



Monetary Authority of Singapore

Consultation Paper
P002-2024 – March 2024

Consultation Paper on the Proposed Notice on Prevention of Money Laundering and Countering the Financing of Terrorism for Organised Market Operators Formed or Incorporated in Singapore



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1. Preface

- 1.1. This consultation sets out the Monetary Authority of Singapore’s (“**MAS**”) proposal to introduce a Notice to Approved Exchanges (“**AE**”) and Recognised Market Operators (“**RMO**”) (collectively referred to as “**organised market operators**”) formed or incorporated in Singapore, to perform anti-money laundering and countering the financing of terrorism (“**AML/CFT**”) checks.
- 1.2. Capital market intermediaries have traditionally facilitated access to investors seeking to trade on organised markets. These intermediaries are responsible for conducting AML/CFT checks on these investors for trading activities on organised markets under MAS Notice SFA04-N02¹. Organised market operators have thus not been required to perform AML/CFT checks on these investors which have been screened by capital market intermediaries. However, in recent years, MAS has observed an increasing trend of organised market operators with business models that allow investors to trade directly on their organised market without the need for capital market intermediaries to facilitate access to them. As these investors who trade directly on organised markets are not subject to AML/CFT checks by capital market intermediaries, organised market operators that take on such investors are exposed to higher inherent money laundering (“**ML**”) and terrorism financing (“**TF**”) risks.
- 1.3. MAS proposes to introduce an AML/CFT Notice (the “**Notice**”) for organised market operators formed or incorporated in Singapore (“**Singapore organised market operators**”). The proposed Notice will impose requirements on organised market operators to perform AML/CFT checks on market participants that are not financial institutions, and that trade directly on their organised markets without facilitation by a capital market intermediary. This Consultation Paper seeks views on the proposed Notice. **Annex A** sets out a list of questions asked in this paper. **Annex B**, which is a separate document, sets out the proposed AML/CFT Notice. The requirements in the Notice draw reference from the Standards set by the Financial Action Task Force (“**FATF**”), the global standard-setter for measures to combat ML and TF.
- 1.4. MAS invites comments from AEs, RMOs, and any other interested parties on the proposed Notice.
- 1.5. Please note that all submissions received will be published and attributed to the respective respondent unless they expressly request MAS not to do so. As such, if respondents would like –
 - (a) their whole submission or part of it (but not their identity), or
 - (b) their identity along with their whole submission,

¹ MAS Notice SFA04-N02: Prevention of Money Laundering and Countering the Financing of Terrorism – Capital Market Intermediaries which can be found [here](#).



to be kept confidential, please expressly state so in the submission to MAS. MAS will only publish non-anonymous submissions. In addition, MAS reserves the right not to publish any submission received where MAS considers it not in the public interest to do so, such as where the submission appears to be libelous or offensive.

- 1.6. Please submit written comments by 29 April 2024 via the following link [<https://go.gov.sg/mas-aml-notice-markets-2024>].



2. Proposed AML/CFT Notice for AEs and RMOs Issued under the Financial Services and Markets Act 2022

Introduction

- 2.1. Under the Securities and Futures Act 2001 (“SFA”), any person who establishes or operates an organised market for securities, units of a collective investment scheme or derivatives contracts is required to be approved as an AE or recognised as an RMO. MAS’ objectives for regulating organised market operators are to promote fair, orderly, and transparent markets; to facilitate efficient markets for the allocation of capital and the transfer of risks; and to reduce systemic risk.
- 2.2. The primary role of an organised market operator is to provide a trading venue for secondary market activities through the matching of trading interests from market participants. The role of an organised market operator generally does not entail the transfer or custody of market participants’ monies and assets, which are handled by capital market intermediaries such as brokers and custodians.² In addition, organised market operators generally do not participate directly in trades on their organised markets.³ Hence, MAS is of the view that in general, organised market operators pose lower inherent ML/TF risks than other financial institutions that conduct transactions and facilitate the transfer of monies and assets for customers. Nonetheless, it is possible that bad actors may abuse an organised market to hide the origin of funds and assets and to confer an appearance of legitimacy to transactions concluded pursuant to trading activities.⁴
- 2.3. The traditional operating model for organised markets operated by securities exchanges and futures exchanges involves exchange members that facilitate access for market participants to trade on the organised market – the “intermediated participants” model. These exchange members are usually regulated financial institutions (“FIs”) such as capital markets intermediaries, or banks with similar intermediation functions, and are responsible for ensuring that their customers’ activities abide by the rules of the organised markets. Additionally, exchange members are responsible for AML/CFT checks

² Some market operators conduct additional regulated services that involve the handling of customer monies and assets (e.g. dealing in capital market products) and hold licences for conducting these services. These entities are generally subject to AML/CFT requirements for activities that are covered under the relevant licences (e.g. capital markets services licence).

³ Certain operating models, such as matched-principal trading, may involve the organised market operator (or an affiliate) as a general counterparty.

⁴ For instance, bad actors may perform circular or wash trades on an organised market across a few controlled trading accounts with the intention of transferring monies across these accounts (a “money pass”).



on their customers, in compliance with requirements imposed on the exchange members in their capacities as regulated FIs.

- 2.4. In recent years, MAS has observed an increasing number of organised market operators with business models that allow entities which are not regulated FIs (“**non-FI**”⁵) to participate directly on the organised market - the “direct participant” model - without the involvement of an exchange member to intermediate the non-FI participant’s access. These include traditional securities and futures exchanges, and trading venues for wholesale and private markets which allow institutional and accredited investors to trade capital market products (“**CMs**”) as direct participants. In the absence of intermediaries that are mandated to implement AML/CFT measures, such organised market operators may be exposed to higher inherent ML/TF risks.
- 2.5. Recognising the risk, MAS currently requires Singapore organised market operators which operate the direct participant model to conduct AML/CFT checks on non-FI direct participants to mitigate the higher ML/TF risks. This is done through the issuance of directives to such organised market operators. With a growing number of such organised market operators, MAS proposes to standardise the requirements under a new AML/CFT Notice to Singapore organised market operators as set out in Annex B. The Notice reflects MAS’ intended policy outcomes and imposes requirements similar to those imposed on other MAS-regulated entities, with some adaptations elaborated below.

Scope of the Proposed AML/CFT Notice

- 2.6. Under the proposed Notice, MAS intends to require Singapore⁶ organised market operators to perform AML/CFT checks in relation to all non-FI direct participants. This requirement is intended to mitigate the higher inherent ML/TF risks arising from the non-FI direct participants. For the avoidance of doubt, Singapore organised market operators will not be required to perform AML/CFT checks for FI direct participants or intermediated participants. This is in recognition that FI direct participants are subject to AML/CFT requirements and exchange members, which are typically regulated FIs, are expected to perform AML/CFT checks on their customers that are intermediated participants. The Singapore organised market operator will be required to assess whether a direct participant is an FI based on the criteria set out in Appendix 2 of the proposed Notice.
- 2.7. MAS notes that the scope of the proposed Notice differs from the AML/CFT requirements imposed on other MAS-regulated entities, which require these entities to perform AML/CFT safeguards for all

⁵ Examples of non-FI participants include corporates and private sector entities.

⁶ MAS does not intend to impose the AML/CFT Notice on foreign-incorporated RMOs. In line with MAS’ existing practice, MAS intends to continue to place reliance on the home regulator of foreign-incorporated RMOs for the supervision of the entity. MAS will also consider factors such as whether the foreign-incorporated RMO is situated in a jurisdiction that is in the FATF grey or blacklist.



customers (both FI and non-FI). MAS is of the view that the scope of the proposed Notice is consistent with a risk-based approach for organised market operators, which have lower inherent ML/TF risks compared to other MAS-regulated entities for the reasons set out in paragraph 2.2.

*Question 1. **Scope of proposed Notice.** MAS seeks comments on the proposed scope of the AML/CFT Notice to require Singapore organised market operators to perform AML/CFT checks for non-FI direct participants.*

Definitions of “Trade-Related Activity”, “Business Relations” and “Customer”

2.8. In consideration of the scope of the proposed Notice set out in paragraph 2.6, MAS will define a few key terms – “trade-related activity”, “business relations” and “customer” – which determine the conditions in which a Singapore organised market operator will be required to perform AML/CFT safeguards.

Definition of “Trade-Related Activity”

2.9. As mentioned in paragraph 2.2 above, an organised market operator facilitates the matching of trading interests from market participants, which is the primary activity in the organised market associated with ML/TF risks. MAS notes that the common trading activities of market participants in an organised market include the making or acceptance of an offer or an invitation to exchange, sell, or purchase derivatives contracts, securities, or units in collective investment schemes.

2.10. Additionally, depending on the specific business model of the organised market operator and its associated activities, the organised market operator may facilitate a transaction which results in the transfer of value (in the form of fiat currency, digital CMP tokens, and digital payment tokens) across accounts. Such activities would also carry ML/TF risks in allowing bad actors to disguise the transfer of illicit funds and assets.

2.11. The proposed Notice defines the term “trade-related activity” to refer to the activities mentioned in paragraphs 2.9 and 2.10 above:



“trade-related activity” means any of the following -

- (a) the making or acceptance of an offer or invitation to exchange, sell or purchase derivatives contracts, securities, or units in collective investment schemes on an organised market operated by the AE or RMO;
- (b) an act on an organised market operated by the AE or RMO that results in fiat currency, digital CMP token or digital payment token being transferred by any person across accounts (whether in consideration for derivatives contracts, securities, or units in collective investment schemes or otherwise).

Definition of “Business Relations”

2.12. MAS considers the provision of a “trade-related activity”, as defined in paragraph 2.11, to be the primary regulated activity that Singapore organised market operators undertake or facilitate for market participants. Additionally, MAS notes that some Singapore organised market operators may also provide ancillary services to support a “trade-related activity”.⁷ The proposed Notice will require Singapore organised market operators to perform AML/CFT checks when opening accounts, facilitating a “trade-related activity”; or providing ancillary services for direct participants.

2.13. The proposed Notice defines the term “business relations” to refer to the activities mentioned in paragraph 2.12 above:

“business relations” means -

- (a) the opening or maintenance of an account by the AE or RMO in the name of;
- (b) the allowing of a trade-related activity to be performed on an organised market operated by the AE or RMO by or through; or
- (c) the provision of services by the AE or RMO, as may be required to facilitate the completion of a trade-related activity on an organised market operated by the AE or RMO, to,
 - a person (whether a natural person, legal person or legal arrangement) other than –
 - (i) a financial institution as set out in Appendix 2⁸; and

⁷ Examples include the provision of market data services and trade confirmation services.

⁸ This refers to the same list in Appendix 2 of MAS Notice SFA04-N02 which can be found [here](#).



(ii) the equivalent of a financial institution set out in Appendix 2, that is incorporated or established outside Singapore that is subject to and supervised for compliance with AML/CFT requirements consistent with standards set by the FATF.

Definition of “Customer”

2.14. Under the proposed Notice, a Singapore organised market operator will be required to conduct due diligence checks on customers that are non-FIs, as set out in paragraph 2.6. MAS will consider a person to be a customer of the Singapore organised market operator if the latter establishes “business relations” with that person.

2.15. The proposed Notice defines the term “customer” as follows:

“customer”, in relation to an AE or RMO, means a person (whether a natural person, legal person or legal arrangement) -

(a) with whom the AE or RMO establishes or intends to establish business relations; or

(b) for whom the AE or RMO undertakes or intends to undertake a transaction without an account being opened;

but does not include a person who is –

(i) a financial institution as set out in Appendix 2⁹; and

(ii) the equivalent of a financial institution set out in Appendix 2, that is incorporated or established outside Singapore that is subject to and supervised for compliance with AML/CFT requirements consistent with standards set by the FATF.

Question 2. Definition. MAS seeks comments on the proposed definition of “trade-related activity” in relation to an AE and RMO, and whether it appropriately captures the nature of transactions in the context of an AE and RMO.

⁹ This refers to the same list in Appendix 2 of MAS Notice SFA04-N02 which can be found [here](#).



*Question 3. **Definitions.** MAS seeks comments on the proposed definitions of “business relations” and “customer”, in relation to an AE and RMO.*

Requirements under the Proposed AML/CFT Notice for Singapore Organised Market Operators

2.16. Under the proposed Notice, the key AML/CFT requirements for Singapore organised market operators include (but are not limited to) the following:

- (a) Taking appropriate steps to identify, assess and understand their ML/TF risks;
- (b) Developing and implementing policies, procedures and controls — including those in relation to the conduct of customer due diligence (“CDD”), transaction monitoring, screening, suspicious transactions reporting and record keeping — to enable them to effectively manage and mitigate the risks that have been identified;
- (c) Monitoring the implementation of those policies, procedures and controls, and enhancing them if necessary;
- (d) Performing enhanced measures where higher ML/TF risks are identified, to effectively manage and mitigate those higher risks; and
- (e) Performing appropriate simplified CDD in cases where the organised market operator is satisfied, upon analysis of risks, that the ML/TF risks are low.

2.17. Before establishing business relations, Singapore organised market operators are required to perform CDD checks and assess the level of ML/TF risks posed by their prospective customers. After establishing business relations, Singapore organised market operators are required to maintain current and accurate knowledge of their customers through the performance of periodic reviews and/or reviews based on trigger events, and where the risks are assessed to be greater, enhance the frequency and intensity of customer engagement as appropriate.

2.18. ML/TF risks can manifest later, over the course of customers’ business relations with the Singapore organised market operator. While these risk factors may be obscured at the on-boarding stage and during the Singapore organised market operator’s performance of regular screening or periodic updates of customer information, they may be detected through ongoing market surveillance and trade monitoring. Effective ongoing monitoring is predicated on the Singapore organised market operator’s



sound understanding of their customers, which provides the necessary context for it to identify unusual or anomalous trades and assess whether customers' activity or behavioural patterns may pose reasonable suspicion. Examples of suspicious trading activities include trades which are undertaken by a person, or related persons, to move money from one account to another (e.g., "mirror trading" or "money pass").¹⁰

Question 4. Requirements under the proposed Notice. MAS seeks comments on the requirements imposed under the proposed Notice.

Correspondent accounts and value transfers

2.19. MAS is of the view that some AML/CFT requirements, which are applicable to other MAS-regulated entities, would not be applicable to Singapore organised market operators as the latter do not handle the transfer or custody of customers' monies and assets (as set out in paragraph 2.2). MAS intends to exclude the following requirements in the proposed Notice:

- (a) Requirements under the paragraph on "Correspondent Accounts" (e.g. Paragraph 10 of Notice SFA 04-N02), which applies to a regulated FI when it provides correspondent account services in Singapore to an FI that is operating outside Singapore;
- (b) Requirements under the paragraph on "Value Transfers" (e.g. Paragraph 10A of Notice SFA 04-N02), which applies to a regulated FI when:
 - (i) It effects the sending of one or more digital CMP tokens by value transfer; or
 - (ii) It receives one or more digital CMP tokens by value transfer on the account of the value transfer originator or the value transfer beneficiary.

2.20. Notwithstanding the above, an entity that is both a Singapore organised market operator and another type of MAS-regulated FI (e.g., a holder of a capital markets services licence) may be subject to other AML/CFT Notice requirements applicable to it or its other regulated activities, including the requirements on correspondent accounts and value transfers.

¹⁰ <https://www.fca.org.uk/publication/final-notice/deutsche-bank-2017.pdf>;
<https://www.cftc.gov/PressRoom/PressReleases/7019-14>



*Question 5. **Correspondent account and value transfer requirements.** MAS seeks comments on whether any of the above concepts would be applicable to Singapore organised market operators, and hence should be included in the proposed Notice.*

2.21. In addition to the areas highlighted above, MAS also welcomes comments on the rest of the proposed AE and RMO AML/CFT Notice.

*Question 6. **General comments.** MAS seeks comments, other than those listed above, on the proposed Notice set out in Annex B.*

Implementation Timeframe

2.22. In view of the scope of the proposed Notice, i.e. limited to non-FI direct participants, and that the requirements are already imposed on organised market operators with non-FI direct participants, MAS proposes an implementation timeframe of 6 months. This means that Singapore organised market operators subject to the proposed Notice would need to develop and implement the required policies, procedures and controls, as well as onboard its existing and new non-FI direct participants as per the CDD requirements in the proposed Notice within 6 months from the day the proposed Notice takes effect.

*Question 7. **Implementation timeframe.** MAS seeks comments on the implementation timeframe of 6 months for the proposed Notice.*



3. Annex A – List of Questions

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