



Understanding the regulatory requirements of the MAS Payment Services Act

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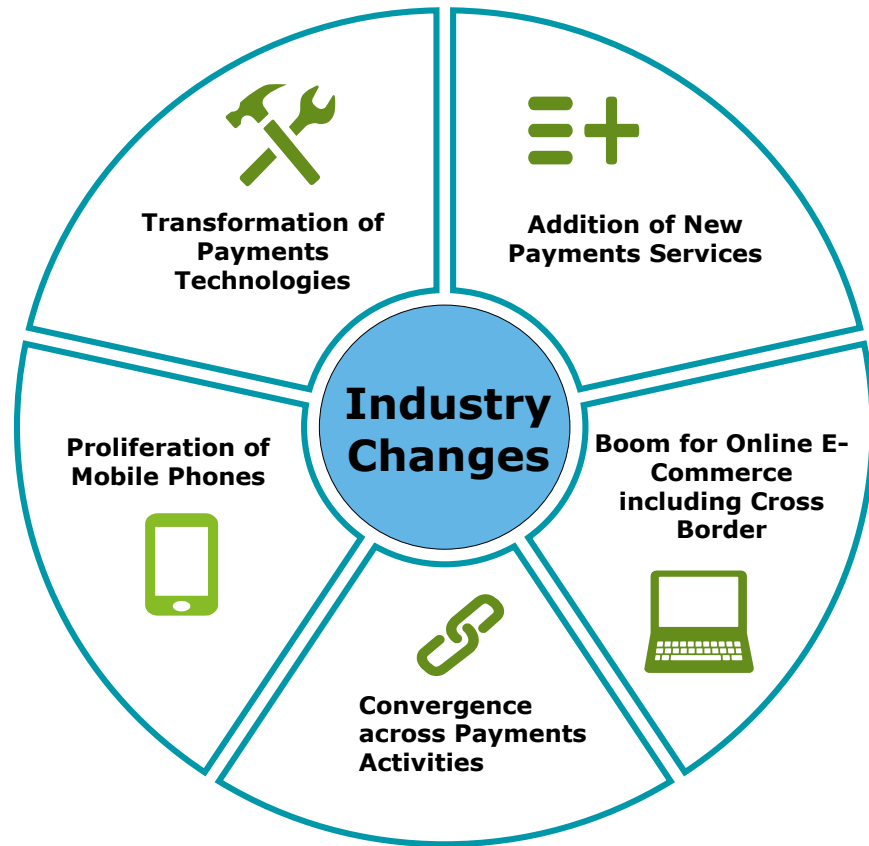
Agenda

1. Introduction
2. key regulatory requirements
3. Requirements that apply generally to all licensees
4. Requirements that apply to account issuers, e-money issuers and digital payment token service providers

Introduction

Technology is transforming Singapore's payments landscape

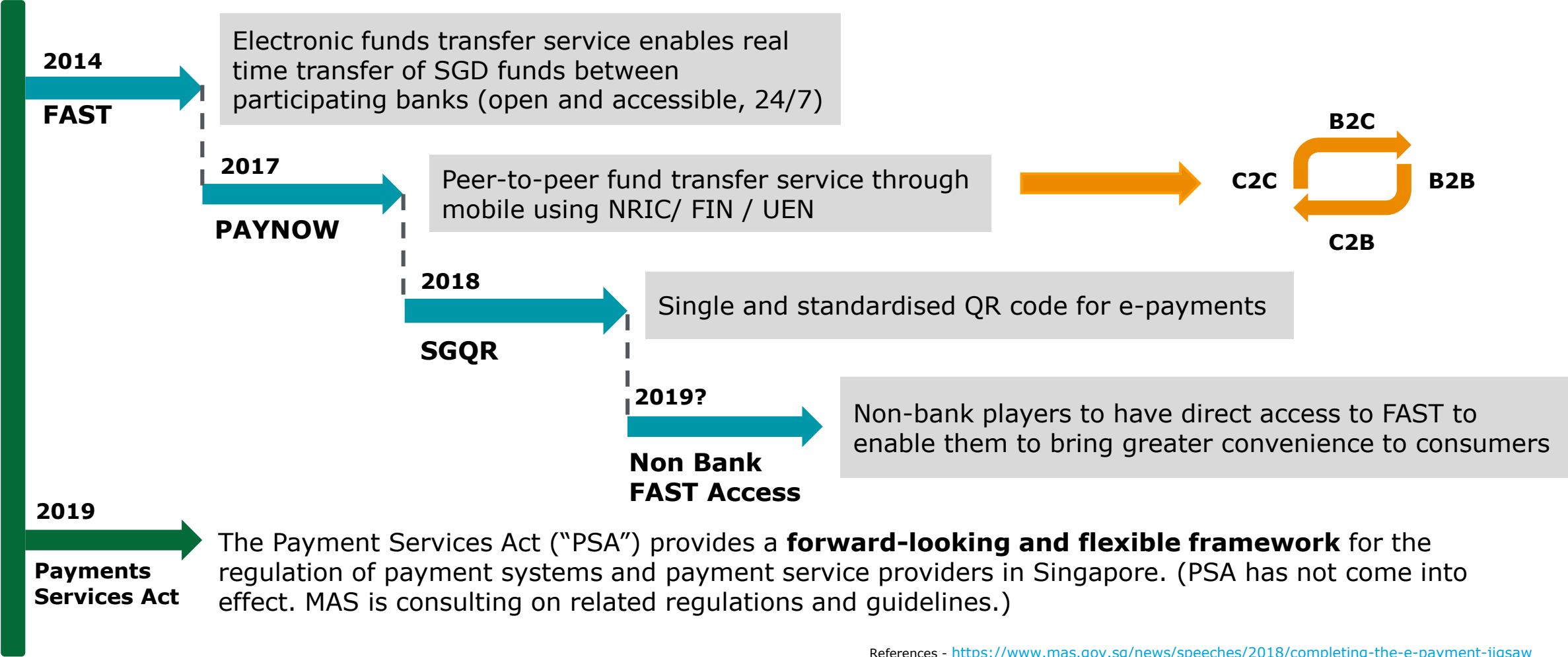
Technology has lowered the barriers to entry to running a payments business. This, coupled with the high penetration of smart phones, has made it easier to acquire customers digitally.



- 1 More Non-bank Players / FinTechs providing financial services**
- 2 Lower Cost of Customer Acquisition**
- 3 Better Customer Experience and Access**

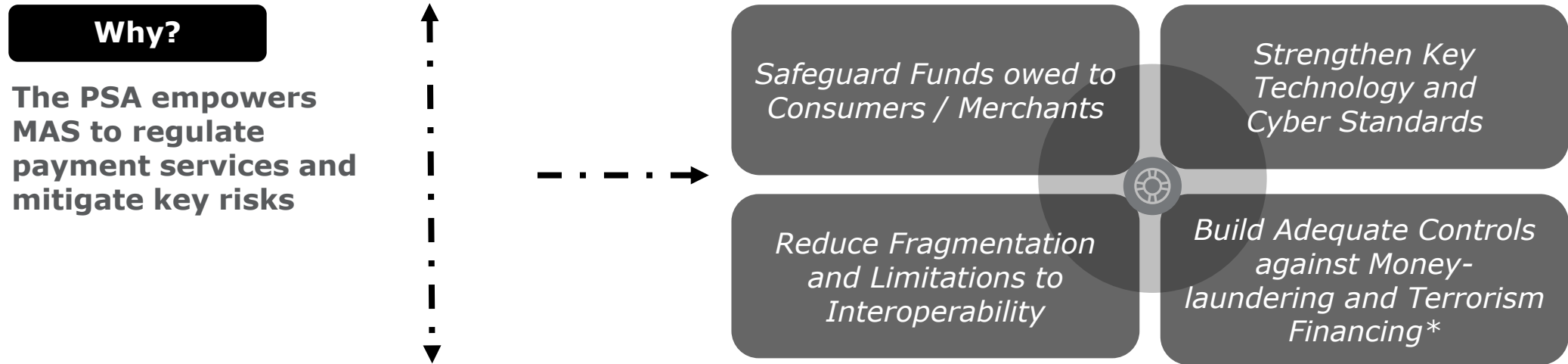
References - <https://www.mas.gov.sg/news/speeches/2018/epayments-in-asia>

E-payments are gaining traction, supported by public/private sector initiatives



References - <https://www.mas.gov.sg/news/speeches/2018/completing-the-e-payment-jigsaw>

Payment Services Act (“PSA”) aims to promote broader adoption of e-payments



Key Implications

- 1. Broaden scope of regulated activities** to a wider range of payment services and activities - **domestic money transfers, inward remittances, merchant acquisition, and digital payment token services**
- 2. Calibrate regulations to specific risks** posed by activities through a new modular approach
- 3. Increase competition** by preventing formation of walled gardens
- 4. Bring digital payment tokens into mainstream;** regulation may promote greater use of payment tokens which can reduce settlement time and costs

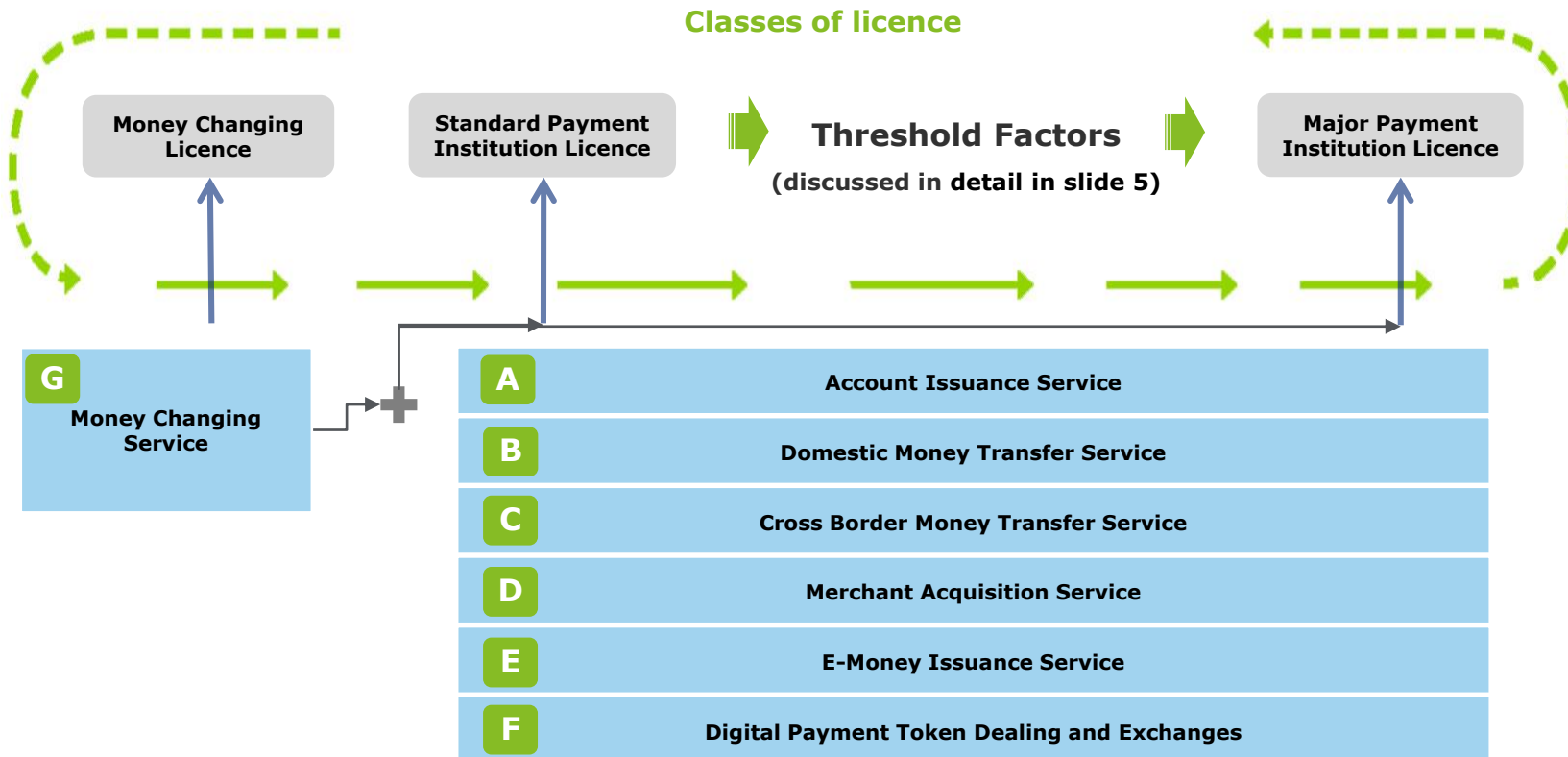
New regime lays down a risk-focused designation and modular licensing framework

A Designation Framework for Significant Payment Systems (Retained from prior regime)

MAS can **designate significant payment systems and regulate operators, settlement institutions and participants** of these designated payment systems, to **ensure financial stability and to promote efficiency and competition**

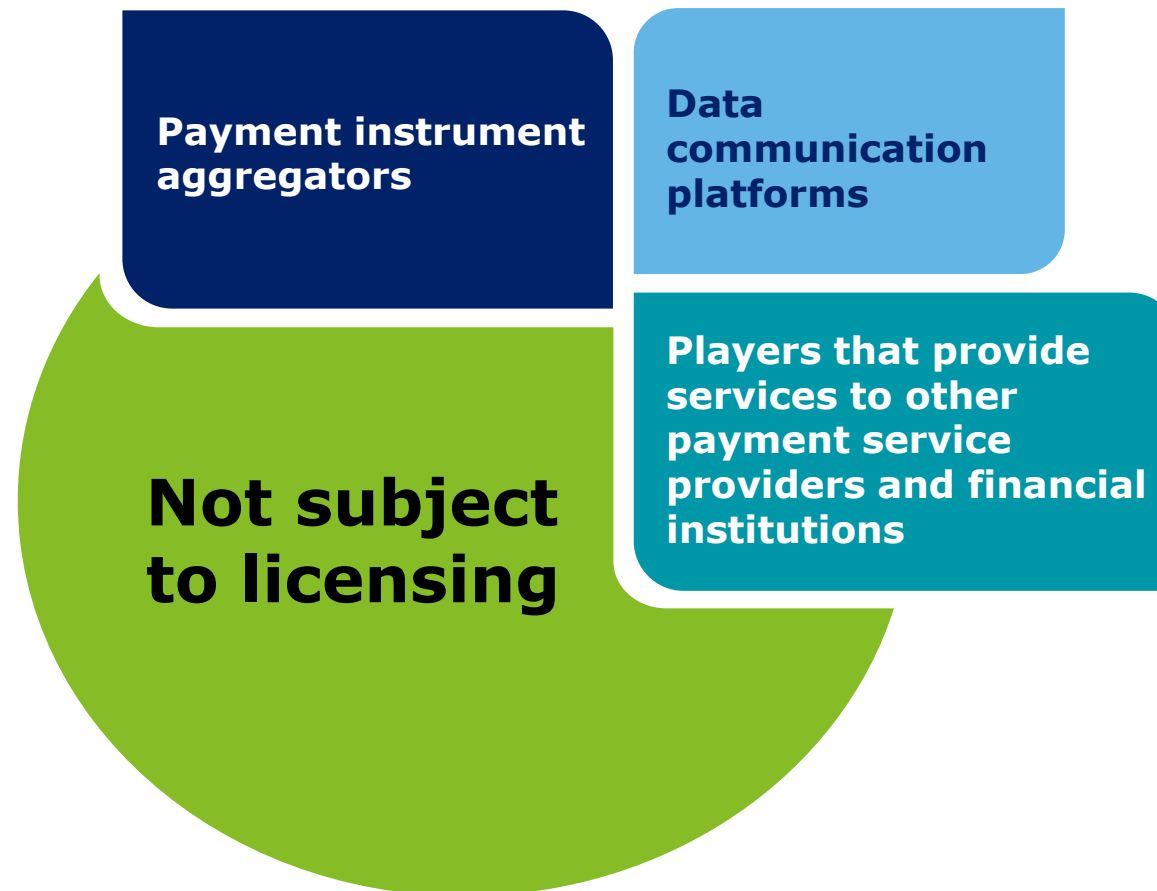
B Licensing Framework for Payment Service Providers (New requirement)

A business must have a licence for the class of service provided in Singapore



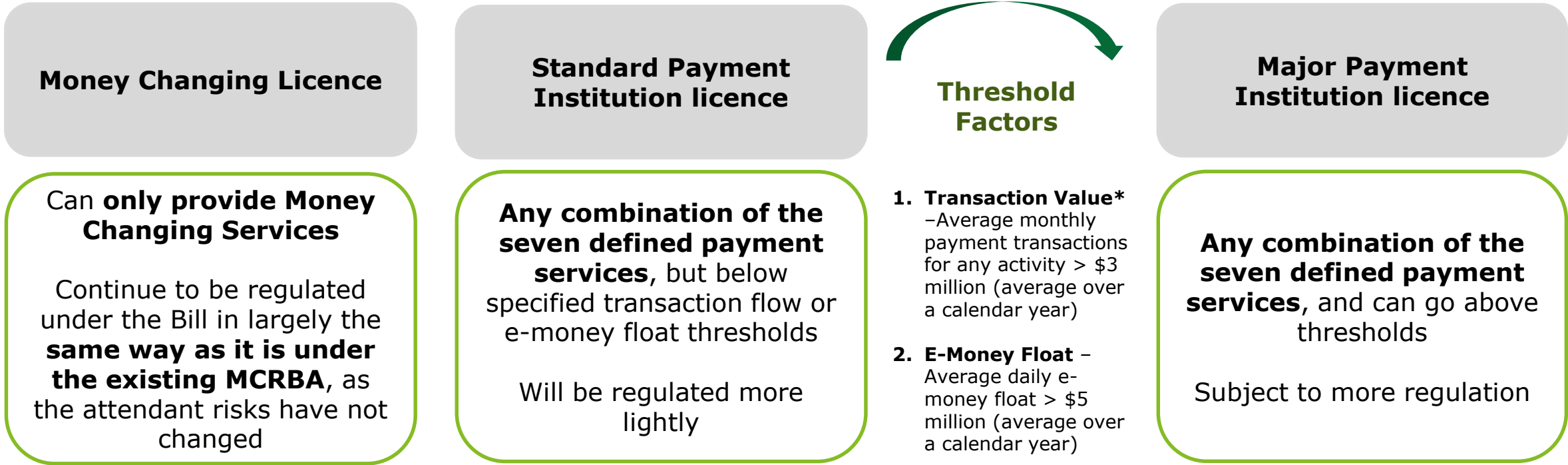
Licensing regime focuses on players with a clear retail payments nexus

- A** Process funds or acquires transactions for merchants
- B** Deals or contracts directly with consumers or merchants



Size thresholds will determine licensing class and applicable requirements

A licensee must have a standard payment institution licence or a major payment institution licence to provide any combination of the seven services



A holder of a Major Payment Institution licence will be subject to additional requirements under the PSA

- ✓ Higher capital requirements on an initial and on-going basis (\$250k)
- ✓ Safeguarding of funds (Undertaking / guarantee / trust account)
- ✓ Interoperability through access regime, common platform and/or common standards
- ✓ Maintain \$100k security deposit

*Monthly payment transactions exceeding \$6M (for two or more licensable activities)

Tailored risk mitigation measures for specific risk types

Four key risks applicable to payments providers are identified in the PSA.

1 AML / CFT

- Appropriate AML/CFT requirements will be imposed on relevant licensees through Notices issued under the MAS Act
- Low risk transactions are exempted from AML/CFT requirements
- Refer to later part of presentation for more details

2 Interoperability

- Imposition of **Access Regime** such as participation in common platforms, use of 'fair and reasonable' commercial terms
- Adopt a common standard to make **widely used payment acceptance methods interoperable**

3 Loss of Funds due to insolvency

- Safeguarding money received from customers through **liability, guarantee and trust account and segregation**
- Includes contractual obligations with safeguarding institution and **additional reporting and monitoring mechanisms**

4 Technology Risk

- Governance and implementation of adequate controls in areas such as **user authentication, data loss protection and cyber-attack prevention and detection**
- Standards and expectations will be commensurate with level of licensing

Key regulatory requirements

For Account Issuance, E-money Issuance
and Digital Payment Token Service

Requirements that apply generally to all licensees

Licensing, variation of license, surrender/lapsing/revocation of license, prohibition of solicitation and use of unlicensed agents, annual license fees

Permanent place of business in Singapore, Singapore director

Financial requirements (other than money changers)

Notifications and submission of info/regulatory returns to MAS

20% controllers, CEO and directors to be approved by MAS, subject to fit and proper requirements

Audit requirement

Inspection/investigation by MAS

Technology risk management

No provision of credit facilities to individuals

Licensing (under consultation)

License will lapse if the licensee

- Does not commence business within 6 months of grant of license
- Ceases to provide payment service for 6 months
- Does not conduct any payment transaction for 6 months

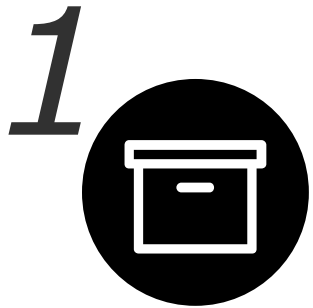
Singapore presence

- Permanent place of business or registered office in Singapore
- At least 1 director is Singaporean or Singapore PR, executive director can be employment pass holder (under consultation)

Regulatory reporting (under consultation)

- Annual reporting by money-changers to include transactions above \$5,000, transactions involving high risk customers, and top 10 currencies
- Monthly reporting by other licensees on account statistics, transaction volumes and value, e-money float, and amounts subject to safeguarding requirement (where applicable)
- Half-yearly reporting by digital payment token service providers on type of digital payment tokens offered and transactions involving high risk customers

Technology risk management



Technology risk management guidelines

- *Applies to DPS operators and all licensees*



Notice on cyber hygiene (PSN06)

- *Applies to all DPS operators and all licensees*
- *Requirements are basic cyber security measures that all financial institutions (FIs) must implement*

But certain requirements are tailored to the risks of each regulated activity

Activities in Focus	Account Issuance	E-money Issuance	Digital Payment Token Service
Activity Description	Opening or operating a payment account	Issuing e-money to allow user to pay merchants or transfer e-money to another person	Buying / selling / facilitating exchange of digital payment tokens
Current Regulatory Regime	Newly regulated	PSOA (Limited)	Newly regulated
AML / CFT	AML/ CFT requirements for certain providers	N/A	AML/ CFT requirements for all providers
Interoperability	Common standards, join common system, access regime	N/A	N/A
User Protection	E-Payments user protection guidelines	Safeguarding of float	N/A
	All major payment institutions must maintain security deposit – \$100,000 if average monthly transaction value ≤ \$6 million; \$200,000 if average monthly transaction value > \$6 million		
Transition Arrangements	12 months	12 months	6 months

E-money issuance – safeguard e-money float

Licensees carrying on e-money issuance must safeguard e-money float by:

1

Obtaining an undertaking from a safeguarding institution to be liable for the float

2

Obtaining a guarantee from a safeguarding institution for the float

3

Depositing the float in a segregated trust account with a safeguarding institution

- Safeguarding institutions include banks, merchant banks, finance companies and financial guarantee insurer.
- Licensees must periodically assess suitability of safeguarding institutions.

E-money issuance – prohibition from carrying on certain businesses

Licensees carrying on e-money issuance are not permitted to:

1

On-lend the moneys received from customers as payment for e-money; or

2

Use customer moneys or any interest earned on these moneys, **to finance, wholly or to any material extent, any business**

Account issuance – specific restrictions on personal payment accounts

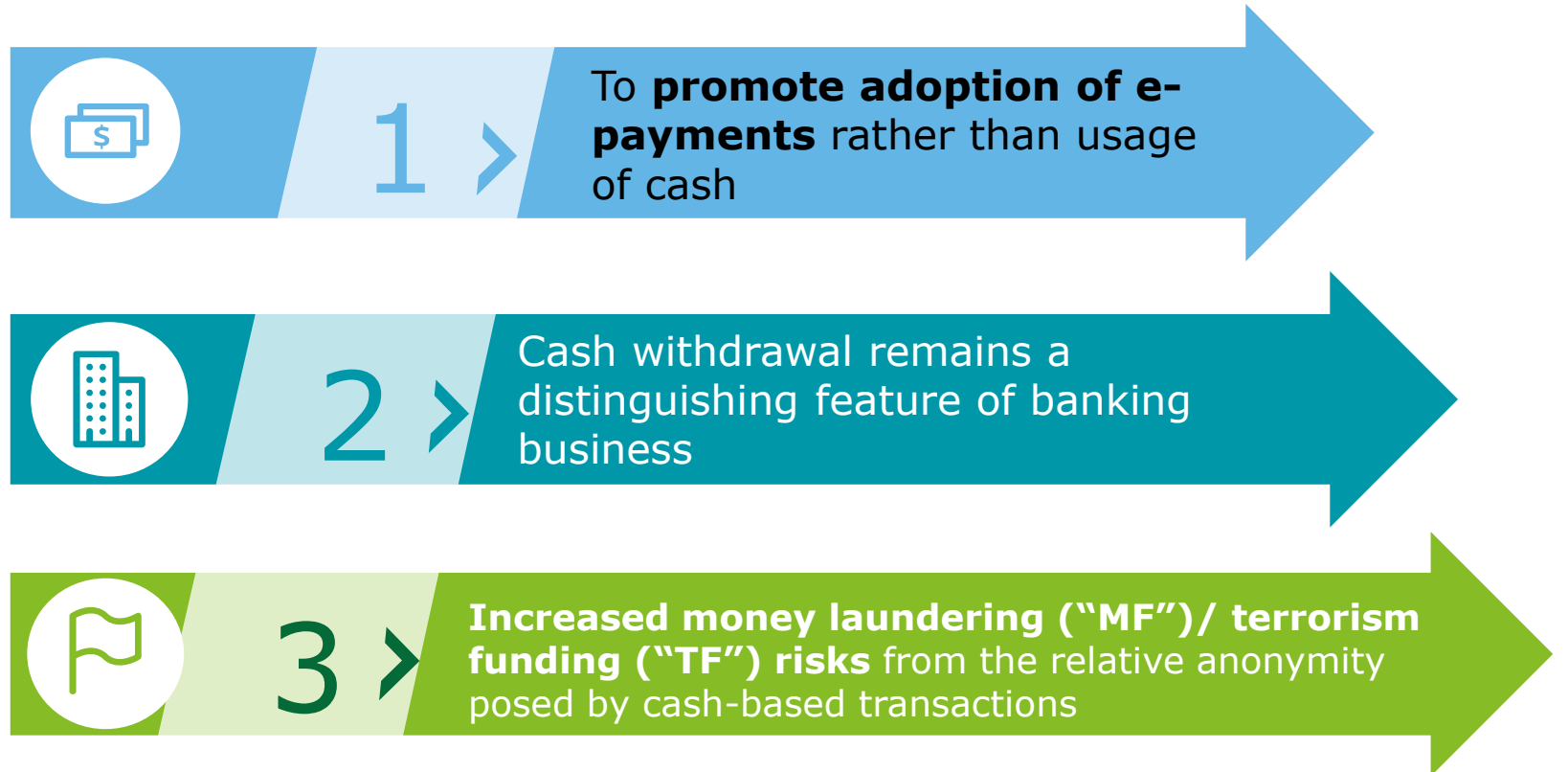


Account issuance – no withdrawal of e-money and exchanging for SGD

Licensees carrying on account issuance are not permitted to:

Assist users in **withdrawing e-money** from their accounts and **exchanging the e-money for Singapore currency** if the user is resident in Singapore or if e-money is issued in Singapore and have not verified that user is not a Singapore resident.

Enter into any agreement or arrangement (whether oral or in writing and whether express or implied) with any entity that is incorporated, formed or registered in/ carries on business in Singapore, that would make the above possible



However, the above prohibition will not be applied if the user **terminates their account**.

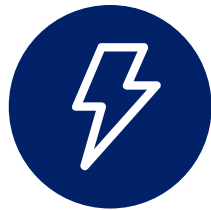
Account issuance - certain products may be exempted from AML/CFT requirements
A licensee is not required to comply with some AML/CFT requirements if it provides services that meet specified low risk criteria

Regulated activity	Low risk criteria
Account issuance services	Issuing payment accounts that: <ul style="list-style-type: none">a. Do not allow physical cash withdrawal;b. Do not allow physical cash refunds above S\$100, unless the payment institution performs identification and verification of sender; andc. Do not have an e-wallet capacity (i.e. load limit) that exceeds S\$1,000.

The exempted requirements relate to customer due diligence, foreign currency exchange transactions, issuance of bearer negotiable instruments and cash pay-outs, agency arrangements, and wire transfers

Digital Payment Token Service – no exemption from AML/CFT requirements

All transactions under DPTS are considered by MAS to carry higher inherent ML/TF risks



Speed



Anonymity



Cross-border

In line with the international AML/CFT standards-setter, the Financial Action Task Force (“FATF”) Standards, MAS will introduce **AML/CFT requirements** on licensees that are DPTS providers who:

- 1 Deal in DPTs – includes the buying or selling of DPT. This would typically involve the exchange of DPT for fiat currency (e.g. Bitcoin for USD, or USD for Ether) or another DPT (e.g. Bitcoin for Ether);
- 2 Facilitate the exchange of DPTs – establishing or operating a DPT exchange which allows the buying or selling of any DPT, in exchange for fiat currency or any DPT (whether of the same or a different type)

Appendix: Key regulatory requirements

Payment Services Regulations, Notices & Guidelines

Payment Services Regulations

The PS Regulations is intended to be the main regulations for licensees and other regulated persons under the PS Act.

Requirements for all licensees

- (a) Control of provision of payment services
- (b) Financial requirements
- (c) Business conduct requirements

Requirements for designated payment system ("DPS")

- (a) Provision of information to MAS;
- (b) Submission of periodic reports
- (c) Application to MAS for appointment of CEO and directors of DPS operators;
- (d) Business continuity requirements; and
- (e) Criteria to determine whether there is failure to discharge duties or functions by the CEO or directors of DPS operators and settlement institutions

Exemptions and other requirements

- (a) Exemption for hotel operators in respect of money-changing service
- (b) Exemption from the requirement to hold a standard payment institution licence
- (c) Exemption for certain domestic money transfer service providers
- (d) Exemption from the prohibition against solicitation

Notices and Guidelines to be Issued Under the Payment Services Act

Notice No.	Name of Notice or Guidelines
PSN01	Notice to payment services providers (specified payment services) on prevention of money laundering and countering the financing of terrorism
PSN01A	Notice on AML/CFT requirements to facilitate transition of existing stored value facility holders
PSN02	Notice to payment services providers (digital payment token service) on prevention of money laundering and countering the financing of terrorism
PSN03	Notice on reporting of suspicious activities and incidents of fraud
PSN04	Notice on submission of regulatory returns
PSN04A	Notice on submission of statement of transactions and profit/loss
PSN05	Notice on technology risk management
PSN06	Notice on cyber hygiene
PSN07	Notice on conduct
PSN08	Notice on disclosures and communications
PSN09	Notice on administrative matters
	E-payments user protection guidelines (updated version to be effective on PS Act commencement date)
	E-payments user protection guidelines (updated version to be effective at a later stage after PS Act commencement date)
FSG-G01	Guidelines on fit and proper criteria

AML/CFT requirements

MAS is proposing to issue **two new AML/CFT notices**, applicable to all classes of payment services providers, which will bring together and update existing requirements and introduce new requirements on newly regulated payment services.

PS Notice 01 ("PSN01")

- Notice to Payment Services Providers (**Specified Payment Services**)
- Applies to licensees which carry on business of providing
 - Account issuance services
 - Domestic money transfer services
 - Cross-border money transfer services
 - Money-changing services

PS Notice 02 ("PSN02")

- Notice to Payment Services Providers (**Digital Payment Token Services**)
- Applies to licensees which carry on business of providing
 - Digital payment token services

Key Requirements under the AML/CFT Notices:

- **Identify, assess and understand** their ML/TF risks;
- **Develop and implement policies, procedures and controls** for the effective management of such risks
 - Customer due diligence (CDD)
 - Transaction monitoring
 - Screening
 - Suspicious transactions reporting; and
 - Record keeping
- **Enhanced measures** should be performed where higher ML/TF risks are identified
- **Monitor the implementation of policies, procedures and controls**, and **enhancing** them if necessary

MAS also noted that payment services providers may conduct other non-payment services business activities that have ML/TF risks. Hence MAS is proposing to subject such other business activities to AML/CFT requirements as well.

AML/CFT Requirements for **All Licensees** (1/2)

1. Simplified Customer Due Diligence (SCDD)

- Licensees should adopt a risk-based approach to performing CDD
- Where a licensee applies SCDD measures, it continues to be required to **conduct screening and ongoing monitoring of business relations** under the relevant Notice
- MAS will not require licensees to seek MAS' approval prior to conducting SCDD
- As with the other MAS AML/CFT Notices, licensees that adopt SCDD measures into their business models should ensure that these **measures are properly documented**, and that **records are well-maintained**. MAS reserves the right to review all relevant documentation and records as part of our supervisory process

2. Third Party Reliance

- MAS intends to permit licensees to rely on a third party to perform certain elements of the CDD measures (in relation to on-boarding KYC) required by the PS Notices, provided that certain relevant requirements are met

AML/CFT Requirements for **All Licensees** (2/2)

3. Correspondent Account Services

- MAS intends to require all licensees, in addition to performing normal due diligence measures, to also perform the **necessary risk mitigation measures** when providing correspondent account services to another financial institution or when engaging another financial institution for correspondent account services, including
 - (a) assessing the suitability of the financial institution by understanding its AML/CFT controls and that they are adequate and effective,
 - (b) clearly understanding and documenting the respective AML/CFT responsibilities of each financial institution, and
 - (c) obtaining approval from the licensee's senior management before providing correspondent account or similar services to a new financial institution or engaging a new financial institution for correspondent account services.

4. Bearer Negotiable Instruments and Cash Payouts

- (a) **prohibit licensees** who perform money-changing transactions, inward cross-border money transfers, domestic money transfers, withdrawals from payment accounts, and the purchase or sale of foreign currency without the use of foreign currency notes ("FX transactions"), from issuing bearer negotiable instruments, e.g. cash cheques, in any currency to their customers; and
- (b) require licensees who perform inward cross-border money transfers, domestic money transfers, withdrawals from payment accounts, and FX transactions, to use **non-cash settlement methods for pay-outs of S\$20,000 and above** (or such equivalent amount in foreign currency) to persons in Singapore.

AML/CFT Requirements for **Digital Payment Token Services (DPTS)**

1. Cross-border Value Transfer

- Other requirements that would apply include monitoring of the availability of information, and taking freezing action and prohibiting transactions with designated persons and entities

2. Occasional Transaction Thresholds

- With respect to DPT transactions, the FATF recently clarified in a Public Statement on its proposed Interpretive Note to Recommendation 15 that the occasional transactions designated threshold above which DPTS providers are required to conduct CDD is lowered to USD/EUR 1,000, from USD/EUR 15,000 for other types of FATF-covered activities, in view of the ML/TF risks associated with such activities
- Where occasional transactions occur (e.g. where DPTs are sold through ATM machines), MAS proposes to require CDD to be conducted from the first dollar, i.e. there is no threshold for such transactions, below which CDD need not apply

3. Collection of CDD Information

- Notice 1 and Notice 2 will require the collection of certain customer-specific information, including at least the following—
 - (i) full name, (ii) Unique Identification Number (e.g. customer NRIC or passport number), (iii) residential address (or registered or business address), (iv) date of birth (or establishment, incorporation, or registration), (v) nationality (or place of incorporation or place of registration). Additional identification is required for legal arrangements
- However, MAS is seeking feedback on whether other customer-specific information may be more appropriate

Offering of Exempted Products (1/2)

A licensee is **not required to comply** with MAS' AML/CFT Notices if it provides **only** services that **meet certain low risk criteria** for ML/TF ("MAS defined low risk activities").

Regulated activity	Low risk criteria
Account issuance services	Issuing payment accounts that: a. Do not allow physical cash withdrawal; b. Do not allow physical cash refunds above S\$100, unless the payment institution performs identification and verification of sender; and c. Do not have an e-wallet capacity (i.e. load limit) that exceeds S\$1,000.
Domestic money transfer services	Services that only allow the user to perform the following transactions: a. Payment for goods or services and where payment is funded from an identifiable source (being an account with a financial institution regulated for AML/CFT); b. Payment for goods or services and where the transaction is under S\$20,000; or c. Payment is funded from an identifiable source and where the transaction is under S\$20,000.
Cross-border money transfer services	Services where the user is only allowed to pay for goods or services and where that payment is funded from an identifiable source.

Offering of Exempted Products (2/2)

Where a licensee provides payment services regulated for AML/CFT, and offers a product which **meets the criteria of Exempted Product(s)**, then the payment services provider must:

- (a) be subject to all AML/CFT requirements in relation to its regulated activities generally;
- (b) be subject to the AML/CFT requirements except that it need not comply with AML/CFT measures relating to customer due diligence, foreign currency exchange transactions, issuance of bearer negotiable instruments and cash payouts, agency arrangements, and wire transfers in relation to the Exempted Product(s) only;
- (c) apply its AML/CFT risk mitigation measures on an enterprise-wide basis. This includes developing and implementing policies, procedures and controls to ensure that any low-risk payment activities it may conduct are kept within the low-risk parameters; and
- (d) continue to ensure that appropriate records are maintained in order to demonstrate that all low risk activities comply with the aforementioned criteria.

There are no low risk exemptions in respect of DPTs, and a DPTs provider is subject to all the AML/CFT requirements found in Notice 2.

Notice on conduct

PSN07 sets out conduct requirements for payment service providers, in respect of relevant payment services.

Conduct requirements adapted from MCRBA notices

- 1 MCRBA Notice 3002 – Record of transactions
- 2 MCRBA Notice 3004 – Issuance of receipts
- 3 MCRBA Notice 3202 – Transmission of money
- 4 MCRBA Notice 3101 – Display of exchange rates

New conduct requirements

- 1 Determining Singapore residency of customer
- 2 Specifying the days and hours that a place of business must be manned
- 3 Determining the exchange rate to be applied for the purposes of safeguarding

Speaker profile

Speaker profile

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Nai Seng heads the Regulatory Risk service line in Southeast Asia, with a focus on helping financial institutions operating in Southeast Asia develop and execute strategies related to regulatory risk. He is also the Southeast Asia Lead Partner for Deloitte's Asia Pacific Centre for Regulatory Strategy. Nai Seng has more than 20 years' experience in financial policy, surveillance and supervision, covering banks and capital markets. Prior to joining Deloitte, he was with the MAS where he was responsible for prudential policy, macro prudential surveillance, data governance and analytics, and supervision of payment systems and technology risk.

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