Source: Henley & Partners

5. Final Words

Singapore's position as a leading crypto hub in Asia is no accident. The city-state has carefully cultivated an environment that balances innovation with regulatory oversight, creating a fertile ground for Web3 businesses to flourish. The clear regulatory framework provided by the MAS, coupled with Singapore's strategic location, world-class infrastructure, and pro-business policies, continues to attract founders and companies from around the globe.

As the crypto industry evolves, Singapore's adaptable approach to regulation positions it well to maintain its competitive edge. The testimonials from industry leaders like Alex Svanevik and Hassen Naas underscore the tangible benefits of operating in this ecosystem. While challenges remain, particularly in emerging areas like DeFi, Singapore's track record suggests it will continue to refine its approach, balancing innovation with prudent risk management.

For entrepreneurs and established players alike, Singapore offers a unique blend of Eastern and Western influences, financial acumen, and technological prowess. As the global crypto landscape continues to shift, Singapore's role as a beacon of stability and innovation in the Web3 space appears set to grow even stronger.

About Presto

Founded in 2014, Presto is a proprietary trading and financial services firm specializing in algorithmic trading across both digital assets and traditional markets. With a focus on delivering exceptional value for clients through a rigorous, research-driven approach to investment and trade execution, Presto processes over 100 million trades daily. The company maintains a global presence with offices in various countries, including Singapore. Presto Research is a research unit within Presto.

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