

**RESPONSE TO
FEEDBACK RECEIVED**

November 2017

**Proposed Activity-
based Payments
Framework**

MAS

Monetary Authority of Singapore

Contents

1	Preface.....	3
2	Proposed Payments Framework - General Feedback.....	4
3	Activity 1: Issuing and Maintaining Payment Instruments.....	9
4	Activity 2: Acquiring Payment Transactions	12
5	Activity 3: Money Transmission and Conversion Services	12
6	Activity 4: Operating Payment Communication Platforms	17
7	Activity 5: Payment Instrument Aggregation Services.....	19
8	Activity 6: Operating Payment Systems	19
9	Activity 7: Holding Stored Value Facilities	22

1 Preface

1.1 On 25 August 2016, MAS consulted on a proposed activity-based payments framework (“**PPF**”).

1.2 The consultation period closed on 31 October 2016 and MAS would like to thank all respondents for their contributions. The list of respondents is in **Annex A** and the full submissions are provided in **Annex B**. The annexes to this response paper are available at this [link](#).

1.3 MAS has considered carefully the feedback received, and has incorporated suggestions, where appropriate, into the proposed Payment Services Bill (“**PSB**”). The consultation paper for the PSB has been published and is available at this [link](#).

1.4 The responses below relate specifically to feedback received on the PPF. MAS has responded to the feedback received on the Payments Council in August 2017.

2 Proposed Payments Framework - General Feedback

2.1 MAS proposed to combine the current regulatory frameworks relating to payments, namely the Payment Systems (Oversight) Act (“**PS(O)A**”) and the Money-changing and Remittance Businesses Act (“**MCRBA**”), into a single activity-based framework to keep pace with innovation in the Singapore payments ecosystem and the emergence of new payment business models.

2.2 MAS also sought views on the following:

- (a) the impact of the PPF on the level playing field between banks and non-banks in the payments industry;
- (b) whether the existing designation regime under the PS(O)A should be extended to apply to all payment service providers undertaking payment activities;
- (c) whether foreign payment service providers that provide services to Singapore residents should be required to establish a local presence; and
- (d) whether the proposed activities were comprehensive and whether any activities in the payments ecosystem were left out.

2.3 Most respondents supported the risk-based regulation of payment activities. A few respondents sought clarity on the specific risks for each activity. Some respondents expressed concerns that MAS may over-regulate the payments industry and adversely impact Singapore’s business competitiveness. They cautioned that MAS should be careful not to impose too much regulatory burden on small entities, and suggested that MAS focus on carefully calibrated regulations that balance risk management with on-going innovation and growth. There were also concerns that the new framework may overlap with other regulations.

2.4 A majority of the respondents commented that a level playing field between banks and non-banks conducting the same activity was important, and that MAS should impose requirements commensurate with the risk posed by the entity and the entity’s business.

2.5 Most respondents supported the proposal that required foreign payment service providers to establish a local presence if they offered services to Singapore residents. A

few respondents voiced concerns about the additional costs incurred in setting up a physical place of business in Singapore.

2.6 On the scope of activities, the majority of respondents found the proposed activities too extensive and commented on potential overlaps in the definitions of activities. Many sought clarifications on the definitions of each activity line, requesting for greater clarity in order to provide more detailed responses. There also were many queries on the applicability of the new regulations to specific products.

2.7 Respondents had mixed views on the candidate pool for the designation regime. About half of the respondents supported the current approach in the PS(O)A. This is where any payment system operating in Singapore may be designated for regulation if it meets the criteria set out in the PS(O)A.

MAS' Response

2.8 In response to the feedback that the new framework should be risk-based, MAS has set out in detail the regulatory objectives for the licensable activities in the PSB Consultation Paper. MAS has also explained in that paper the specific risk or regulatory concern that each licensable payment activity carries.

2.9 MAS notes the concerns raised by respondents on over-regulation and will carefully calibrate regulations to avoid over burdening small entities that pose low risks. To address this issue, MAS will allow smaller payment firms that accept, process or execute transactions (including payment transactions), or hold e-money float under the specified thresholds to comply with a lighter set of requirements.

2.10 Regarding concerns on the overlap of regulatory frameworks, MAS has crafted the PSB to avoid duplication in requirements as far as possible, across all the activities. In this area, MAS proposes to grant specific exemptions to banks, merchant banks, finance companies and non-bank credit card or charge card issuers. These exemptions are to avoid duplication of regulatory requirements between the PSB and other existing MAS legislation such as the Banking Act. They also retain existing exemptions such as those in the MCRBA that apply to these entities. To be clear, banks and other deposit-taking institutions will need to meet other payment service specific requirements depending on the activity conducted. For example, a bank that issues e-money will need to meet the requirements relevant to that activity.

2.11 In addition, MAS has proposed to exclude payment service providers that are already regulated or exempt under the Securities and Futures Act, Financial Advisers Act, Trust Companies Act, and Insurance Act, in so far as they conduct payment services that

are solely incidental to or solely necessary for their carrying on of business in the financial service they provide under those legislation. This is to minimise regulatory disruption to other financial institutions that do not conduct payment activities as a core business.

2.12 MAS intends to retain the existing designation regime under the PS(O)A to regulate systemically important and system wide important payment systems to ensure financial stability. In the review of the designation regime, MAS proposes to broaden the designation criteria to include designation of payment systems for competition and efficiency reasons. We clarify that any payment system that operates in Singapore which meets the criteria may be designated by MAS. However, designation of a payment system is an exercise that MAS conducts after careful assessment and only when necessary to achieve the regulatory objectives of financial stability, competition or efficiency. The payment systems that are targeted are likely to be large payment systems or payment systems with a significant impact on the payments ecosystem.

2.13 MAS agrees with the general feedback that payment service providers should have a local presence for customers to resolve complaints or seek recourse. To address concerns regarding costs, MAS does not intend to require licensees to incorporate locally. The following business conduct requirements will apply to licensees (except money-changing licensees):

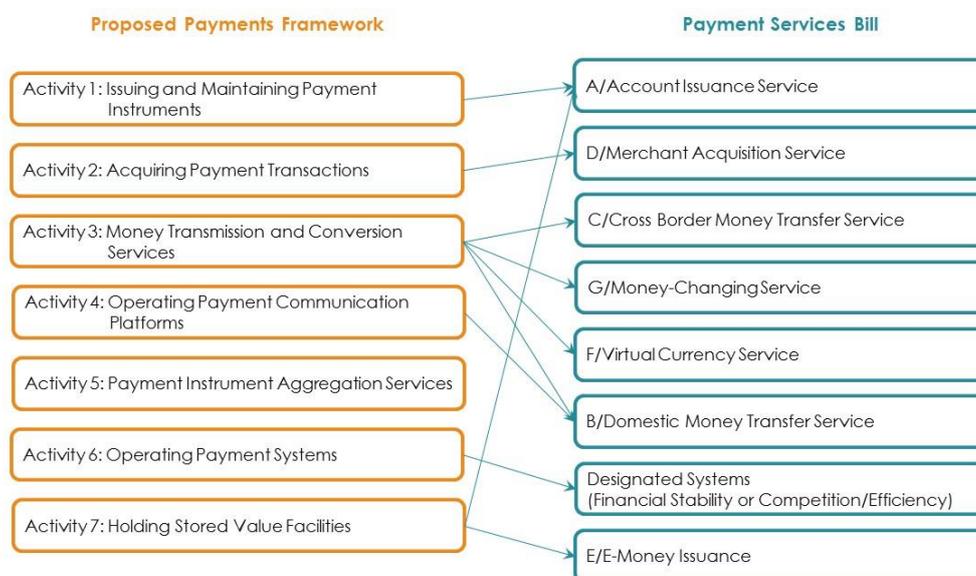
- a) The applicant must be a company (incorporated in Singapore or overseas).
- b) The applicant must have a permanent place of business in Singapore or if the business is carried on without a permanent place of business, a registered office in Singapore. An applicant must appoint a person to be present at the permanent place of business or registered office of the applicant on the days and at the hours during which the place or office is to be accessible to the public to address any complaints from any payment service user who is a customer of the applicant. An applicant must also keep, or cause to be kept, at the permanent place of business or registered office, as the case may be, books of all his or its transactions in relation to any payment service the applicant provides.
- c) The applicant must have a Singapore citizen or Singapore Permanent Resident executive director.

2.14 In response to the feedback received on the scope of the proposed PPF activities, MAS has carefully reviewed the original seven activities and has revised the list of activities in the PSB. The activities proposed for regulation under the licensing framework in the PSB are as follows and will be collectively referred to as the PSB licensable activities:

- a) Activity A: Account Issuance Services (“**Account Issuance**”);
- b) Activity B: Domestic Money Transfer Services;
- c) Activity C: Cross Border Money Transfer Services;
- d) Activity D: Merchant Acquisition Services (“**Merchant Acquisition**”);
- e) Activity E: E-Money Issuance;
- f) Activity F: Virtual Currency Services; and
- g) Activity G: Money-Changing Services.

2.15 The full description of each activity is set out in the PSB, and explanation of each activity and the measures proposed for each activity are set out in the PSB Consultation Paper. **Illustration 1** shows the relevance of each activity in the PPF to each licensable activity in the PSB. While there are broad similarities between the PPF activities and the PSB licensable activities, please note that the PPF activities were not directly replicated into the PSB, and the scope of the PSB licensable activities may have changed.

Illustration 1: Proposed Payments Framework and Payment Services Bill comparison



2.16 **Illustration 2** shows the degree of changes made to each activity type in the PPF. Activities 1, 2 and 7 have been incorporated into the PSB as Activities A, D and E without significant changes to the primary scope of these activities. Where respondents provided feedback that the scope was not sufficiently clear, we have clarified them in the PSB.

2.17 Activity 3 has been reworked to take into account feedback from respondents that not all services set out in Activity 3 pose the same risk. We have split up Activity 3 into four activities in the PSB as Activities B, C, F and G, and calibrated the risk mitigating measures to each activity. Activities 4 and 6 have been reworked, and Activity 5 has been removed, in response to the feedback that data processing should not be regulated as a licensable activity.

Illustration 2: Changes made to Proposed Payments Framework



3 Activity 1: Issuing and Maintaining Payment Instruments

3.1 MAS sought views on the proposed scope of Activity 1 and the definition of payment instruments. MAS also sought comments on whether internet banking portals should be considered payment accounts, and the approach of linking payment instruments to regulated funding sources.

Scope of Activity 1 and definition of payment instruments

3.2 Most respondents were in support of the scope of Activity 1, and for a tiered approach to regulation. A few respondents raised issues with the potential overlap of the scope of Activity 1 and Activity 7 (Holding Stored Value Facilities).

3.3 A few respondents gave feedback that the scope should not extend to platforms that store payment instruments or instruments that are not linked to a regulated funding source.

3.4 Respondents were generally supportive of the proposed definition of payment instruments as a means through which a user can initiate payments. A few suggested that the terms were ambiguous and that MAS use the European Union Payment Services Directive definition for “payments instruments”.

MAS' Response

3.5 MAS has introduced Activity A (Account Issuance) and Activity E (E-money Issuance) in the PSB, which are broadly similar to Activity 1 and Activity 7. MAS has clearly defined the scope of each activity in the PSB to ensure that there is no overlap in regulations across each activity or across other regulations. In the context of e-money, the issuance of a payment account containing the e-money (i.e. an e-wallet) is Activity A, and the issuance of the e-money (i.e. the value stored in the e-wallet) is Activity E. In the PSB Consultation Paper, MAS explained that the risks each of these activities pose are different and as such, different risk mitigating measures will apply to entities carrying on the relevant activity.

3.6 We observe that at the moment, most e-money issuers also issue the e-wallet that stores e-money. Where the entity carries on both activities, it will need to comply with requirements in respect of both activities. However, an entity conducting regulated activities under the PSB need only hold one licence under the PSB.

3.7 MAS has proposed the following definition of payment account which is similar to the definitions of “payment account” and “payment instrument” in the UK Payment Services Regulations.

“payment account” means—

- (a) any account held in the name of, or any account with a unique identifier of, one or more payment service users; or
- (b) any personalised device or personalised facility,

which is used by a payment service user for the initiation, execution, or both of payment transactions and includes a bank account, debit card, credit card and charge card.

“personalised device or personalised facility” means any device or facility (whether in physical or electronic form) with a name or unique identifier.

Internet banking portals as payment instruments

3.8 A large number of respondents indicated that internet banking portals and non-banking mobile apps should not be considered payment accounts. They reasoned that these portals were often used as channels to facilitate the transfer of payment, and are not the source of funds.

3.9 Some respondents were in support of including such portals and apps, if they allowed the user to initiate payments. They believed this to be in line with the original definition of a payment instrument which “provides a user access to regulated funding sources for the purpose of initiating payments.”

MAS’ Response

3.10 As stated below in relation to Activity 5 (Payment Instrument Aggregation Services), MAS proposes not to regulate under the PSB activities that involve only the processing of data without the processing (including handling) of funds. Hence, MAS will not be regulating internet banking portals or mobile apps as payment accounts. In any event, banks’ provision of services in relation to bank accounts will generally be exempted from the PSB’s requirements, given that the general approach is to have such services continue to be regulated under the Banking Act.

3.11 MAS intends for the PSB licence to cover entities that deal directly with the merchant or consumer, and process funds or acquire transactions. Service providers that process only data but do not process funds will not be regulated as licensees under the PSB as they pose fewer risks to the user than services that process funds. MAS may consider data processors as third party service providers to payment services licensees and introduce guidelines to set standards on technology risk management.

Regulated funding sources – exclusion of cash and anonymous instruments

3.12 Most respondents agreed that cash should not be regulated as a payment instrument in and of itself.

3.13 However, there were mixed views on the inclusion of anonymous instruments and virtual currency as types of payment instruments. Respondents who did not support the exclusion of anonymous instruments were concerned about the creation of a shadow sector. A few respondents who supported the proposal to keep anonymous instruments out of scope suggested that MAS should still consider defining them in the new legislation to determine future treatment. A few respondents also sought clarification on the definition of a regulated funding source, with some questions as to whether bank accounts outside of Singapore are considered regulated funding sources.

MAS’ Response

3.14 Cash and anonymous instruments such as virtual currencies will not be regulated as payment accounts. However, virtual currency services carry higher Money Laundering/Terrorism Financing (“ML/TF”) risks due to the user’s ability to transmit

money pseudonymously. MAS intends to include regulation of Activity F (Virtual Currency Services for ML/TF purposes). This will address concerns about a shadow sector emerging.

3.15 However, where a payment account allows the use of cash as a funding source, MAS has carefully considered the increased ML/TF risks associated with such business models, and proposed risk mitigating measures accordingly in the PSB Consultation Paper.

4 Activity 2: Acquiring Payment Transactions

4.1 MAS sought views on the proposed scope of Activity 2, whether Activity 2 should be restricted to direct participants of payment schemes and whether there are non-payment businesses that may be inadvertently regulated under the scope of payment acquisition.

4.2 While some respondents agreed with the scope, most sought further clarification on the definition and scope of Activity 2. Many raised queries on the entities that would be caught. Responses on the inclusion of direct participants were mixed, with a few respondents seeking further clarity on the terms.

MAS' Response

4.3 In the PSB, MAS has proposed for Activity D (Merchant Acquisition) to cover any entity that contracts with a merchant to accept and process payment transactions, which result in a transfer of money to the merchant, whether or not the payment service provider comes into possession of money in respect of the payment transactions, where the merchant carries on business in Singapore, is incorporated, formed or registered in Singapore, or the contract is entered into in Singapore. We have sought to address the main regulatory concerns of user protection (merchant and consumer protection) and interoperability that merchant acquisition as a payment service poses. MAS clarifies that only payment service providers that arrange directly with the merchant to acquire the merchant's payment transactions will be considered to be conducting merchant acquisition services. The acquisition of payment transactions, without direct processing of funds, will also be considered merchant acquisition services.

5 Activity 3: Money Transmission and Conversion Services

5.1 MAS sought comments on the scope of Activity 3. MAS also sought views on the following:

- (a) including remittance business under the PPF;

- (b) including domestic, cross-border, and inbound money transmission activities under the PPF;
- (c) including money-changing businesses under the PPF;
- (d) including virtual currency intermediation services under Activity 3;
- (e) excluding payments purely for goods and services from the scope of Activity 3; and
- (f) whether there are other businesses which may unintentionally fall within the scope of Activity 3.

Inclusion of remittance businesses

5.2 Respondents were supportive of the proposal, but sought MAS' consideration to impose different admission criteria commensurate with the nature of business and to reduce requirements on licence fees and security deposits.

5.3 Several respondents sought clarification on whether remittance businesses would be subjected to double regulation (i.e. both under the PSB and the existing MCRBA).

MAS' Response

5.4 MAS has proposed different criteria such as introducing tiered regulations according to the volume of business transactions. As mentioned in Part 2 of this paper, MAS will allow smaller and lower risk payment firms that accept, process or execute transactions under the specified threshold to comply with a lighter set of requirements. MAS will prescribe licence fees and specific security deposits, and will likely impose fees commensurate with the size of the licensee as determined by the specific licence class the licensee belongs to.

5.5 MAS will avoid subjecting businesses to double regulation for any particular payments activity. Remittance will be regulated as a cross-border money transfer service which is Activity C in the PSB. The MCRBA will be repealed with the commencement of the PSB.

Inclusion of domestic, cross-border and inbound money transmission activities

5.6 Most respondents were supportive of the inclusion of domestic, cross-border and inbound money transmission activities. Maintenance of a level playing field, regulatory consistency and better ML/TF supervision were main reasons cited for the

support of inclusion. A few respondents who were against the proposal were primarily against the new inclusion of domestic and inbound transactions.

5.7 Some of the respondents also suggested that that if the three types of transmission were to be regulated, there should be different requirements commensurate with the risks associated.

MAS' Response

5.8 MAS has proposed to regulate domestic money transfers as Activity B in the PSB, and both inbound and outbound cross-border money transfers as Activity C.

5.9 Under Activity B, entities conducting domestic money transfer services in Singapore will be licensed. This will include payment gateway services and payment kiosk services. Under Activity C, entities providing inbound and/or outbound remittance services in Singapore will be licensed.

5.10 The primary regulatory concerns that both Activities B and C carry are ML/TF and user protection. The user protection measures proposed for both Activities B and C are the same. However, to manage the business costs of smaller payment firms, these firms will not be required to comply with user protection measures. Instead, they will need to make specified disclosures to their customers of their status as a smaller payment licensee. As mentioned in Part 2 of this paper, MAS will allow smaller payment firms that accept, process or execute transactions (including payment transactions) under the specified threshold to comply with a lighter set of requirements. On Anti Money-Laundering/ Countering the Financing of Terrorism (“**AML/CFT**”), the requirements will be calibrated according to the risk profile of the business model.

Non-inclusion of certain payments for goods and services

5.11 Most respondents were of the view that money transmission with underlying goods and services pose lower risks and should be excluded from requirements. However, a few respondents disagreed and reasoned that it was not always possible to differentiate pure transfers from transfers for payment of goods and services.

MAS' Response

5.12 In recognition of genuine e-commerce needs, MAS has proposed in the PSB Consultation Paper to exempt entities that carry out certain types of low risk payments for goods and services from complying with AML/CFT requirements.

5.13 MAS agrees with the view that it is not always possible to differentiate pure transfers from transfers meant for the payment of goods and services. We have clarified, within the PSB Consultation Paper, our view on what constitutes the latter. Further, to balance ML/TF risks with commercial practicalities, we have proposed to limit the exemption to the following types of payments for goods and services:

- a) Domestic money transfers for goods and services funded from an identifiable source;
- b) Domestic money transfers for goods and services under S\$20,000; or
- c) Cross-border money transfers for goods and services funded from an identifiable source.

Inclusion of money-changing businesses

5.14 There was limited feedback regarding the inclusion of money-changing businesses. However a majority of those that responded supported the proposal, giving reasons that the money-changing business had evolved into the FinTech space and that there should be a level playing field between such businesses and other payments services.

MAS' Response

5.15 MAS has proposed to include the regulation of money-changing businesses in the PSB. It will be covered under a separate activity (Activity G). The existing MCRBA will be repealed with the commencement of the PSB.

5.16 If the entity only conducts money-changing business, it can apply for a money-changing licence under the PSB. Holders of a money-changing licence need not be incorporated, or hold minimum paid up capital. However, if a money-changing business licensee were to decide to carry out other regulated activities under the PSB, it must apply to MAS to vary its licence. It will then be subject to the relevant requirements under its new licence.

Inclusion of virtual currency intermediaries

5.17 Most respondents were supportive of the inclusion of virtual currency intermediation services as a regulated activity, especially to address potential ML/TF risks with the growing use of virtual currencies. However, some cautioned that MAS should be careful not to impose requirements that stifle innovation. A few respondents sought further clarity on the definitions of virtual currencies and virtual currency intermediaries.

MAS' Response

5.18 To address ML/TF risks in virtual currency intermediation services, MAS intends to regulate the activities of dealing in virtual currency and facilitating the exchange of virtual currencies under the PSB as Activity F. For MAS' response in respect of limited purpose virtual currency such as gaming credits, and loyalty points, please refer to MAS' response under Activity 7 in this paper.

5.19 MAS has proposed to define a virtual currency to mean any digital representation of value that is not denominated in any fiat currency and is accepted by the public as a medium of exchange to pay for goods or services, or to discharge a debt.¹

5.20 Dealing in virtual currency is defined as buying or selling virtual currency. This involves the exchange of virtual currency for fiat currency (e.g. Bitcoin for USD, or USD for Ether) or another virtual currency (e.g. Bitcoin for Ether).²

5.21 Facilitating the exchange of virtual currency is defined as establishing or operating a virtual currency exchange where participants of the exchange may use such a platform to exchange or trade virtual currency.³

¹ "virtual currency" means any digital representation of value that—

- (a) is expressed as a unit;
- (b) is not denominated in any currency;
- (c) is a medium of exchange accepted by the public or a section of the public, as payment for goods or services or the discharge of a debt;
- (d) can be transferred, stored or traded electronically; and
- (e) satisfies such other characteristics as the Authority may prescribe, but does not include such other digital representation of value that the Authority may prescribe.

² "dealing in virtual currency" means—

- (a) buying virtual currency; or
 - (b) selling virtual currency,
- in exchange for another virtual currency or for any currency, but does not include—
- (i) facilitating the exchange of virtual currency;
 - (ii) accepting virtual currency as a means of payment for the provision of goods or services; or
 - (iii) using virtual currency as a means of payment for the provision of goods or services.

³ "facilitating the exchange of virtual currency" means the establishment or operation of a virtual currency exchange where the person who establishes or operates the virtual currency exchange comes into

5.22 In response to concerns that requirements may stifle innovation, MAS will regulate virtual currency services mainly for ML/TF risks. Other than general licensing and business conduct requirements, MAS is unlikely to impose other risk mitigating measures such as user protection on virtual currency service providers.

6 Activity 4: Operating Payment Communication Platforms

6.1 MAS sought comments on the scope of Activity 4, as well as views on the following:

- (a) the potential merits of including manufacturers of payment terminals and software developers in Activity 4; and
- (b) the potential merits of including inter-bank payments messaging platforms in Activity 4.

6.2 Responses were mixed. There was some support for the proposed scope of Activity 4 and a few respondents sought clarification on perceived overlap between Activity 4, Activity 2 (Acquiring Payment transactions) and Activity 6 (Operating Payment Systems).

6.3 However, there were also some respondents who suggested that technical services supporting the provision of payments services, internal banking systems, and bank channels should be excluded from the scope of Activity 4. In addition, some respondents suggested that kiosks operating as internet portals should be out of scope.

possession (whether in advance or otherwise) of money or virtual currency in respect of any offer or invitation to exchange, buy or sell virtual currency;

“virtual currency exchange” means a place at which, or a facility (whether electronic or otherwise)—

(a) by means of which offers or invitations to exchange, buy or sell virtual currency in exchange for another virtual currency or for any currency are regularly made on a centralised basis,

(b) where the offers or invitations that are made are intended or may reasonably be expected to result, whether directly or indirectly, in the acceptance or making, respectively, of offers to exchange, sell or buy virtual currencies; and

(c) where the persons making the offers or invitations to exchange buy or sell virtual currency are different from the persons accepting the offers or making the offers, to exchange, sell or buy virtual currencies, but does not include a place or facility used by only one person —

(i) to regularly make offers or invitations to sell, purchase or exchange virtual currencies; or

(ii) to regularly accept offers to sell, purchase or exchange virtual currencies;

MAS' Response

6.4 MAS has reassessed the activities that make up Activity 4 to determine if they are retail payment services (i.e. those that directly serve merchants or consumers, and process funds or acquire transaction), and whether they pose any of the regulatory risks or concerns identified as being significant to retail payment services.

6.5 MAS will not require service providers that only process data to hold a licence under the PSB. In this regard, MAS notes that technology-only service providers and inter-bank payment services do not pose the same risks that front line retail payment services pose.

Inclusion of payment terminal manufacturers and software developers

6.6 Most respondents asked MAS to exclude payment terminals manufacturers and software developers. They reasoned that overly onerous regulations and costs on entities who were only providing support functions were unnecessary. However, some respondents suggested that technology risk management guidelines should be introduced to ensure consistency of technology standards with the banking industry. A few respondents asked MAS to consider regulating payment terminal providers, reasoning that it would be an important step towards establishing interoperability standards.

MAS' Response

6.7 MAS agrees with the general feedback that entities that provide support functions to front line payment service providers should be excluded. MAS may consider data processors as third party service providers to payment services licensees and introduce guidelines to set standards on technology risk management.

6.8 MAS agrees with the feedback that the PSB should include the ability to regulate payment terminal providers for interoperability reasons. While the provision of a point of sale terminal is not regulated as an activity, MAS notes that most terminals are provided by merchant acquirers. Merchant acquiring services will be regulated under the PSB as Activity D and MAS will have interoperability powers over providers of these services.

Inclusion of inter-bank payments messaging platforms

6.9 As the question of inclusion of inter-bank payment and messaging systems was also covered in Activity 6, all relevant responses have been consolidated with the responses received for Activity 6.

7 Activity 5: Payment Instrument Aggregation Services

7.1 MAS sought comments on the scope of Activity 5 and whether mobile wallets should be regulated as payment instrument aggregation services.

7.2 Most respondents suggested that the scope should not include platforms that did not store financial data, or did not access the underlying payment instrument. These entities were likely to only be providing an additional service on top of the underlying payment transaction. However, a few respondents raised concerns on cyber security risks, and suggested that technology risk management guidelines should apply to the licensee. A few requested for further clarification on the definition of a payment instrument aggregation service.

MAS' Response

7.3 MAS agrees with the feedback and has proposed not to regulate services, including payment instrument aggregation services where the service provider does not process funds. Entities that merely store and relay payment information will not be required to hold a licence under the PSB. The activity of payment instrument aggregation service is not a regulated activity under the PSB for which a licence is required. As mentioned in Part 6 of this paper, MAS may consider data processors as third party service providers to payment services licensees and introduce guidelines to set standards on technology risk management.

8 Activity 6: Operating Payment Systems

8.1 MAS sought comments on the scope of Activity 6, and asked for views on the following:

- (a) whether to include settlement institutions as part of Activity 6;
- (b) the approach not to regulate intra-bank payment systems and internal corporate payment systems; and
- (c) the merits and practicalities of regulating operators of international inter-bank payment and messaging systems under Activity 6.

8.2 Many respondents again gave feedback that the scope of Activities 2, 4, 5 and 6 could be more clearly defined and overlapping scope should be avoided. Many respondents also raised issues relating to the comprehensiveness and clarity of the scope

of payment activities to be regulated under the proposed payment framework and the list of potential licensees and exclusions.

8.3 Several respondents gave feedback that the intensity of regulation should be proportional to the nature, size and risk of the payment activity conducted. A few respondents requested for a level playing field with regulations based on product features and not place of domicile or territorial presence.

8.4 A few respondents gave feedback that, firstly, there was no need to subject international payment card schemes and related card operating rules to local regulations to avoid double regulation with the requirements imposed by the card schemes' home regulator. Secondly, the respondents felt that the operation of a payment system was a complex matter and an overly prescriptive regulation was likely to undermine competition between providers and reduce incentives to innovate. Thirdly, requiring interoperable payment systems undermines competition and innovation. Lastly, further segregation should be provided to address the different risks posed by large-value and retail payment systems.

8.5 A few other respondents indicated that the list of proposed licensees was comprehensive. In addition, the respondents felt that the PSB should encourage the inclusion of exemptions or a lighter touch regime for non-bank players that operate payment systems dealing with low transaction volumes.

8.6 Yet another few respondents indicated that the list of proposed licensees was excessive and suggested a risk-based approach where the scope of regulated entities was commensurate with the risk each type of entity pose to the financial system. In addition, the respondents requested that MAS take into account the regulatory burden of a licensing regime and the possible requirement for multiple licences on a single entity.

8.7 A few respondents suggested that the scope should be increased to include all underlying payment systems transmitting financial transactions and MEPS+.

MAS' Response

8.8 MAS has provided more clarity in the PSB Consultation Paper on the scope of the regulated activities and regulatory boundaries for each of the activities. The scope, nature and intensity of the regulatory framework and requirements have been tailored according to the risk posed by each type of activity and the size of entities. MAS intends to require any payment firm to only hold one licence at any one time to conduct multiple licensable activities.

8.9 MAS intends to exclude inter-bank payment systems from the licensing framework as they are not customer or merchant facing. However MAS will continue to designate critical payment systems for financial stability, competition or efficiency reasons.

Inclusion of Settlement Institutions

8.10 Majority of respondents agree to include settlement institutions in the scope of regulated activities due to the critical role and systemic nature of settlement institutions. However, a few respondents requested that MAS clarify the types of entities regulated under this Activity and the difference between settlement institutions and remittance businesses under Activity 3.

8.11 One respondent was against including settlement institutions under the PSB as the nature of the activities conducted by settlement institutions was not customer facing.

MAS' Response

8.12 As settlement system providers do not deal directly with merchants or consumers, but instead serve other financial institutions, MAS does not consider such settlement services as retail payment services. Settlement systems that are systemically important or are of system wide importance may be subject to designation for financial stability or for public interest. MAS may also designate a significant settlement system for competition or efficiency reasons.

Exclusion of Intra-bank and internal corporate systems

8.13 Many respondents were supportive of the proposal to exclude intra-bank payment systems and internal corporate payment systems from the regulatory scope. Several respondents highlighted that the low risk posed by intra-bank payment and internal corporate payment activities does not warrant any additional regulatory scrutiny.

MAS' Response

8.14 MAS notes the general feedback that intra-bank and internal corporate systems should be excluded from regulation as they do not carry sufficient risk or regulatory concerns. MAS has proposed to expressly exclude such services from regulation, in a schedule to the PSB.

Inclusion of inter-bank payments messaging platforms

8.15 There was mixed feedback from respondents on this issue.

8.16 A few respondents agreed that international inter-bank payment and messaging systems should be regulated given that they posed similar risks as payment service providers. Proponents also argued that regulation would be beneficial to formalise and standardise best practices. In addition, a few respondents requested for a level playing field for all payment and messaging systems, regardless if they were operating inside or outside of Singapore, as long as they were soliciting Singapore residents to provide payment services.

8.17 Many respondents were either not supportive of the proposal to regulate operators of international messaging systems or raised practical implementation issues of regulating operators of international messaging systems that were licensed or regulated in multiple countries. Those that were against inclusion saw no merit, as the entities with direct interaction with the source of funds were already regulated, thus covering concerns on ML/TF and user protection.

8.18 A few respondents requested for more clarity in terms of the perceived overlap between Activities 4 and 6 and the definition of international payment and messaging systems. A few respondents also requested clarity on whether there would be exemptions for operators of international messaging systems that were licensed and regulated in other jurisdictions.

MAS' Response

8.19 MAS agrees with respondents that inter-bank messaging platforms do not pose the same type of risks compared to front line retail payment systems. MAS will not regulate these platform operators under the licensing regime. Services provided by these operators will be treated as third party service providers.

9 Activity 7: Holding Stored Value Facilities

9.1 MAS sought comments on the scope of Activity 7, and the following areas:

- (a) the proposal not to regulate businesses that allow customers to pre-pay for specific products and services, are of limited purpose in terms of usage or acceptance, or where stored value is a by-product from a merchant's enhancement of existing business processes, such as earning points and rewards, which can be claimed for future redemption;
- (b) whether any existing business models may inadvertently or unfairly be considered as undertaking Activity 7; and

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- (c) the approach to allow various mechanisms for licensees to safeguard customers' funds, and whether the protection should cover both Singapore and non-Singapore residents.

9.2 Most respondents commented that the definition of Activity 7 was unclear and therefore felt that the list was not comprehensive, or were unable to comment. A few respondents agreed with the scope of Activity 7, while some suggested that the current stored value facility ("SVF") regulations should continue without further requirements. There were also respondents who requested that funds that were held temporarily for the purpose of settling payment transactions should be excluded from Activity 7. A few respondents also suggested that MAS not require local SVF holders to aggregate the stored value float held by their foreign controlled or influenced holders.

MAS' Response

9.3 MAS has provided clear descriptions of the regulated activities in the PSB. The activities that are relevant to the issuance of SVF are Activity A (Account Issuance Services) and Activity E (E-Money Issuance). Please see Part 3 of this paper for the commentary on Activity A. Please also see the PSB Consultation Paper for an explanation of the scope of e-money and the relationship between e-money and other currency related terms. The scope of e-money is slightly different from stored value in an SVF. While stored value is limited to pre-payment for goods and services, e-money does not have this restriction; it may be used for purchases as well as peer-to-peer transfers.

9.4 MAS notes the feedback relating to compliance burden of smaller firms, and in response intends to introduce a tiered approach which considers the float amount held by entities. As mentioned in Part 2 of this paper, MAS will allow smaller payment firms that accept, process or execute transactions (including payment transactions) or hold e-money float under the specified thresholds to comply with a lighter set of requirements. AML/CFT regulations will also be calibrated in consideration of risk characteristics including load capacity of the payment account.

Exclusion of limited purpose e-money, loyalty points and rewards

9.5 Majority of respondents agreed not to regulate businesses that allow customers to pre-pay for specific products and services and are limited purpose in terms of usage or acceptance. These respondents also agreed that loyalty programs should not be regulated. These programs are where stored value is a by-product from a merchant's enhancement of existing business processes, such as earning points and rewards, which can be claimed for future redemption. The reasons cited for such views are as follows.

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- (a) Requirements could be excessively onerous for SMEs and the increased regulatory costs may be passed on to consumers. Commercial activity has low risks of abuse and minimal impact on the financial stability of payment systems, and major financial centres do not regulate such SVFs.
 - (b) Customer remedies in relation to businesses offering prepaid solutions should fall within the ambit of consumer protection law.
 - (c) Merchants offering an internal payment option should not be regulated, as it goes beyond the definition of payment service providers.

9.6 However, remaining respondents felt that businesses that accept pre-payments should be included to better protect consumers and to minimise regulatory arbitrage. The proposed exclusion should also take into account the current exclusion from the definition of a relevant stored value facility in Para 2.1 of the MAS Notice PSOA-N02.

9.7 Some respondents raised concerns that gaming credits and frequent flyer programs may inadvertently be caught under this activity.

MAS' Response

9.8 MAS agrees that limited purpose SVFs are lower risk in nature and are often not considered payment service providers in major jurisdictions.

9.9 MAS has proposed to carve out certain limited purpose SVFs under the PSB. MAS considers these e-wallets to carry low ML/TF risks and are limited in consumer reach. The e-wallet has to contain electronically stored monetary value that is, or is intended to be, used only in Singapore, and satisfies any of the following characteristics:

- a) it is used for payment or part payment of the purchase of goods from the issuer or use of services of the issuer, or both;
- b) it is used only within a limited network of franchisees or related companies;
or
- c) all the monetary value stored in the e-wallet is issued by a public authority,⁴ or a public authority has undertaken to be fully liable for or provided a

⁴ "public authority" means —

guarantee in respect of all the monetary value stored in the e-wallet, in the event of default by the issuer.

9.10 MAS has also proposed not to treat monetary value stored accumulated in a loyalty program as e-money. The issuance of such stored value will not be a regulated activity under the PSB. Electronically stored monetary value in any payment account that fulfils all the following characteristics will not be regulated under the PSB.

- (a) It is denominated in any currency;
- (b) It is issued by an issuer as part of a scheme, the dominant purpose of which is to promote the purchase of goods from, or the use of services of, the issuer, or by such merchants as may be specified by the issuer;
- (c) It is issued to a user as a result of the user purchasing goods from, or using the services of, the issuer, or such merchants as may be specified by the issuer;
- (d) It is used for the payment or part payment of the purchase of goods or use of services, or both;
- (e) It is not part of a financial product;
- (f) It cannot be withdrawn by the user from the payment account in exchange for currency; and
- (g) It cannot be refunded entirely to the user where the electronically stored monetary value is more than S\$100, unless the issuer identifies and verifies the identity of the user requesting the refund.

Protection of customers' funds

9.11 Majority of respondents agreed with the approach to allow various mechanisms to safeguard customers' funds. That being said, one respondent strongly disagreed with the approach of requiring all SVF holders to safeguard customers' funds, citing onerous obligations and excessive operating costs without any identified risk. Some respondents also felt that the proposed safeguarding mechanisms might not be readily available for SVF holders.

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- (a) the Government, including any ministry, department and agency of the Government, or an organ of State; or
 - (b) any statutory body;

9.12 There were mixed responses on whether safeguarding of funds should cover funds received from both Singapore and non-Singapore residents. Some respondents felt that the protection should only cover Singapore residents, as the increase in cost could put Singapore-based providers at a competitive disadvantage to other providers. One respondent felt that the safeguards should cover non-Singapore residents to the extent that such SVFs are offered to them in Singapore, acquired by them in Singapore, or are intended for usage in Singapore.

MAS' Response

9.12.1 MAS is of the view that safeguarding of customers' funds should be in place to promote customer confidence in the use of e-money. In this regard, MAS will require safeguarding of e-money float above S\$5 million, instead of the current S\$30 million under PS(O)A. The float is the total e-money float that a payment firm issues, across all e-wallet products that it operates.

9.12.2 MAS took into consideration the feedback that large payment firms may have global float that is accumulated across different jurisdictions. It would be sensible that the safeguarding measures were limited to the float in Singapore. That being said, MAS also recognises that some consumers based in Singapore are not Singapore citizens or Permanent Residents but should also be accorded protection over their portion of the float. Balancing all the above mentioned factors, MAS proposes to require larger payment firms (with a float above S\$5 million) to safeguard e-money float that is collected from Singapore residents with the residency status to be contractually agreed upon between the payment firm and the user (or customer). Factual residency is not required. Where the payment firm does not safeguard the customer's e-money, the firm is to clearly disclose this to the customer.

9.12.3 MAS has paid close attention to industry feedback that there should be more statutory options for safeguarding of e-money float. In response to such feedback, MAS proposes to expand the safeguarding mechanisms in the PSB, beyond the single safeguarding mechanism set out in the PS(O)A. Larger payment firms will be allowed to safeguard e-money float in one or more of the following ways, but will be required to disclose to the customer the way in which the funds will be safeguarded.

- (a) The float is covered by an undertaking from any full bank which is fully liable to the e-money user for such moneys;
- (b) The float is guaranteed by any full bank;

- (c) The float is deposited in a trust account with any full bank no later than T+1⁵;
- (d) The float is deposited in a trust account with an authorised custodian specified or prescribed by MAS no later than T+1;
- (e) The float is invested in any secure, liquid, and low risk assets as MAS may prescribe, no later than T+1, and the assets are deposited in a trust account with an authorised custodian prescribed or specified by the Authority.

MONETARY AUTHORITY OF SINGAPORE

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⁵ T+1 refers to the next business day following the day on which the payment firm receives the money from its customers.

