

RESPONSE TO CONSULTATION PAPER

Please note that all submissions received will be published and attributed to the respective respondents unless they expressly request MAS not to do so. As such, if respondents would like (i) their whole submission or part of it, or (ii) their identity, or both, to be kept confidential, please expressly state so in the submission to MAS. In addition, MAS reserves the right not to publish any submission received where MAS considers it not in the public interest to do so, such as where the submission appears to be libellous or offensive.

Consultation topic:	Consultation Paper on Proposed Regulatory Approach for Derivatives Contracts on Payment Tokens
Name¹/Organisation: <small>¹if responding in a personal capacity</small>	The World Federation of Exchanges
Contact number for any clarifications:	+44 (0)20 7151 4186
Email address for any clarifications:	jpallant@world-exchanges.org
Confidentiality	
I wish to keep the following confidential:	<i>(Please indicate any parts of your submission you would like to be kept confidential, or if you would like your identity to be kept confidential. Your contact information will not be published.)</i>

General comments:

Question 1: MAS seeks comments on the draft amendments to the SF(PUT)R to categorically include Payment Token Derivatives offered by Approved Exchanges within the scope of the SFA.

<Please fill in your response to each question in the blank space below the question.>

The World Federation of Exchanges welcomes the opportunity to submit its response to the Monetary Authority of Singapore regarding the proposal to allow Payment Token Derivatives to be traded on Approved Exchanges and to regulate the activity under the Securities and Futures Act.

As supported in the consultation paper, established exchanges offer a venue whereby exchange-traded and centrally cleared derivatives are subject to pre- and post-trade risk management standards set by the exchange listing and CCP clearing the trades. These risk management standards include practices that are deliberately designed to foster safe and efficient markets. Prices on exchanges are transparent and, whether based on a central limit order book or other mechanisms, a diverse set of market participants can transact with each other in a healthy pool of liquidity to ensure a robust, transparent and easily understood price. The resulting price discovery allows a targeted transfer of risks. Moreover, in order to help preserve market integrity, exchanges will also employ mechanisms to prevent inappropriately excessive price movements.

With regard to post-trade, a CCP ensures that those who bring counterparty credit risk to the system mitigate it, through the CCP becoming the counterparty to both sides of a derivatives transaction and posting margin and other resources. The CCP acts as a neutral party to calculate and facilitate the daily exchange of funds to account for mark-to-market price moves (i.e., variation margin/settlement); the posting of initial margin to cover future price moves; and the establishment of a default fund to cover tail risks, among other risk management practices. And the CCP reduces exposures across the market, by means of multilateral netting, bringing a positive externality to the financial system as well as a massive benefit to individual participants.

In view of the services provided by the market infrastructure represented by the WFE, it is welcome that established regulated market infrastructure would be recognised as the appropriate market operators to conduct, and instil, the high standards required for the trading of derivatives contracts on Payment Tokens.

The WFE takes note that the MAS will consider the issue of regulating Payment Token Derivatives offered by “other types of entities at an appropriate stage, taking into account

the industry's general readiness to meet our standards and the systemic risks that they pose".

The WFE recognises the MAS's concerns with the suitability of trading Payment Token Derivatives for retail investors. The volatility associated with some such products may, understandably, encourage regulators to consider safeguards for the purposes of consumer protection and to implement measures which seek to mitigate the associated risks. However, the WFE would encourage the MAS to keep its proposed measures under review (potentially on a set time period) as the market evolves. Reviewing the application of such measures may also be a mechanism by which to encourage the market itself to grow in the direction of greater regulatory adherence and a better governed environment. This is likely to be an important consideration, from not only an international competitiveness stance but also in order to ensure that there is the ability to respond to and adopt any forthcoming global regulatory approach to crypto asset regulation (as promoted by international standard setting bodies). Enabling such a potential international approach to be implemented in the future would be key to ensuring regulatory coherence and conforming to international standards which promote enhanced global trade. It should also be recognised that this is an innovative and new market which is likely to mature as it grows and becomes more established.

However, it will also be important to enable cross-border trade for all regulated market infrastructure who meet the high international standards that can be expected to emerge over time. As such, the WFE would recommend specific inclusion and greater clarity on how third-country recognition (as a *Recognised Market Operator*) processes would function to enable third-country (or *foreign corporations*) market infrastructure to trade Payment Token Derivatives. This would be beneficial in ensuring open markets and avoiding potential international market fragmentation. This would also further ensure that an appropriate level-playing field, for all aforementioned regulated exchanges, is embedded within the proposed policy in terms of its transparency and application of approach.

Finally, the WFE would suggest that those trading platforms offering Payment Token Derivatives which do not fall within the high regulatory standards associated with established market infrastructure should be unable to offer such products to institutional or retail investors. Often, there is a concern about the credibility and unauthorised activities associated with such unregulated platforms. In order to avoid unnecessary potential harm to investors, those who do not comply or fulfil the needs of MAS's regulatory criteria should be prohibited from offering or trading such products in the marketplace or at least restricted. An approach such as this will ensure that the additional processes, safeguards and extra investment required by our members, due to their systemic importance as central market infrastructure, is not undermined by unregulated

platforms freely offering the same services without having to make that investment or provide the right protections for the customer.