Decentralised finance

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MAS's stated position

MAS has approached decentralised finance from two directions at once. Through Project Guardian it has actively tested DeFi mechanisms among regulated institutions. The stated aim is to bring automated market makers, lending pools and atomic settlement into the regulated financial system under conditions of identity verification and compliance (see Chapter VII).[1] Through its licensing practice it has taken the position that a person who operates a business of providing a DPT service through a protocol is a DPT service provider like any other. The decentralised architecture does not change the analysis if an identifiable person carries on the business.

The second position was stated in the 2022 consultation on DPT services and in MAS's responses to questions in Parliament. MAS said that it would assess DeFi arrangements by reference to whether there is a person who controls or materially influences the protocol, who profits from it and who holds customers' assets or arranges their exchange. Where such a person exists and is in Singapore or serves Singapore persons, the Payment Services Act applies.[2] Where no such person exists, because the protocol is autonomous in fact and its developers have withdrawn, MAS

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has said that it cannot regulate code and that the risk falls on the user. The position is consistent with the FATF guidance of October 2021, which asks whether a person has control or sufficient influence over a DeFi arrangement.[3]

The front-end operator

The practical question is the front-end. A protocol consists of smart contracts deployed on a public chain that anyone can interact with directly. Most users reach it through a website operated by a company, often the company that developed the protocol, which presents an interface, curates the available pools or tokens, may charge a fee and may hold a governance token. Under the expanded DPT service definition of 2024, a front-end operator that facilitates the exchange of DPTs without taking possession is providing a DPT service if it carries on that activity as a business for persons in Singapore.[4] The exclusion for technical service providers does not help a front-end that chooses which pools to display, earns a fee from each swap and markets the service to users, because those are the features of a business of facilitating exchange. A front-end that merely hosts an open-source interface, earns nothing and makes no selection is closer to the technical service exclusion.[5]

MAS has not published a decision on a front-end operator. No enforcement action against one has been reported. The analysis is drawn from the statutory text and from MAS's general statements. In my practice the advice to a Singapore company operating a front-end for a swap or lending protocol has been to assume two things. It is within the Payment Services Act if it serves Singapore users. It is within Part 9 of the FSMA if it serves foreign users. Both conclusions point the same way: the company should either hold a licence or should not be a Singapore company with Singapore operations.

Governance token holders and developers

The second question is who else may be the regulated person. Consider a developer who writes and deploys a protocol, keeps an administrative key that can upgrade or pause the contracts and earns protocol fees through a treasury the developer controls. That developer is carrying on a business of facilitating exchange, whatever

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the website says about decentralisation. A developer who deploys immutable contracts, holds no key, earns no fee and does not operate a front-end is not. Between the two lies every real protocol. The factors that matter are control of upgrade keys, control of the treasury, receipt of fees and the operation of the interface.

Governance token holders present a different problem. A person who holds tokens that vote on protocol parameters is not, by holding them, providing a service. A group of holders who coordinate to control the protocol, set its fees and direct its treasury may collectively be carrying on a business. If they act through an unincorporated association they may each be liable for it. This is the DAO problem addressed below. For the individual investor who buys governance tokens on an exchange and votes occasionally, Singapore law imposes no licensing consequence, although the SFA analysis of the token itself may apply if it carries economic rights (see Chapter IV).[6]

Example

A Singapore private company develops a lending protocol, deploys it on a public chain and operates the website through which most users borrow and lend. The company holds a multi-signature key that can pause the contracts and adjust interest rate parameters, receives 10 per cent of interest paid through a protocol fee switch, and markets the protocol to users in Asia. The company is facilitating the exchange of DPTs for Singapore users and is within the Payment Services Act. It is a Singapore corporation providing a digital token service to persons outside Singapore and is within Part 9 of the FSMA. The lending itself, in which users lend tokens to a pool from which others borrow, is a pooled arrangement that may be a collective investment scheme under the SFA if the company manages the pool. The decentralised architecture changes none of these conclusions. The company's options are a licence, a transfer of the business to a foreign entity with no Singapore operations, or a credible decentralisation in which it gives up the key, the fee and the interface.

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Institutional DeFi

The institutional strand is different in kind. In Project Guardian the participants are licensed banks and asset managers. They use DeFi mechanisms among themselves, on permissioned networks or on public chains with access controlled by "trust anchors" that verify each participant's identity and credentials. The lending pool or the automated market maker is operated under the rules of the network and the licences of the participants. The regulatory questions are those of conventional finance: which participant is the dealer, which the custodian, which the market operator, and how the settlement asset is treated. MAS's November 2024 announcements on commercialisation extended this model from pilots to live products.[7] The lesson for a founder is that Singapore welcomes DeFi technology when it is operated by regulated persons for identified counterparties, and treats the same technology operated anonymously for the public as either unregulated risk or unlicensed business.

Notes

1. MAS, Project Guardian page on mas.gov.sg (19 October 2022), listing "institutional-grade DeFi protocols with regulatory safeguards" and "trust anchors for executing DeFi protocols" among the focus areas. ↩
2. MAS, Consultation Paper on Proposed Regulatory Measures for Digital Payment Token Services, 26 October 2022, section on the scope of the measures and MAS's approach to decentralised arrangements; MAS responses to Parliamentary questions on the regulation of DeFi, 2022 and 2023. ↩
3. FATF, Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers, October 2021, paras 66 to 69 on decentralised finance and the "control or sufficient influence" test. ↩
4. PSA, First Schedule, Part 3, definition of "digital payment token service", para. (e) (facilitating the exchange of DPTs without possession), as amended with effect from 4 April 2024. ↩

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5. PSA, First Schedule, Part 2, exclusion for technical service providers, and MAS FAQs on the Payment Services Act on the limits of the exclusion. ↩
6. MAS, Guide on the Tokenisation of Capital Markets Products (2025), Appendix 1 case studies on tokens with governance and economic rights; see also the Guide to Digital Token Offerings (2020), case studies 5 and 6. ↩
7. MAS, Media Release on the commercialisation of asset tokenisation, 4 November 2024, including the Guardian Wholesale Network and the GL1 shared ledger initiative. ↩

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