

December 21, 2022



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

Email: payment_services@mas.gov.sg

Dear Sir or Madam,

Ripple Labs Inc. ("Ripple") welcomes the opportunity to comment on the consultation paper on the Proposed Regulatory Approach for Stablecoin-Related Activities (the "Consultation") published by the Monetary Authority of Singapore ("MAS") on October 26, 2022.¹

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 regulatory measures for stablecoin-related activities 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.

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

¹ See https://www.mas.gov.sg/-/media/MAS-Media-Library/publications/consultations/PD/2022/Consultation-on-stablecoin-regulatory-approach_PUBLISHED.pdf, Consultation Paper on the Proposed Regulatory Approach for Stablecoin-Related Activities.

native asset to the open-source Ethereum ledger, XRP is the native asset to the open-source XRP Ledger (“XRPL”). 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 XRPL in its product offerings, XRP is independent of Ripple. The XRPL 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 Digital Payment Token (“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 a DPT service provider (“DPTSP”) currently seeking a major payments institution license (“MPI”) for DPT services with the MAS, and is operating under a license exemption 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. Interoperability

Ripple believes that interoperability - achieved through alignment of national payment protocols and adoption of international standard protocols - will ultimately be core to the successful adoption of stablecoins.

Ripple itself applies protocols to drive the efficient globalization of value through multiple initiatives with financial services and open-source communities. RippleNet, our enterprise software solution which is powered by a standardized application programming interface (“API”) and built on the market-leading and open standard

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.

Interledger Protocol, enables financial institutions to facilitate faster and less costly cross-border payments. RippleNet demonstrates that deep interoperability between commercial financial institutions can make payments truly efficient, particularly in eliminating the uncertainty and risk historically involved in moving money across borders using interbank messaging alone.

Protocols used by global, cross-border payment networks and decentralized tools that support them should be considered and supported by the MAS. Embracing the capabilities of these global networks, and better enabling domestic institutions to connect their individual capabilities with other systems and markets, will enable optimized outcomes as well as fulfil the potential that globalization of value holds.

III. Issuing stablecoins on the XRPL

In addition to XRP, the XRPL can also be used to support the issuance of stablecoins through a unique, fungible token functionality called Issued Currencies.⁵ Issued Currencies is designed to be the ideal stablecoin platform, providing simple but rich management functionality for the issuer that makes it easy to create, issue and manage any asset - including stablecoins.

The XRPL has an integrated decentralized exchange (“DEX”) that allows neutral, counterparty-free digital assets like XRP to be seamlessly exchanged to and from “issued assets,” including stablecoins. Among the unique features of the DEX is its payment interoperability, which enables payments among those holding and receiving issued assets to minimize costs and work seamlessly when sufficient liquidity is available.

While digital assets like XRP and stablecoins can be used to settle payments, stablecoins have an issuer as the counterparty that does not allow them to interoperate across payment networks. XRP, on the other hand, can be sent directly without needing a central intermediary - making it best-suited to bridge two different currencies quickly and efficiently.

In terms of initiatives in this space, Ripple announced a partnership with the Republic of Palau on November 23, 2021 that has been focused on developing strategies for cross-border payments and a USD-backed digital currency for Palau.⁶ This could see the implementation of the world’s first government-backed national stablecoin.

Additionally, STASIS, an established leader in Euro-backed stablecoin production, announced on February 16, 2022 that it will issue the EURS stablecoin on the XRPL due

⁵ See <https://xrpl.org/issued-currencies-overview.html>, Issued Currencies Overview.

⁶ See <https://ripple.com/insights/featured/republic-of-palau-partners-with-ripple-to-develop-digital-currency-strategy/>, Republic of Palau Partners with Ripple to Develop Digital Currency Strategy.

to its scalability, speed, low cost and carbon neutrality.⁷ Most recently, Novatti, a leading Australian fintech, announced on June 9, 2022⁸ that it will issue the new AUDC stablecoin on the XRPL.

IV. General comments and policy considerations

We are supportive of the MAS' approach to apply effective regulation, supervision, and oversight to stablecoin arrangements and activities proportionate to the financial stability and consumer protection risks they pose (or potentially pose). We believe that this is in line with the principle of "same activity, same risk, same regulation". However, we recommend that the regulatory framework for stablecoin arrangements and activities 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 stablecoin arrangements as a solution should not be treated differently from financial services embedding other forms of regulated payments, and there should be parity in the treatment of all technology;
- Given the dynamic nature of the industry, we believe that 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'.⁹ Therefore, we recommend that the MAS consider 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 stablecoin arrangements that pose sufficient risk to warrant regulation. A simple, and obvious initial distinction in risk-profile should be between services that provide solutions to consumers (B2C) and those that only provide enterprise services to businesses (B2B).¹⁰

⁷ See <https://ripple.com/ripple-press/stasis-to-issue-euro-stablecoin-on-the-xrp-ledger/>, STASIS to Issue Euro Stablecoin on the XRP Ledger.

⁸ See

<https://novatti.com/wp-content/uploads/2022/06/Novatti-to-issue-Australian-Dollar-backed-stablecoin-on-XRP-Ledger.pdf>, Novatti to issue Australian Dollar-backed stablecoin (AUDC) on XRP Ledger, with partnership support from Ripple.

⁹ 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.

¹⁰ 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.

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 adoption of stablecoin arrangements in Singapore.

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.

APPENDIX

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

Question 1 - Scope of regulations

MAS seeks comments on the regulatory scope, particularly on whether the focus on SCS is adequate and whether there may be reasons for MAS to extend its regulatory powers to SCS issued outside of Singapore.

Ripple is supportive of MAS' intent to focus the regulatory regime initially on single-currency pegged stablecoins ("SCS") issued in Singapore. However, there is a possibility that as the market for SCS develops, SCS issued outside Singapore may become systemically important. Therefore, in line with the principle of 'same risk, same activity, same treatment' outlined in section IV of this response (General comments and policy considerations), we respectfully suggest that MAS adapt regulations where necessary to address any regulatory obstacles or challenges specific to stablecoin arrangements (including those issued outside of Singapore) whilst ensuring financial stability and the appropriate regulatory outcomes to support innovation are achieved.

Question 2 - Stablecoin issuance service

MAS seeks comments on whether it is sufficient to introduce an additional regulated payment service of stablecoin issuance, and whether there is a need to introduce any other regulated services specific to stablecoins.

Ripple is supportive of MAS' proposal to introduce a new regulated activity of 'Stablecoin Issuance Service' under the PS Act, and for all regulatory obligations to apply to such a regulated entity which is based in Singapore and performs the function of controlling the total supply of and minting and burning of SCS.

Question 3 - Treatment of bank and non-bank SCS issuers

MAS seeks comments on whether the regulatory approach for bank and non-bank SCS issuers is appropriate and achieves an equivalent regulatory outcome for SCS issued in Singapore to be able to maintain a high degree of value stability of SCS.

Ripple has no comments on this question.

Question 4 - Label for MAS-regulated SCS

MAS seeks comments on whether it is appropriate to have a single label for bank and non-bank issued SCS that MAS regulates. MAS also seeks views on the three options to label the SCS, and whether there are alternative terms that may be used to distinguish stablecoins that are regulated by MAS, from other types of stablecoins.

Ripple is supportive of the MAS' proposal to introduce a single label for SCS issued by banks and non-bank entities which are regulated for an SCS issuance service under the PS Act, and for intermediaries to also use the same term in their disclosures where they offer such SCS to differentiate them from other stablecoins offered. This is because the utility of the SCS is the same, regardless of whether it is issued by a bank or non-bank entity. Ripple suggests the single label used should be "regulated stablecoin" to label such SCS, to give retail users the confidence that the SCS is regulated by MAS.

However, we request clarification whether all unregulated stablecoins (including SCS issued outside of Singapore) should be labelled as DPTs accordingly, or if there is a separate label MAS is proposing for unregulated stablecoins.

Question 5 - Reserve asset requirements

MAS seeks comments on whether the proposed reserve asset requirements are appropriate, and whether there may be unintended consequences that may affect the development of Singapore's digital asset ecosystem.

Ripple has no comments on this question.

Question 6 - Timely redemption of SCS to fiat

MAS seeks comments on whether the time period is reasonable, and whether there may be significant operational challenges or unintended consequences that MAS would need to consider in setting the redemption-related requirements.

Ripple has no comments on this question.

Question 7 - Prudential requirements

MAS seeks comments on whether the prudential requirements outlined in paragraph 0 are risk proportionate. MAS welcomes suggestions on alternative approaches to address the risks.

Ripple has no comments on this question.

Question 8 - Application to tokenised bank liabilities

MAS seeks comments on whether banks issuing tokenised bank liabilities should similarly be subject to the aforesaid redemption and disclosure requirements.

Ripple has no comments on this question.

Question 9 - Application to bank-issued SCS backed by reserve assets that are segregated from the rest of the bank's assets

MAS seeks comments on whether there may be any proposed requirement that is not relevant for such bank-issued SCS, for example, if the risk may be addressed or mitigated in other manners.

Ripple has no comments on this question.

Question 10 - Addressing SCS issued in multiple jurisdictions

MAS seeks comments on whether the scenario outlined in paragraph 4.22 is a likely development and whether the approaches outlined in paragraph 4.24 are feasible. MAS welcomes suggestions on other approaches to address this issue.

Ripple believes that the scenario outlined in paragraph 4.22 of the Consultation could be a possibility as the global market for SCS develops. Given the global nature of SCS activities and that global regulatory approaches are still taking shape, we urge MAS to follow option b. outlined in paragraph 4.24, namely to establish regulatory cooperation among relevant regulatory bodies of the SCS to exchange information on operations of the SCS.

Additionally, we also encourage MAS to engage with global standard-setting bodies such as the Financial Stability Board ("FSB") in order to develop a globally consistent approach to regulating SCS, to avoid potential fragmentation and regulatory arbitrage.

Question 11 - Scope of regulated SCS-related intermediation services

MAS seeks comments on whether there may be other specific activities related to SCS that are not caught as a regulated DPT service (including those under the Payment Services (Amendment) Act), and which MAS should regulate either as a new payment service or by amending the scope of an existing payment service.

Ripple believes that all relevant activities related to SCS are appropriately captured as a regulated DPT service.

Question 12 - Timely transfer of SCS

MAS seeks comments on whether three business days is a reasonable timeline for DPT service providers to transmit SCS from a payer to payee.

Ripple has no comments on this question.

Question 13 - Segregation of customers' SCS

MAS seeks comments on whether this measure is appropriate to mitigate the risk of misuse of customers' SCS.

Ripple has no comments on this question.

Question 14 - Regulatory treatment of systemic stablecoin arrangements

MAS seeks comments on whether to regulate and protect the smooth functioning of systemic stablecoin arrangements similar to other DPSs, by designating them under the PS Act and FNA. MAS also seeks comments on whether key entities of a systemic stablecoin arrangement should be subject to higher regulatory and supervisory standards to safeguard financial stability risk.

Ripple agrees with the MAS' analysis that, at present, SCS are not widely used in the Singapore economy and hence present no systemic payment risks, and therefore no stablecoin arrangement in Singapore is likely to qualify as systemic.

At the same time, we appreciate that a global SCS could potentially have a significantly large user base, and widespread adoption of such a global SCS in Singapore could fulfil the definition of systemic.

However, it is important to note that what is 'systemic' is subjective, and no definition of what would be considered to be systemic is provided in the Consultation. Therefore, we respectfully request that MAS develop clear considerations for determining systemic stablecoin arrangements, aligned with the considerations identified by the Committee on Payments and Market Infrastructures and Board of the International Organization of Securities Commissions (collectively "CPMI-IOSCO"),¹¹ prior to designating a systemic stablecoin arrangement as a designated payment system ("DPS").

In keeping with the principle of 'same risk, same activity, same treatment' outlined in section IV of this response (General comments and policy considerations), Ripple believes a systemically important stablecoin arrangement could appropriately be assessed to be a DPS, subject to certain criteria being met (for example, when potential disruption could lead to financial stability risks), and could therefore be subject to higher regulatory and supervisory standards to safeguard financial stability risk. However, we respectfully request that MAS clearly define the metrics and criteria by which a stablecoin arrangement will be measured against when determining if it is systemic.

Question 15 - MAS' regulatory approach towards stablecoins

MAS seeks any other comments relating to MAS' regulatory approach towards stablecoins and stablecoin related activities, including any implementation issues that MAS should consider.

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

¹¹ See <https://www.bis.org/cpmi/publ/d198.pdf>, Consultative report on the application of the Principles for Financial Market Infrastructures to stablecoin arrangements.