Monetary Authority of Singapore

GUIDE ON THE TOKENISATION OF BANK DEPOSITS

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GUIDE ON THE TOKENISATION OF BANK DEPOSITS

1 PURPOSE OF THIS GUIDE

1.1 The Monetary Authority of Singapore ("**MAS**") has seen growing interest from banks in the use of distributed ledger technology ("**DLT**") or similar technology to represent or constitute deposits in the form of digital tokens ("**tokenised deposits**").

1.2 Tokenised deposits are one of several forms of digital money that may support payment and settlement use cases, including in tokenised financial markets. As banks explore different deposit tokenisation arrangements, questions may arise as to whether these arrangements constitute deposits from a regulatory standpoint, how depositors' entitlements are recorded and maintained, and the nature of the legal relationship between the bank and users of its tokenised deposits.

1.3 This Guide provides general guidance on MAS' considerations relating to the tokenisation of deposits, with reference to existing legal and regulatory requirements.

1.4 This Guide serves as a general reference and is not intended to be comprehensive, nor to replace or override any legislative provisions. It should be read in conjunction with the Banking Act 1970 (the "**Act**"), the Guidelines on Definition of a "Deposit" ("**Deposit Guidelines**"), and other applicable laws, written directions, notices, circulars, codes, and guidelines that MAS may issue from time to time.

1.5 Nothing in this Guide should be taken as MAS' approval or endorsement of the legal characterisation or regulatory treatment of any particular product or arrangement. The assessment of each case remains dependent on its specific facts and circumstances.

1.6 MAS will review and update this Guide from time to time, having regard to developments in tokenisation practices and the regulatory landscape.

2 WHEN DOES A DIGITAL TOKEN REPRESENT OR CONSTITUTE A DEPOSIT?

2.1 The definitions of "deposit" and "deposit liabilities" under the Act, as well as the factors set out in the Deposit Guidelines, continue to apply to arrangements involving the tokenisation of bank deposits.

2.2 Whether a digital token represents or constitutes a deposit therefore depends on the legal and economic substance of the arrangement, including the rights and obligations of the parties, rather than its technological form or label. MAS adopts a technology-neutral approach and recognises that tokenisation does not, in and of itself, determine or alter the legal or economic nature of a product. Where a digital token represents or constitutes a deposit, its treatment under the applicable deposit insurance, insolvency and resolution frameworks would accordingly follow its legal characterisation as a deposit.

2.3 MAS considers the account-based nature of deposits to be a fundamental characteristic that should be preserved in tokenised deposits. In considering this, MAS will have regard to the substance of the arrangement, including whether:

a. the depositor's right to repayment arises from the terms governing the depositor's deposit account, rather than solely from possession or control of the digital token;

b. the bank maintains an ongoing account relationship with the depositor, and is able to ascertain the identity of the depositor and the amount owed at any given time (see Example 1 in the Appendix); and

c. transfers between depositors can only take place with the bank's consent. Such consent may be reflected in the bank's execution of transfers (see Example 2 in the Appendix) or given in advance under agreed arrangements (see Example 3 in the Appendix).

2.4 MAS recognises the growing desire for cross-bank transfers in the tokenised space. MAS does not expect bearer instruments, i.e. digital tokens where the right to repayment arises solely from possession or control of the token, to be tokenised deposits as these would not exhibit the account-based characteristics described in paragraph 2.3. Nevertheless, it is possible for tokenised deposits to play a role in cross-bank transfers. In such transactions, the cross-bank transfer would be supported by a separate interbank settlement arrangement, while the tokenised deposits remain account-based within their respective issuing banks.

2.5 The Appendix to this Guide sets out illustrative examples on how MAS may assess arrangements involving the tokenisation of bank deposits. These examples and the characteristics discussed are illustrative, non-exhaustive, and not conclusive of the legal or regulatory treatment of any particular arrangement. Banks should undertake their own legal and compliance assessments to ensure that they comply with applicable regulatory requirements.

2.6 Where a tokenisation arrangement does not preserve the characteristics in paragraph 2.3, banks should carefully consider whether they may appropriately be considered deposits and engage MAS early if necessary.

3 PRODUCT DESCRIPTIONS AND REPRESENTATIONS

3.1 In line with the Deposit Guidelines, banks should not represent or refer to a product as a "deposit" in any offer, invitation, or advertisement, where it does not qualify as a deposit under the Act.

3.2 Banks should refrain from referring to digital tokens as "tokenised deposits" if they are not certain that the product would constitute a deposit, such as if the characteristics in paragraph 2.3 are not met. When in doubt, banks should engage MAS early in the product development stage.

4 DISCLOSURE OF MATERIAL DIFFERENCES AND RISKS

4.1 A bank that issues a tokenised deposit should provide clear, accurate and timely disclosures of material risks arising from tokenisation and any material differences from a comparable non-tokenised deposit arrangement. Such disclosures may include:

a. depositors' legal rights and protections, including in relation to deposit insurance;

b. any conditions or restrictions on transfers, when transfers take effect, whether they can be reversed, and how erroneous or unauthorised transactions would be handled;

c. the records used to determine depositors' entitlements, which record prevails in the event of inconsistencies, and the implications for depositors;

d. the effects of technological failures on depositors' entitlements, access to their deposits and ability to transact, and the applicable contingency arrangements; and

e. applicable fees and charges.

5 MAINTENANCE OF ON-CHAIN RECORDS

5.1 Where a bank uses DLT or similar technology to maintain the record relied upon to determine depositors' entitlements ("**authoritative record**") for a tokenised deposit, it should consider how its policies, procedures and controls address risks arising from the use of such technology. These could include:

a. reconciliation of the authoritative record with other relevant records, where applicable, and the investigation and resolution of any discrepancies;

b. how and when the authoritative record may be corrected or amended; and

c. how depositors' entitlements would be determined and preserved if the authoritative record becomes unavailable or unreliable.

APPENDIX

ILLUSTRATIVE EXAMPLES OF TOKENISED INSTRUMENTS THAT MAY CONSTITUTE TOKENISED DEPOSITS

(The examples in this Appendix are provided for illustrative purposes only and are not intended to be exhaustive or conclusive of the legal or regulatory treatment of any particular arrangement. The legal and regulatory treatment of each arrangement will depend on its specific facts and circumstances, including the precise terms governing the arrangement, the rights and obligations of the parties, and how the arrangement operates in practice. These examples should therefore not be regarded as establishing that the presence or absence of any particular feature will, on its own, determine the legal or regulatory characterisation of an arrangement.)

Example 1 – Tokenised representation of existing deposit

Bank A issues digital tokens representing on a 1:1 basis customers' deposit balances held in their deposit accounts with Bank A.

Customers submit instructions to Bank A to make payments by transferring the digital tokens to another depositor of the bank. In executing the instructions, Bank A updates the token records on the DLT platform and effects the corresponding changes to the customers' deposit balances in its off-chain core banking system.

Bank A's terms and conditions provide that its core banking records remain authoritative in determining customers' deposit balances, and that the tokens do not confer independent rights to repayment.

Application of this Guide

The arrangement may be described as involving tokenised deposits. The tokens represent existing deposits and do not constitute separate legal instruments. The creation of the digital tokens does not, of itself, change the underlying deposits or depositors' rights against Bank A.

Example 2 – Native account-based tokenised deposit

Bank B issues digital tokens that constitute deposit claims against the bank. Each customer maintains a deposit account with Bank B in the form of a digital wallet on a DLT platform. Bank B's deposit account terms and conditions provide that each customer's wallet constitutes their deposit account, with the balance recorded in the wallet representing the amount owed by Bank B to that customer. Bank B maintains its authoritative deposit records on the DLT platform.

Customers submit instructions to Bank B to transfer tokens to other depositors of Bank B. Bank B executes these transfers on the DLT platform, with each transfer reducing its deposit liability to the transferor and correspondingly increasing its deposit liability to the transferee.

Application of this Guide

The arrangement illustrates how deposits may be constituted in tokenised form while retaining their account-based nature. Although the deposit accounts and authoritative records are maintained on DLT, depositors' rights to repayment continue to arise from the terms governing their deposit accounts with Bank B, rather than solely from possession or control of the tokens.

Example 3 – Tokenised deposit with pre-agreed transfer arrangement

Bank C issues digital tokens under an arrangement similar to Example 2, where each customer's digital wallet constitutes their deposit account and the authoritative deposit records are maintained on a DLT platform.

Unlike Example 2, customers may transfer tokens directly to other depositors of Bank C under arrangements agreed with the bank in advance, without requiring separate approval for each transaction. Such transfers result in corresponding changes to Bank C's deposit liabilities to the respective depositors.

Bank C continues to maintain account relationships with its depositors, with transfers resulting in corresponding changes to their respective deposit entitlements.

Application of this Guide

The arrangement illustrates how the bank's consent to transfers may be given in advance, without requiring separate approval of individual transactions. The account-based nature of the deposits may be preserved as transfers remain between depositors under arrangements agreed with Bank C, with corresponding changes to their deposit entitlements.

Example 4 – Internal operational token (not a tokenised deposit)

Bank D uses tokenisation to facilitate the processing of customer payments through a DLT platform. For this purpose, Bank D maintains an internal clearing account in its core banking system to track the amount of its own liquidity allocated for payment processing on the platform. Bank D creates digital tokens representing on a 1:1 basis the balance recorded in this internal account.

The tokens are used by Bank D to record and reconcile payment transactions for its internal bookkeeping purposes.

Customers continue to maintain their existing deposit accounts with Bank D and submit payment instructions to the bank. In executing these instructions, Bank D updates the relevant token records on the DLT platform and effects the corresponding changes to customers' deposit balances in its core banking system.

Application of this Guide

The tokens represent Bank D's internal allocation of liquidity for payment processing rather than individual customers' deposit entitlements, and do not confer independent rights to repayment against Bank D. They therefore do not themselves represent or constitute deposits. The underlying deposits and depositors' rights against Bank D remain unaffected by the creation or movement of these tokens.