

19 November 2025



STAKEHOLDER LETTER

Re: Consultation Paper – "*Proposed Payment Services Act*"

The Bermuda Monetary Authority (Authority or BMA) would like to thank its stakeholders for their continued engagement and support in advancing the development of Bermuda's payments services regulatory framework.

On 29 August 2025, the Authority issued a Consultation Paper entitled *Proposed Payment Services Act* (CP). This followed an earlier Discussion Paper, entitled *Payment Services Provider Regulatory Framework*, which was issued in April 2025.

The CP proposed a new Payment Services Act (PSA) to replace the Money Service Business Act 2016, establishing a tiered, risk-based licensing framework and defining three distinct activity categories: Digital Facility Providers (DFPs), Payment-Handling Providers (PHPs) and Payment Technology Providers (PTPs). It also outlined a new regulatory perimeter, enhanced licensing and consumer-protection measures, and introduced the creation of an AI Payments Hub to support innovation and supervisory readiness.

The Authority received strong support from industry and stakeholders for the proposed framework, with respondents broadly welcoming the modernisation of Bermuda's payments regime and recognising the importance of a proportionate, innovation-enabling approach to regulation. The feedback reflected a high degree of alignment between the Authority's policy objectives and the expectations of market participants.

The Authority appreciates all the feedback received on the CP and is committed to ensuring that Bermuda's regulatory regime is effective, proportionate and aligned with international standards.

This letter summarises the key substantive feedback on the CP that the Authority received and the BMA's responses to these comments.

RESPONSE TO INDUSTRY FEEDBACK

I. Scope

Feedback Received:

Respondents broadly supported a functional, risk-based perimeter calibrated to the handling of customer funds and the roles in the payment chain. Many emphasised the importance of avoiding duplicative regulation for entities already licensed under the Digital Assets Business Act 2018 (DABA), proposing passporting/recognition or an integrated permission route. Several sought clearer exclusions for closed-loop systems and intra-group or internal payment services. Suggestions included using 'profit motive' as a perimeter indicator and creating a rebuttable presumption of out-of-scope for specified excluded sectors, with an appeals route.

Authority Response/Action:

The Authority has carefully considered all feedback received. It will maintain a functional perimeter designed to ensure clarity and coherence between the Payment Services Act (PSA) and DABA frameworks, while minimising unnecessary overlap.

Additionally, stablecoin issuers will be able to choose the appropriate licensing pathway either under the PSA or DABA, depending on the nature of their business model and activities. For entities already licensed under DABA, the issuance of stablecoins for which they are presently licensed will not require an additional PSA licence.

With respect to custody activities, the Authority clarifies the custody permitted under the Digital Facility Provider (DFP) category will be limited to the custody of the DFP's own stablecoins and will not extend to other stablecoins or unrelated digital assets.

The overarching objective of the PSA framework remains to modernise Bermuda's payments landscape through a cohesive and complementary regime that supports innovation in payment technologies while maintaining the jurisdiction's high prudential, conduct and anti-financial crime standards.

II. AI Payments Hub

Feedback Received:

Industry stakeholders strongly supported the creation of an AI Payments Hub (the Hub) as a pre-licensing collaborative environment to test AI-driven and programmable payment models, including DeFi-adjacent use cases. Priorities highlighted included dispute frameworks for irreversible transactions, standards for programmable payments, governance and authentication for AI agents, systemic-risk testing of smart contracts, data privacy, fairness/bias controls, human-in-the-loop safeguards, and cross-border interoperability (including chargeback-like protections for stablecoin transactions).

Authority Response/Action:

The BMA appreciates stakeholders' feedback and will incorporate the feedback received during the consultation for the implementation of the Hub. Its mandate will likely include testing protocols for AI and programmable payments, conducting supervised pilots, and sharing information with participants. In the spirit of continuous and responsible innovation, the Hub is also expected to explore dispute resolution and redressal models for on-chain payments. A call for participation, entry criteria, and an initial list of issues will follow.

III. Digital Facility Providers (DFPs)*Feedback Received:*

Respondents broadly supported a regulatory approach that places stablecoin issuance and issuer-controlled custodial wallets (for the entity's own stablecoins) within the PSA framework as payment-function instruments. Several stakeholders emphasised the importance of maintaining a level playing field between traditional and digital payment instruments that have similar risk profiles.

One stakeholder queried whether consolidating permissions under DABA might provide a more streamlined approach, noting potential inefficiencies in having similar activities regulated under different frameworks. Stakeholders observed that operating across both regimes could involve some complexity in compliance. Some respondents noted that additional guidance may help distinguish between various stablecoin purposes. Industry feedback also emphasised the importance of international alignment, particularly with emerging global standards for stablecoin regulation being developed by the Financial Stability Board and other international bodies.

Authority Response/Action:

The Authority has conducted a comprehensive risk assessment to determine the appropriate regulatory treatment of stablecoin issuance and related activities. Fiat-redeemable stablecoins present a distinct risk profile that aligns closely with traditional payment instruments, particularly in terms of redemption guarantees, reserve management and integration with conventional payment systems. This distinction reflects their functional role within payment systems and supports international regulatory practices. As part of this assessment, the Authority considered the suggestion to consolidate permissions under DABA. However, separating fiat-backed stablecoin activities from other token-issuance models more accurately accounts for their payment-centric characteristics and specific risks.

This notwithstanding, the Authority recognises both the number of stablecoin issuers currently licensed under the DABA regime and the high degree of integration between stablecoins and the broader digital asset markets. Accordingly, the Authority intends to provide, where appropriate, a pathway for such licensed entities to issue stablecoins under DABA without the need to obtain a separate licence under the PSA.

The PSA framework will minimise any overlap with DABA and ensure a seamless experience for DABA licensees. The Authority also confirms that custody of

third-party assets will remain regulated under DABA.

IV. Payment Handling Providers (PHPs)

Feedback Received:

The Authority has found general agreement among respondents with the PHP definition, centred on receiving and administering funds for onward transmission. Respondents were asked to refine the drafting to avoid implying "withdrawal-only" facilities and to emphasise onward transmission to distinguish PHPs from deposit-taking institutions.

Authority Response/Action:

The Authority has taken note of all the feedback received. The final definition of Payment Handling Provider (PHP) will be further refined in the Bill to ensure that the regime remains risk-based, proportionate and clearly delineated from activities already regulated under the DABA or other frameworks. To promote consistent interpretation and application, the Authority will also issue guidance in due course to provide additional clarity on the scope and expectations of the regime.

For reference, the proposed definition is as follows: "Payment Handling Provider" means a person or undertaking that receives or manages funds for the purpose of effecting payment transactions, including activities such as the transfer, execution or settlement of payments on behalf of users¹.

V. Payment Technology Providers (PTPs)

Feedback Received:

Stakeholders strongly supported a non-custodial, technology-focused category with express exclusions for decentralised infrastructure. Respondents requested that the framework focus on commercial entities exercising control or sufficient influence over the initiation, authorisation, routing, or processing of transactions. In addition, they suggested that AML obligations might not be necessary for non-custodial providers. Several proposed a self-classification tool and a path for progressive decentralisation that would allow licensees to step down as control diminishes.

Authority Response/Action:

Following extensive stakeholder feedback, the Authority has refined its regulatory approach to PTPs to more clearly reflect the intended scope of this category.

The Authority is proposing to update the definition previously included in the CP as follows: "payment technology provider" means a undertaking who provides technological services which exercise direct or indirect control over the initiation, authorisation or routing of a payment transaction, other than the sole provision of communication or messaging infrastructure.

¹ This definition is intended to remain high-level and is subject to further refinement during the legislative drafting process.

This updated definition is intended to:

- (i) clarify the exclusion of undertakings that solely provide technical or connectivity infrastructure without participating in the payment flow; and
- (ii) ensure continued coverage of entities that actively initiate, authorise or process payment transactions.

VI. Class F-PG licence

Feedback Received:

Stakeholders generally supported the introduction of a wholesale class with proportionate requirements tailored to institutional clients. They suggested that this licence class could feature modified retail conduct obligations, capital requirements calibrated to wholesale settlement exposures, and the recognition of comparable international standards. Respondents further requested clearly defined retail exclusions, published eligibility thresholds (such as minimum transaction sizes and client sophistication criteria), and the option either to apply directly for, or transition into, this class from the T/M categories.

Authority Response/Action:

The Authority has reviewed all feedback received and intends to introduce a distinct Class PG licence, which will be expressly restricted from conducting retail activity. This decision reflects the Authority's recognition that wholesale payment services present different risk profiles and therefore require a tailored regulatory approach that is distinct from retail-focused operations.

The licensing criteria will take into account the nature of wholesale activity and exposure levels, as well as conduct and disclosure standards that are appropriate for institutional market participants. To ensure clear delineation, Class PG will be established as a separate licence class, rather than a subcategory of the Class F licence.

The Authority does not consider it necessary or appropriate at this stage to prescribe quantitative thresholds to distinguish between wholesale and retail activity, as retail business will not be permitted under this licence. Fixed thresholds based on transaction value or client type may not accurately capture the underlying risk. This issue becomes particularly apparent in emerging payment technologies, such as AI-driven agents, algorithmic execution systems, and automated micro-payment frameworks, which may generate high-volume. These low-value transactions operate exclusively within a wholesale or institutional context.

Instead of rigid quantitative measures, the Authority will apply activity-based and customer-based-related criteria, focusing on the nature of client relationships, settlement arrangements and operational scale. This approach maintains regulatory clarity while ensuring retail users remain outside the permissible scope of Class PG operations.

Robust operational resilience and system integrity requirements will continue to apply, reflecting the potential systemic importance of wholesale payment flows.

Entities may apply directly for this licence class or transition into it from the T/M classes as their business models evolve, supporting scalable growth within Bermuda's payment ecosystem.

This framework demonstrates the Authority's commitment to proportionate, risk-based regulation that recognises the sophisticated risk management capabilities of institutional participants while safeguarding financial system stability.

VII. Class F-R licence

Feedback Received:

Stakeholders strongly supported an F-R class to facilitate cross-border operations where home-state standards are equivalent. Respondents requested transparent criteria for designating reciprocal jurisdictions, particularly regarding reserve composition and assurance for fiat-redeemable stablecoins, AML/ATF requirements and prudential and operational resilience. Respondents also encouraged the development of broader reciprocity tools across both the PSA and DABA frameworks, which are supported by MOUs and data sharing. Some stakeholders asked whether reciprocity should be extended across multiple classes rather than a subset.

Authority Response/Action:

To ensure clear delineation, the Authority intends to establish Class R as a separate licence class, rather than a subcategory of the Class F licence. As this regime involves collaboration with other jurisdictions, the Authority will consider reciprocity arrangements to promote clarity, consistency and regulatory alignment across comparable frameworks. Detailed parameters will be published once these arrangements are finalised, ensuring the framework supports Bermuda's role as a well-regulated and globally connected jurisdiction.

VIII. Next steps

The Authority will now proceed with the next steps associated with introducing the PSA, including the development of supporting regulatory instruments necessary to operationalise the new payments framework. This will include the preparation and publication of Codes of Practice, Rules and Guidance Notes to provide clarity on supervisory expectations, licensing requirements and ongoing compliance obligations. The Authority will communicate further details on the timing and consultation process for these materials in due course.

Sincerely,

Bermuda Monetary Authority