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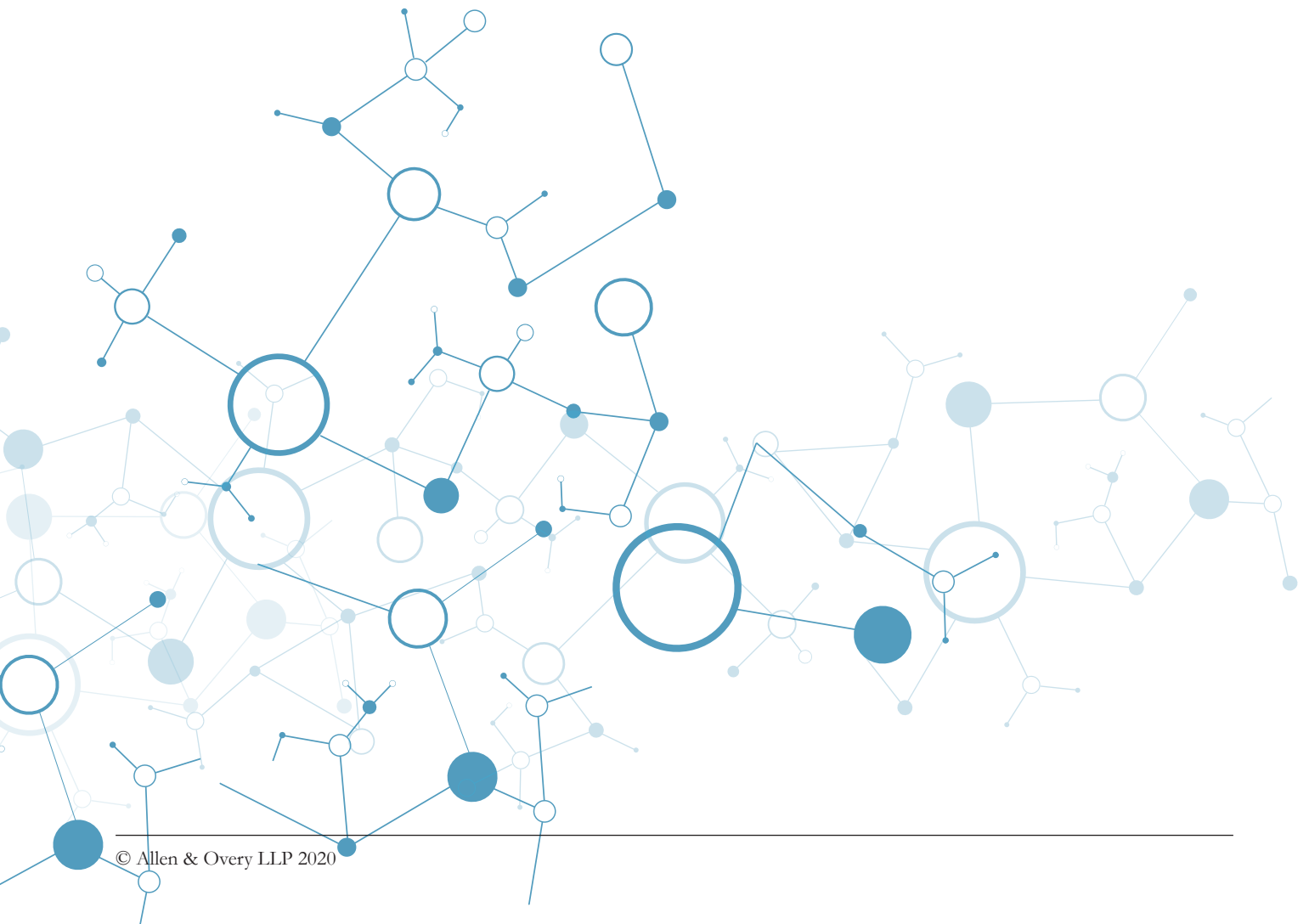


An Overview of the Payment Services Licensing Regime

28 January 2020

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Introduction

The Payment Services Act (**PS Act**) is the culmination of four years of intensive consultation by the Monetary Authority of Singapore (**MAS**) with the payments industry, and consolidates the regulation of payment services in Singapore under one single regulatory framework. From 28 January 2020, persons carrying on any one or more of the activities specified in the PS Act will require a licence under the PS Act unless there is an applicable exemption. This note seeks to outline the licensing framework and the activities regulated under the PS Act.

Similar to the regulatory framework that the MAS utilises in the capital markets and financial advisory space, the PS Act creates a modular licensing framework for seven payment activities across three overarching licence categories.¹

¹ One of the payment services specified in the PS Act is money-changing, defined as the buying and selling of foreign currency notes. If a payment service provider only provides money-changing services, that service provider requires a money-changing licence. This is a standalone licence. We do not propose to discuss the money-changing licence in this note.

Types of payment services

1. *Account issuance service*

The service of issuing a payment account or any service relating to any operation required for operating a payment account.



COMMENT

What amounts to an account issuance service is subject to various important carve-outs that limit its otherwise wide ambit.

An important carve out applies where the service provider does not have possession of the customer's money under that payment service. This is because the PS Act expressly excludes from the ambit of the service the provision of an information technology service where the service provider does not at any time enter into possession of any money under that payment service. Hence, for example, if an online payment solution for online stores merely provides a secure means for customer accounts with that store to transmit credit card instructions to banks when that customer purchases goods, that would not amount to an account issuance service as the payment solution provider does not hold money from the buyer of goods from the store.

Another important carve out allows sellers of goods or services to credit money to the buyer's account without becoming an account issuance service provider. The PS Act also excludes a payment service that is provided in respect only of limited purpose e-money. Limited purpose e-money would include electronically stored monetary value that is used for the payment of good or services provided by the issuer of the electronically stored monetary value. So, for example, where a seller allows for a frequent buyer to chalk up credits that may be used to offset further purchases from that seller and no one else, that would amount to limited purpose e-money. The issuance and maintenance of this account with the credits would therefore not be a licensable activity.

While payment accounts are expressly defined to include bank accounts and credit card accounts, banks, credit card issuers and finance companies are specifically exempt from the licensing requirements of the PS Act (although they will be required to abide by certain notification and conduct requirements in the PS Act).



Example: e-wallets, debit cards, credit cards, and charge cards

2. Domestic money transfer service

The service of accepting money for transfer to an intended recipient through payment account(s), where both the payer and recipient are in Singapore.



COMMENT

This was not regulated under the previous regulatory framework, and the focus here is on service providers that accept money from a payer for transfer to another party in Singapore. The service provider does not issue the payer an account (the issuance of accounts is separately regulated under “account issuance service”) and may be deducting the funds from a payment account issued by a separate account issuance service provider.



Example: Domestic bill payment service

3. Cross-border money transfer service

The service of accepting money in Singapore for transfer to a recipient outside Singapore, or receiving money from outside Singapore for transfer to any person in Singapore.



COMMENT

This is similar to the domestic money transfer service except that the money is either being transferred into or out of Singapore, and was partially regulated previously under the Money-Changing and Remittance Businesses Act (Cap. 187) (which has since been repealed).

The scope of “cross-border money transfer service” will likely be expanded. In its Consultation on the Payment Services Act 2019: Proposed Amendments to the Act issued on 23 December 2019, the MAS stated that it intends to extend the regulation of the provision of cross-border money transfer services to include providers who do not accept or receive money in Singapore but who are carrying on a business of arranging for the transmission of money accepted in one country or territory to another country or territory. This is intended to capture service providers who broker cross-border money transfer transactions.



Example: Providing inbound or outbound remittance service in Singapore.

4. Merchant acquisition service

The service of accepting and processing a payment transaction either for a merchant incorporated, registered or carrying on a business in Singapore, or for a merchant under a service contract entered into in Singapore, that results in a transfer of money to the merchant pursuant to the payment transaction.



COMMENT

This is a newly introduced regulated activity. It does not matter whether the merchant acquisition service provider comes into possession of the money for the payment – so long as the service provider enters into a contract with a merchant to accept and process payment transactions, resulting in a transfer of money to the merchant, that will constitute merchant acquisition service. This service includes providing a point-of-sale terminal or online payment gateway. In certain situations, the service of merchant acquisition may overlap with domestic money transfer services or cross-border money transfer services.



Example: Bill payment machines

5. E-money issuance service

The service of issuing e-money to allow the user to make payment transactions.



COMMENT

E-money issuers would previously have been operating “stored value facilities” regulated under the now repealed Payment Services (Oversight) Act. Under the PS Act, however, the term e-money is broader than stored value, and refers to any electronically stored monetary value that is denominated in, or pegged to, a currency and has been paid for in advance to enable the making of payment transactions through the use of a payment account.

The e-money that is issued must be accepted by a person other than its issuer and represents a claim on its issuer. E-money that can be used only for the payment of goods and / or services provided by either the e-money issuer, or a member of a limited network of providers of goods and /or services that has a commercial arrangement with the e-money issuer to accept the e-money, is regarded as “limited purpose e-money”, the issuance of which will not be regarded as an e-money issuance service that is caught under the PS Act. Accordingly, single purpose stored value cards issued by a particular store for use only in that store would not be regulated under the PS Act.



Example: Value in e-wallets

6. Digital payment token service

The service of buying or selling digital payment tokens (**DPTs**) (commonly known as cryptocurrencies), or providing a platform to allow persons to exchange DPTs in Singapore.



COMMENT

A DPT is essentially an electronic medium of exchange or payment that is accepted by the public as such, and that is not denominated in, or pegged by its issuer, to any fiat currency. This is distinguished from e-money, which is pegged to a currency. Loyalty or reward points issued by a merchant are expressly excluded from being DPTs, as are in-game assets.

Currently, only DPT service providers that provide the following services are regulated under the PS Act:

- Buying or selling DPTs;
- Establishing or operating a DPT exchange; and
- Participating in and providing financial services related to an issuer's offer and/or sale of a DPT.

The MAS has stated that it intends to regulate the following activities provided by DPT service providers:

- Transferring or transmitting DPTs from one DPT address or account to another;
- Providing custodian DPT wallets for or on behalf of customers; and
- Inducing or attempting to induce any person to buy or sell DPTs (without the service provider itself coming into possession of money or DPTs).

The MAS intends to also regulate DPT service providers that are incorporated in Singapore but whose activities are targeted outside Singapore. Currently, the jurisdictional scope of MAS's regulatory oversight of DPT service providers focuses on whether the activity is targeted at Singapore or Singaporeans.



Examples: Crypto currency dealers and exchange platform providers

7. Money-changing service

The service of buying or selling of foreign currency notes. This is noted here for completeness.



Example: Money changers

The licensing regime

A licence will be required to carry out any of the above services.

There are **three classes** of licences:



A licence to be a **Money-Changing Licensee**, which will only allow the licence holder to carry out money-changing services (this is noted here only for completeness);



A licence to be a **Standard Payment Institution**, which will allow the licence holder to carry out any number of payment services if the activity falls below specified threshold limits; and



A licence to be a **Major Payment Institution**, which will allow the licence holder to carry out any number of payment services if the activity exceeds the specified threshold limits.

Where the **services provided are other than money-changing services or e-money account issuance services**, the threshold limits are as follows:

- In respect of any **one service**, the average, over a calendar year, of the total value of all payment transactions that are accepted, processed or executed by the entity in one month is SGD3 million; or
- In respect of **two or more services**, the average, over a calendar year, of the total value of all payment transactions that are accepted, processed or executed by the entity in one month is SGD6m.

Where **the service provided is an e-money account issuance service**, the threshold limit is an average daily e-money float of SGD5m in a calendar year.

The following persons are exempt from the need to hold a licence to carry out payment services:

- Deposit taking institutions already licensed under the Banking Act, the Monetary Authority of Singapore Act or the Finance Companies Act; and
- A person regulated or exempt under the Securities and Futures Act, the Financial Advisers Act, the Trust Companies Act or the Insurance Act if the provision of that activity is solely incidental or necessary for the carrying on of its regulated activity.

Licensing requirements



Structure

The applicant **must be a company**. It must be either incorporated in Singapore or be registered to carry on business in Singapore as a branch.



Composition of the board of directors

The board must meet the following minimum requirements:

- At least one executive director who is a **Singapore citizen** or **Singapore permanent resident**; or
- Where the executive director holds a Singapore employment pass, at least one other director who is a Singapore citizen or Singapore permanent resident.



Minimum base capital

For a **Standard Payment Institution**, the minimum base capital requirement is SGD100,000; a **Major Payment Institution** must have a base capital of least SGD250,000.

The MAS notes that a licensee must ensure that it maintains sufficient capital buffer in excess of the base capital requirements, bearing in mind the scale and scope of its operations and the potential for profit and losses.



Security

An applicant must provide **security in the form of a cash deposit with the MAS or a bank guarantee**. Where the total value of all payment transactions in one month does not exceed SGD6m for any one payment service, the security requirement is SGD100,000. In all other cases, the amount to be provided as security is SGD200,000.



Qualitative requirements

The applicant and its shareholders, directors and employees must all be fit and proper and be of sound financial standing, in accordance with the **Guidelines on Fit and Proper Criteria [FSG-G01]**.

The applicant's executive directors and Chief Executive Officer must have sufficient experience in operating a business in the payment services industry, or related areas in the financial services industry taking into account their roles in the applicant.



Permanent place of business or registered office

The applicant must have a permanent place of business or registered office. It must be an office area where the applicant's books and records can be securely held. The applicant must also appoint at least one person to be present to address any queries or complaints from customers. That person must ordinarily be present at its permanent place of business or registered office for a **minimum of ten days a month** and a minimum of eight hours on each of those days during its normal business hours.



Compliance arrangements

The applicant must have in place **plans for compliance arrangements** that are commensurate with the nature, scale and complexity of its business.



Technology Risk Management

Where the applicant intends to **provide online financial services**, it must perform a **penetration test** of its proposed online financial services, remediate all high risk findings identified, and conduct independent validation on the effectiveness of the remediation actions.



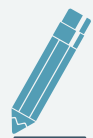
Audit Arrangements

The applicant must have plans in place for **adequate independent audit arrangements** to regularly assess the adequacy and effectiveness of its procedures, controls, and its compliance with regulatory requirements. The audit arrangements should be commensurate with the scale, nature and complexity of its operations. The audit may be conducted by an internal audit function within the applicant, an independent internal audit team from the head office of the applicant, or outsourced to a third party service provider.



Letter of Responsibility and/or Letter of Undertaking

Where appropriate, the MAS may require applicants to procure a **Letter of Responsibility** and/or **Letter of Undertaking** from the applicant's majority shareholders, parent company and/or related company.



Other factors

The MAS may also take into consideration factors such as:

- **track record** and financial condition of the applicant, its holding company or related corporations, where applicable;
- **operational readiness** of the applicant, including ability to comply with regulatory requirements;
- whether the applicant, its holding company or related corporations are subject to **proper supervision** by a competent regulatory authority;
- **commitment** of the applicant's holding company to operations in Singapore; and
- whether the **public interest** will be served by granting a licence.

Risk mitigation measures

Licensees will also need to implement risk mitigation measures. These are broadly divided into measures against anti-money laundering / countering the financing of terrorism (**AML/CFT measures**) and user protection measures. AML/CFT measures apply to all three types of licensees, while the user protection measures apply only to Major Payment Institutions. The details of the requirements are set out in subsidiary legislation.

The table below sets out what types of measures are required to be adopted in respect of each payment service activity.

	AML/CFT measures	User protection measures			
		Safeguarding of e-money float	Safeguarding of funds in transit	Protection of e-wallets	Protection of access to funds
Account issuance services	❖ (services below certain thresholds are excluded)			❖	❖
Domestic money transfer services	❖ (services below certain thresholds are excluded)		❖		
Cross border money transfer services	❖		❖		
Merchant acquisition services			❖		
E-money issuance		❖			
Digital payment token services	❖				
Money-changing services	❖				

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