Phase four, 2022: the collapses and the doctrine

Dr Alexander Ressos, TEP
Attorney-at-Law (Switzerland and Germany),
Solicitor (England & Wales and Hong Kong)
Of Counsel, KGP Legal LLC
alexander.ressos@kgplegal.com.sg
www.ressos.com.sg

The year 2022 changed Singapore's policy more than any other. In May the Terra ecosystem collapsed. Its developer, Terraform Labs, was a Singapore-incorporated company. In June Three Arrows Capital, a Singapore-registered fund manager, failed with liabilities later estimated above US$ 3 billion, and MAS reprimanded it on 30 June for giving false information and for exceeding the assets-under-management limit of its registration. In July Vauld and Zipmex, both operating from Singapore, suspended withdrawals and sought court protection. In August Hodlnaut, a Singapore-licensed-in-principle lender, suspended withdrawals and entered judicial management. In November FTX failed, whereupon Temasek wrote off an investment of US$ 275 million in it.[1]

Each failure touched Singapore differently. Terraform and Three Arrows were Singapore entities whose activities MAS had not regulated, because issuing an algorithmic stablecoin and managing a fund for accredited investors below the registration threshold fell outside its perimeter or at its edge. Hodlnaut had received in-principle approval for a licence and had not yet been fully licensed. FTX had never been licensed in Singapore and had served Singapore residents from offshore.

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The common thread was reputational: the international press described Singapore as a crypto hub whose regulator had failed to prevent a string of collapses. MAS's answer was to redefine the ambition.

On 29 August 2022 Ravi Menon delivered the speech that still frames Singapore policy. Its title, "Yes to Digital Asset Innovation, No to Cryptocurrency Speculation", stated the thesis. Menon distinguished four things. Digital assets as tokenised representations of real financial and real-world assets were to be promoted. Decentralised finance was to be studied with caution. Stablecoins were to be regulated as a credible form of digital money. Cryptocurrencies as speculative instruments were regarded as hazardous for retail investors, and their trading was to be restricted. He stated that MAS aimed to make Singapore a hub for innovative and responsible digital asset activities and that it had never wished to be a hub for cryptocurrency speculation. Critics who called MAS over-cautious, he said, had misunderstood the goal.[2]

The speech was followed on 26 October 2022 by two consultation papers. The first proposed regulatory measures for digital payment token services. They comprised an assessment of retail customers' risk awareness, a ban on incentives to retail customers, a ban on credit facilities and margin for retail trading, segregation of customer assets, management of conflicts of interest, published listing policies and complaints handling. The second proposed a regulatory approach for single-currency stablecoins pegged to the Singapore dollar or a G10 currency, with reserve, capital, redemption and disclosure requirements. Both consultations closed on 21 December 2022.[3] The Swiss reader will note the speed: the policy speech in August, the detailed proposals in October, the industry's responses by Christmas.

Notes

1. MAS Enforcement Action of 30 June 2022, "MAS Reprimands Three Arrows Capital for Providing False Information and Exceeding Assets Under Management Threshold"; on Vauld, Zipmex and Hodlnaut see Part J, Chapter V and Part N, Chapter IV; Temasek's statement of 17 November 2022 on the write-down of its investment in FTX. ↩

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2. Ravi Menon, "Yes to Digital Asset Innovation, No to Cryptocurrency Speculation", opening address at the Green Shoots Seminar, Singapore, 29 August 2022, published by MAS and reproduced by the Bank for International Settlements (BIS central bankers' speeches, 30 August 2022). ↩
3. MAS consultation papers of 26 October 2022, "Proposed Regulatory Measures for Digital Payment Token Services" and "Proposed Regulatory Approach for Stablecoin-related Activities", consultation closing on 21 December 2022, per Allen & Gledhill, "MAS consults on measures to reduce risks to consumers from cryptocurrency trading and enhance standards of stablecoin-related activities" (1 November 2022). ↩

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Author contact: Dr Alexander Ressos, TEP · contact@ressos.com