

RESPONSE TO CONSULTATION PAPER

Consultation topic	MAS Consultation Paper on Proposed Measures on Market Integrity in Digital Payment Token Services
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Response to consultation paper	Submitted on 7 August 2023 via link provided by MAS: https://go.gov.sg/mas-dpt-market-integrity-2023

Question 1. MAS seeks comments on the general requirements for DPTSPs set out in paragraph 3.4 and for DPT Platform Operators set out in paragraph 3.5.

- i. The general requirements for Digital Payment Token Service Providers (DPTSPs) and platform operations mentioned in the consultation paper are essential for ensuring market integrity and customer confidence in the digital payment token services ecosystem. Here are some comments on these requirements:
 - a. Fair, Orderly, and Timely Handling of Customer Orders: The expectation that DPTSPs handle and execute customers' orders in a fair, orderly, and timely manner is crucial for maintaining trust in the digital payment token market. Customers should be confident that their transactions will be processed efficiently and without any preferential treatment or unfair practices.
 - b. Prevention of Unfair Trading Practices: Preventing and detecting unfair trading practices is of utmost importance to safeguard the interests of customers and maintain a level playing field. By implementing effective systems, processes, and controls, DPTSPs can minimise the risks of

market manipulation and ensure a more transparent and trustworthy environment for all participants.

- c. **Adequate Systems and Governance Arrangements:** The mention of maintaining adequate systems, processes, controls, human resources, and governance arrangements is a strong step towards promoting professionalism and accountability within DPTSPs. This requirement ensures that companies operating in the digital payment token space have the necessary infrastructure and oversight in place to handle the obligations and responsibilities.
- d. **Tailored Approach to Business Size and Complexity:** The notion that the measures taken should be commensurate with the nature, scale, and complexity of the DPTSP's business is reasonable. Different providers may have varying levels of risk exposure and operational complexities, and a tailored approach helps ensure that the regulations are not overly burdensome for smaller players while being sufficiently robust for larger ones.
- e. **Resilient Systems for DPT Platform Operators:** Price discovery process is essential for accurate market conditions representation. The recommendation by IOSCO (International Organization of Securities Commissions) that a crypto-asset service provider acting as a market operator should have resilient systems for central limit order books ensures that the platform operates in a fair, orderly, and transparent manner.
- f. **Transparency and Market Integrity:** Emphasising transparency in the operation of DPT trading platforms is crucial for building trust and confidence among market participants. Market integrity is best preserved when all participants have access to accurate and timely information, and when the platform's rules and procedures are clear and consistent.

Overall, these requirements serve as a framework to foster a robust and well-regulated digital payment token services industry. By adhering to these guidelines, DPTSPs and platform operators can promote market integrity, protect consumers, and contribute to the healthy development of the digital payment token ecosystem.

- ii. We also recommend establishing clear admission criteria for digital tokens to provide an extra layer of protection for retail investors. Strict due diligence requirements should be imposed to ensure proper virtual asset admission and administration.
- iii. Separately, we believe that DPT Platform Operators should be obligated to promote investor education, particularly since the risk characteristics of DPT can differ significantly from traditional assets. DPT Platform Operators should ensure investor awareness and suitability in investing.
- iv. We suggest stating the "time" factor in a more explicit manner. The last sentence in paragraph 3.5 should read "...the operation of the DPT trading platform is fair, orderly, **timely** and transparent."

Question 2. MAS seeks comments on the further requirements for DPTSPs relating to the fair, orderly, and timely handling and execution of customers' orders.

Given that DPTSPs may act in various capacities, DPTSPs should disclose actual or potential conflicts of interest, if any, including mitigating measures.

Question 3. MAS seeks comments on the further requirements for DPTSPs relating to the prevention and detection of unfair trading practices.

- i. We suggest adding a practicality criteria to the second sentence of paragraph 3.11. The sentence should read "...to customers in a clear and precise manner, as practically possible." Thus, it becomes clear that the degree of clarity and precision is not absolute, but relative.
- ii. Due to the nature of the traded assets, material non-public information in the context of DPT should be defined as the conventional understanding of material non-public information may not fully reflect the nature of DPTs.

Question 4. MAS seeks comments on the further requirements for DPT Platform Operators relating to the operation of DPT trading platforms in a fair, orderly, and transparent manner.

- i. Paragraph 3.16 should read "...in a fair, orderly, **timely** and transparent manner." See response in Question 1 (iv) for justification.
- ii. Retail investors should be fully aware of the potential risks involved, including issuer and/or product level risks as well as intermediary risks. We suggest DPT Platform Operators disclose the holding concentration of virtual assets and establish an effective channel for timely disclosure of any technical changes, price sensitive news, and clarifications of any rumours regarding virtual assets. This will assist investors in making informed investment decisions.
- iii. In terms of intermediary risks, we believe Platform Operators should disclose their liquidity positions, short exposures and revenue streams on a regular basis to help investors better understand the DPT Platform Operators' financial health and ability to withstand market shocks, thereby protecting investors' interests.
- iv. In the interest of investors and long-term market development, we believe DPT Platform Operators should prioritise strong corporate governance and cybersecurity resilience. We suggest a combination of insurance and sufficient funds set aside for compensation arrangement in case of cybersecurity risks and governance issues. Please see also the response to Consultation Paper on the Proposed Regulatory Requirements for Virtual Asset Trading Platform Operators Licensed by the Securities and Futures Commission: https://cfasocietyhongkong.org/wp-content/uploads/2023/04/CFAHK-Response_SFC-Virtual-Asset-Trading-Platform_d230331_web.pdf
- v. It is essential to acknowledge the challenges associated with cyber-insurance, including insurers' reluctance to provide sufficient coverage for undetected intrusions and higher premiums for Platform Operators due to the inability of insurance companies to fully observe self-protection efforts (Hulisi O. et al., 2011) - Ögüt,H., Raghunathan, S., Menon, N.: Cyber

security risk management: Public policy implications of correlated risk, imperfect ability to prove loss, and observability of self protection. Risk Anal.Int J. 31, 497-512 (2011).

Question 5. MAS seeks comments on the proposed provisions relating to prohibited conduct.
We are of the opinion that the proposed provisions are adequate.

Question 6. MAS seeks comments on the proposed provisions relating to insider trading.
We are of the opinion that the proposed provisions are adequate.

Question 7. MAS seeks comments on other proposed provisions relating to the prohibitions against unfair trading practices.

We are of the opinion that the proposed provisions are adequate.

Question 8. MAS seeks comments on the implementation of the regulatory measures.

- i. CFA Institute recently released a report titled "Cryptoassets: Beyond the Hype", in which the institute makes the observation that a number of technological solutions were beginning to emerge to address some of the custody issues seen in the turmoil of 2022 with FTX and Celsius, for instance. Key sharding is a method that enables private keys to be represented by numerous encrypted "shards." No one party can approve the transfer or disposition of the digital asset.
- ii. In addition, there are methods to get around immutability to undo unauthorised or mistaken transfers. DeFi protocol administrators, for instance, may retain administrative keys that would enable them, if they so desire, to modify codes to fix errors. In more drastic steps, users on a blockchain network could decide to perform a hard fork, which would reject the problematic transactions on the blockchain and allow users to begin afresh. Refer to the full report for more details: <https://www.cfainstitute.org/en/research/industry-research/cryptoassets-beyond-the-hype>