

SPRINGTIME FOR CRYPTOCURRENCY WHAT NEXT FOR SINGAPORE?

Authored by: Jason Teo, *Associate Director, Setia Law*

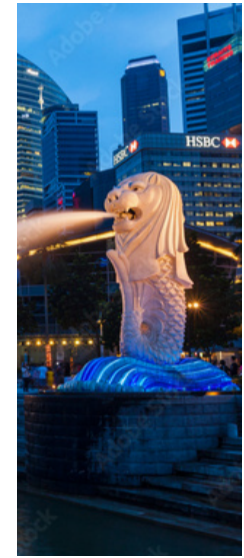
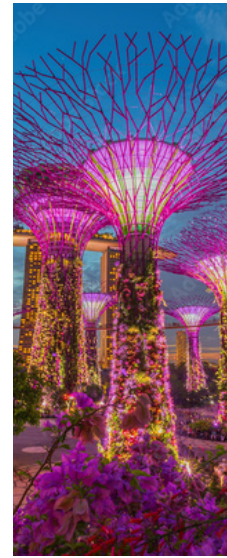
Singapore's cryptocurrency landscape looks set for a shakeup, as its financial regulators embark on yet another round of policymaking aimed at boosting the island nation's long-running attempt at establishing itself as a preeminent crypto-hub, whilst reigning in the worst excesses of the often troubled industry.

Over the last few years, crypto-regulation in Singapore has drawn praise and ire in equal measure. Singapore's relatively early implementation of crypto-focused regulation was widely lauded, and at a time, several industry giants looked set to take up permanent residence in the South-East Asian city-state.

But that wave of initial optimism soon gave way to dissatisfaction and a growing perception that regulators were pursuing two fundamentally incompatible goals - incentivising crypto-innovation, whilst simultaneously disincentivising retail trading and speculation on crypto assets. That, together with complaints regarding the ponderous pace at which licenses to operate crypto-related services were handed out, and the costs associated with regulatory compliance, eventually led to an exodus of major industry players.

Binance, the biggest fish of them all, dropped its licensing application in 2021 and exited the country altogether, following a public spat with regulators which saw Binance ending up on the regulator's investor alert list and being referred for investigation by the Singapore police's commercial affairs department, following alleged solicitation of Singapore users without a license.

With its highly educated and web-connected populace, Singapore had been a hotbed for retail crypto trading in the cryptocurrency's nascent years. But as even mom and pop investors with little understanding of the product got caught up in the wave of crypto-frenzy, the inevitable swell of crypto-scams and speculative trading losses soon followed. The concern that investors were getting in over their heads grew so great that regulators eventually implemented an outright ban on public advertising of crypto-related services in early 2022, putting an end to everything from ads on buses and crypto-ATMs to social media influencers hawking the latest and greatest alt-coins.

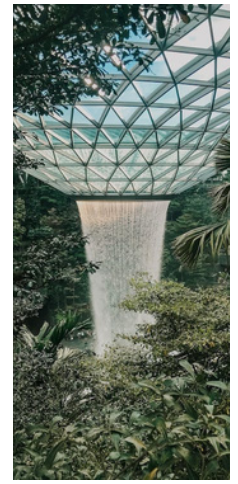
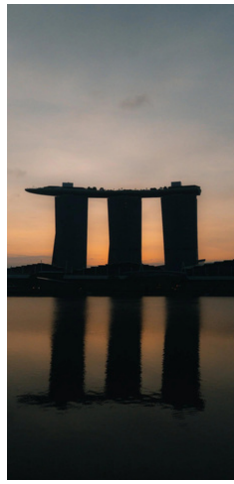
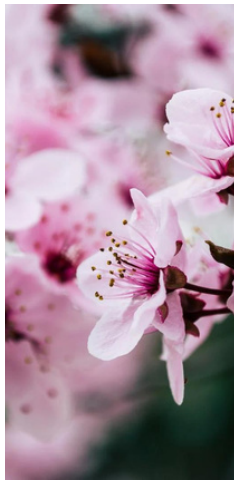


But even as crypto bulls bemoaned what seemed to be a death-knell for the vision of Singapore as the global hub of cryptocurrency, the crypto winter of 2022 lent credence to the idea that in its push to limit retail exposure to crypto trading, Singapore's regulators were right on the money all along, with that year seeing a spate of high-profile insolvencies in the industry, including the collapses of Terra, Three Arrows Capital, Vault, Zipmex, Voyager, Celsius, and of course, FTX.

As the fallout begins to subside and spring approaches, the question remains - where to next for Singapore's crypto-regulatory landscape? As the industry matures, it has become evident that many of its largest players are operating with increasing sophistication as they look to usurp, or at least peacefully coexist with, traditional finance. At the same time, there appears no end in sight to the litany of crypto scams, frauds, and technological failures that has plagued the industry from the get-go.

What is however clear is that Singapore's regulators have no intention of departing from the Goldilocks approach that it's taken towards crypto-regulation over the years, seeking a balance between industry growth and consumer protection that's neither too hot nor too cold, but 'just right'.

In August 2023, regulators announced a revised regulatory framework, which sought to bring stablecoins into a specifically tailored licensing regime. Stablecoins, such as USDT and USDC, are a special class of cryptocurrency which purport to be backed by reserves of 'real' assets such as fiat currency or government bonds, which enables their value to be pegged to a currency such as US Dollars.



The new stablecoin licensing regime allows issuers to apply for recognition and licensing which would enable their product to be labelled a “regulated stablecoin”, subject to fulfilment of various criteria including:

- requirements relating to the reserves backing the stablecoin;
- obligations to return the par value of the stablecoin to holders within 5 days of a redemption request; and
- disclosure obligations relating to the stablecoin’s value stabilising mechanism, holder rights, and audit results.

The announcement came fresh off the heels of a pair public consultations called by the regulators, seeking industry responses to further proposed changes to Singapore’s crypto-regulatory landscape that would see the imposition of new requirements for segregation of customer assets and risk management controls, as well as measures to curb market abuse and unfair trading practices.

In tandem with this tightening of consumer protection measures, regulators have also recently released a report proposing a framework for designing open, interoperable networks for digital assets, which came off the back of “Project Guardian”, a collaboration between regulators and various traditional financial institutions to test the potential of asset tokenisation across a range of financial asset classes.

Jason Teo, Associate Director, **Setia Law**



From the twinned prong approach adopted by regulators, involving tightening of regulations alongside industry collaboration on feasibility studies and framework development, the intention of Singapore’s regulators seems clear. The crypto hub that Singapore is trying to build is a very specific one, focusing on innovation in endorsed use-cases and subjecting participants to rigorous oversight, whilst remaining circumspect on trading and speculation in cryptocurrency.

With the effects of 2022’s crypto winter still fresh in the memory, this approach seems imminently sensible, and may well be consistent with a shift in focus in the industry at large, at least amongst its most sophisticated players.

But as much as these regulatory changes address the ‘how’, it remains unclear ‘why’ industry players would seek to sink roots in Singapore and work with its regulators under its digital assets regime. Regulation and intervention may well be anathema to the spirit of decentralised finance, and Singapore now faces stiff competition from jurisdictions whose unique features allow a more open playing field (and importantly, cheaper compliance costs) such as Dubai.

The underlying goals of Singapore’s cryptocurrency regulations have remained consistent, despite the temptations posed by the at-times runaway success of the industry. Still, it remains to be seen whether Singapore’s crypto ambitions will ultimately bear fruit, or if the regulatory tightrope imposed on industry players will eventually see them look elsewhere for more fertile pastures.