
A YEAR IN REVIEW: MAS'S INITIATIVES IN REGULATING AND FOSTERING FINTECH

Singapore is well on its way to becoming the world's first Smart Nation. It's adopted a top-down approach in reaching this goal, with the government itself exhorting the use of technology to enhance Singapore's residents' quality of life and increase opportunities for businesses and enterprises to take part in the upsurge in innovation. As succinctly stated by Mr. Ravi Menon, the Managing Director of the Monetary Authority of Singapore, "In the years ahead, countries, businesses, and people who know how to use technology and innovate will have a keen competitive advantage."

Part of Singapore's ambitious plan includes establishing itself as a Smart Financial Centre. It has recognized that the financial services (FS) industry—one of the core industry sectors driving Singapore's economy—is ripe for disruption. Established technology companies, start-ups, e-commerce companies, and a host of other players are all blurring the lines and usurping the traditional roles of financial institutions (FIs) as part of the FinTech revolution.

Milestones in Government-Sanctioned FinTech Development in Singapore

Singapore has responded agilely and aggressively to the FinTech revolution—not with an aim to constrain it, but to foster and harness its advantages. Below are just some of the initiatives the Monetary Authority of Singapore (MAS) has implemented:

- June 2015: MAS announced the Financial Sector Technology & Innovation (FSTI) Scheme under which MAS would commit SGD 225 million over the following five years to support FinTech innovation.
- July 2015: MAS announces Financial Technology & Innovation Group (FTIG), which will be responsible for developing regulatory policies and development strategies to facilitate the use of technology and innovation to manage risks, increase efficiency, and improve competition in the FS sector. FTIG would comprise three separate divisions, the Payments & Technology Solutions Office, Technology Infrastructure Office, and the Technology Innovation Lab.
- March 2016: The Finance Minister Heng Swee Keat announced the launch of SG-Innovate to help connect entrepreneurs with investors, industry mentors, and global markets. SG-Innovate will work with the Economic Development Board (EDB) and SPRING Singapore in conjunction with support from Infocomm Investments Pte Ltd (I IPL).
- April 2016: At an Asia Society event in New York, MAS's Mr. Tharman Shanmuguratnam announces the Singapore FinTech Festival to be held in Singapore from November 14–18, 2016. Comprising conferences, awards ceremonies, events, and panel discussions, the Festival also includes a Hackcelerator competition, where firms around the world are invited to present their proposed solutions to some of the 100 industry problem statements posed by MAS.
- May 2016: The UK launched a FinTech Bridge and signed a Regulatory Cooperation Agreement between its Financial Conduct Authority (FCA) and MAS that enables the regulators to refer FinTech companies to their counterparts around the world and sets forth how the regulators can share and use information in FinTech services in their markets.
- May 2016: MAS and the National Research Foundation (NRF) set up FinTech Office, with representatives from the EDB, Info-communications Media Development Authority (IMDA), NRF, SPRING Singapore, to

provide a holistic approach across government agencies to foster the FinTech ecosystem in Singapore. Furthermore, the FinTech Office provides guidance to those intending to launch a FinTech business in relation to government grants and schemes.

- June 2016: MAS and the Australian Securities and Investment Commission (ASIC) signed the Innovation Functions Cooperation Agreement that facilitates the entry of FinTech firms in Singapore and Australia into each other's markets.
- June 2016: MAS issues its FinTech Regulatory Sandbox Guidelines and invites interested parties to submit their views and comments on the proposed Guidelines by July 2016. It also issues guidelines and proposed regulations regarding securities-based crowdfunding. (Discussed in detail below.)
- August 2, 2016: the first meeting of the International Technology Advisory Panel (ITAP) took place. ITAP comprises 15 leaders in the FinTech global arena recruited by MAS to provide Singapore guidance as it develops its FinTech ecosystem.

Regulatory Challenges

The arrival of these new FinTech solutions, though, such as crowdlending and crowdfunding platforms, robo-financial advisers, digital payment solutions, bitcoin/blockchain, and the numerous other advancements, has posed challenges to regulatory frameworks, which were not designed with these innovations in mind.

But MAS is responding to these pressures and has provided some guidance as to how it intends to approach regulating these new industries. In his remarks at the Singapore Forum, MAS's Managing Director, Mr. Ravi Menon, noted first that MAS will be taking a differentiated approach to different technologies and their applications as they present different types of risks. For example, in the realm of digital payments, issues regarding authentication and identity dominate whereas in crowdfunding, consumer protection and fraud prevention are at the forefront. Thus, a "one-size-fits-all" approach will not be appropriate. Second, MAS will adopt a risk-based approach to FinTech technologies in unregulated sectors. Noting that premature regulation may present unintended roadblocks that could stifle innovation and have a cooling effect on the adoption and acceptance of these technologies, Mr. Menon explained that MAS would apply a materiality and proportionality test: regulation will be implemented when the risk becomes material, and the regulation shall be tailored to be in proportion to the risk posed. In this regard, MAS has taken some steps in proposing new regulatory frameworks:

- MAS is currently working on regulations for virtual currency (e.g., bitcoin) intermediaries operating in Singapore. MAS will make the proposed regulations available on its website for public consultation.
- In June 2016, MAS published a consultation paper on proposed FinTech Regulatory Sandbox Guidelines. (The period for the public to comment has since closed.) In it, it noted that while companies have been able to launch their new solutions without first gaining MAS's approval or guidance, there are instances where there is ambiguity as to whether a new service or product does comply with legal or regulatory requirements. In those instances, companies may not pursue such solutions for fear of violating laws or regulations. MAS recognizes that this result is not optimal and would result in missed opportunities and suppress innovation.

Consequently, MAS has proposed that companies can adopt a Sandbox that has a well-defined space and duration to experiment and launch their new solutions. Appropriate safeguards would be in place to minimize negative impacts and maintain the overall safety of the financial system. MAS would provide appropriate regulatory support by relaxing specific legal and regulatory requirements. If at the conclusion of the Sandbox experiment the company and MAS are satisfied that the company can be in compliance with regulatory and legal requirements, the solution can be deployed on a wider scale.

- Finally, the MAS has issued certain guidelines and proposed regulations to improve access to securities-based crowdfunding (SCF).¹ There has been increased interest in SCF over the last few years since it allows startups a way to provide equity in exchange for funding. These startups often have difficulty in obtaining financing through traditional channels, such as bank loans. While the new guidelines propose to close certain loopholes in the system and implement safeguards to protect investors, they also ease the burden on startups seeking funding and clarify prior ambiguities, thus opening the door to sources of financing a little wider. As stated by Lee Boon Ngiap, MAS assistant managing director of capital markets, “[SCF] is a useful addition to our financing landscape. At the same time, SCF investments can be quite risky. The measures we are implementing seek to strike the right balance between improving access to SCF for startups and SMEs and protecting investor interests.”

Conclusion

FinTech is an ever-burgeoning field, filled with diversity of technology, solutions, business models, and players, both new and old. But the success of these innovations in the market depends in part on Singapore’s ability to respond effectively and efficiently to them by simultaneously cultivating their development and protecting consumers. So far, Singapore has done so. The last year was peppered with announcements of initiatives, schemes, and collaborations that signal to the market that Singapore whole-heartedly welcomes FinTech.

The next year will prove interesting as we anticipate MAS will be publishing more guidelines as well as proposed regulations and legislative amendments. We look forward to working with our clients in the FinTech space to help them navigate this nascent field and provide intelligent solutions and guidance for their businesses.

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¹ A detailed discussion on SCF shall be discussed in a forthcoming publication.