Yield products as collective investment schemes or structured products

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The third category of yield product packages tokens into an instrument. "Earn" products that pool customers' tokens and deploy them across staking, lending and liquidity provision, with a published yield, are collective investment schemes if the four elements of the SFA definition are met. Those elements are no day-to-day control by participants, management as a whole, pooling of contributions and profits, and the purpose of generating a return.[1] Such a scheme may not be offered to retail investors unless it is authorised or recognised by MAS. The manager needs a CMS licence for fund management. MAS has not authorised any retail crypto yield fund and has indicated that it does not expect to. Offers to accredited and institutional investors under the restricted scheme exemption in s. 305 SFA are possible and are the route by which Singapore fund managers offer staking and yield strategies to professional clients.[2]

Structured products that deliver a token-linked return, such as dual-currency products on bitcoin or principal-protected notes linked to ether, are derivatives contracts or debentures depending on their form. They are capital markets products

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and require a CMS licence to deal in. They are complex products under the MAS conduct rules and cannot in practice be offered to retail customers in Singapore. The private banks that offer them to accredited clients do so under their existing capital markets permissions, with the token exposure treated like any other underlying.

Example

A Singapore MPI with DPT scope wants to offer three products to its accredited investor clients. They are native ETH staking with rewards passed through, a fixed 5 per cent "ETH savings" product and a pooled "yield optimiser" that moves tokens between protocols. The first is a custodial wallet service within its licence, with the staked tokens held in trust and the rewards credited to each client; the client must be documented as an accredited investor with the opt-in on file. The second is a debenture, because the MPI promises a fixed return and takes the tokens for its own account. It must offer the product under an SFA exemption to accredited investors. It cannot offer it through its DPT licence alone and must consider whether its borrowing from clients is consistent with its licence conditions. The third is a collective investment scheme requiring a CMS licence for fund management and a restricted scheme notification under s. 305 SFA, which the MPI does not have. The firm can offer the first product immediately. It can offer the second only after an SFA analysis and probably through a separate entity. It cannot offer the third at all without a fund management licence.

Notes

1. SFA, s. 2(1), definition of "collective investment scheme", paras (a)(i) to (iv). ↩
2. SFA, s. 305 (restricted schemes offered to accredited investors and certain other persons) and the notification requirement for restricted schemes under the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005. ↩

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