

**To:**

Monetary Authority of Singapore  
10 Shenton Way, MAS Building  
Singapore 079117

**Date:**

21 December 2022

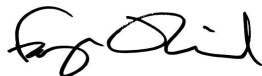
**Re: Proposed regulatory measures for digital payment token services**

Coinbase Global, Inc. (together with its subsidiaries, **Coinbase**) welcomes the opportunity to comment on the Monetary Authority of Singapore (**MAS**)' consultation on "Proposed Regulatory Measures for Digital Payment Token Services."

We greatly appreciate MAS' efforts in developing this consultation paper. We are likewise committed to ensuring appropriate consumer protection, risk management, and governance practices while unlocking the opportunities for economic growth that Web3 and the cryptoeconomy pose for Singapore.

We would be delighted to work with MAS further as it continues to seek public input regarding this consultation.

Sincerely,



Faryar Shirzad  
Chief Policy Officer  
Coinbase Global, Inc.

## Coinbase's response to MAS' proposed regulatory measures for digital payment token services

### 1. Introduction

Blockchain technology is the backbone of a new financial architecture, of which digital payment tokens (**DPTs**) are a key component. While nascent, blockchain technology is already bringing more efficiency, transparency, and resiliency to financial systems. In practice, many people will interact with this technology through centralised platforms. To ensure that those people will be protected, it is important that these platforms inspire trust in customers and regulators.

Developing that trust is not a new problem, and neither are the solutions. Financial markets throughout the world have long promoted trust through disclosure and accountability. Over time, regulatory frameworks have fostered the development of a healthy marketplace. Today, Coinbase is the only cryptocurrency platform that can provide the high levels of transparency and assurance demanded of public companies in the United States. And through a concerted effort with MAS, we are honoured to have received our "In-Principle Approval" in October 2022 as a Major Payments Institution licence holder under the Payment Services Act.

Developing a regulatory framework for DPTs that promotes a trustworthy environment is critically important. Only with trusted, safe DPT service providers (**DPTSPs**) can we unlock the immense benefits of DPTs and other blockchain technologies. These technologies are integral to the creation and development of a permissionless and decentralised internet, termed **web3**. While it is true that DPTs differ from traditional financial instruments (i.e., they often do not represent ownership stakes in public companies or pay a return to investors through dividends or interest), this does not mean that they lack value. Instead, their value lies in the novel use cases they enable. DPTs create the crucial incentive structure which fuels the protocols driving web3 innovation. Their specific use cases may include producing economic incentives, voting or governance proposals related to the operation of the protocol, serving as a medium of exchange for native applications, and helping secure a decentralised network. Since DPTs have the potential to provide these and other benefits, it would be a mistake to view them and regulate them as if they were no more than mere tools for gambling and wild speculation.

Further, it would be a mistake to overly restrict access to any new technology, including the use of DPTs, solely because bad actors might join good ones in using it. Outright fraud, front-running, wash trades, and other harmful practices continue to exist in traditional finance. But we do not view these negative activities occurring on the margins as a reason to shut down all traditional financial institutions, because we recognize that their activities are, on the whole, net positive. The same should be true for DPTs and other blockchain technologies. Regulation should seek to address such issues to ensure appropriate market conduct and consumer protection, while also allowing the development of new innovation.

Singapore is well-positioned to be an international hub for web3 growth and development. We applaud MAS for including in its *Financial Services Industry*

*Transformation Map 2025*<sup>1</sup> a goal of supporting leading web3 players in Singapore. We believe that such a vision will play an important role in securing the continued and future vitality, competitiveness, and resilience of Singapore's financial services and technology sectors. But it's important to outline the role future regulation plays in achieving that vision. For web3 to thrive anywhere, including in Singapore, DPT and blockchain technologies need to thrive. One cannot exist without the other. For that to happen, regulators must carefully balance the need for prudent guardrails with the flexibility necessary to promote innovation. MAS has a history of doing exactly that—studying new technologies and developing appropriate principles-based, and technology neutral regulatory regimes to govern them. We appreciate that MAS has signalled its intention to follow a similar approach for web3, DPT, and blockchain technologies.

Since our inception ten years ago, we have seen a shift in consumer behaviour with respect to our applications and services. While consumers may have initially come to Coinbase to buy and sell DPTs, they are increasingly utilising a broad spectrum of DPT and blockchain technology-based offerings, demonstrating a shift to the broader ecosystem. In fact, this shift accounts for over half of our consumer behaviour today. Coinbase is a web3 company in part because of our diverse products and services, and increasingly because of our customers and their growing interest and use of web3 technology. Rather than further incentivising this trend, restrictive regulation would, in our view, lead to several unintended consequences. Simply put, regulation which undermines access to DPTs and, by extension, the web3 ecosystem will not just risk forcing responsible, registered companies offshore; it has proven to push consumers offshore - often to unregulated, irresponsible actors, weakening investor protection. Ultimately, we share MAS' imperative of ensuring a regulatory framework for responsible innovation in Singapore – one which both safeguards consumers and cultivates a vibrant and competitive web3 ecosystem.

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<sup>1</sup> See Goal 6 of MAS' [ITM 2025, Monetary Authority of Singapore](#), which states that "MAS will work with the financial industry to deepen capabilities in asset classes in which Singapore plays a key regional or global role [by] ... anchor[ing] promising fintech start ups in Web3.0 ..."

## 2. Important considerations for DPT regulation

The consultation document raises a number of important and overarching issues, which we explore in this Section. We then respond in Section 3 to each of the specific questions asked by MAS.

### 2.1. Focus on regulatory outcomes

Blockchain technology differs in meaningful ways from the technology underlying traditional financial activities. For example, blockchain technology enables near real-time (also known as T+0) settlement, enabling market participants to transact with less exposure to credit risk than what is currently possible in traditional financial markets.<sup>2</sup> While self-executing, immutable smart contracts can improve efficiency of financial transactions in the future, they are still novel, and their implementation may present risks that differ from traditional financial transactions.

These differences mean that existing regulatory regimes are typically ill-suited for dealing with DPTs. Instead, responsible innovation requires regulation that is tailored and responsive to the specific features of DPTs and their corollary risks and benefits.

Given the constantly evolving nature of DPTs and blockchain technology, such a fit-for-purpose regulatory regime must focus on outcomes.<sup>3</sup> In our view, the outcomes that MAS should consider include:

- Fair, efficient, and orderly markets, centred on transparency and free of manipulation;
- Clear workable rules that foster compliance, incentivise good behaviour, and root out bad actors;
- Consumer protection from fraud and other improper conduct;
- Disclosure and reporting frameworks that provide regulators and market participants with accurate, verifiable, and decision-useful information;
- Prevention of financial crimes, with appropriate protections for innovation and privacy; and
- Safeguarding financial stability and public confidence in the financial system.

A fit-for-purpose regime that meets these objectives needs to accommodate unique features of DPT technology. We commend MAS for its leading role in promoting a fit-for-purpose regime for DPTs.

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<sup>2</sup> The precise settlement period for DPT transactions depends on the particular blockchain. While settlement is not technically instantaneous, it occurs over a significantly shorter period (typically minutes) as compared to traditional financial transactions (which can take days). We accordingly use the term “real-time settlement” in this letter for simplicity.

<sup>3</sup> IOSCO Secretary General has advocated for a similar approach. See [Regulatory Insights Session - Interview with Martin Moloney, IOSCO Secretary General](#) (13 June 2022).

## 2.2. Promoting an efficient and risk-reducing market structure

In developing an outcomes-focused, principles-based regime, MAS should promote certain efficient and risk-reducing elements of market structure that have developed in the DPT ecosystem. The adoption of blockchain technology has led to the combination of market functions within DPTSPs that had previously been confined within separate institutions or intermediaries.<sup>4</sup> For example, Coinbase provides both exchange and custodial services. Blockchain-based recordkeeping has both enabled this combination and made it more efficient than in the traditional financial system by removing the need for centralised settlement and clearance of market trading activity.

Combining multiple functions within the same entity marks a departure from regulatory frameworks that grew out of a paper-based financial system where “the lack of an automatic, efficient, and trusted infrastructure that verified and transferred assets led to the need of separate intermediaries, such as brokers, custodians, exchanges, market makers, and settlement and clearing agencies, often with conflicting interests and incentives.”<sup>5</sup> In the era before computers, trust was created by requiring these intermediaries and then regulating them.

DPT markets should not be bound by historical path dependence. It would be a mistake to call for the separation of activities merely because that is how it is done today for trading activities that use inferior technology. We should instead reevaluate traditional market structures in light of the particular benefits and risk-mitigants of blockchain technology to determine the best path forward for consumers and the market.

Blockchain innovations can promote safer and more efficient markets. For example, blockchain recordkeeping enables real-time settlement because it eliminates the need for a centralised counterparty to clear transactions or determine net exposures. A market that operates on real-time settlement effectively eliminates counterparty credit exposure that would otherwise exist because of the delay between the moment when a trade is confirmed and the moment when ownership of the asset is transferred.<sup>6</sup> Removing this credit risk makes markets safer and more capital efficient, because market participants no longer need to post collateral during the settlement period to protect their counterparty against settlement failure.

These practices offer an improvement over securities trading that relies on a centralised custodian to be the record holder for all assets, as is currently the case with all major securities clearing and settlement systems, including the Depository Trust Clearing Corporation (**DTCC**), Euroclear Clearance System Societe Cooperative (**Euroclear**), and Clearstream International S.A. (**Clearstream**) which also necessitates end-of-day netting of trades across market participants. Because final settlement may take up to three days (T+3), the market participants are required

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<sup>4</sup> We use the term “intermediary” in this letter for simplicity to refer to various types of cryptocurrency service providers, including those that may not fall within the definition of DPTSP.

<sup>5</sup> Coinbase, [Digital Asset Policy Proposal: Safeguarding America’s Financial Leadership](#) (October 2021).

<sup>6</sup> See Coinbase’s Petition to the SEC, [Re: Petition for Rulemaking – Digital Asset Securities Regulation](#) (21 July 2022), for additional information on real-time settlement.

to post collateral to manage the resulting settlement risk, based on models that are often imprecise, particularly during times of high volatility. These capital costs are ultimately borne by retail participants in traditional securities markets, who must rely on intermediaries to facilitate their trading activity. Finally, reliance on central clearing and settlement counterparties can create single points of failure and thus present risks to financial stability – some of the key risks that regulators have worked very hard to mitigate.

Potential benefits extend beyond just real-time settlement. Combining functions into a single technology stack offers economies of scope, reducing the number of intermediaries that can charge a fee for a transaction. Combination can also improve the overall user experience, enabling users to access a wide range of services from a single platform with one overarching set of rights and risks to understand. Finally, and critically, combining functions makes it easier for regulators to obtain a holistic view of the market by reducing the need to piece together activity from a large number of layered intermediaries.

Combining functions within a single technology stack may also give rise to certain risks, including potential conflicts of interest, that require internal controls and supervisory oversight to protect customers. These controls and oversight are absent in many jurisdictions, as illustrated by the recent failure of FTX, which custodied customer funds without the most basic level of governance, controls, and procedures that market participants customarily rely upon. We commend the prescience of MAS in recognising the need to manage and mitigate conflicts of interest before the most recent events.

A regulatory framework tailored to permitting combined activity can mitigate these risks. As discussed above, Coinbase believes that regulators should focus on *outcomes*, and recognise that not all combinations should be regulated in the same way. We discuss the conflicts that could arise from specific types of combinations, as well as ways to mitigate these potential conflicts, in response to question 11.

### 3. Responses to the consultation questions

#### I. Consumer Access Measures

##### **1. MAS seeks comments on the proposed scope of 'retail customer' for consumer access measures.**

Blockchain technology and DPTs are already increasing the efficiency, transparency, and resiliency of financial systems. They enable the creation of open, immutable systems for recording ownership and transferring value, which in turn makes web3 possible. They facilitate near real-time (also known as T+0) settlement, meaning market participants may transact with less exposure to credit risk than what is currently possible in traditional financial markets. They also greatly reduce the need for intermediaries and lower costs for consumers.

We strongly believe that these benefits should be available to anyone. As a result, we respectfully disagree with any policy recommendation that would exclude anyone, retail or otherwise, from access to DPTs and the web3 ecosystem more broadly.

However, we do understand that some consumers have less experience with financial markets and DPTs than others. And those consumers need to be able to access the DPT markets in a safe and sound manner. While we appreciate the instinct that differentiations between accredited investors (**AIs**) and 'non-AI' investors could provide a layer of protection for those with limited capital, we strongly oppose any policy recommendation that would simply exacerbate features of the traditional financial services sector, which have led to economic inequity. Whether an individual is already wealthy should not be a determinant of their ability to access new products and services in the digital assets space. Further, we are seeing rapid adoption of crypto by a broad spectrum of market participants, including institutional investors. While we welcome that development and see its benefits, we believe it remains important to maintain broad and liquid markets where consumers have the freedom to participate either directly or through asset managers. Policy therefore should be focused on increasing transparency and empowering consumers, not locking them out of the market altogether.

Coinbase would encourage regulators such as MAS to achieve their policy imperatives without compromising this crucial point. We generally appreciate the opportunity to further evaluate consumer protection measures through distinction between those with previous DPT knowledge and experience in purchasing and trading DPTs, with those who may have only just encountered the technology. We believe there are appropriate measures which leverage technology and would engage consumers, and therefore empower the responsible use of DPT.

##### **2. MAS seeks comments on the options for the treatment of DPT holdings for the purpose of determining a customer's eligibility as an Accredited Investor.**

As noted above, we believe that any distinction between retail participants and AIs should be solely for purposes of targeted disclosures. With that in mind, we believe that DPTs, including but not limited to single-currency stablecoins (**SCS**), should be treated the same as other financial assets and valued at full market value for the

purpose of assessing AI eligibility. While the value of DPTs can be volatile, so are many growth stocks, commodities and other alternative asset classes, which are each still considered for purposes of assessing AI eligibility. In fact, because MAS proposes to use the AI calculation as a proxy for sophistication, the value of a person's DPT holdings may be more relevant than that person's other financial holdings. Consider, for example, a customer with S\$3,000,000 in stocks and no DPT assets. Such a customer is likely *less* knowledgeable about DPT risks than a customer with S\$1,500,000 in DPTs and S\$1,500,000 in stocks.

**3. MAS seeks comments on the proposal to assess the retail customer's knowledge of the risks of DPT services, as well as the risks to be covered by the assessment. MAS also seeks comments on possible next steps for DPTSPs, should the retail customer be assessed not to have sufficient knowledge of the risks of DPT services.**

Assessments of retail customers' knowledge of the risks of certain DPT services may be appropriate. But it is important to ensure that the assessments are appropriately calibrated to avoid unnecessarily excluding retail customers from DPT services. The calibration could depend on the DPT service being used. For example, the risks of DPT custody offerings differ from those of DPT brokerage activity. A deficiency in a retail consumer's knowledge of DPT services should not disqualify the consumer's ability from ever using DPT services. Users should have an opportunity to retake the assessment. And if, as MAS suggests, a diverse question bank is used that generates different questions for subsequent assessments, a cooling off period is not needed.

We agree with MAS that DPTSPs should educate users on the risks of DPT services via transparent and easy-to-understand disclosure statements. This could be in the form of a Crypto Risk Statement that describes the risks of trading or acquiring DPTs, including the risks outlined in paragraph 3.14 of the Consultation.

We also support coordination among DPTSPs and between DPTSPs and MAS to determine whether industry guidance on assessments, education programmes and disclosures would be effective. This could be coordinated through leading industry bodies such as ACCESS, the Singapore Fintech Association, and the Blockchain Association of Singapore. Such practices can help ensure a consistent baseline level for all retail customers. But we also believe that DPTSPs should retain a degree of flexibility to implement their own customer assessments, education programmes and disclosures that are tailored to their particular set of DPT services.

**4. MAS seeks comments on the proposal to restrict DPTSPs from offering incentives to retail customers.**

Incentives, such as free DPTs or free trading credits, can promote a safe entry for retail consumers into the cryptocurrency ecosystem without a risk of loss. The customer protection issues raised by incentives can be mitigated. As a result, we respectfully disagree with MAS that incentives should be banned. Instead, it may be appropriate for MAS to issue guidelines on the use of incentives by a DPTSP, similar to



its approach regarding the use of non-monetary incentives by traditional financial institutions.<sup>7</sup>

Incentives do not pose a risk of loss where they permit consumers to enter the cryptocurrency ecosystem without using their own funds. For example, a DPTSP could offer a trading credit to consumers who create a user account. In addition, incentives could be used to promote retail consumer education. For example, a DPTSP could offer a training program on a particular DPT and reward a retail customer for completing the program by depositing a small amount of that DPT into the customer's trading account.

Some incentives may involve a risk of loss. These are more appropriate for customers with significant DPT trading experience than first-time users. For example, a DPTSP could offer a customer that has traded more than S\$1,000 worth of DPTs a S\$1 credit for every S\$1 traded during a given period. It would be appropriate for these disclosures accompanying such incentives to clearly and prominently display a 'risk of loss' notification.

Related to incentives is the question of advertisements. MAS should consider balancing its current regime, which discourages *all* DPT-related advertisements and incentive campaigns, with mechanisms that can indicate to consumers which DPTSPs can be trusted. Receiving a licence from MAS credentialises firms due to the high bar MAS sets. We recommend that MAS-licensed DPTSPs should be permitted to advertise their services, and the fact that they are licensed, subject to appropriate limitations. Permitting licensed DPTSPs to advertise their services can help protect customers from looking to less regulated, offshore exchanges where they may face greater harm.

We also see a benefit in allowing referrals (including through friends and family). Coupled with risk disclosures or other educational applications, we believe non-targeted campaigns that introduce DPTs, blockchain technologies, and web3 applications would pose minimal risk to users. At the very least, MAS could consider allowing "lead generation" campaigns, where customers are incentivised to refer friends and family to a licensed DPTSP.

## **5. MAS seeks comments on the proposed restrictions on debt-financed and leveraged DPT transactions.**

We understand MAS' concerns about debt-financed and leveraged DPT transactions. But we believe these risks can be managed with explicit acceptance of the risks of such transactions, clear risk disclosures, educational initiatives and knowledge assessments. Outright restrictions are not necessary.

We believe that the proposal to restrict credit cards to purchase DPTs is misguided. Retail users would be void of consumer choice and forced to use standard banking rails (through their retail bank accounts), which are less safe than credit card products, particularly given the well-publicised scams and security issues affecting the largest

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<sup>7</sup> MAS, [Guidelines on Standards of Conduct for Marketing and Distribution Activities](#) (23 December 2016).

Singaporean banks. Such restrictions would also unduly stigmatise the digital asset sector in comparison to other sectors of the economy. MAS would be sending a value message through these restrictions that it is acceptable for consumers to use credit card payments to acquire certain goods or services which may be of potential benefit to retail consumers, but that it is not acceptable to do the same when purchasing DPTs from MAS-regulated entities.

## II. Business Conduct

### **6. MAS seeks comments on the proposed segregation measures relating to customers' assets.**

We believe that the public will only use DPTs and blockchain technology if they are confident that their assets are protected. Customer assets need to be protected from the risk of misuse and in the case of the insolvency of a DPTSP. There are steps that regulators and market participants can take to maximise customer confidence. Segregation of customer assets from a DPTSP's own assets is one important step, but it is not the only one. Moreover, the type of segregation offered or required may vary by activity or service provided. Custodians holding customer assets should be subject to robust regulatory oversight. This would be enhanced by the transparency of the blockchain, which makes publicly visible the sum total of DPTs held by a custodian. Customer deposits should be backed by assets—and if a participant promises they will be backed 1:1, then this promise must be kept. Platforms should not be able to use customer assets without customer consent. Service providers should be required to disclose how assets are held and used, and regulators should have sufficient oversight powers to ensure service providers follow through with these disclosures. Assets should be tracked through robust recordkeeping so that they can be returned to their rightful owners. In sum, the ultimate outcome should be the same: customers should have priority over all other creditors in the insolvency of the relevant intermediary.

We anticipate that requirements for the segregation of cash belonging to customers will likely be folded within the existing safeguarding provisions in the Payment Services Act (**PSA**), which specifically relate to the handling of money. Given the global nature of the DPT space, we would suggest expanding the current provisions relating to safeguarding customer money by permitting the maintenance of trust accounts with foreign institutions licenced outside Singapore, subject to the assurance that these foreign trust accounts remain insolvency remote. That change would better facilitate non-Singapore dollar currency transactions.

### **7. MAS seeks comments on whether DPTSPs should be required to appoint an independent custodian to hold customers' assets. MAS also seeks comments on other control measures that would help to minimise the risk of loss or misuse of customers' DPTs.**

As noted in our response to Question 6, regulators can increase customer confidence by subjecting custodians to robust regulatory oversight. This is enhanced by the transparency of the blockchain, which makes publicly visible the sum total of DPTs held by a custodian. But it is not clear to us why a custodian that meets such high

regulatory standards must be independent from the DPTSP for which it holds customer funds. Combining exchange services with custody of trading assets comes with no meaningful risk of misalignment between the incentives of the custodian and the exchange. The custodian holds the assets, and the exchange matches orders to buy and sell those assets. In fact, as discussed in the “Promoting an efficient and risk-reducing market structure” section above, having exchange services and custody within the same technology stack allows for real-time settlement of DPT transactions, which provides significant risk-reducing benefits to consumers.

We also believe that it is paramount that before mandating any DPT custody practices, MAS amends the PS Act to extend its application to stand-alone DPT custody service, and provides a set of comprehensive rules for the provision of such services. The rules governing DPT custody should operate in tandem with the rules on other DPT services already covered by the PS Act. Any changes to, or extension of, the existing DPT regulatory regime should be implemented by way of the PS Act Amendment, rather than by the issuance of non-binding guidelines.

## **8. MAS seeks comments on whether the proposed disclosure and reconciliation measures are appropriate and adequate, and whether any other disclosures would be useful.**

Further to our comments in response to Question #3, we agree with the policy rationale of ensuring that customers are informed of, and understand the risks involved in, having their assets held by DPTSPs. Such disclosures could be made through the form of a “Crypto Risk Statement”<sup>8</sup> provided to customers at the point of onboarding.

However, the level of detail included and form of such disclosures should be carefully considered. From experience with our customer base, we have found that risk warnings are best comprehended and internalised where they are fewer (between 2-3) and when they are highlighted in the logged-in experience just before a product or service is accessed for the first time. A lengthy Disclosure Statement shown to a user during onboarding has a risk of not being properly read and understood (or accurately remembered at the appropriate time).

Finally, we would argue that a statement of account could be delivered or made available to customers in a variety of ways. For example, Coinbase users are able to access their portfolio and view their current holdings, historic transactions and generate reports relating to their activity at any time. In our view, requiring such information on a *monthly* basis, when customers can themselves see it at *any time*, would add little value. We agree that DPTSPs *should* provide this information to consumers, but would suggest that DPTSPs retain flexibility in *how* they make this information available.

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<sup>8</sup> For an example, see the [Coinbase Crypto Risk Statement](#) for our Canadian customers.

**9. MAS seeks comments on the proposed risk management controls for customers' DPTs. MAS also seeks comments on any other measures to safeguard the private keys and storage of customers' DPTs.**

As explained in response to Question #7, we believe that the security of customers' DPTs is of paramount importance. DPTSPs that hold custody of customers' DPTs should take careful measures to safeguard private keys. We commend MAS' focus on this issue, and agree with the importance of the principles outlined in section 4.11 of the paper.

Coinbase for its part has implemented the "never alone," "segregation of duties," and "least privilege" principles described by MAS. Coinbase manages DPTSP customer wallets throughout the key lifecycle. Coinbase wallet operations implement, monitor, and audit for adherence to the principles outlined in section 4.11, and Coinbase-managed wallets, including DPT private keys, have never been compromised.

Notwithstanding a DPTSP's security safeguards, customers who fail to take their own adequate safeguards may nonetheless suffer loss of their DPTs. The compromise of customer-held credentials and resulting losses, in spite of protections offered to customers, are referred to as account takeovers. Most account takeovers are due to scams and are independent of DPTSP operations safeguards. We offer multiple on-line security features such as multi-factor authentication that can help mitigate account takeover risks.

**10. MAS seeks comments on the proposed restriction on DPTSPs not to lend out retail customers' DPTs. MAS also seeks comments on any other measures to protect customers' DPTs from the risks of unregulated borrowing and lending by DPTSPs.**

An initial distinction should be drawn between on-chain yield programs (such as staking and DeFi) and off-chain lending programs that essentially replicate traditional banking services using cryptocurrencies.

Decentralised finance, or "DeFi," is a transformational development made possible by blockchain technology. DeFi removes financial intermediaries from financial transactions, replacing banks, brokers, and other traditional financial institutions with open-source code operating on public, permissionless blockchain networks. It has the potential to create financial markets that are open, free, fair and accessible to anyone with an internet connection. While the technology is still nascent, DeFi protocols have already proven their resiliency through periods of market stress, and regulators around the world are beginning to recognise the benefits.<sup>9</sup>

Providing access to DeFi protocols is distinguishable from engaging in traditional financial services activities. Typically, a DPTSP provides this access by taking on-chain actions at the direction of the user. While DeFi protocols can present security

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<sup>9</sup> For example, Sopnendu Mohanty, Chief FinTech Officer of the Monetary Authority of Singapore, has stated that "digital assets and decentralised finance have the potential to transform capital markets [and] enabl[e] more efficient and integrated global financial networks." [First Industry Pilot for Digital Asset and Decentralised Finance Goes Live](#) (2 November 2022).

risks if implemented incorrectly, a DPTSP has the ability to vet smart contracts for security and safety risks. Preventing DPTSPs from performing this service would likely push less experienced users to other means of participation in DeFi.

Staking should also be differentiated from off-chain lending programs. Staking refers to the process of helping to secure a proof-of-stake blockchain network; stakers earn rewards in the form of the blockchain's native cryptocurrency in return for helping to secure the network. The reward is transparent and comes directly from the blockchain protocol.

To address the perceived risks associated with staking, we believe MAS should require DPTSPs to obtain a clear consent from their retail customers that they understand the risk and rewards associated with staking. Completely restricting staking would ultimately lead to worse outcomes, as it would push the activity to offshore and unregulated exchanges.

Moving to off-chain lending, we strongly believe that a DPTSP must not use a customer's assets for anything without the customer's informed consent. For example, a DPTSP should not be able to lend customer assets without a clear indication from the customer that she understands the risks and nonetheless wishes for the DPTSP to do so. We do not, however, think that MAS should prohibit an agreement between a DPTSP and a customer entered into with informed consent and appropriate disclosure.

## **11. MAS seeks comments on the proposed measures to identify and mitigate conflicts of interests. MAS also seeks comments on any other measures to identify and mitigate conflicts of interest.**

As noted in our "Promoting an efficient and risk-reducing market structure" section, we agree that certain combined functions can raise the potential of conflicts of interest. But a regulatory framework tailored to permitting combined functions can mitigate the risk of conflicts of interest.

This begins with segregation of duties and independent reporting lines for functions where the potential for conflicts of interest exists to help ensure that decisions are made independently. Well-constructed and understood information barriers can minimise opportunities for improper use of information. Clear articulation of the duties that employees have to customers can clarify whose interests need to be considered. Disclosure and the transparency of the blockchain can keep the market and regulators apprised of inter-company relationships. Simple to understand, written disclosures that include the capacity in which the DPTSP is acting should help customers understand any potential conflicts of interest. We appreciate that such a framework would go beyond existing MAS rules. We think that doing so is appropriate.

We recognise that affiliation between DPTSPs may raise concerns regarding potential conflicts of interest, but we do not believe an outright, *ex ante* ban on any particular forms of affiliation would be appropriate. Instead we believe MAS should give due consideration to the availability of mitigants through which any potential conflicts of interest may be appropriately addressed.

We generally do not believe that a DPT trading platform operator should be prohibited from having a financial interest in reserve-backed stablecoins listed on its platform. The value of a stablecoin depends primarily on the value of the assets backing it, and when the assets are high quality and liquid, or sufficiently over collateralized, the stablecoin maintains a constant value. This value – typically tied to the value of a fiat currency – does not otherwise depend on supply and demand from trading activity in the way that determines the value of many other DPTs.

**12. MAS seeks comments on the proposal for DPT trading platform operators to publish its policies and procedures on the process for selecting, listing, and reviewing DPTs, as well as the relevant governance policies. MAS also seeks comments on any other measures or disclosures to enhance market discipline on DPT trading platform operators, with regard to DPTs traded on their trading platforms.**

We agree that DPT trading platform operators should put in place documented policies and procedures for assessing DPTs before listing them on DPTSPs' platforms. Such policies and procedures should cover the key areas of DPT assessments, namely reviews of technology security, compliance considerations and legal characteristics of DPTs.

We also agree that there is certain information about these processes that may be appropriate to disclose to customers. Each DPT trading platform should be required to provide a plain English disclosure of the core elements of its listing procedure. This could be through a blog or frequently asked questions document, among other ways to disseminate information. In addition, each DPTSP should disclose its listing policies to MAS as part of its PS Act licence application process. This will ensure the minimum quality threshold and level playing field for all local DPTSPs.

But DPT trading platforms should not be required to provide their customers the full listing policies and procedures. The listing assessment process has proprietary aspects that should not be shared with competitors. And this cost is not counteracted by a benefit - these documents are voluminous and complex, making them not useful for customers.

**13. MAS seeks comments on the proposed complaints handling policies and procedures. MAS also seeks comments on any other measures or disclosures to ensure that customer complaints are dealt with in a fair and timely manner.**

We agree that DPTSPs should have in place robust policies and procedures to handle customer complaints. The examples in paragraph 4.27 of the Consultation are an appropriate guide. Separately, we would note that the present requirement within the PSA to have an in-person complaints office has proven challenging and unnecessary for companies which operate in a remote-first model, an increasingly common phenomenon in the post COVID-19 era. We therefore propose that MAS reconsider this requirement within the PSA as part of this consultation exercise.

## III. Managing Technology and Cyber Risks

### **14. MAS seeks comments on the proposed requirements for DPTSPs to establish a high level of availability and recoverability of critical IT systems that they use to support their business and services. MAS also seeks comments on the proposed incident reporting and customer information protection requirements.**

We appreciate MAS' focus on the importance of cybersecurity risks as it pertains to DPT services.

We believe that DPTSPs should have a framework in place for addressing cybersecurity risks and should perform an operational business impact assessment annually that identifies critical business processes and support systems. Such measures can help to ensure that the maximum unscheduled downtime for each critical system does not exceed a total of 4 hours within any period of 12 months, which we agree with MAS is an appropriate expectation for industry participants.

We understand that in addition to upholding rigorous security measures, MAS also seeks to ensure open communication between licenced entities and the regulator in the event of a severe incident with widespread impact to operations. We would caution against overly prescriptive requirements on timing, however, given considerations outlined below.

Mandating the reporting of such incidents within 1 hour (as suggested by the consultation) would create significant challenges for DPTSPs with unclear benefits for MAS and for the DPTSP. The challenges of a 1 hour reporting timeline include:

- **False positives.** In order to comply with a 1 hour reporting window, DPTSPs must alert MAS before a thorough evaluation of incident signs. This could lead to a large number of false positives.
- **Immediate reporting detracts from crisis management.** The first priority of a crisis management team must be mitigation for the benefit of customers and the company. Rapid notification requirements from regulatory authorities would draw internal attention away from evaluating the underlying incident. While we of course recognise the importance of prompt reporting to regulators, we believe it would be prudent to allow more than 1 hour, so that DPTSPs can first focus on identifying the nature of the issue and mitigating customer impact.
- **Limited information within a tight timeframe reduces the utility of the reporting.** The cause of an incident may not be fully diagnosed within an hour. Notification windows as short as a single hour could pressure DPTSPs to either report inaccurate information or less information; either outcome will limit MAS in its response to the reported incident.

Respecting the criticality of urgent response, we would suggest that MAS consider encouraging DPTSPs to respond within a more reasonable time frame, such as a one-day period, while balancing the understanding that appropriate internal vetting would be required in some circumstances. IT controls to protect customer information from unauthorised access or disclosure can be an effective tool to protect customers. Identity and Access Management programs that outline the process for provisioning, deprovisioning, reviewing, and maintaining user access provide one beneficial

example. Furthermore, DPTSPs should define password parameters and authentication requirements to govern access to corporate systems, applications, and environments.

Data Security functions, which provide oversight throughout all phases of the information lifecycle, are another important IT tool that can be used to protect customers.

Finally, DPTSPs should consider utilising the services of data-loss detection providers. The data loss detection agent can be installed on all corporate-managed endpoints, and would be able to monitor non-endpoint file sharing activity via a cloud connector to SaaS solutions. In addition to alerting and activity review by a Security Operations team, the data loss detection agent can use machine learning to identify anomalous data exposure, data flows, and employee access patterns.

#### IV. Market Conduct

##### **15. MAS seeks comments on effective systems, procedures and arrangements that DPT trading platform operators should implement, in order to promote fair, orderly, transparent trading of DPTs offered for sale on their trading platform.**

We are generally supportive of these proposed measures, many of which have already been implemented by DPTSPs via their own market trading rules that apply to all conducting DPT transactions on their respective platforms.<sup>10</sup> We appreciate MAS' goal of applying similar standards across the industry.

##### **16. MAS seeks comments on effective measures, including the implementation of market surveillance mechanisms, to detect and deter unfair trading practices.**

We are generally supportive of these proposed measures. Software that monitors and detects the trading activities of DPTSP customers and employees for potential market manipulation, fraud, behavioural patterns, and rule violations can be used as a powerful tool to deter bad actors. The software and any alerts generated can be monitored by a team with regulatory, trading, and surveillance experience.

#### V. Transition Period

##### **17. MAS seeks comments on the proposed transition period of 6-9 months. MAS also seeks other comments to facilitate the transition towards the implementation of the regulatory measures.**

We commend MAS' approach toward the implementation of the regulatory measures. Issuing guidelines as a first step will help ensure all input on this complex and important topic are appropriately addressed.

Given the complexity and importance of developing an effective, fit-for-purpose regulatory framework, we do not think locking in a specific transition period would be

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<sup>10</sup> See e.g. Coinbase's [Markets Trading Rules](#).



prudent. There will need to be a careful analysis that should not be rushed. This is particularly the case because the guidelines will likely require technology and operational builds, which take time to do correctly. As MAS has recognised, technological and operational issues can lead to the irretrievable loss of private keys, and so it is important that DPTSPs are provided the time to implement the guidelines correctly.

Coinbase and many other DPTSPs are also responding to several other consultations - both in other regions and at the international/supranational coordinating level. We believe it would be highly beneficial for the industry and the regulatory authorities to establish a globally harmonised regulatory framework that applies consistent standards across as many jurisdictions as possible. To that end, we hope that the Authority, where possible, will consider global best practices that the industry associations and certain supranational mainstream finance organisations endeavour to develop at present. This will help promote consistent regulatory and operational standards, reduce the risk of regulatory arbitrage, and minimise unnecessary operational costs. This alignment should include not only substance, but timing.

We are pleased to continue to share our views and expertise, and look forward to continuing to work closely with MAS.