

April 2, 2023



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

Email: [futureofmoney@rbnz.govt.nz](mailto:futureofmoney@rbnz.govt.nz)

Dear Sir or Madam,

Ripple Labs Inc. ("Ripple") welcomes the opportunity to comment on the Future of Money – Private Innovation Issues Paper (the "Private Innovation Issues Paper") published by the Reserve Bank of New Zealand ("RBNZ") on December 7, 2022.<sup>1</sup>

Ripple would like to thank the RBNZ for the in-depth and comprehensive analysis that has been undertaken in the Private Innovation Issues Paper, and related RBNZ Future of Money - Cash System Redesign Issues Paper (the "Cash Issues Paper")<sup>2</sup> published on November 30, 2021, as well as the Future of Money - Stewardship Issues Paper (the "Stewardship Issues Paper")<sup>3</sup> and Future of Money - Central Bank Digital Currency Issues Paper (the "CBDC Issues Paper"),<sup>4</sup> both published on September 30, 2021.

Ripple has responded separately to the Cash Issues Paper (the "Ripple Cash Issues Response"),<sup>5</sup> Stewardship Issues Paper (the "Ripple Stewardship Response")<sup>6</sup> and CBDC

---

<sup>1</sup> See <https://www.rbnz.govt.nz/-/media/630e66ee29204278bceaa9fca6eb8a11.ashx>, Reserve Bank of New Zealand the Future of Money - Private Innovation.

<sup>2</sup> 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.

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

<sup>4</sup> 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.

<sup>5</sup> See [https://ripple.com/files/Ripple\\_RBNZ\\_Cash%20System%20Redesign%20Consultation\\_November%202021\\_final.pdf](https://ripple.com/files/Ripple_RBNZ_Cash%20System%20Redesign%20Consultation_November%202021_final.pdf), Ripple Cash Issues Response.

<sup>6</sup> See [https://ripple.com/files/Ripple\\_RBNZ\\_Stewardship%20Issues%20Paper\\_September%202021\\_final.pdf](https://ripple.com/files/Ripple_RBNZ_Stewardship%20Issues%20Paper_September%202021_final.pdf), Ripple Stewardship Response.

Issues Paper (the “Ripple CBDC Response”).<sup>7</sup> We appreciate having the opportunity to provide our comments, and respectfully request the RBNZ take them into consideration as it examines the policy direction and scope of intended regulation for the cryptoasset ecosystem in New Zealand. We welcome the opportunity for further engagement with the RBNZ on the Private Innovation Issues Paper and any other related consultations as may be appropriate.

## **1. 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. 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.

Some customers, in addition to deploying RippleNet, choose to leverage XRP - the cryptoasset 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.

We would like to highlight that XRP is independent of Ripple (although Ripple utilizes XRP and the XRP Ledger in its product offerings). 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 helps reduce friction in the market for cross-border payments, thereby removing barriers to New Zealand’s growth as a technology and finance centre.

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

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

---

<sup>7</sup> See [https://ripple.com/files/Ripple\\_RBNZ\\_CBDC%20Issues%20Paper\\_September%202021\\_final.pdf](https://ripple.com/files/Ripple_RBNZ_CBDC%20Issues%20Paper_September%202021_final.pdf), Ripple CBDC Response.

We therefore believe it is imperative that the RBNZ take into account the following guiding principles as it develops a regulatory framework for cryptoassets, or determines where cryptoassets best fit into existing frameworks. Taken together, these principles will encourage the potential of blockchain and cryptoasset technology, while also establishing important consumer and market protections that ensure global alignment 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 cryptoassets in New Zealand at present. Ripple respectfully submits such assets should not solely be defined relative to a specific technology (e.g., cryptography), but, for purposes of regulation, should instead fall under a broader heading such as “digital assets” and subsequently be 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”) and Singapore, 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.

Therefore, we respectfully request that the RBNZ consider adopting a taxonomy for cryptoassets consistent with global best practices to provide clarity as to the legal character of such assets in New Zealand. Additionally, Ripple recommends that there be a clear distinction between payment tokens, utility tokens, and security tokens, as outlined below:

- *Payment 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 the RBNZ’s approach of applying effective regulation, supervision, and oversight to cryptoasset activities and markets in proportion to the financial stability and consumer protection risks they pose (or potentially pose), in line with the principle of “same activity, same risk, same regulation”.<sup>8</sup> However, we recommend that

---

<sup>8</sup> Described as “same risk, same regulation” in the Private Innovation Issues Paper.

the 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 cryptoassets 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 cryptoassets, 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>9</sup> Therefore, we recommend that the RBNZ 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 cryptoasset services that pose sufficient risk to warrant regulation. A simple, and obvious initial distinction in risk-profile should be between cryptoasset intermediaries that provide services to consumers (“B2C”) and those that only provide enterprise services to businesses (“B2B”).<sup>10</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 cryptoassets in New Zealand.

### ***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. 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 cryptoasset sector

---

<sup>9</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.

<sup>10</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.

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 cryptoassets, we believe innovation sandboxes should be encouraged in New Zealand, at the very least for specific use cases such as cross-border payments. For example, the Monetary Authority of Singapore has a FinTech Regulatory Sandbox<sup>11</sup> which allows market participants to experiment with innovative solutions in a live environment, but within a well-defined space and duration.

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 cryptoassets 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. A collaborative forum that brings regulators and industry stakeholders together to build a rational and holistic framework for blockchain and cryptoassets would represent a substantial step forward toward achieving regulatory clarity in New Zealand.

We welcome the opportunity to provide feedback to the RBNZ on the Private Innovation Issues Paper as well as the related RBNZ consultations, and recognise this is an important step in furthering public-private collaboration.

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

Lastly, given the cross-border nature of cryptoasset 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.

However, Ripple posits that a framework that 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 cryptoassets ecosystem.

---

<sup>11</sup> See <https://www.mas.gov.sg/development/fintech/regulatory-sandbox>, Overview of Regulatory Sandbox.

Such mutual recognition decisions exist for traditional financial institutions and infrastructures, which can be used as a template for cryptoasset service providers and intermediaries. Many of the regulatory and supervisory institutions for cryptoasset companies would be the same as those for the traditional financial sector, 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.

\*\*\*

With this overview, Ripple respectfully submits the following responses to the consultation questions set forth in the Private Innovation Issues Paper in the attached Appendix.

Ripple appreciates the opportunity to provide feedback on the Private Innovation Issues Paper and related RBNZ consultations 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](mailto:radvani@ripple.com).

Sincerely,

Ripple Labs Inc.

## APPENDIX

Ripple respectfully submits the following responses to the questions set forth in the Private Innovation Issues Paper.

**Question 1: Do you agree with the core drivers, assumptions and high-level approaches that we have described in relation to our work on private innovation in money? (S.2)**

Ripple agrees with the core drivers, assumptions and high-level approaches described by RBNZ in the Private Innovation Issues Paper.

**Question 2: Is there anything else we should consider? (S.2)**

As highlighted in the Ripple Stewardship Response, Ripple respectfully submits that RBNZ should also include consideration of the access and competitiveness of local people and entities within an increasingly globalised economy when it comes to private innovation in money - the key to which is interoperability.

In order to meet the policy goals of creating long-term value and sustainable benefits for society, the RBNZ should consider protocols that address interoperability, and how the private sector can play a role in supporting such interoperability. Ripple believes that supporting interoperability is the key to making payments truly efficient, and will support the RBNZ's stewardship role of Central Bank Money and Private Money in ensuring the health of a sound and efficient financial system.

Ripple believes that interoperability - achieved through alignment of national payment protocols and adoption of international standard protocols - will ultimately be core to the success of New Zealand's monetary system.

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 API and built on the open-standard Interledger Protocol, enables financial institutions to facilitate faster and less costly cross-border payments.

As the market continues to evolve and develop, we expect there will be many different wallets and wallet providers for Central Bank Money or Private Money users to choose from. Such digital wallets could be used to enable peer-to-peer or wallet-to-wallet payments, which could have a huge benefit for many consumers and aid New Zealand's goal of greater financial inclusion. However, infrastructure will need to be put in place that supports interoperability and which also provides for consumer protection, fraud prevention, authentication and authorization, among other things.

Therefore, we respectfully submit that the RBNZ also needs to consider infrastructure that incorporates technology and data standards so that regardless of the form of digital money used, information can be exchanged seamlessly between the different systems involved in the monetary system.

**Question 3: What do you see as the biggest issues with private innovation in money? (S.3)**

Ripple respectfully believes that the biggest issue with private innovation in money is the lack of regulatory clarity as to the legal nature of such assets in New Zealand.<sup>12</sup> Because, as highlighted in Principle 1 of Section 2 (General comments and policy considerations) and in the Ripple Stewardship Response, there is no single or generally recognised definition of cryptoassets in New Zealand at present, we believe the RBNZ should prioritise developing a taxonomy for digital assets to provide clarity as to the legal character of digital assets in New Zealand. This approach is in line with other jurisdictions, such as the UK and Singapore, whose taxonomies are summarised respectively in Table 1 & Table 2 below.

<p><b>Regulated Tokens</b></p> <p>a. Security tokens: These are tokens that amount to a 'Specified Investment' under the Regulated Activities Order, excluding e-money. These may provide rights such as ownership, repayment of a specific sum of money, or entitlement to a share in future profits. They may also be transferable securities or other financial instrument under the EU's Markets in Financial Instruments Directive II. These tokens are likely to be inside the FCA's regulatory perimeter.</p> <p>b. E-money tokens: These are tokens that meet the definition of e-money under the Electronic Money Regulations. These tokens fall within regulation.</p>
<p><b>Unregulated Tokens</b></p> <p>Any tokens that are not security tokens or e-money tokens are unregulated tokens. This category includes utility tokens which can be redeemed for access to a specific product or service that is typically provided using a blockchain platform.</p> <p>The category also includes tokens such as Bitcoin, Litecoin and equivalents, and often referred to as 'cryptocurrencies', 'cryptocoins' or 'payment tokens'. These tokens are usually decentralised and designed to be used primarily as a medium of exchange. We sometimes refer to them as exchange tokens and they do not provide the types of rights or access provided by security or utility tokens, but are used as a means of exchange or for investment.</p>

Table 1: Summary of the UK Financial Conduct Authority taxonomy for digital assets

<p><b>Digital Payment Tokens</b></p> <p>Refers to "any digital representation of value that is expressed as a unit; is not denominated in any currency, and is not pegged by its issuer to any currency; is, or is intended to be, a medium of exchange accepted by the public, or a section of the public, as payment for goods or services or for the discharge of a debt; and can be transferred, stored or traded electronically".</p>
<p><b>Digital tokens which constitute capital markets products</b></p> <p>MAS will examine the structure and characteristics of, including the rights attached to, a digital token in determining if the digital token is a type of capital markets products under the Securities and Futures Act. This includes, but is not limited to a share, a debenture, a unit in a business trust, a securities-based derivatives contract, or a unit in a collective investment scheme, as defined under the Securities and Futures Act.</p>

Table 2: Summary of the Monetary Authority of Singapore taxonomy for digital assets

<sup>12</sup> See Ripple Stewardship Response.



Taking into account the taxonomies of the UK and Singapore discussed above as well as Principle 1 of Section 2 (General comments and policy considerations), we recommend that New Zealand set forth a clear distinction between payment tokens, utility tokens, and security tokens.

**Question 4: Do you agree with how we frame the focus on stablecoins? Are there other forms of innovations we should be looking at? (S.3)**

Ripple agrees with how the RBNZ frames the focus on stablecoins, and is supportive of the RBNZ working with the New Zealand Financial Markets Authority to translate the Principles for Financial Market Infrastructures into legally binding standards as part of implementing the Financial Markets Infrastructure Act 2021.

As highlighted by the RBNZ, stablecoins present regulatory hurdles that must be addressed before they can be used widely. The Private Innovation Issues Paper observes that stablecoins may “pose a range of further risks related to the stability of the asset’s value, the ability and costs of redeeming the stablecoin for fiat currency, and the solvency of the issuer of the stablecoin”.<sup>13</sup>

However, as noted in a speech by Former Federal Reserve Vice Chair for Supervision Randal K. Quarles, “these concerns are eminently addressable - indeed, some stablecoins have already been structured to address them”.<sup>14</sup>

We believe that privately-issued stablecoins may provide some immediate advantages that Central Bank Money cannot, especially in efficiencies for cross-border payments. Ripple is supportive of the RBNZ coordinating with international regulatory bodies and ensuring a coordinated approach across jurisdictions, and we welcome further detailed consultation on a regulatory framework for stablecoins in New Zealand. We also encourage the RBNZ to engage with global standard-setting bodies such as the Financial Stability Board in order to develop a globally consistent approach to regulating stablecoins, to avoid potential fragmentation and regulatory arbitrage.

**Question 5: Do you agree that there is a significant opportunity to enhance competition and further innovation in a New Zealand context? (S.4)**

Ripple believes that private innovations in money will enhance competition and further innovation in New Zealand, and will also support the development of new business models for the provision of payments and banking services (such as credit and lending). However, as highlighted in our response to Question 2 of this letter, it is imperative that the RBNZ consider the importance of interoperability to ensure the policy goals of creating long-term value and sustainable benefits for society are met.

---

<sup>13</sup> See Private Innovation Issues Paper, Page 8.

<sup>14</sup> See <https://www.federalreserve.gov/newsevents/speech/quarles20210628a.htm>, Parachute Pants and Central Bank Money.

**Question 6: Do you agree with the key risks to the stewardship of money identified here? (S.5)**

Ripple agrees with the key risks to the stewardship of money identified by the RBNZ.

**Question 7: Are there any other risks that we should consider? How significant are they? (S.5)**

Ripple does not believe that there are any other risks that the RBNZ should consider.

**Question 8: Do you agree with our proposed monitoring approach? Is there anything else we should monitor? (S.6)**

Ripple agrees with the proposed monitoring approach outlined by the RBNZ. We believe that such an approach will help support global consistency and comparability, in line with Principle 5 of Section 2 (General comments and policy considerations).

**Question 9: Do you agree that we should be open to alternative models of money? Can they work in a New Zealand context? (S.6)**

Ripple agrees that the RBNZ should be open to alternative models of money, and we believe that they can work (and in some cases, are already working) in a New Zealand context for specific use cases, such as cross-border payments. What's missing is a regulatory framework to support the use of such alternative models of money, and we urge the RBNZ to develop such a regulatory framework in line with the principles outlined in Section 2 (General comments and policy considerations) of this letter.

**Question 10: What issues do you think we should prioritise in developing further regulatory response? For example, should we prioritise issues about the rights of stablecoin holders, or the use of DAOs, or something else?**

As highlighted in our response to Question 3 of this letter, Ripple strongly believes that the RBNZ should prioritise developing a taxonomy for digital assets to provide clarity as to the legal character of digital assets in New Zealand, in line with Principle 1 of Section 2 (General comments and policy considerations). We believe that doing so will allow the RBNZ to then implement a risk-sensitive framework in line with the principle of "same activity, same risk, same regulation", as outlined in Principle 2 of Section 2 (General comments and policy considerations).

We welcome further detailed consultation on such a taxonomy and regulatory framework, and we encourage and support further dialogue with all stakeholders.