

June 8, 2022



Monetary Authority of Singapore
10 Shenton Way, MAS Building
Singapore 079117

Email: AMLCFT_consult@mas.gov.sg

Submission made via: <https://form.gov.sg/63dc850ea35c340011efbf08>

Dear Sir or Madam,

Ripple Labs Inc. ("Ripple") welcomes the opportunity to comment on the consultation paper on the Proposed Amendments to Payment Services Regulations 2019, Notices issued under the Payment Services Act 2019 or MAS Act, and Proposed New Regulations on Exemptions for a Specified Period (the "Consultation") published by the Monetary Authority of Singapore ("MAS") on May 8, 2023.¹

Ripple would like to thank the MAS for the in-depth and comprehensive analysis that has been undertaken in drafting the Consultation, 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 the proposed amendments to the relevant regulations and notices in Singapore. We welcome the opportunity for further engagement with the MAS on the Consultation, and any other related consultation papers as may be appropriate.

I. Introduction

Using blockchain technology, Ripple allows financial institutions to process payments instantly, reliably, cost-effectively, and with end-to-end visibility anywhere in the world. Our customers are financial institutions that want tools to effect faster and less costly cross-border payments, as well as eliminate the uncertainty and risk historically involved in moving money across borders using interbank messaging alone.

¹ See

<https://www.mas.gov.sg/-/media/mas-media-library/publications/consultations/amld/2023/consultation-paper-on-proposed-amendments-to-payment-services-regulations-2019-notices-issued-under.pdf>,

Consultation Paper on the Proposed Amendments to Payment Services Regulations 2019, Notices issued under the Payment Services Act 2019 or MAS Act, and Proposed New Regulations on Exemptions for a Specified Period.

Some customers, in addition to deploying Ripple’s blockchain solution RippleNet, leverage the digital asset known as XRP for an On-Demand Liquidity (“ODL”) capability. Just as Bitcoin is the native asset to the open-source Bitcoin ledger, and Ethereum is the native asset to the open-source Ethereum ledger, XRP is the native asset to the open-source XRP Ledger. XRP, given its unique design, can serve as a near instantaneous bridge between fiat currencies (or any two representations of value), further reducing the friction and costs for commercial financial institutions to transact across multiple global markets.

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.

We would also like to highlight that XRP satisfies the definition of a DPT under the Payment Services Act, 2019 (“PS Act”),² and XRP is also explicitly referenced as a DPT in the MAS Guidelines on Licensing for Payment Service Providers.³

Additionally, Ripple’s Singapore subsidiary is currently seeking a major payments institution license (“MPI”) for DPT services with the MAS, and is operating under a license exemption under the Payment Services (Exemption for Specified Period) Regulations 2019 (“2019 Exemption Regulations”) while that application is pending.⁴

It is also important to note that Ripple only provides DPT services at the enterprise level and we do not have any retail customers.

II. General comments and policy considerations

Ripple is supportive of MAS’ policy intent of developing an innovative and responsible digital asset ecosystem in Singapore, and to ensure a more comprehensive set of regulatory measures to reduce the risk of consumer harm in Singapore.

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

³ See <https://www.mas.gov.sg/-/media/MAS/Sectors/Guidance/Guidelines-on-Licensing-for-Payment-Service-Providers.pdf>, MAS Guidelines on Licensing for Payment Service Providers. XRP is mistakenly referred to as “Ripple” here.

⁴ See <https://www.mas.gov.sg/regulation/payments/entities-that-have-notified-mas-pursuant-to-the-ps-esp-r>, Entities that have notified MAS pursuant to the Payment Services (Exemption for Specified Period) Regulations 2019.

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

To this end, Ripple is supportive of the requirements under the Payment Services (Amendment) Act (“PSAA”),⁵ and MAS’ intent to expand the scope of DPT services under the PS Act to align with the recommendations adopted by the Financial Action Task Force (“FATF”),⁶ in order to adopt a risk-focused approach to regulating the digital asset ecosystem in Singapore. We respectfully request that MAS’ approach should follow the principle of “same risk, same activity, same treatment”, and that any regulatory measures should be technology neutral. Lastly, given the cross-border nature of DPT markets, Ripple supports having minimum global standards, supported by coordination across jurisdictions, to help ensure an approach that is consistent and comparable.

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

Ripple appreciates the opportunity to provide feedback on the Consultation 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.

Sincerely,

Ripple Labs Inc.

⁵ See <https://sso.agc.gov.sg/Acts-Supp/1-2021/Published/20210301?DocDate=20210301>, Payment Services (Amendment) Act 2021.

⁶ See <https://www.fatf-gafi.org/content/dam/fatf-gafi/recommendations/FATF%20Recommendations%202012.pdf.coredownload.inline.pdf>, The FATF Recommendations.

APPENDIX

Ripple respectfully submits the following feedback to the questions set forth in the Consultation.

Question 1: MAS seeks comments on the exemption proposed and whether the scope of the exemption is suitable for both the affected MPIs and foreign persons. MAS also seeks views on whether other amendments to the PSR are necessary to provide for the newly scoped-in payment services. Please be specific in the proposed amendment and corresponding rationale, if any.

Ripple understands that MAS' proposals in the Consultation are to extend the exemption from safeguarding requirements under section 23 of the PS Act to MPI's where a cross-border money transfer service has no strong nexus to Singapore in respect of relevant moneys which they receive when arranging for the transmission of money from any country or territory to another country or territory (whether as principal or agent). The conditions for this exemption are that both the payer and payee are foreign persons, and the relevant money is not accepted or received by the MPI in Singapore (in line with the current approach of not requiring MPIs to safeguard funds of foreign persons to whom they provide merchant acquisition services and e-money issuance services).

However, Ripple would be grateful for clarification from MAS with regards to the conditions for the exemption that both payer and payee are foreign persons, and the relevant money is not accepted or received by the MPI in Singapore. We would respectfully request a clarification on whether safeguarding requirements would apply in the situation where a contract is executed with (and/or by) a Singapore entity, but the relevant monies are accepted or received by the MPI outside of Singapore. Would the exemption from safeguarding requirements under section 23 of the PS Act apply in such a scenario?

Question 2: MAS seeks comments on the revised scope of application of PSN01 and PSN02 to:

- a. **apply the same AML/CFT requirements in these Notices to all newly scoped-in payment services; and**
 - b. **apply wire transfer obligations to the service of arranging for the cross-border wire transfer of funds under PSN01, and to apply value transfer obligations to the service of arranging for the value transfer of one or more DPTs under PSN02.**
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- a. Ripple has no comments on this question
 - b. Ripple understands that MAS' proposal in the consultation is to extend the scope of PSN02 to the newly scoped-in payment services. Ripple would like to highlight here that there are business models in the ecosystem that differ from traditional payment service models and which may potentially be captured under the newly

scoped-in services. Such models may not be involved in the transactional leg of the activity. Therefore, we respectfully request MAS to reconsider extending the value transfer obligations to such newly scoped-in payment services, as these requirements could be financially and operationally onerous for such entities.

Question 3: MAS seeks comments on the proposed introduction of requirements in respect of (a) group-wide AML/CFT measures in PSN01 and PSN02; and (b) agency requirements in PSN02.

Ripple has no comments on this question.

Question 4: MAS seeks comments on the proposed introduction of an exclusion in PSN01 for wire transfers that flows from a transaction carried out using a charge card, credit card, debit card, prepaid card, or electronic wallet for the purchase of goods or services, with the exclusion only applicable where both the charge card, credit card, debit card, prepaid card or electronic wallet number and the name of the issuer of such charge card, credit card, debit card, prepaid card or electronic wallet, accompany the transfers.

Ripple has no comments on this question.

Question 5: MAS seeks comments on the amendments to PSN04, in particular the reporting requirements relating to the newly scoped-in payment services, as well as the additional breakdowns and reporting on exposure to anonymity-enhancing technologies. MAS also seeks comments on the transition period for PSN04.

For the purposes of reporting transactions in 6(c) and 6(d),⁷ we understand that MAS' proposal in the Consultation is to collect statistics in the following scenarios:

1. *Scenario 1:* transactions where the DPTs were directly sent to or received from DPT wallet addresses on which anonymity-enhancing technologies are applied; and
2. *Scenario 2:* transactions where DPTs were indirectly sent to or received from DPT wallet addresses on which anonymity-enhancing technologies are applied through more than one hop, which the licensee has determined to present a higher risk of money laundering or terrorism financing.

Ripple respectfully requests MAS reconsider reporting requirements for Scenario 2, or alternately prescribe monitoring and reporting thresholds, as wallets on certain blockchains are vulnerable to "dusting attacks"⁸ where miniscule amounts of DPTs known as "crypto dust" (usually of zero or de minimis value) are sent to multiple wallet

⁷ See

<https://www.mas.gov.sg/-/media/mas-media-library/publications/consultations/amld/2023/annex-e--not-ice-psn04.pdf>, Annex E Notice PSN04, Page 52.

⁸ See <https://cointelegraph.com/explained/what-is-a-crypto-dusting-attack-and-how-do-you-avoid-it>, Cointelegraph, What is a crypto dusting attack, and how do you avoid it?

addresses with malicious intent. Monitoring such transactions will be highly onerous from an operational perspective, and is unlikely to provide any useful information required to augment surveillance of the payments services sector.

Question 6: MAS seeks comments on the amendments to PSN07 and PSN08. MAS also seeks comments on the proposed amendment to PSN07 for money transmission requirement to accord more flexibility to licensees dealing with corporate customers and whether this should be restricted to corporate customers. In addition, MAS seeks comments on the proposed enhancements to the risk disclosure statements under PSN08 to better inform customers of the unregulated status of certain services provided by licensed DPT service providers.

Ripple has no comments on this question.

Question 7: MAS seeks comments on the timeline for the transitional arrangements for the entities that need to hold or vary a PS Act license arising from the broadened scope of cross-border money transfer service, domestic money transfer service and DPT service.

Given the extended scope of activities to be covered under the PS Act, beyond the services of dealing in DPTs and facilitating the exchange of DPTs, Ripple respectfully requests that MAS consider granting a transitional exemption period of twelve months, instead of the transitional exemption of six months proposed in the Consultation. This is to ensure that entities that need to prepare and apply for the licence, or variation of their licence under the PS Act, have sufficient time to determine the impact of the extended scope of activities under the PS Act on their activities.

Ripple believes that a twelve month transition is especially needed as MAS has proposed additional requirements on applicants in the Consultation, in order to obtain assurances that affected persons will be able to satisfy obligations as licensees under the PS Act. As the MAS requires the services of an external auditor to conduct an audit on the controls addressing key risk areas, as well as the services of an independent third party to assess and confirm the adequacy of compliance policies and procedures to meet obligations under the PS Act, we respectfully believe that a twelve month transitional exemption is appropriate. This will also allow applicants sufficient time to determine the impact of the expanded scope of DPT services, and to implement and operationalise corresponding requirements if needed.

Question 8: MAS seeks views on the imposition of additional requirements to accompany application forms submitted by affected persons.

Ripple respectfully requests MAS to clarify if the additional requirements outlined in the Consultation, namely the services of an external auditor to conduct an audit on the controls addressing key risk areas as well as the services of an independent third party

to assess and confirm the adequacy of compliance policies and procedures to meet obligations under the PS Act, will lead to a more streamlined licensing process and a faster review of license applications. While we recognise that such audits and assessments may be a necessary cost of doing business, we also believe that favourable results should lead to a faster, more streamlined licensed process. However, it is unclear from the Consultation what impact the audit and assessment results will have on the timelines for application review and the ultimate license decision.

Ripple would also like to highlight that a large number of entities operating under the 2019 Exemption Regulations have been waiting since as early as 2020 for a license under the PS Act. It is also unclear if such exempt entities will be prioritised for license applications, or if exempt entities under the New Payment Services (Exemption for Specified Period) Regulations 2023 (“2023 Exemption Regulations”) will be prioritised (in part, due to the imposition of the additional requirements). Therefore, Ripple respectfully requests that MAS clarify how applications for exempt entities under the 2019 Exemption Regulations and 2023 Exemption Regulations will be prioritised.