

December 21, 2022

Monetary Authority of Singapore
10 Shenton Way
Singapore, 079117

Re: Response to MAS' Proposed Regulatory Approach for Stablecoin-Related Activities

To Whom it May Concern:

Circle appreciates the opportunity to provide comments to the Monetary Authority of Singapore on its recently published consultation papers proposing regulatory solutions for stablecoin-related activities. Since Circle's founding, we have prioritized responsible financial services innovation and constructive engagement with public authorities and regulators around the world, and are committed to working with MAS to support the development of regulated stablecoins as a credible medium of exchange throughout the digital assets ecosystem.

1. MAS seeks comments on the regulatory scope, particularly on whether the focus on SCS is adequate and whether there may be reasons for MAS to extend its regulatory powers to SCS issued outside of Singapore.

Circle applauds the Monetary Authority of Singapore (MAS) for working to introduce a regulatory framework that "maintains a high degree of value stability" for stablecoins issued in the city-state, and believes that MAS is correct to treat non-single currency pegged stablecoins (non-SCS) as volatile assets requiring their own robust regulatory framework.¹ We agree that the focus on single currency pegged stablecoins (SCS) is most appropriate for this consultation, given the development of the unique payment and settlement use-cases possible through the adoption of payment SCS. As described further in Response 3, Circle concurs that the use cases for USD Coin (USDC) and other forms of "tokenised cash" SCS require a higher level of regulatory scrutiny to ensure value stability, as well as to ensure the protection of users and intermediaries.

Circle has been granted an In-Principle Approval as a Major Payments Institution (MPI) by MAS. We currently follow many of the same standards newly proposed by the Regulatory Approach for Stablecoin-Related Activities, including by ensuring that each USDC is backed one-for-one by cash and High Quality Liquid Assets (HQLA) redeemable at any time by our business customers. Circle's reserves are attested to by global accounting firm Grant Thornton on a monthly basis and

¹ Monetary Authority of Singapore, "Consultation Paper: Proposed Regulatory Approach for Stablecoin-Related Activities,"

(<https://www.mas.gov.sg/publications/consultations/2022/consultation-paper-on-proposed-regulatory-approach-for-stablecoin-related-activities>): 6.

audited yearly, while Circle lists the CUSIP number for each U.S. Treasury Bill held in reserve on the Circle website.² As other non-SCS assets employ riskier “over-collateralized” or “algorithmic” stability mechanisms when compared with this fully-reserved model, it would be prudent for MAS to continue to regulate those stablecoins under a Digital Payment Token (DPT) framework, rather than through a bespoke SCS regime that could conflate the risks accompanying the different reserve compositions. The volatility and risks associated with commodity or basket-pegged stablecoins are likewise dissimilar to fiat-backed SCS and should remain out of scope of the Consultation Paper.

MAS Regulatory Perimeter and Access to Off-Shore SCS within Singapore

Within this context, the goal of elevating SCS assets issued within Singapore is both appropriate and timely, and on the whole, Circle is pleased to see that MAS is looking to scope its regulatory perimeter “based on MAS’ ability to directly impose requirements on the reserve management, redemption policies and prudential standards of the SCS issuer [in Singapore].”³ However, Circle urges MAS to avoid prohibiting the use of SCS that are already effectively regulated outside of the city-state, or issuing regulations that supersede regulation in the jurisdiction of SCS denomination. While limiting access to off-shore SCS within Singapore and/or extending MAS requirements to other jurisdictions may be intended to protect Singaporean users, widening MAS’ oversight in this manner could instead have the opposite effect: creating definitional and jurisdictional issues that conflict with regulations for the use of SCS in markets such as the United States and European Union and disincentivizing Singaporean registration. In the worst case, this could limit global adoption of MAS-regulated SCS in a way that reduces the utility and safety of those assets to Singaporean residents.

As Singaporean citizens increasingly interact with non-Singaporean Dollar SCS issued in other jurisdictions, calibrating the scope of MAS requirements for off-shore SCS to be used within the city-state will be crucial to a comprehensive digital assets framework. Ensuring that MAS’ framework for off-shore SCS used within Singapore is aligned with the FSB’s Global Stablecoin guidelines (rather than completely bespoke) will enable residents to derive benefits from those properly regulated off-shore SCS with the largest economies of scale, rather than being restricted to SCS that cannot be harnessed to move money internationally. By contrast, limiting the benefits that Singaporean users obtain from the speed and cost savings of the most commonly used digital dollar currencies abroad may instead expose them to increased prudential, legal, and anti-money laundering/countering the financing of terrorism (AML/CFT) risk.

² Circle Internet Financial Ltd., “USDC Reserve Report: October,” (https://www.centre.io/hubfs/USDC%202022_Circle%20Examination%20Report%20October%2022.pdf): 4.

³ Ibid., 6.

Reserve Location Requirements

While Circle underscores the importance of segregating reserve assets as a critical component of prudential responsibility for an SCS issuer, we wish to express our reservations with requirements to hold the reserves for SCS assets available in Singapore exclusively within on-shore accounts – especially when those assets are denominated in non-Singaporean Dollar currencies and are issued elsewhere. Circle notes this in response to regulations proposed by MAS that would require that “SCS issuers [hold] all the reserve assets used to back the SCS in circulation in segregated accounts...with licensed banks, merchant banks, finance companies or capital market services licensees (CMSLs) providing custodial services in Singapore.”⁴

In instances where a global SCS asset is circulated in Singapore but denominated and minted elsewhere, issuers are currently still responsible to their customers and applicable regulators for backing the entirety of the SCS total supply, whether it resides within MAS’ jurisdiction or not, and thus may need to hold assets abroad to backstop SCS based in other jurisdictions. This fact is likely to pose challenges to effective oversight by MAS of SCS with cross-border payment flows and could complicate redemptions if reserve liquidity is widely fragmented, particularly during periods of market distress. Fragmenting reserve liquidity could also have the undesired effect of reducing regulatory visibility into the total reserve, complicating effective reserve management and supervision. For regulators, this approach would also require a reliable way to determine which non-Singaporean Dollar SCS was being used by Singaporean users, and likewise, under which jurisdictions various digital wallets originated. Circle notes that the only method to do so currently involves crude probabilistic assignment, and that the vast majority of digital wallets today would defy classification using this measurement.⁵ As in the case of traditional asset classes, different jurisdictional requirements for redemptions threaten to trigger large flows between jurisdictions in search of a better market price, further exacerbating instability.

Therefore, Circle urges MAS to limit the requirement to hold SCS reserve assets on-shore to Singaporean Dollar SCS assets that have been issued directly within MAS’ jurisdiction, and instead recommends that MAS coordinate its oversight of non-Singaporean Dollar SCS assets possessing off-shore reserves with regulatory counterparts, and in line with guidance issued by international organizations such as the FSB. This solution accounts for the fact that it is not possible to distinguish between fungible USDC issued in Singapore once it leaves the Circle Account and USDC issued in the United States, where Circle is required to maintain reserves for a portion of its USDC balances under its U.S. licensing regime. As noted above, global SCS issuers such as Circle frequently custody assets with financial intermediaries in other jurisdictions,

⁴ Monetary Authority of Singapore, “Consultation Paper: Proposed Regulatory Approach for Stablecoin-Related Activities,”

(<https://www.mas.gov.sg/publications/consultations/2022/consultation-paper-on-proposed-regulatory-approach-for-stablecoin-related-activities>): 10.

⁵ Gordon Liao, Macroprudential Consideration for Tokenized Cash, September 29, 2022 (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4228268): 10.

such as the United States and the European Union, to ensure adequate regulatory treatment, and as a result cannot move all reserve assets backing the total supply of USDC to a single jurisdiction. MAS could also require those SCS issuers holding reserve assets outside of Singapore to provide a letter of undertaking or guarantee in order to reflect that the reserve requirements have been met, similar to existing safeguarding requirements for MPIs.

2. MAS seeks comments on whether it is sufficient to introduce an additional regulated payment service of stablecoin issuance, and whether there is a need to introduce any other regulated services specific to stablecoins.

Circle agrees with MAS on the appropriateness of the Proposed Regulatory Approach to create a new “Stablecoin Issuance Service” under the Payment Services Act.⁶ Such a designation under Singapore’s Seven Key Payment Services would be of particular relevance to overseeing issuer reserve management, SCS redemption rights, and prudential standards for those entities which mint and burn SCS in Singapore.⁷ As proposed, this would require a non-bank SCS issuer with a volume exceeding S\$5million to possess an MPI license and, for bank issuers, to custody a segregated reserve pool of assets when issuing SCS (with the exception of SCS issued as tokenised liabilities on underlying bank deposits). We agree that the requirements to hold an MPI license are sufficiently stringent, including a physical presence in Singapore with appropriate bookkeeping, a capital buffer of S\$250,000, a security deposit with MAS of S\$200,000, and detailed funds flow for loading and redemption.⁸

While Circle supports the above provisions for non-bank issuers of SCS limited to on-shore operations, we wish to reiterate to regulators our ongoing concern with the use of fractionally-reserved tokenised bank deposits as a means of backing SCS assets (see Response 3). Given the risk that banking entities may rehypothecate deposits when issuing stablecoins — in addition to risks to the overall balance sheet from other lending activities, we respectfully note that the danger from the issuance of tokenised bank liabilities is not accurately reflected in the Consultation Paper, especially when compared with the reduced risk from regulated entities issuing tokenised cash backed by HQLA such as cash and short-duration U.S. Treasuries. In the extreme case, market pressure on a tokenised-deposit SCS could impact bank lending activity or

⁶ Monetary Authority of Singapore, “Payment Services Act, A Guide to the Essential Aspects of the Payment Services Act 2019,”

(<https://www.mas.gov.sg/-/media/MAS/Regulations-and-Financial-Stability/Regulations-Guidance-and-Licensing/Payment-Service-Providers/Guide-to-the-Payment-Services-Act-2019.pdf?la=en&hash=B03712F4EEEE907C39BA2C12DE63A545495EE1C2>): 4.

⁷ Monetary Authority of Singapore, “Consultation Paper: Proposed Regulatory Approach for Stablecoin-Related Activities,”

(<https://www.mas.gov.sg/publications/consultations/2022/consultation-paper-on-proposed-regulatory-approach-for-stablecoin-related-activities>): 6.

⁸ Monetary Authority of Singapore, “Major Payment Institution Licence”

(<https://www.mas.gov.sg/regulation/payments/major-payment-institution-licence#:~:>).

prompt consumer concern and loss of confidence in the SCS reserves, potentially prompting a bank run regardless of the presence of deposit insurance.

While Circle does not see a need to introduce further regulated services for stablecoins beyond those articulated above, we do propose adjustments in the current criteria for bank-issued SCS in Response 3. Additionally, we strongly believe that entities which sit in equivalent jurisdictions abroad — such as those that follow FSB recommendations — but that comply with MAS standards should be treated equivalently to those issuers based in Singapore and licensed by MAS in any future framework. As discussed above, failing to allow for the use of those well-regulated SCS that are issued abroad and/or outside of the MAS regulatory perimeter may prevent Singaporean customers from taking advantage of the network effects of the most widely-used SCS assets and incentivize foreign unregulated issuers to instead market riskier products and services.

3. MAS seeks comments on whether the regulatory approach for bank and non-bank SCS issuers is appropriate and achieves an equivalent regulatory outcome for SCS issued in Singapore to be able to maintain a high degree of value stability of SCS.

Circle agrees that the licensing framework set out by MAS for non-bank SCS issuers, including the treatment as MPIs noted above, is appropriate and adequate to ensure financial stability. We applaud MAS' efforts to secure equivalent regulatory outcomes, as well as to avoid basing treatment solely on the institutional classification of the issuer, while likewise scaling regulations for SCS issuers in a progressive fashion. In designing a parallel regime for bank SCS issuers, we believe it is important for authorities to avoid relying solely on the existing regulatory regime governing traditional banking activities, and to ensure that the combination of SCS and traditional banking activities are appropriately managed and separated where necessary or appropriate, consistent with proposed FSB guidance.⁹ To that end, we believe regulators should pay particular attention to the management of the underlying assets backing an SCS, taking into account any non-SCS activities engaged in by the bank or non-bank issuer that could impact reserve management, whether involving crypto-asset services or traditional banking activity.

Specifically, Circle believes that there is sufficient differentiation within the tokenised SCS category to merit a nuanced treatment of tokenised bank liabilities versus SCS fully backed by high-quality reserves, or “tokenised cash.” Tokenised cash consists of a stablecoin fully reserved by cash and cash equivalents, such as short-term government obligations of the highest quality and liquidity. Tokenised cash SCS such as Circle’s USDC carry lower market risk, lower credit risk, and higher liquidity relative to “tokenised deposits.” To illustrate the differences, USDC reserves are entirely composed of cash and cash equivalents: with short-term U.S. Treasury Bills constituting around 80% of the reserves with the remainder composed of deposits at a variety of licensed depository institutions. Conversely, tokenised deposits under the proposed SCS

⁹ Financial Stability Board, Recommendation 1, “Review of the FSB High-Level Recommendations of the Regulation, Supervision and Oversight of ‘Global Stablecoin’ Arrangements,” (<https://www.fsb.org/wp-content/uploads/P111022-4.pdf>): 10.

framework could be backed 100% by fractionally reserved deposits at a single bank subject to different reserve and prudential requirements as SCS.

To highlight the differences in liquidity, Exhibit 1 (see below) compares the liquidity coverage ratio¹⁰ of USDC under different stress assumptions relative to the average of the eight U.S. Global Systemically Important Banks (GSIBs):

Exhibit 1: Liquidity ratios of USDC and that of U.S. GSIBs under varying assumptions.

Assumption	Run rate	Liquidity ratio
Non-operational deposit run rate under Basel LCR	-40.0%	196%
Observed 30-day worst run rate with inflows capped at 75% of outflows	-9.2%	850%
Observed 30-day worst run rate with 0% inflow	-36.9%	212%
U.S. GSIBs' LCR average 2022Q2		118%

Exhibit 1 contrasts the liquidity ratio of USDC calculated under different run rate assumptions as of 5 August, 2022. This calculation is based on the USDC reserve as of 5 August, 2022 and is broadly reflective of the general reserve mix of 80% Treasury Bills and 20% bank deposits. At the time of recording, the total circulation of USDC was \$54.29 billion, with the amount of HQLA consisting of Treasury Bills whose maturity equaled less than 90 days totalling \$42.47 billion.¹¹ Exhibit 1 therefore reflects that even in the case of an extreme run on USDC with no inflows, liquidity ratios for tokenised cash far exceeded the average of the eight U.S. GSIBs.¹² For details on methodology, see Liao (2022).¹³

As is the case for Circle's USDC and for MAS-regulated non-bank SCS, tokenised cash does not inherently involve additional counterparty credit risk when the reserves are held in wholly segregated accounts and designated for the benefit of tokenised cash holders. Non-bank SCS issuers that hold reserves of HQLA and cash do not lend their reserves and, therefore, would encounter only market and operational risks while avoiding risks from bad debt – assuming their funds were properly segregated. With a proper resolution and recovery framework, tokenised cash can allow users to have the same level of legal rights as ownership of the underlying fiat currency.

¹⁰ NOTE: The Liquidity Coverage Ratio requires internationally active banks to hold a stock of High Quality Liquid Assets at least as large as expected total net cash outflows over a stress period, as formulated by the Bank of International Settlements.

¹¹ NOTE: The outflow is calculated as the run rate multiplied by the amount of USDC in circulation. Liquidity ratio is calculated as the ratio of HQLA to outflow. The last row provides the liquidity coverage ratio of the eight U.S. GSIBs based on their 2022Q2 public disclosures as a comparison.

¹² Gordon Liao, Macprudential Consideration for Tokenized Cash, September 29, 2022 (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4228268): 21.

¹³ Ibid., 20-21.

Circle maintains that the representation of risk allowed under the MAS framework for bank-issued, regulated SCS does not match the lower risk from MAS-regulated non-bank SCS issuing tokenised cash backed by HQLA. We wish to stress again that this difference in prudential risk — with bank-issued SCS carrying additional credit and market risk — should be taken into account in finalizing Singapore’s regulatory framework, and we caution that any capital buffer requirements must be properly tailored to account for the reserve assets and systemic risk profile underpinning SCS arrangements. Circle encourages authorities to consider creating alternate standards for issuers of tokenised cash and/or to ensure that all SCS issuers can meet the same rigorous standards. Such a uniform “tokenised cash” standard — rather than one classified by institution — would allow both bank and non-bank issuers to hold lower capital buffers on their balance sheet when compared with tokenised deposits or other SCS. Absent an additional “tokenised cash” standard, alternate requirements for tokenised bank liabilities could include additional disclosures, segregation of funds from banking liabilities, or progressive requirements above the threshold for Singapore’s Deposit Insurance Corporation (SDIC) of \$75,000.¹⁴

4. MAS seeks comments on whether it is appropriate to have a single label for bank and non-bank issued SCS that MAS regulates. MAS also seeks views on the three options to label the SCS, and whether there are alternative terms that may be used to distinguish stablecoins that are regulated by MAS, from other types of stablecoins.

Single, consistent, and clear definition and treatment for bank and non-bank SCS issuers is appropriate and ultimately serves the purpose of protecting the public. That said, as underscored in our response to Question 3, significant differences exist in the inherent risk profiles of fully-reserved, non-bank SCS issuers in relation to fractionally-reserved bank issuers, with implications for necessary and appropriate prudential and regulatory requirements. Accordingly, we recommend — even if labeling remains consistent — that fractionally-reserved assets receive reserve, prudential, and disclosure requirements that are commensurate with the approach for non-bank SCS, rather than creating a “dual-standard” for taxonomy of licensed SCS issuers.

In regards to specific terms, Circle believes that language reflecting “regulated” or “securely-backed” stablecoins effectively outlines the distinction between instruments that have received MAS approval and are undergoing regulatory supervision from those that have not.

5. MAS seeks comments on whether the proposed reserve asset requirements are appropriate, and whether there may be unintended consequences that may affect the development of Singapore’s digital asset ecosystem.

¹⁴ Singapore Deposit Insurance Corporation, “Frequently Asked Questions: How much is the coverage under the Deposit Insurance Scheme?” (https://www.sdic.org.sg/faq/di_faq).

Circle believes that the proposed reserve asset requirements are appropriate, provided, as noted above, that total SCS assets are not required to be held in Singapore. In line with FSB recommendations, we also underscore the importance of robust cooperation between jurisdictions — particularly with those where SCS are denominated — to encourage similarly high reserve asset standards as that of MAS-regulated SCS outlined in section 4.13 – 4.17. We note that Circle adheres globally to such standards in our management of USDC reserves.

Regarding unintended consequences, we reiterate that the lack of limits on bank deposit holdings could import risks from commercial banking activities to SCS, similar to tokenised bank liabilities.

6. MAS seeks comments on whether the time period is reasonable, and whether there may be significant operational challenges or unintended consequences that MAS would need to consider in setting the redemption-related requirements.

Circle generally agrees that five business days is an appropriate and reasonable time period for SCS issuers to process legitimate redemption requests; however, we request additional clarification with respect to two areas in order to reduce uncertainty and doubt for issuers, DPTs, and holders:

1. Circle would welcome greater clarity around the definition of “holder.” Specifically, we request clarity on whether holders extend solely to customers of an issuer and whether or not they are included in the transmission requirements for DPT service providers (section 5.4). For example, in the case of a DPT service provider custodialing an SCS on behalf of a customer, would the DPT service provider or the end user be considered the holder?
2. Circle likewise seeks clarification from MAS on the three business day transfer requirement for DPT service providers.¹⁵ For example, which entity would be liable in the event that an SCS issuer redeems an SCS held by a DPT service provider within the required five business days, but the DPT service provider fails to pay its customer within three business days? Would the three business day requirement for DPT service providers be included in the five business day requirement for SCS issuers — essentially giving SCS issuers that do not offer parallel DPT services only two business days to redeem?

As a company that solely serves businesses (such as DPT service providers), Circle provides its customers with a legal right to directly redeem Circle-issued stablecoins.¹⁶ USDC is structured to ensure holders of USDC have assurances and rights that minimize risk to the level prescribed for non-bank SCS issuance. U.S. money transmitter licences, under which Circle is currently

¹⁵ NOTE: Discussed further in response to Question 12 below.

¹⁶ Circle, “USDC Terms,” (last updated 10 June 2022, <https://www.circle.com/en/legal/usdc-terms>).

regulated, mandate that Circle maintains legal title to the USDC reserves but does not have an equitable interest in those reserves, unlike a bank or an unregulated financial institution. USDC reserves are assets that belong to USDC holders, not Circle, and they are wholly held in segregated accounts designated for the benefit of USDC holders. Circle is not allowed to use the USDC reserves for any other purpose. Circle cannot fractionalize or lend out the reserves, cannot borrow against them, and cannot use them to cover the firm's operating costs, by law.

As a result, Circle believes that a critical component of a redemption model that promotes financial stability and consumer protection should include requirements on intermediaries and service providers who onboard and conduct compliance due diligence on USDC holders. Such a tiered system would include reasonable requirements on both DPT service providers offering SCS transmission — as well as issuers — to ensure adequate legal protections and timely redemption for SCS holders.

Similar frameworks currently exist, such as for e-money in the European Union. According to several national transpositions of the E-money Directive,¹⁷ an Electronic Money Institution (EMI) can engage a distributor through a contractual arrangement to distribute e-money on its behalf. Holders of e-money obtained from a distributor then have a direct redemption right and claim against these distributors rather than the EMI itself. This model increases competition and consumer choice because users can select from many different e-money distributors instead of being forced to become a customer of the EMI directly. It also reduces operational load and increases operational resiliency of the EMI and the e-money itself by distributing consumer-facing functions across many different entities.

Creating a tiered system also reduces the buildup of systemic risk in the SCS issuer. For example, in the event of large-scale redemption, an issuer would be forced to provide direct redemption to a large number of possible token holders regardless of whether they had been onboarded and screened as a customer. Even under normal conditions, direct, timely redemption rights can complicate robust AML/CFT and KYC requirements, which may include redemption requests originating from or subject to third-country AML/CFT requirements. In contrast, such a tiered structure creates requirements and incentivises intermediaries and service providers to safeguard holder funds and undertake appropriate risk management. In order to prevent rushed or incomplete KYC onboarding, we encourage MAS to alter the redemption standard to define “legitimate redemption request” as a request from a holder or holder’s designee that *has onboarded successfully* — rather than the current standard of legitimate request from a holder that “can meet the SCS issuer’s onboarding requirements.” This would ensure timely redemption rights for holders of SCS while allowing issuers to conduct appropriate risk-based due diligence.

¹⁷ European Union, “E-money - Directive 2009/110/EC,” (https://ec.europa.eu/info/law/e-money-directive-2009-110-ec_en).

Finally, Circle believes that enshrining legal rights to holders in the event of insolvency of the SCS issuer or DPT service provider is equally important to a tiered system for redemption rights. Circle-issued stablecoin reserves are held in segregated accounts apart from Circle’s corporate funds, on behalf of, and for the benefit of holders.¹⁸ Such backstops can be seen as a final line of defense to preserve holders’ rights in the event that a servicer or intermediary goes bankrupt or experiences challenges that prevent timely redemption.

7. MAS seeks comments on whether the prudential requirements outlined in paragraph 4.21 are risk proportionate. MAS welcomes suggestions on alternative approaches to address risks.

Circle broadly supports the prudential requirements defined in Section 4.21 as the foundation of “payment stablecoin” or “tokenised cash SCS,” which carries lower market risk, credit risk, and higher liquidity relative to “tokenised deposits.”

While we recognize the importance of 4.21(c) — particularly in light of the recent collapse of FTX Trading and consistent with the FSB’s High Level Recommendation 10 — Circle believes it is important to strike a balance between risk mitigation — in lieu of a comprehensive risk-based capital regime — and permitting entities to support, or potentially even offer, the infrastructure necessary to engage in SCS activities. Such activities may include (but are not limited to) lending or staking of SCS and other DPTs, or the support of decentralized protocols. To maintain this balance, we recommend MAS scope the restrictions to ensure that SCS issuance and any affiliated activities can be separated through legal structures that permit the affiliate to offer certain services that will not expose the SCS, or issuer, to increased risk. In tandem, MAS could place requirements that SCS reserve assets cannot be used to finance any form of business activity for the SCS issuer. We believe this combination would effectively ring-fence risk across business activities while allowing legally separate entities to support development of the SCS arrangement.

Additionally, as it relates to 4.21(a), we would encourage specific clarification in the SCS regulations that the base capital requirements of “[h]igher of S\$1 million or 50% of annual operating expenses of the SCS issuer” applies only to Singapore-based operations of an SCS issuer, which we believe is reasonable for addressing prudential risk.

8. MAS seeks comments on whether banks issuing tokenised bank liabilities should similarly be subject to the aforesaid redemption and disclosure requirements.

As noted in the response to Question 3, Circle believes that there are meaningful differences between the risk profiles of tokenised cash and tokenised bank liabilities for which regulators should account. While bank SCS issuers would continue operating under Singapore’s robust

¹⁸ Circle, “USDC Terms,” (<https://www.circle.com/en/legal/usdc-terms>).

bank regulations — including deposit insurance protections — we do not feel that this would entirely ameliorate the additional risk, leverage rates, and asset liquidity fragmentation resulting from issuing digital assets on a bank’s balance sheet.

Specifically, tokenised deposits introduce instability by adding both a market price to bank deposits and tradability, factors which could encourage bank runs in addition to the destabilizing short sale of bank liabilities. Due to the nature of the fractional reserve banking model, banking institutions may either accidentally or intentionally lend the deposits backing tokenised bank deposit SCS to other parties, rendering the tokenised deposit unavailable for redemption and increasing the chances of a liquidity crunch. While deposit insurance is intended to address these concerns, the presence of said insurance may actually worsen the problem: encouraging users to spread tokenised deposits among a number of institutions below the deposit limit in a way that furthers any contagion.

Given the additional prudential, credit, and counterparty risk carried by fractionally reserved collateral, Circle recommends that consideration be given to modifying the reserve, prudential, and disclosure requirements of SCS backed by tokenised deposits to make them at least commensurate with requirements for SCS backed by tokenised cash. While a uniform tokenised cash standard would give consumers clearer interpretation of the risks attendant with regulated SCS issuance, MAS could alternatively require additional disclosures for tokenised deposit holders above the \$75,000 threshold for Singapore deposit insurance.¹⁹

9. MAS seeks comments on whether there may be any proposed requirement that is not relevant for such bank-issued SCS, for example, if the risk may be addressed or mitigated in other manners.

Circle believes that segregation and equivalent full-reserve backing of all SCS would address the major differences between tokenised cash and tokenised bank deposit SCS. Such requirements would address the additional risks that linkage between claims on banks, either tokenised or traditional, would introduce on top of those of the underlying reserve assets, such as fractionally lent reserves. Coupled with a proper recovery and resolution framework, a segregated structure would ensure the continued ownership of the underlying traditional asset by the token holders in the event of an issuer default or stress in other credit or depository activities.

As part of its risk management framework, Circle maintains a wind-down plan reviewed by senior management and its Board of Directors. Should it become necessary, Circle can cease its activities in an orderly manner while mitigating external harm to its customers, counterparties, and the financial system. The wind-down plan in its current form ensures timely decisions related to the highly unlikely event of insolvency proceedings. The plan also specifies

¹⁹ Singapore Deposit Insurance Corporation, “Frequently Asked Questions: How much is the coverage under the Deposit Insurance Scheme?” (https://www.sdic.org.sg/faq/di_faq).

the financial and non-financial resources required for the orderly wind-down of Circle products and the return of all customer funds. Ensuring that all SCS issuers have similar policies should be a key part of classification across issuer standards.

10. Is it likely that stablecoins will be issued in multiple jurisdictions and would the above approaches be feasible?

Circle agrees that Scenario 4.22, wherein “the same SCS may be issued...by other related companies of the same SCS issuer in Singapore...[with] the stability of the SCS value [depending] on whether other issuing entities are subject to equivalent regulatory requirements,” will be an increasingly common business model given the increasing use and utility of global SCS in cross-border payments and settlement.²⁰ Indeed, Circle itself issues USDC across the US, EU, UK, and Singapore and will likely seek to do so in other jurisdictions, subject to appropriate regulatory approval, as the payments use-case for fully-reserved and regulated tokenised cash expands.

Under current market conditions, we note that SCS are denominated primarily in non-Singaporean Dollars and, as a result, see the bulk of minting and burning taking place outside of Singapore. We applaud MAS’ preparedness to recognize SCS with multi-jurisdictional issuance, provided there is sufficient assurance that the whole SCS is subject to effective regulation, and agree that this approach is feasible with sufficient regulatory cooperation.²¹ Non-Singapore Dollar SCS issuers such as Circle will likely need to undertake both minting and burning activities subject first to their own host country’s regulatory framework, while taking any additional measures necessary to adhere to the requirements of foreign issuing jurisdictions such as Singapore. From an issuer standpoint, Circle believes that doing so will meet the criteria laid out in MAS’ Consultation Paper Section 4.23 while ensuring that USDC and other tokenised cash is available for use in a number of jurisdictions.

However, there remains the potential for discrepancies between regulatory regimes to create conflicts or gaps in requirements. While Circle is actively engaged with regulators across jurisdictions, we believe that authorities play a central role in fostering “efficient and effective communication, information sharing and consultation...[in ensuring] comprehensive regulation, supervision, and oversight of a GSC arrangement across borders and sectors,” as stated in the

²⁰ Monetary Authority of Singapore, “Consultation Paper: Proposed Regulatory Approach for Stablecoin-Related Activities,” (<https://www.mas.gov.sg/publications/consultations/2022/consultation-paper-on-proposed-regulatory-approach-for-stablecoin-related-activities>): 13.

²¹ Monetary Authority of Singapore, “Consultation Paper: Proposed Regulatory Approach for Stablecoin-Related Activities,” (<https://www.mas.gov.sg/publications/consultations/2022/consultation-paper-on-proposed-regulatory-approach-for-stablecoin-related-activities>): 13.

FSB’s High Level Recommendation 3.²² To facilitate global coordination, it will be critical for authorities to ensure mechanisms for cross-border exchange to prevent SCS issuers from engaging in arbitrage outside of their regulatory perimeter. Establishing regulatory cooperation is therefore Circle’s recommended approach to address discrepancies in the SCS framework.

The Proposed Regulatory Approach also provides a path for “the SCS issuer in Singapore to obtain and submit to MAS an independent attestation on an annual basis that other significant issuers of the SCS are deemed to meet equivalent standards relating to reserve backing and prudential requirements.” Circle agrees that independent audits can be a pathway toward ensuring that off-shore stablecoins meet MAS’ high standards without requiring undue efforts by regulatory agencies, particularly when an issuer in Singapore is itself an issuing subsidiary of a global company, as in the case of USDC.

However, this path will require clear and comprehensive guidance for auditors to evaluate whether Singaporean regulatory requirements are equivalent in foreign jurisdictions and have been sufficiently met. In determining that guidance, we encourage MAS to identify specific quantitative and qualitative targets – such as reserve composition and management and governance structure – rather than require auditors to make an assessment of regulatory adequacy, a decision that is difficult to apply outside of the Singapore context and that should be left to MAS.

11. MAS seeks comments on whether there may be other specific activities related to SCS that are not caught as a regulated DPT service (including those under the Payment Services (Amendment) Act), and which MAS should regulate either as a new payment service or by amending the scope of an existing payment service.

Circle does not have any additional comments on activities related to SCS and DPT services beyond those related to the legal rights and redemption of holders funds as noted in response to Question 6.

12. MAS seeks comments on whether three business days is a reasonable timeline for DPT service providers to transmit SCS from a payer to payee.

Circle believes that three days is a reasonable timeframe for SCS transmission, although, as noted in response to Question 6, acknowledges that the requirement should include the redemption of SCS to fiat currency. In the event that this requirement results in an SCS issuer being de facto given only two business days to fulfill redemption requests to DPT service providers, Circle believes additional consideration should be given to the timeline for DPT transmission.

²² Financial Stability Board, Recommendation 3, “Review of the FSB High-Level Recommendations of the Regulation, Supervision and Oversight of ‘Global Stablecoin’ Arrangements,” (<https://www.fsb.org/wp-content/uploads/P111022-4.pdf>): 14.

13. MAS seeks comments on whether this measure is appropriate to mitigate the risk of misuse of customers' SCS.

Circle concurs that the segregation of customers' funds is important and appropriate not only to mitigate the risk of their misuse but also to protect customers in the event of insolvency of either a DPT service provider or of an SCS issuer itself. Circle-issued stablecoin reserves are held in segregated accounts apart from Circle's corporate funds, on behalf of, and for the benefit of, holders.²³

An option — in addition to the segregation of customer funds — to enhance consumer protection and decrease the likelihood of misuse of customers' SCS is to require different business activities, for example trading, market making, or custody, to be conducted by different DPT service providers. Such separation would be consistent with the FSB's proposed Recommendation 9 for Crypto Assets²⁴ which, if coupled with a segregation of assets, would hinder a DPT service provider from misusing customer SCS.

14. MAS seeks comments on whether to regulate and protect the smooth functioning of systemic stablecoin arrangements similar to other DPS, by designating them under the PS Act and FNA. MAS also seeks comments on whether key entities of a systemic stablecoin arrangement should be subject to higher regulatory and supervisory standards to safeguard financial stability risk.

Circle appreciates efforts by MAS to protect the smooth functioning of payment systems available to Singaporean users by “making relevant amendments to the Payment Stablecoin Act...[that] empower MAS to collect information on the stablecoin arrangement from relevant persons in Singapore, such as SCS intermediaries and validators of transactions.”²⁵ This mandate dovetails with the strengths of permissionless distributed ledger technology (DLT) networks, as regulators inherently have access to publicly available blockchain intelligence and analytics that can monitor incoming and outgoing transactions, as well as the behavior of validators, to develop a clear picture of network activity. We encourage regulators and MAS to take advantage of such capabilities, as they offer a proven way for authorities to monitor DLT networks for stability and soundness. Circle is also broadly supportive of higher financial and operational requirements for SCS that are labeled as Designated Payment Systems (DPS).

²³ Circle, “USDC Terms,” (<https://www.circle.com/en/legal/usdc-terms>).

²⁴ Financial Stability Board, “Regulation, Supervision and Oversight of Crypto-Asset Activities and Markets,” <https://www.fsb.org/wp-content/uploads/P111022-3.pdf>.

²⁵ Monetary Authority of Singapore, “Consultation Paper: Proposed Regulatory Approach for Stablecoin-Related Activities,” (<https://www.mas.gov.sg/publications/consultations/2022/consultation-paper-on-proposed-regulatory-approach-for-stablecoin-related-activities>): 15.

Beyond third-party analytics, however, Circle encourages MAS to ensure that reporting obligations are not ultimately placed on underlying blockchain or DeFi protocols, including validators, that are unable to self-report – for example, because they lack identifiable operators or are located abroad. Because blockchain networks are frequently designed to function without a central authority; may be made up of hundreds of pseudonymous node operators; and/or are geographically distributed beyond national borders, we suggest MAS consult with industry leaders as part of a comprehensive process to develop systemic reporting guidelines. As one example, MAS could limit these reporting requirements to centralized SCS issuers such as Circle, as well as centralized exchanges that provide fiat on-ramping services within MAS jurisdiction. This focus would allow MAS to preserve the benefits of open-source network infrastructure while protecting the integrity of SCS assets available to Singaporean users.

Circle also wishes to express its reservations about other aspects of the proposal to label SCS as DPS, including authorities which give MAS the ability “to regulate access rules for participation, impose restrictions and conditions, establish standards, make regulations, approve and remove chief executive officers and directors, approve substantial shareholders and other controllers, issue directions and inspect DPS operations.”²⁶ Such authority would be difficult for MAS to exercise across jurisdictions, and may bring Singaporean regulators into conflict with the laws and regulations of those jurisdictions where international firms are domiciled, as well as the guidelines of international organizations such as BIS, FSB or IOSCO. Likewise, overly-broad or aggressive efforts to manage the personnel of on-shore SCS firms may drive companies off-shore instead, reducing the adoption of robust, internationally-recognized stablecoins regulated by Singaporean authorities.

To avoid potential issues, Circle recommends that MAS avoid designating SCS entities that are denominated in foreign currency as DPS, and strongly encourages MAS to lay out strict guidelines for instances where this authority over on-shore DPS entities might be exercised within Singapore’s borders. In a similar manner, it will be important for MAS to designate only the centralized service providers issuing SCS as a DPS, rather than the underlying blockchain architecture, smart contracts, or non-custodial wallets. As previously discussed, well-established blockchain networks have a variety of governance and consensus mechanisms, and some systems will be able to comply with regulatory direction better than others. Circle currently issues USDC on nine different blockchains after conducting careful vetting of each one, and believes it is important to continue to provide these services in an open and publicly available fashion.

Finally, we believe it is important for MAS to focus on the systemic risk of SCS providers to Singaporean users without making a similar determination on the systemic risk posed by global stablecoin arrangements outside of its regulatory perimeter. Doing so may conflict with designations from entities such as the FSB, which is in the process of creating its own

²⁶ Monetary Authority of Singapore, “Supervision of Financial Market Infrastructure in Singapore,” (<https://www.mas.gov.sg/-/media/MAS/News-and-Publications/Monographs-and-Information-Papers/Monograph--Supervision-of-Financial-Market-Infrastructures-in-Singapore--2020.pdf>): 5.

overarching standards. Circle is confident that the provisions of thorough auditing reports that certify stablecoin reserves are held on-shore and include adequate prudential controls will address any risk of systemic stablecoin arrangements failing, and should arm MAS with the data it needs to make determinations on the systemic significance of tokenised cash within its own jurisdiction.

15. MAS seeks any other comments relating to MAS’ regulatory approach towards stablecoins and stablecoin- related activities, including any implementation issues that MAS should consider.

Circle fully supports making changes to the Finality and Netting Act of 2022 (FNA) to exempt certain SCS arrangements from laws that would threaten transaction finality. While we continue to have concerns about the impact of DPS designations on the functioning of both on-shore and off-shore SCS issuers, we likewise acknowledge the importance of protecting systemically important payment systems from disruptions to settlement, including from the law of insolvency, and understand that MAS will need to designate those affected SCS as DPS to ensure protection as the law is currently written.

Circle agrees that such an approach is in line with past changes made by MAS, which have included widening the period during which transactions have enjoyed finality, providing clarity in designation criteria and increasing MAS’ administrative authorities.²⁷ Because the transfer of SCS on a properly-decentralized distributed ledger is practically irreversible, such changes would also have important legal implications on the recognition of DLT technology and help cement Singapore's leadership as a regulator of responsible innovation in the digital asset sector.

²⁷ Allen Gledhill, “Payment and Settlement Systems (Finality and Netting) Act amended with effect 6 June 2018 to improve protection of payment and settlement systems,” (<https://www.allenandgledhill.com/sg/publication/articles/7518/payment-and-settlement-systems-finality-and-netting-act-amended-with-effect-from-6-june-2018-to-improve-protection-of-payment-and-settlement-systems>).