May 30, 2016

By Electronic Submission

Office of the Comptroller of the Currency
400 Seventh Street, SW
Washington, DC 20219

Re: *Supporting Responsible Innovation in the Federal Banking System: An OCC Perspective*

Ladies and Gentleman:

Ripple is a technology company that provides financial institutions with real-time cross-border payment solutions. Ripple specializes in distributed financial technology, including shared ledgers and open protocols. We believe such tools can enable a more efficient payment system, reduce friction between currencies, and broaden access to financial services.

Innovation in the federal banking system often results from the convergence of three domains: financial institutions, technology, and regulations. The regulatory framework is a crucial aspect of innovation. When crafted in a balanced, proactive way, regulations can be a driver of innovation and market competition. Yet, when regulatory frameworks are poorly crafted or not given necessary attention, they can directly restrict innovation.

By issuing a white paper and inviting an open conversation on innovation in the U.S., the OCC has taken a proactive step to ensure regulatory frameworks are properly crafted to support responsible innovation. Ripple applauds the OCC's leadership and offers these comments to assist in the effort.

In response to the OCC's paper and questions, Ripple highlights existing challenges to innovation and perspectives on new technology, including:

Challenge #1: Inconsistent and Uncoordinated Regulatory Approaches
Challenge #2: Fragmented, Outdated Licensing Regimes
Viewpoint #1: International Coordination is Essential for Many New Technologies
Viewpoint #2: Consider the Unique Design of Each Technology When Assessing Risk

Ripple appreciates the leadership and work of the OCC and requests that it take into consideration the views expressed in this letter. We believe they best balance innovation with the need for robust, efficient regulatory frameworks suited for today's technology.

Challenge #1: Inconsistent and Uncoordinated Regulatory Approaches

A primary challenge to innovating in the United States is its inconsistent and uncoordinated approach to regulation. When numerous regulators take various and at times conflicting views on a new technology, it creates uncertainty and slows innovation.

For start-ups and small companies – typically the drivers of innovation – time is one of the most valuable and scarce resources. Time spent resolving conflicting regulatory opinions or awaiting regulatory coordination detracts from resources that could be spent developing new technology. In many instances, such uncertainty and delays can jeopardize the company's lifespan.

Digital assets and virtual currencies have come into the spotlight over the past two years. These technologies can be used to quote FX more efficiently, settle cross-border payments more quickly, and defend against cyber attacks more effectively.

Yet, various regulators' uncoordinated approaches to these technologies have resulted in conflicting guidance and market uncertainty. The Commodity Futures Trading Commission defines the technologies as a commodity; FinCEN regulates the tools as a currency; and the Internal Revenue Service regulates them as property.

For banks and technology companies that seeks the benefits of these technologies, they are burdened with navigating these uncoordinated and conflicting views.

The OCC's white paper raises the need to collaborate and coordinate with other domestic regulators. Ripple applauds this effort, yet to be effective we feel it must be a formal, ongoing engagement with other regulators, especially those with similar regulatory focus (FDIC, Federal Reserve, NCUA, CSBS, etc). Informal efforts to coordinate may not be effective enough to support innovation to its full extent.

Formal collaboration with other regulators and standard setting bodies that play integral roles in establishing national regulations is crucial to ensure a solid and unified framework for modern technology.

Formal coordination is already standard practice for some regulatory efforts. For instance, technology service provider guidance is harmonized through the FFIEC to ensure consistency. We believe a framework for innovation, similar to technology service provider guidance, should be one effort formally coordinated amongst regulatory bodies.

Such an effort would create alignment for regulators overseeing similar financial activity. Technology companies and financial institutions would benefit from clarity and consistency. A successful innovation framework would include transparency into the oversight process and a clear point of contact across all regulatory bodies involved. Service providers to banks would benefit from a centralized communication platform, enabling them to interact more effectively with the supervisory authorities.

The promise of distributed financial technologies is being widely acknowledged among the regulatory community, however, coordination in how these technologies are implemented and regulated is critical to ensuring the benefits can be fully realized. Coordination across regulators is key to building a consistent framework that will enable these technologies to be broadly adopted in safe and prudent ways.

Challenge #2: Fragmented, Outdated Licensing Regimes

Some of the technology companies seeking to work with banks face a highly fragmented regulatory regime, making processes such as licensing for money transmission very cumbersome for start-ups, small companies, and businesses with broad reach. We believe that this fragmentation poses a competitive disadvantage for the United States and undermines our position as a leader in financial innovation.

To keep the United States competitive and a driver of innovation, policy makers should develop a coordinated, national standard for products and services that have national or global reach.

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It is imperative that the United States create an environment that supports innovation in a safe and compliant manner. Streamlining balkanized registration requirements via national standards would remove many unnecessary inefficiencies and inconsistencies in our regulatory system.

The United States has a legacy of driving innovation and having a strong, respected regulatory regime. While regulatory models, specifically state-by-state licensing, have served us well in the past, it is prudent to periodically review the effectiveness of our models given:

1. the changing nature of technology,
2. the broadening scope of new financial activities, and
3. global developments impacting the United States's own competitiveness.

Given the unique characteristics, global scope, and great potential of new payment technologies, Ripple believes the legacy state-by-state licensing for money transmission will not be the most effective model to govern innovative payments technologies.

A state-by-state regime not only restricts innovation by making licensing unnecessarily burdensome, but also fails to serve regulators by limiting their ability to efficiently identify and mitigate growing risks, particularly on a national and international level. We believe that today's fragmented approach poses a competitive disadvantage for the United States. As technology and risks evolve, regulatory models must also evolve to ensure their continued effectiveness.

The only alternative for many technology companies is to seek a bank charter. This option does not always fit the vision, model and function of the technology company. Our regulatory regime lacks an efficient national licensing option designed for companies with national or global reach. This gap limits the ability for these companies to grow in the United States. In many cases, they relocate or focus their growth in countries with more efficient licensing regimes. With this in mind, Ripple urges regulators to consider the creation of a single national license for money transmission and related activities. This would allow companies seeking to work with banks a more efficient path to licensing and oversight.

Other countries have already taken steps to modernize their regulatory and economic policies to support innovation and accommodate new technologies.[1] Their efforts have been driven by a desire to spur growth, improve consumer services and better manage systemic risks. Ripple urges the OCC to consider developments in other countries and their impact on the United States competitiveness and reputation.

In 2014, The United Kingdom's primary regulator, the Financial Conduct Authority (FCA), launched an initiative to help startups understand the regulatory framework and how it applies to new technology. The initiative created an environment that supports innovation while ensuring the safety of their financial system.[2]

The Australian Securities and Investments Commission (ASIC) launched a similar innovation effort in April 2015. It was met with great success, having supported 75 startups and granting 10 new licenses for products that directly benefited Australian consumers.

This March, the UK's FCA and Australia's ASIC signed a groundbreaking agreement to support innovative fintech companies that wish to enter each others' markets. Christopher Woolard, director of strategy and

[1] Distributed Ledger Technology: beyond block chain, UK Government Office for Science, January 2016, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/492972/gs-16-1-distributed-ledger-technology.pdf
[2] Financial Conduct Authority, "Project Innovate," http://www.fca.org.uk/firms/firm-types/project-innovate.

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competition at the FCA, stated, "Innovation in financial services isn't limited by national borders and so it's important that we support overseas businesses that have new ideas."[3]

The FCA continued to show leadership in innovation earlier this month, when they joined with the Monetary Authority of Singapore to form a "fintech bridge" to help financial technology companies and investors from each country gain access to the other. Not only does the bridge support innovation in a streamlined way, but also maintains proper regulation and cooperation among international agencies.[4] This innovative and coordinated approach would not currently be possible in the United States, given the fragmented regulatory environment.

Europe has directly addressed such regulatory fragmentation by creating the concept of "passportability." Under this approach, firms that obtain a license to conduct financial services in one European Economic Area are entitled to do business in all other European Economic Areas. Passporting streamlines registration processes and creates a supportive environment for safe, compliant innovation.[5]

This is in stark contrast to the United States where licenses are needed in nearly every state before a company can begin operating broadly. Ripple strongly supports the concept of a comprehensive national license, which would ensure the competitiveness of our country while balancing the need for a robust regulatory regime.

In light of global efforts to support innovation, the United States must address its fragmented regulatory system if it aims to remain competitive globally. Otherwise, investments and future growth will shift to countries with more workable, coordinated regulatory frameworks.

Viewpoint #1: International Coordination is Essential for Many New Technologies

Given technology enables financial activities that are global in scope, international coordination is essential to monitor and manage systemic risk.

Distributed financial technology has the ability to move value with the same speed and efficiency as the Internet moves data. At Ripple, we see distributed technology laying the foundation for an Internet of Value. Given the scope of such activity is global in nature, regulators must be coordinated to ensure common treatment of the technology. Inconsistent or conflicting treatment could jeopardize the benefits such solutions have for global commerce and financial inclusion.

A coordinated approach has a successful track record of enabling other technology breakthroughs to develop safely. In the early 1990s, the Internet emerged as a promising new tool. It offered great potential for economic growth, innovation and inclusion; yet its newness and global scope caused uncertainty and concern about risks.

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[3] "British and Australian financial regulators sign agreement to support innovative businesses," FCA, 23 March 2016, http://www.fca.org.uk/news/regulators-sign-innovative-business-agreement.
[4] "UK and Singapore Establish 'Fintech Bridge,'" Finextra, 11 May 2016, https://www.finextra.com/newsarticle/28874/uk-and-singapore-establish-fintech-bridge.
[5] Bank of England, Prudential Regulation Authority, http://www.bankofengland.co.uk/pra/Pages/authorisations/passporting/default.aspx.

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Policy makers responded to the emergence of the Internet by developing a framework for electronic commerce that recognized the Internet's great potential while balancing its new risks. In 1997, the United States White House issued a Presidential Directive acknowledging the promise of new technology and setting expectations for safety and risk.[6] Shortly after, the European Commission adopted the Bonn Declaration, a similar framework on global information networks.[7] These frameworks established clear, predictable, and globally coordinated rules for electronic commerce that ensured security and privacy. This crucial step recognized the Internet's potential, allowing positive uses of these technologies to take root, and questionable uses to be identified and resolved.

This same approach should be taken with new payment technologies today. Without a coordinated regulatory framework, innovation in financial services cannot successfully take root.

Viewpoint #2: Consider the Unique Design of Each Technology When Assessing Risk

We applaud the OCC for recognizing that new technology plays a significant role in meeting evolving demands.

Successful innovation in payments would not be possible without acknowledging the potential risks associated with utilizing new technology. Ripple strongly agrees with the OCC's fifth principle pertaining to safe and sound operations through effective risk management. Positive change in the financial services industry requires a robust risk management framework and processes for managing and maintaining those risks.

Emerging technologies give banks of all sizes direct access to new services (such as real-time cross-border payments), enabling products and services that better meet customers' needs. These technologies, such as distributed ledgers, may be rooted in similar technologies, yet have different designs, operational risks, and safeguards.

We urge the OCC to consider the unique aspects of each new technology, instead of taking a broad approach to entire sectors of innovation. A one-size-fits-all approach will not effectively identify and mitigate risks of each solution a bank may seek to use. We urge the OCC and other regulators to consider the unique design of each solution when working with banks and technology providers.

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[6] The United States White House, Presidential Directive - Electronic Commerce, 1 July 1997
http://clinton4.nara.gov/WH/New/Commerce/directive.html
[7] "European Ministers Adopt Declaration on Global Information Networks, July 1997,
http://merlin.obs.coe.int/iris/1997/8/article1.en.html

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Conclusion

The OCC has undoubtedly made great strides in considering a well defined framework for responsible innovation. Given the crucial impact regulation has on innovation, the OCC's leadership will help ensure the United States remains competitive.

We urge the OCC and other regulatory bodies in the United States to work collectively to build a regulatory regime that drives innovation and competition while ensuring safety and security. To do this, we urge formal coordination amongst the regulators and the development of a modern licensing framework for technologies that have broad reach.

Ripple is grateful for the opportunity to provide these perspectives and is happy to address any questions.

Sincerely,

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