

March 6, 2022



Future of Money
Money and Cash Department
Reserve Bank of New Zealand
PO Box 2498
Wellington 6140
New Zealand

Email: futureofmoney@rbnz.govt.nz

Dear Sir or Madam,

Ripple Labs Inc. ("Ripple") welcomes the opportunity to comment on the Future of Money – Cash System Redesign Issues Paper (the "Cash Issues Paper") published by the Reserve Bank of New Zealand ("RBNZ") on November 30, 2021.¹

Ripple would like to thank the RBNZ for the in-depth and comprehensive analysis that has been undertaken in the Cash Issues Paper, and in the related RBNZ Future of Money - Stewardship Issues Paper (the "Stewardship Issues Paper")² and Future of Money - Central Bank Digital Currency Issues Paper (the "CBDC Issues Paper"),³ both published on September 30, 2021. Ripple has responded separately to the Stewardship Issues Paper ("Ripple Stewardship Response") and CBDC Issues Paper ("Ripple CBDC Response") on December 5, 2021.

Using blockchain technology, Ripple allows financial institutions to process payments instantly, reliably, cost-effectively, and with end-to-end visibility anywhere in the world. RippleNet, our enterprise software solution which is powered by a standardized application programming interface ("API") and built on the market-leading and open standard Interledger Protocol, enables financial institutions to facilitate faster and less costly cross-border payments, demonstrating 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.

¹ See <https://www.rbnz.govt.nz/notes-and-coins/future-of-money/cash-system>, Reserve Bank of New Zealand the Future of Money – Cash System.

² See <https://www.rbnz.govt.nz/notes-and-coins/future-of-money/stewardship>, Reserve Bank of New Zealand the Future of Money – Stewardship.

³ See <https://www.rbnz.govt.nz/notes-and-coins/future-of-money/cbdc>, Reserve Bank of New Zealand the Future of Money – Central Bank Digital Currency.

Some customers, in addition to deploying RippleNet, choose to leverage XRP - the digital asset native to the XRP Ledger, a distributed ledger platform - as a bridge between fiat currencies, 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 based on cryptography. 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 - all of which benefits the consumer and helps reduce friction in the market for cross border payments, thereby removing barriers to New Zealand's growth as a technology and finance centre.

With this overview, Ripple respectfully submits the following response to Question 3 set forth in Part C of the Cash Issues Paper in the attached Appendix.

Ripple appreciates the opportunity to provide feedback on the Cash Issues Paper as the RBNZ studies 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 response to Question 3 set forth in Part C of the Cash Issues Paper.

Question 3: Are there significant factors influencing the cash system that we have failed to consider? (A.3)

Ripple is appreciative of the in-depth research and analysis undertaken by the RBNZ on the factors influencing the cash system, and we agree with the challenges identified.⁴ However, Ripple respectfully submits that the RBNZ should also consider the impact of token-based Private Money (such as digital assets) on the cash system as digital assets are increasingly becoming popular non-cash payment options. While a survey conducted by Payments NZ in 2020 estimated that only 2% of New Zealanders use digital assets for payments, this number is likely to rise as digital assets become more popular and enter the mainstream.⁵

Therefore, as highlighted in the Ripple Stewardship Response,⁶ Ripple respectfully submits that the RBNZ should also consider a taxonomy and regulation for digital assets, as outlined below.

In line with global practices, we recommend that there be a clear distinction between payment tokens, utility tokens, and security tokens:

- 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 using a 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.

We propose that the RBNZ consider a regulatory framework that aligns with the following principles:

- The regulatory framework should be technology-agnostic, and should not explicitly or otherwise endorse any particular technology. In practical terms, this means that payment services using digital assets as a solution should not be treated

⁴ See Cash Issues Paper, Page 18-21

⁵ See https://www.paymentsnz.co.nz/documents/285/Payments_NZ_consumer_research_2020.pdf, Payments NZ Consumer Research 2020.

⁶ See Ripple Stewardship Response, Page 5-7.

differently from payment services embedding legacy architectures, and there should be parity in the treatment of all technology;

- Given the dynamic nature of digital assets, prescriptive regulation risks obsolescence. Prescriptive regulation could also have the unintended consequence of hindering innovation. Therefore, we recommend that the RBNZ consider a principles-based regulatory framework, which will guide market participants to regulatory and policy goals, without imposing an overly rigid or onerous process in doing so; and
- The regulatory framework should use a risk-based approach to identify digital asset services that pose sufficient threat to warrant regulation. Such an approach will encourage the development of a simple, secure, and accessible digital assets ecosystem in New Zealand, while also mitigating any potential risks.

The recommended regulatory framework, as proposed above, will provide regulatory certainty and consumer safeguards, and at the same time encourage innovation and growth of digital assets in New Zealand with the principle of 'same risk, same activity, same treatment'.

Ripple believes that development of a regulatory framework and taxonomy for digital assets alongside that of a retail CBDC (as outlined in the CBDC Issues Paper), could reduce the need for and dependence on cash, thereby supporting RBNZ's policy objectives of resilience, financial inclusion, efficiency, and social inclusion. Ripple welcomes the opportunity to discuss the appropriate taxonomy and regulatory framework to support the use of digital assets in New Zealand in more detail.