The problem that yield products present

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

Every yield product in the token economy rests on the same structure. A customer hands tokens to a provider. The provider uses them to generate a return, by validating a proof-of-stake network, by lending them to borrowers or by deploying them in a protocol. The provider pays the customer a share of the return and keeps the rest. The structure resembles a bank deposit, a securities lending arrangement, a collective investment scheme or a loan, depending on which feature one emphasises, and every regulator has had to decide which comparison to adopt. Singapore's answer, formed in the wreckage of 2022, is distinctive in two respects.[1] It prohibits the product for retail customers entirely, whatever the classification. It then classifies what remains for institutional and accredited customers under the existing Acts.

The cases that formed the answer were Singapore's own. Hodlnaut, a Singapore company that took customers' tokens and promised interest of up to 7.5 per cent a year, held an in-principle approval for a DPT licence when it suspended withdrawals in August 2022 after losses on Terraform's UST. It entered interim judicial management with customer claims of about S$ 250 million. Vauld, another Singapore-based lending platform, suspended withdrawals in July 2022 with liabilities of about US$ 400 million and obtained a moratorium under the

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Insolvency, Restructuring and Dissolution Act 2018. Zipmex, which offered a yield product called Z Wallet, did the same.[2] In each case the customers discovered three things. The tokens they had "deposited" had been lent onward to counterparties who had failed. The terms of service made them unsecured creditors. The platform had held no licence covering the yield product, because the product fell between the Payment Services Act and the SFA.

Notes

1. MAS, Consultation Paper on Proposed Regulatory Measures for Digital Payment Token Services, 26 October 2022, Part on lending and staking, setting out the policy options MAS considered. ↩
2. Court records and press reports on Hodlnaut Pte Ltd (interim judicial management, August 2022), Defi Payments Pte Ltd trading as Vauld (moratorium under IRDA 2018, July and August 2022) and Zipmex Asia Pte Ltd (moratorium, 2022); see the detailed treatment in Part J, Chapter V and Part N, Chapter IV. ↩

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

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