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
Techology 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.

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

Electronic funds transfer service enables real time transfer of SGD funds between participating banks (open and accessible, 24/7)

Peer-to-peer fund transfer service through mobile using NRIC/ FIN / UEN

Single and standardised QR code for e-payments

Non-bank players to have direct access to FAST to enable them to bring greater convenience to consumers

The Payment Services Act ("PSA") provides a forward-looking and flexible framework for the regulation of payment systems and payment service providers in Singapore. (PSA has not come into effect. MAS is consulting on related regulations and guidelines.)

Payment Services Act ("PSA") aims to promote broader adoption of e-payments.

**Why?**

The PSA empowers MAS to regulate payment services and mitigate key risks.

- Safeguard Funds owed to Consumers / Merchants
- Strengthen Key Technology and Cyber Standards
- Reduce Fragmentation and Limitations to Interoperability
- Build Adequate Controls against Money-laundering and Terrorism Financing*

**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

- Payment instrument aggregators
- Data communication platforms
- Players that provide services to other payment service providers and financial institutions
- Not subject to licensing
What you need to know about the Payment Services Act 2019

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

<table>
<thead>
<tr>
<th>Money Changing Licence</th>
<th>Standard Payment Institution licence</th>
<th>Major Payment Institution licence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can <strong>only provide Money Changing Services</strong></td>
<td>Any combination of the seven defined payment services, but below specified transaction flow or e-money float thresholds</td>
<td>Any combination of the seven defined payment services, and can go above thresholds</td>
</tr>
<tr>
<td>Continue to be regulated under the Bill in largely the same way as it is under the existing MCRBA, as the attendant risks have not changed</td>
<td>Will be regulated more lightly</td>
<td>Subject to more regulation</td>
</tr>
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</table>

**Threshold Factors**

1. **Transaction Value**
   - Average monthly payment transactions for any activity > $3 million (average over a calendar year)
2. **E-Money Float**
   - Average daily e-money float > $5 million (average over a calendar year)

**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)
- Maintaining $100k security deposit
- Safeguarding of funds (Undertaking / guarantee / trust account)
- Interoperability through access regime, common platform and/or common standards

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

1. Applies to DPS operators and all licensees

Notice on cyber hygiene (PSN06)

2. 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

<table>
<thead>
<tr>
<th>Activities in Focus</th>
<th>Account Issuance</th>
<th>E-money Issuance</th>
<th>Digital Payment Token Service</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Activity Description</strong></td>
<td>Opening or operating a payment account</td>
<td>Issuing e-money to allow user to pay merchants or transfer e-money to another person</td>
<td>Buying / selling / facilitating exchange of digital payment tokens</td>
</tr>
<tr>
<td><strong>Current Regulatory Regime</strong></td>
<td>Newly regulated</td>
<td>PSOA (Limited)</td>
<td>Newly regulated</td>
</tr>
<tr>
<td><strong>AML / CFT</strong></td>
<td>AML/ CFT requirements for certain providers</td>
<td>N/A</td>
<td>AML/ CFT requirements for all providers</td>
</tr>
<tr>
<td><strong>Interoperability</strong></td>
<td>Common standards, join common system, access regime</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>User Protection</strong></td>
<td>E-Payments user protection guidelines</td>
<td>Safeguarding of float</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Transition Arrangements</strong></td>
<td>12 months</td>
<td>12 months</td>
<td>6 months</td>
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</table>
E-money issuance – safeguard e-money float
Licensees carrying on e-money issuance must safeguard e-money float by:

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
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<tbody>
<tr>
<td>1</td>
<td>Obtaining an undertaking from a safeguarding institution to be liable for the float</td>
</tr>
<tr>
<td>2</td>
<td>Obtaining a guarantee from a safeguarding institution for the float</td>
</tr>
<tr>
<td>3</td>
<td>Depositing the float in a segregated trust account with a safeguarding institution</td>
</tr>
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</table>

- 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

- Restrict users from holding more than $5,000 in their e-wallets at any point in time
- Prevent users from transferring more than $30,000 within each year to accounts other than the user’s previously-nominated bank accounts
Account issuance – no withdrawal of e-money and exchanging for SGD
Licensees carrying on account issuance are not permitted to:

1. To promote adoption of e-payments rather than usage of cash

2. Cash withdrawal remains a distinguishing feature of banking business

3. Increased money laundering ("MF")/ terrorism funding ("TF") risks from the relative anonymity posed by cash-based transactions

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

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

<table>
<thead>
<tr>
<th>Regulated activity</th>
<th>Low risk criteria</th>
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</thead>
<tbody>
<tr>
<td><strong>Account issuance services</strong></td>
<td>Issuing payment accounts that:</td>
</tr>
<tr>
<td></td>
<td>a. Do not allow physical cash withdrawal;</td>
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<td></td>
<td>b. Do not allow physical cash refunds above S$100, unless the payment institution performs identification and verification of sender; and</td>
</tr>
<tr>
<td></td>
<td>c. Do not have an e-wallet capacity (i.e. load limit) that exceeds S$1,000.</td>
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</table>

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

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

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

**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”).

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</tr>
<tr>
<td><strong>Domestic money transfer services</strong></td>
<td>Services that only allow the user to perform the following transactions:</td>
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<tr>
<td></td>
<td>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);</td>
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<tr>
<td></td>
<td>b. Payment for goods or services and where the transaction is under S$20,000; or</td>
</tr>
<tr>
<td></td>
<td>c. Payment is funded from an identifiable source and where the transaction is under S$20,000.</td>
</tr>
<tr>
<td><strong>Cross-border money transfer services</strong></td>
<td>Services where the user is only allowed to pay for goods or services and where that payment is funded from an identifiable source.</td>
</tr>
</tbody>
</table>
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.

<table>
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<tr>
<th>Conduct requirements adapted from MCRBA notices</th>
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<td><strong>1</strong></td>
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**New conduct requirements**

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<tbody>
<tr>
<td><strong>1</strong></td>
<td>Determining Singapore residency of customer</td>
</tr>
<tr>
<td><strong>2</strong></td>
<td>Specifying the days and hours that a place of business must be manned</td>
</tr>
<tr>
<td><strong>3</strong></td>
<td>Determining the exchange rate to be applied for the purposes of safeguarding</td>
</tr>
</tbody>
</table>
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.