

December 21, 2022



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

Email: capital_markets@mas.gov.sg

Dear Sir or Madam,

Ripple Labs Inc. ("Ripple") welcomes the opportunity to comment on the consultation paper on the Proposed Regulatory Measures for Digital Payment Token Services (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 Digital Payment Token ("DPT") services 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.

¹ See <https://www.mas.gov.sg/-/media/MAS/News-and-Publications/Consultation-Papers/2022-Proposed-Regulatory-Measures-for-DPT-Services/Consultation-Paper-on-Proposed-Regulatory-Measures-for-Digital-Payment-Token-Services.pdf>, Consultation Paper on the Proposed Regulatory Measures for Digital Payment Token Services.

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 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. 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.

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 DPTSPs provide

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.

services. This will ultimately benefit both intermediaries and end-users, and encourage investment in new technologies and innovation.

We therefore believe it is important that the MAS not assign punitive regulatory measures to DPTSPs, as this could make it uneconomical and unviable for them to provide digital asset services to end-users. This could have the additional unintended consequence of making digital asset markets opaque and inefficient, to the detriment of consumers.

To this end, Ripple is supportive of MAS' intent to adopt a risk-focused approach to regulating the digital asset ecosystem, and to anchor high quality players in Singapore.⁵ 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 Consultation, Page 8.

APPENDIX

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

A. Consumer Access Measures (Section 3)

Question 1: MAS seeks comments on the proposed scope of “retail customer” for consumer access measures.

Ripple has no comments on this question.

Question 2: MAS seeks comments on the options for the treatment of DPT holdings for the purpose of determining a customer’s eligibility as an Accredited Investor (AI).

Ripple has no comments on this question.

Question 3: MAS seeks comments on the proposal to assess the retail customer’s knowledge of the risks of DPT services, as well as the risks to be covered by the assessment. MAS also seeks comments on possible next steps for DPTSPs, should the retail customer be assessed not to have sufficient knowledge of the risks of DPT services.

Ripple is supportive of the proposal to assess the retail customer’s knowledge of the risks of DPT services, and for a common assessment template to be developed for the industry. Should the retail customer be assessed not to have sufficient knowledge of the risks of DPT services, the DPTSP may proceed to offer DPT services if it is acting in the retail customers’ best interests and it has provided training on the nature and risks of DPTs. Such an approach is consistent with that taken by the Hong Kong Securities and Futures Commission and the Hong Kong Monetary Authority.⁶

Question 4: MAS seeks comments on the proposal to restrict DPTSPs from offering incentives to retail customers.

Ripple has no comments on this question.

Question 5: MAS seeks comments on the proposed restrictions on debt-financed and leveraged DPT transactions.

Ripple has no comments on this question.

⁶ See

<https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/intermediaries/supervision/doc?refNo=22EC10>, Joint circular on intermediaries’ virtual asset-related activities.

B. Business Conduct Measures (Section 4)

Question 6: MAS seeks comments on the proposed segregation measures relating to customers' assets.

Ripple has no comments on this question.

Question 7: MAS seeks comments on whether DPTSPs should be required to appoint an independent custodian to hold customers' assets. MAS also seeks comments on other control measures that would help to minimise the risk of loss or misuse of customers' DPTs.

Ripple has no comments on this question.

Question 8: MAS seeks comments on whether the proposed disclosure and reconciliation measures are appropriate and adequate, and whether any other disclosures would be useful.

Ripple has no comments on this question.

Question 9: MAS seeks comments on the proposed risk management controls for customers' DPTs. MAS also seeks comments on any other measures to safeguard the private keys and storage of customers' DPTs.

Ripple is supportive of the proposed risk management controls for customers' DPTs.

Question 10: MAS seeks comments on the proposed restriction on DPTSPs not to lend out retail customers' DPTs. MAS also seeks comments on any other measures to protect customers' DPTs from the risks of unregulated borrowing and lending by DPTSPs.

Ripple respectfully submits that the proposed restriction on DPTSPs not to lend out retail customers' DPTs is unduly harsh, and not in line with the principle of "same risk, same activity, same treatment" and technology neutrality. As highlighted in the Consultation, this proposal is stricter than the regulatory treatment of retail customers' securities under the Securities and Futures Act.⁷

Furthermore, Decentralised Finance ("DeFi") protocols such as Automated Market Makers ("AMMs") offer a number of benefits, such as allowing DPTs to be traded in a permissionless and automatic way by using liquidity pools rather than a traditional market of buyers and sellers. These liquidity pools can be optimized for different purposes, and increase efficiency in DPT markets.

⁷ See <https://sso.agc.gov.sg/SL/SFA2001-RG10>, Securities and Futures (Licensing and Conduct of Business) Regulations.

We understand that MAS is studying the regulatory and risk management implications of DeFi protocols under Project Guardian,⁸ and support this initiative. Ripple believes that requiring risk disclosure requirements on DPTSPs on staking or lending activities so that retail customers are informed of the risks involved is a better, risk-sensitive alternative, until MAS formulates a regulatory framework for DeFi.

Question 11: MAS seeks comments on the proposed measures to identify and mitigate conflicts of interests. MAS also seeks comments on any other measures to identify and mitigate conflicts of interest.

Ripple is supportive of the proposed measures to identify and mitigate conflicts of interest.

Question 12: MAS seeks comments on the proposal for DPT trading platform operators to publish its policies and procedures on the process for selecting, listing, and reviewing DPTs, as well as the relevant governance policies. MAS also seeks comments on any other measures or disclosures to enhance market discipline on DPT trading platform operators, with regard to DPTs traded on their trading platforms.

Ripple has no comments on this question.

Question 13: MAS seeks comments on the proposed complaints handling policies and procedures. MAS also seeks comments on any other measures or disclosures to ensure that customer complaints are dealt with in a fair and timely manner.

Ripple is supportive of the proposed complaints handling policies and procedures outlined in the Consultation, including the requirement that DPTSPs should not hinder or prevent retail customers from bringing disputes before the Singapore courts, such as by requiring mandatory arbitration in its terms and conditions.

C. Managing Technology and Cyber Risks (Section 5)

Question 14: MAS seeks comments on the proposed requirements for DPTSPs to establish a high level of availability and recoverability of critical IT systems that they use to support their business and services. MAS also seeks comments on the proposed incident reporting and customer information protection requirements.

We understand that MAS' proposals are with the policy intent of improving information technology resilience, and to maintain trust and confidence in DPTSPs, and Ripple is supportive of this policy intent. Furthermore, with reference to the proposals outlined in paragraph 5.7 of the Consultation, we understand that these requirements are in line

⁸ See <https://www.mas.gov.sg/news/media-releases/2022/first-industry-pilot-for-digital-asset-and-decentralised-finance-goes-live>, First Industry Pilot for Digital Asset and Decentralised Finance Goes Live.

with MAS Notice 644 (Notice on Technology Risk Management)⁹ which currently applies to banks in Singapore.

However, Ripple would like to respectfully highlight that the requirement noted under paragraph 5.7(c), namely to *“establish a recovery time objective of not more than 4 hours for each critical system”* may be a challenge for some DPTSPs to implement, as current Recovery Time Objectives (RTOs) and Service Level Agreements (SLAs) differ widely across the industry. This is especially true of DPTSPs that provide enterprise-level solutions only (B2B), where there are no retail clients (B2C).

Similarly, the requirement noted under paragraph 5.7(d), namely to *“notify MAS as soon as possible, but not later than 1 hour, upon the discovery of a system malfunction or IT security incident, which has a severe and widespread impact on the bank’s operations or materially impacts the bank’s service to its customers, and submit a root cause and impact analysis report to MAS within 14 days”*, will be equally challenging for some DPTSPs to meet. Specifically, the 1 hour reporting requirement for system malfunction or security incident is quite extreme, as what is considered “severe and widespread impact” is a subjective term and dependent on the role and function of the DPTSPs. Such a requirement may be relevant for DPTSPs that offer services to retail users (B2C). However, such a requirement may not be relevant to DPTSPs that offer services only to enterprises (B2B), where the impact may be narrower in scope and restricted to enterprises. Ripple respectfully requests that the MAS consider including explicit language describing how “severe and widespread impact” is defined, or allow DPTSPs to define and document such impact as part of their technology policies internally.

More broadly, Ripple respectfully requests that MAS consider differentiated requirements for DPSTPs that offer B2C services and those that offer B2B services, given the differing risk profiles and potential impact to customers.

D. Market Integrity (Section 6)

Question 15: MAS seeks comments on effective systems, procedures and arrangements that DPT trading platform operators should implement, in order to promote fair, orderly, transparent trading of DPTs offered for sale on their trading platform.

Ripple has no comments on this question.

Question 16: MAS seeks comments on effective measures, including the implementation of market surveillance mechanisms, to detect and deter unfair trading practices.

Ripple has no comments on this question.

⁹ See <https://www.mas.gov.sg/-/media/MAS/Notices/PDF/Notice-MAS-644.pdf>, MAS Notice 644.

E. Implementation Options (Section 7)

Question 17: MAS seeks comments on the proposed transition period of 6-9 months. MAS also seeks other comments to facilitate the transition towards the implementation of the regulatory measures.

Ripple is supportive of the implementation approach proposed by MAS in the Consultation, namely issuing Guidelines as a first step before consulting on subsidiary legislation. Ripple also respectfully requests that MAS consider a phased approach for implementation of the Guidelines such that those DPTSPs with a license or in-principle approval to provide DPT services have a transition period of 9 months effective the date of the Guidelines while those operating under an exemption are only required to implement the Guidelines 9 months from when they receive in-principal approval, given the resources needed and costs of full compliance.