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Secretariat  
International Organization of Securities Commissions  
Calle de Oquendo 12  
28006 Madrid  
Spain

Email: [cryptoassetsconsultation@iosco.org](mailto:cryptoassetsconsultation@iosco.org)

Dear Sir or Madam,

Ripple Labs Inc. ("Ripple") welcomes the opportunity to comment on the consultation report on the Policy Recommendations for Crypto and Digital Asset Markets<sup>1</sup> the ("Consultation Report") published by the International Organization of Securities Commissions ("IOSCO") on May 23, 2023.

Ripple would like to thank IOSCO for the in-depth and comprehensive analysis that has been undertaken in drafting the Consultation Report, as well as the opportunity to provide our comments. We respectfully request you take them into consideration as you consider the policy direction and scope of intended regulation for crypto and digital asset markets. We welcome the opportunity for further engagement with IOSCO on the Consultation Report, and any other related consultations as may be appropriate.

Ripple is also appreciative of IOSCO coordinating with other international standard-setting bodies ("SSBs") to develop a comprehensive and coordinated regulatory framework proposal for the crypto-asset ecosystem.<sup>2</sup> Ripple has also provided feedback<sup>3</sup> on the two consultative documents published by the Basel Committee on Banking Supervision ("BCBS") - the prudential treatment of crypto-asset

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<sup>1</sup> See <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD734.pdf>, Consultation Report on Policy Recommendations for Crypto and Digital Asset Markets.

<sup>2</sup> The terms digital asset, virtual currency, cryptocurrency, crypto-asset and others are used interchangeably in the marketplace. For the purposes of this letter, Ripple adopts the terminology and related definitions used by the IOSCO in the Consultation Report.

<sup>3</sup> See [https://www.bis.org/bcbs/publ/comments/d519/ripple\\_labs.pdf](https://www.bis.org/bcbs/publ/comments/d519/ripple_labs.pdf) & <https://www.bis.org/bcbs/publ/comments/d533/ripple.pdf>, Ripple responses to the BCBS consultative documents.

exposures published on 10 June, 2021<sup>4</sup> and prudential treatment of crypto-asset exposures - second consultation published on 30 June, 2022.<sup>5</sup> Ripple also provided feedback<sup>6</sup> on the International Regulation of Crypto-asset Activities: A proposed framework - questions for consultation<sup>7</sup> and the related consultative document on Regulation, Supervision and Oversight of Crypto-asset Activities and Markets<sup>8</sup> (collectively, the “FSB Consultation Papers”) published by the Financial Stability Board (“FSB”) on October 11, 2022. We request that IOSCO also consider these responses when coordinating with other SSBs.

## **I. Introduction**

Ripple’s software products allow financial institutions to send money globally, on a real-time basis, at a fraction of the cost of traditional services available to market participants. Using blockchain technology, Ripple allows financial institutions to process payments instantly, reliably, cost-effectively, and with end-to-end visibility anywhere in the world.

Ripple’s aim is not to replace fiat currencies, but rather to enable a faster, less expensive, and more transparent method of making cross-border payments that is in the public’s best interest.

## **II. Cross-border Payments using RippleNet & ODL**

Ripple believes that blockchain technology demonstrates the potential to transform many sectors of the economy, including in cross-border payments. However, we also believe that for any technology, success is based on its use cases and ability to solve real-world problems.

Cross-border payments are costly, full of friction and slow. Much of this friction is the result of the dated processes followed in cross-border payments, until now the domain of incumbent banks (referred to as correspondent banks). A definition cited by the Bank for International Settlements defines correspondent banking as *“the provision of current or other liability account and related services to other financial institutions (including affiliates), used for the execution of third-party payments and trade finance as well as its*

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<sup>4</sup> See <https://www.bis.org/bcbs/publ/d519.pdf>, Consultative Document - Prudential treatment of cryptoasset exposures.

<sup>5</sup> See <https://www.bis.org/bcbs/publ/d533.pdf>, Consultative Document - Second consultation on the prudential treatment of cryptoasset exposures.

<sup>6</sup> See <https://www.fsb.org/wp-content/uploads/Ripple.pdf>, Ripple response to the FSB Consultation Papers.

<sup>7</sup> See <https://www.fsb.org/wp-content/uploads/P111022-2.pdf>, International Regulation of Crypto-asset Activities: A proposed framework – questions for consultation.

<sup>8</sup> See <https://www.fsb.org/wp-content/uploads/P111022-3.pdf>, Regulation, Supervision and Oversight of Crypto-asset Activities and Markets: Consultative document.

own cash clearing, liquidity management, short-term borrowing and investment needs in a particular currency.”<sup>9</sup>

As this definition highlights, banks use correspondent relationships - a network of bilateral accounts-based relationships - spread across the world to process payments. Although widely proliferated, the market structure of correspondent-banking injects significant friction, delays, and costs in processing payments for the respondent banks, primarily due to the need to prefund accounts.<sup>10</sup>

RippleNet, the cross-border payments solution offered by Ripple, connects hundreds of financial institutions around the world via a single application programming interface (“API”) which makes transferring money faster, cheaper, and more reliable. It also helps to reduce, and even eliminate, the need to prefund accounts with On-Demand Liquidity (“ODL”), a service that uses the digital asset XRP to source liquidity during cross-border transactions as an alternative to traditional funding mechanisms. RippleNet customers can use XRP to bridge two currencies in a matter of minutes, ensuring payments are quickly sent and received in local currency on either side of a transaction. The broad ODL flow is outlined in Figure 1 below.

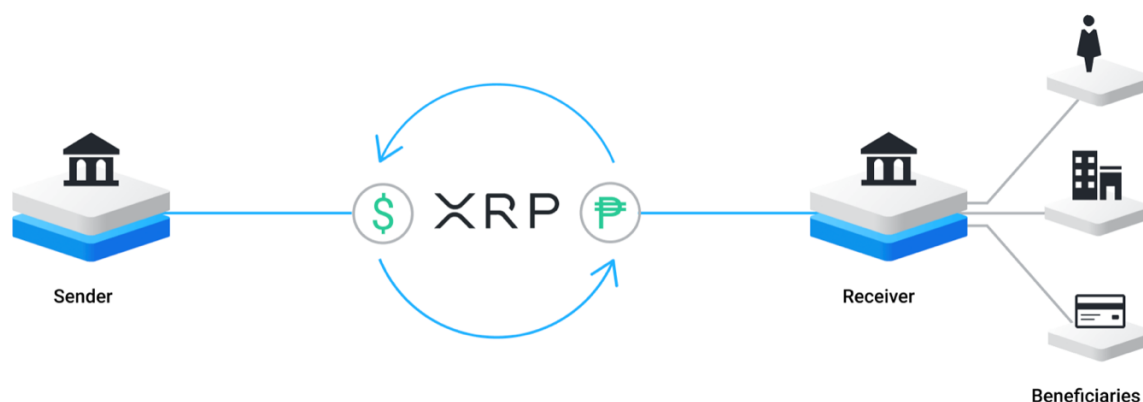


Figure 1: ODL Flow

Digital assets issued on blockchains that serve the same end-use as the incumbent correspondent banking model can offer a compelling alternative for end-users while still being compliant with anti-money laundering (“AML”) and countering the financing of terrorism (“CFT”) requirements. Global multilateral bodies have also recognized the potential digital assets and blockchain technology have in facilitating faster cross-border payments.<sup>11</sup>

<sup>9</sup> See <https://www.bis.org/cpmi/publ/d147.pdf>, Committee on Payments and Market Infrastructures – Correspondent Banking.

<sup>10</sup> See [https://www.bis.org/publ/qtrpdf/r\\_qt2003f.pdf](https://www.bis.org/publ/qtrpdf/r_qt2003f.pdf), BIS Quarterly Review March 2020, page 31.

<sup>11</sup> See <https://blogs.worldbank.org/psd/paying-across-borders-can-distributed-ledgers-bring-us-closer-together>, World Bank blog.

Although Ripple utilizes XRP and the XRP Ledger in its product offerings, XRP is independent of Ripple. The XRP Ledger is decentralized, open-source, and operates on what is known as a “consensus” protocol. While there are well over a hundred known use cases for XRP and the XRP Ledger, Ripple leverages XRP for use in its product suite because of XRP’s suitability for cross-border payments. Key characteristics of XRP include speed, scalability, energy efficiency, and cost efficiency - all of which benefits the consumer and helps reduce friction in the market for cross-border payments.

### **III. General comments and policy considerations**

We respectfully submit that any regulatory framework for crypto-assets should encourage responsible innovation by service providers and intermediaries while also ensuring appropriate risk management. In doing so, IOSCO will not only promote the strengthened operational resilience of the crypto-asset ecosystem and markets, but also transform the way crypto-asset services are provided. This will ultimately benefit both industry and end-users, and encourage investment in new technologies and innovation.

We therefore believe it is imperative that IOSCO take into account the following guiding principles when supporting jurisdictions around the world as they develop regulatory frameworks for crypto-assets. Taken together, these principles will support an international regulatory framework that encourages the potential of blockchain and crypto-asset technology, while also establishing important consumer and market protections that ensure global alignment, preserve financial stability, and reduce the risk of regulatory arbitrage.

#### ***Principle 1 - Adopt a globally consistent taxonomy***

It is important to note that there is no single or generally recognised definition of crypto-assets at present. Ripple respectfully submits such assets should not be solely defined relative to a specific technology (e.g., cryptography), but, for the purposes of regulation, should instead fall under a broader heading such as “digital assets”, and subsequently classified depending on the particular economic function and purpose they serve.

Such an approach is consistent with that taken by other jurisdictions like the United Kingdom (“UK”)<sup>12</sup> and Singapore<sup>13</sup>, which have issued classifications that do not depend on whether a business model uses distributed ledger technology or not, but rather on the inherent characteristics of a token and the rights that attach to it.

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<sup>12</sup> See <https://www.fca.org.uk/publication/policy/ps19-22.pdf>, Guidance on Cryptoassets: Feedback and Final Guidance to CP 19/3.

<sup>13</sup> See <https://sso.agc.gov.sg/Acts-Supp/2-2019/Published/20190220?DocDate=20190220>, Republic of Singapore Payment Services Act 2019.

Therefore, we respectfully request that IOSCO consider adopting a globally consistent taxonomy for crypto-assets to provide clarity as to the legal character of such assets. Additionally, Ripple recommends that there be a clear distinction between payment tokens, utility tokens, and security tokens, as outlined below:

- *Payments or Exchange tokens*: to describe non-fiat native digital assets that are used as means of exchange and have no rights that may be enforced against any issuer;
- *Utility tokens*: to describe those digital assets that create access rights for availing service or a network, usually offered through a blockchain platform; and
- *Security tokens*: to describe tokens that create rights mirroring those associated with traditional securities like shares, debentures, security-based derivatives, and collective investment schemes.

### ***Principle 2 - Implement a risk-sensitive regulatory framework***

We are supportive of IOSCO's approach of applying principles-based and outcomes-focused standards based on the activities performed by crypto-asset service providers ("CASPs"), and the intent to promote greater consistency with respect to how IOSCO members approach the regulation and oversight of crypto-asset activities, given the cross-border nature of the markets, the risks of regulatory arbitrage, and consumer protection risks they pose (or potentially pose), in line with the principle of "same activity, same risk, same regulation".<sup>14</sup> However, we recommend that any regulatory framework should also align with the following principles to be truly risk-sensitive:

- The regulatory framework should be **technology-agnostic**, and should not explicitly or otherwise endorse any particular technology. In practical terms, this means that financial services using crypto-assets as a solution should not be treated differently from financial services embedding legacy architectures, and there should be parity in the treatment of all technology;
- Given the dynamic nature of crypto-assets, prescriptive regulation risks obsolescence. Prescriptive regulation could also have the unintended consequence of hindering innovation and unwittingly increasing financial stability risk through 'business-model herding'.<sup>15</sup> Therefore, we support IOSCO's intent to formulate a **principles-based** regulatory framework that is drafted in a way to steer market participants to specific regulatory and policy objectives while maximizing flexibility and breadth of application; and
- The regulatory framework should use a **risk-based** approach to identify crypto-asset services that pose sufficient risk to warrant regulation. A simple, and

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<sup>14</sup> Referred to as "same activity, same risk and same regulatory outcome" in the Consultation Report. See Consultation Report, Chapter 3, Page 19.

<sup>15</sup> That is, the implicit market bias towards certain business models due to the regulatory requirements attached to given financial activities rather than to the behaviour of the market and fundamentals. This can reduce financial stability by undermining actor diversity and hence overall resilience within a financial system.

obvious initial distinction in risk-profile should be between crypto-asset intermediaries that provide services to consumers (B2C) and those that only provide enterprise services to businesses (B2B).<sup>16</sup>

The recommended regulatory framework, as proposed above, should be forward-looking and flexible while providing regulatory certainty and consumer safeguards, and at the same time meet the policy goals of encouraging innovation and growth of crypto-assets.

### ***Principle 3 - Foster innovation sandboxes***

Innovation sandboxes for market participants to test new and innovative products, services and business models with end-users in a controlled environment while being subject to regulatory oversight have been set up in multiple jurisdictions.<sup>17</sup> However, while some regulators have set up successful sandboxes, many regulators currently do not offer any opportunity for such experimentation. This could lead to a potential divergence between jurisdictions in their expertise of supporting the crypto-asset sector with the likelihood of regulatory fragmentation, and potentially even regulatory arbitrage, arising.

In order to incentivise innovation and inform the development of clear and consistent regulatory frameworks for crypto-assets, we believe innovation sandboxes should be encouraged by IOSCO, at the very least for specific use cases such as cross-border payments. For example, the BIS Innovation Hub leads a number of cross-institutional projects on some of these issues and it will be important that IOSCO members support the effective dissemination of conclusions and experience gained from them more widely around international jurisdictions.

However, it is important to note that innovation sandboxes will only be useful if there are clear entry and exit criteria defined, as well as parameters to measure the success of the sandbox.

### ***Principle 4 - Encourage public-private collaboration***

Any policy framework intended to regulate crypto-assets should promote an active dialogue between regulators and market participants. Such public-private collaboration will lead to more appropriate and effective policy outcomes for the industry and consumers alike.

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<sup>16</sup> Regulation has often drawn distinctions between B2B and B2C business models given the inherent differences between retail consumers and more sophisticated market actors. Examples include but are not limited to the European Union's Second Payment Services Directive and Markets in Financial Instruments Directive.

<sup>17</sup> Some examples for reference are the FCA Innovation Hub Regulatory Sandbox, <https://www.fca.org.uk/firms/innovation/regulatory-sandbox>, and the MAS FinTech Regulatory Sandbox, <https://www.mas.gov.sg/development/fintech/regulatory-sandbox>.

A collaborative forum that brings regulators and industry stakeholders together to build a rational and holistic framework for blockchain and crypto-assets would represent a substantial step forward toward achieving regulatory clarity. We believe these conversations should be taking place at a national level, and IOSCO would be a natural host for an international-level discussion so that common problems faced by IOSCO members, industry, and policymakers around the world can be addressed openly together. This will be the best guarantee of a shared understanding of the benefits, risks and public policy goals of the crypto-asset sector globally.

We welcome the opportunity to provide feedback to the IOSCO on the Consultation Report, and recognise this is an important step towards public-private collaboration. We support IOSCO coordinating further engagement with global SSBs and regulators.

***Principle 5 - Ensure global consistency and comparability***

Lastly, given the cross-border nature of crypto-asset markets, Ripple supports having minimum global standards, supported by cross-border cooperation and information sharing across jurisdictions, to help ensure an approach that is consistent and comparable. Ripple is supportive of IOSCO's approach of ensuring optimal consistency in the way crypto-asset markets are regulated within individual IOSCO jurisdictions, and ensuring the need for enhanced cooperation among regulators.<sup>18</sup>

However, Ripple posits that a framework that also supports mutual recognition of licenses across jurisdictions could also lead to a level playing field globally, thereby supporting the sustainable growth and development of the crypto-assets ecosystem. Enabling greater mutual recognition would be a natural benefit of adopting common minimum international standards.

Such mutual recognition decisions exist for traditional financial institutions and infrastructures, which can be used as a template for CASPs. Many of the regulatory and supervisory institutions for CASPs would be the same as those for the traditional financial sector, including IOSCO members, which should foster trust and ease communication between jurisdictions.

However, Ripple would like to highlight that in making such a determination, a principles-based approach should be followed (in line with Principle 2 noted above). An overly prescriptive process for a mutual recognition determination could disincentivize global firms from exploring this option.

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<sup>18</sup> See Consultation Report, Chapter 6, Page 29.

With this overview, Ripple respectfully submits the following feedback on the questions for consultation in the Appendix.

Ripple appreciates the opportunity to provide feedback on the Consultation Report as you study these important issues, and we would encourage and support further dialogue with all stakeholders. Should you wish to discuss any of the points raised in this letter, please do not hesitate to contact Rahul Advani (Policy Director, APAC) at [radvani@ripple.com](mailto:radvani@ripple.com) and Andrew Whitworth (Policy Director, EMEA) at [awhitworth@ripple.com](mailto:awhitworth@ripple.com).

Sincerely,

Ripple Labs Inc.



## APPENDIX

Ripple respectfully submits the following feedback to the questions set forth in Chapter 1, Chapter 6, Chapter 10, and Additional Issues in the Consultation Report.

### Chapter 1 - Overarching Recommendation Addressed to All Regulators

**Question 1: Are there other activities and/or services in the crypto-asset markets which Recommendation 1 should cover? If so, please explain.**

As set out in Section III of this submission (General comments and policy considerations), Ripple believes the IOSCO recommendations should be overarching and comprehensive principles that apply to all types of crypto-asset activity. This principles-based framework should then allow for the differentiated treatment of a crypto-asset according to its token classification and risk-profile (e.g., if it is marketed to consumers, if it could impact financial stability). In this way both stablecoins and other crypto-assets would be treated appropriately for the potential risks they pose but within a single overarching-framework. This would encourage certainty among market participants as to their regulatory treatment, as well as enhance coordination globally.

But it is not the case that certain crypto-activities demand *additional* requirements so much as *all* crypto-activities require *tailored* requirements for the potential risks they pose and based on a token's inherent characteristics, within a comprehensive principles-based framework.

Ripple firmly believes that the best guarantee against potential risks to financial stability arising from crypto-asset activity is the implementation of comprehensive and coordinated risk-sensitive regulatory frameworks in all jurisdictions. This will ensure mitigation of potential risk domestically while reducing the likelihood of regulatory arbitrage internationally. The IOSCO recommendations are a welcome step to reaching this outcome.

However, as explained in Principles 1 and 2 of Section III of this submission (General comments and policy considerations), Ripple believes that there are two fundamental elements to a sufficient regulatory regime:

1. The granular categorisation of crypto-assets based on their inherent characteristics. This should be standardised across jurisdictions as much as possible. Ripple proposes three categories of crypto-asset: payment/exchange tokens, utility tokens, and security tokens to align with the economic function and purpose served by these assets respectively.
2. The implementation of a risk-sensitive regulatory framework based on the principles of 'same activity, same risk, same regulation' and technology-agnosticism. This means regulation should focus on the potential

risk of the activity to financial stability and consumer protection, making no inherent distinction between traditional finance and financial activities enabled by crypto-assets. Additionally, a core distinction should be made between the risk profiles of customer-facing businesses (B2C) and businesses that only provide services to other businesses (B2B).

The remainder of our principles support these two fundamental elements: the introduction of sandboxes to encourage regulatory innovation; private-public dialogue to foster responsible market innovation; and global consistency to mitigate against regulatory fragmentation and arbitrage.

Therefore, we respectfully request that IOSCO consider adopting a globally consistent taxonomy for crypto-assets to provide clarity as to the legal character of such assets, with a clear distinction between payment tokens, utility tokens, and security tokens. This should be the first step, before determining which activities and/or services in the crypto-asset markets that Recommendation 1 should cover, and only then can IOSCO achieve the goal of more effective supervision, enforcement, and international cooperation of CASPs.

**Question 2: Do respondents agree that regulators should take an outcomes-focused approach (which may include economic outcomes and structures) when they consider applying existing regulatory frameworks to, or adopting new frameworks for, crypto-asset markets?**

Ripple is supportive of regulators taking an outcomes-focused approach when considering applying existing regulatory frameworks to, or adopting new frameworks for, crypto-asset markets.

However, we respectfully highlight that it is important that when assessing these outcomes that the focus be on the potential risks from the activity rather than the underlying technology, and that regulatory treatment be the same as the economically equivalent activity in the traditional financial system. The principle of 'same activity, same risk, same regulation' must be adhered to. Otherwise the regulation would be, in effect, addressing the underlying technology used and not the financial activity undertaken - which would violate the well-regarded principle of technology-neutrality and be unjustified by the potential risks of the activity. It would remove the level playing field, which could in itself lead to increased financial stability risks, unfairly favor legacy institutions, and decrease competition and innovation provided by new participants.

## **Chapter 6 - Recommendation on Cross-Border Cooperation**

**Question 13: Which measures, or combination of measures, would be the most effective in supporting cross-border cooperation amongst authorities? What other measures should be considered that can strengthen cross-border cooperation?**

Ripple is supportive of the measures outlined in Chapter 6 of the Consultation Report which support cross-border cooperation and information sharing arrangements amongst authorities. Ripple firmly believes that authorities should rely on existing cooperation and information sharing arrangements where such arrangements exist, and new arrangements should be considered where they do not. The goal of such arrangements should be to share information on adverse situations and enforcement actions against non-compliance in a timely manner.

However, Ripple would like to reiterate our position from Principle 5 of Section III of this submission (General comments and policy considerations) that the best guarantor of international financial stability in the crypto-asset sector is aligned regulatory frameworks between jurisdictions, forming the basis for an increased level of mutual recognition between supervisors.

Ripple believes that such a mutual recognition framework would reduce the risk of regulatory arbitrage, and ensure single-supervision that can also reduce the risk of supervisory lapse and avoid a “race to the bottom”.

Additionally, while not directly addressed in Chapter 6, Ripple also believes that improved coordination between domestic supervisors in many jurisdictions would also benefit overall stability in the sector.

## **Chapter 10 - Box Text on Stablecoins**

**Question 21: Are there additional features of stablecoins which should be considered under Chapter 10? If so, please explain.**

Ripple does not believe that there are additional features of stablecoins which should be considered under Chapter 10.

However, as outlined in Principle 1 of Section III of this submission (General comments and policy considerations), we would like to reiterate the need for a taxonomy for crypto-assets based on their inherent characteristics. Doing so will mean that stablecoin issuers can be regulated based on the underlying characteristics of the stablecoin issued, which will provide clarity to the legal character of stablecoin and will facilitate the development of a risk-based regulatory approach to regulate stablecoins.

## **Additional Issues**

**Question 22: IOSCO also welcomes views from stakeholders on potential additional issues for consideration.**

Ripple appreciates the opportunity to provide feedback on the Consultation Report as IOSCO studies these important issues, and we would encourage and support further dialogue with all stakeholders before IOSCO's regulatory regime is introduced