

September 15, 2022



Communications Regulatory Authority
State of Qatar
Al Corniche Street
Doha, Qatar

Email: nbbconsultation@cra.gov.qa

Dear Sir or Madam,

Ripple Labs Inc. ("Ripple") welcomes the opportunity to comment on the National Blockchain Blueprint for Qatar ("the Blueprint") jointly published by the Communications Regulatory Authority ("CRA"), Hamad Bin Khalifa University, and Qatar University on July 18, 2022.¹

Ripple would like to thank the CRA, Hamad Bin Khalifa University, and Qatar University for the in-depth and comprehensive analysis that has been taken on this subject in the Blueprint. Ripple firmly believes that blockchain technology and digital assets can contribute to building an innovative and growing technology sector in Qatar to support the goals of the Qatar National Vision 2030² and Qatar National Development Strategy.³

Ripple broadly agrees with the key objectives of the Blueprint, namely:

1. Identifying and building an efficient regulatory foundation for blockchain;
2. Creating a solid foundation for the government's approach to blockchain; and
3. Creating and enabling a supportive environment for creativity and innovation.

For the purposes of this letter, our comments are focused on identifying and building an efficient regulatory foundation for blockchain and digital assets, using cross-border payments as a use case, as Ripple firmly believes a strong regulatory foundation will support innovation and growth in the sector.

¹ See <https://www.cra.gov.qa/document/national-blockchain-blueprint>, Public Consultation on National Blockchain Blueprint.

² See <https://www.gco.gov.qa/wp-content/uploads/2016/09/GCO-QNV-English.pdf>, Qatar National Vision 2030.

³ See <https://www.psa.gov.qa/en/knowledge/Documents/NDS2Final.pdf>, Qatar Second National Development Strategy 2018-2022.

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 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.

These benefits will be passed on to the Qatari consumer, and will help reduce friction in the market for cross border payments, thereby removing barriers to Qatar's growth as a technology and finance centre.

Cross-border Payments using RippleNet & ODL

As highlighted in the Blueprint,⁴ blockchain technology demonstrates the potential to transform many sectors of Qatar's economy, including in cross-border payments. Ripple believes that for any technology, success is based on its use cases and ability to solve real-world problems.

Cross-border payments are costly, full of friction and slow. Much of this friction is the result of processes followed in cross-border payments, until now the domain of incumbent banks (referred to as correspondent banks). A definition cited by the Bank for International Settlements defines correspondent banking as *"the provision of current or other liability account and related services to other financial institutions (including affiliates), used for the execution of third-party payments and trade finance as well as its*

⁴ See Blueprint, page 37-38.

own cash clearing, liquidity management, short-term borrowing and investment needs in a particular currency.”⁵

As this definition highlights, banks use correspondent relationships - a network of bilateral accounts-based relationships - spread across the world to process payments. Although widely proliferated, the market structure of correspondent-banking injects significant friction, delays, and costs in processing payments for the respondent banks, primarily due to the need to pre-fund accounts.⁶

RippleNet, the cross-border payments solution offered by Ripple, connects hundreds of financial institutions around the world via a single API which makes transferring money faster, cheaper and more reliable. It also helps to reduce, and even eliminate, the need to pre-fund accounts with ODL, a service that uses the digital asset XRP to source liquidity during cross-border transactions as an alternative to traditional funding mechanisms. RippleNet customers can use XRP to bridge two currencies in a matter of minutes, ensuring payments are quickly sent and received in local currency on either side of a transaction. The digital asset XRP is ideally suited for global payments because it is quicker, less costly, more scalable and sustainable than alternatives. The broad ODL flow is outlined in Figure 1 below.

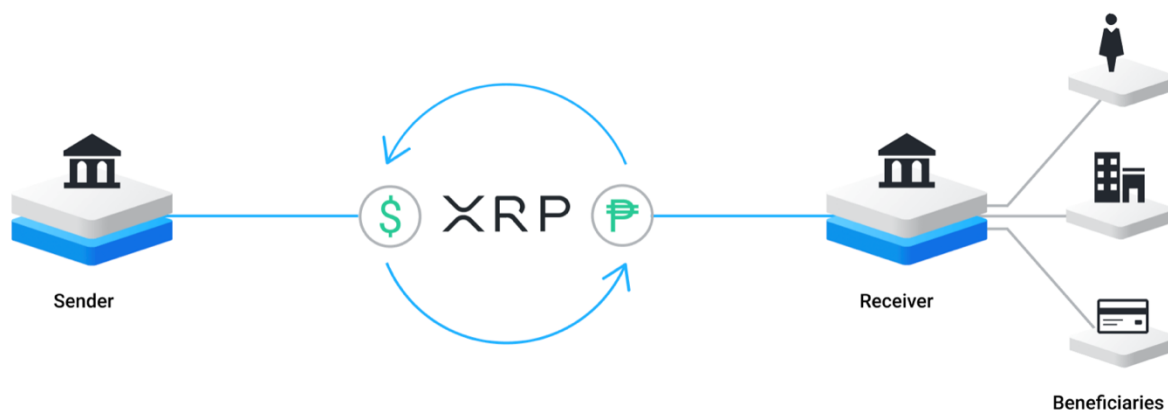


Figure 1: ODL Flow

Digital assets issued on blockchains that serve the same end-use as the incumbent correspondent banking model can offer a compelling alternative for end-users while still being compliant with anti-money laundering (“AML”) & countering the financing of terrorism (“CFT”) requirements. Global multilateral bodies have also recognized the potential digital assets and blockchain technology have in facilitating faster cross-border payments.⁷

⁵ See <https://www.bis.org/cpmi/publ/d147.pdf>, Committee on Payments and Market Infrastructures – Correspondent Banking.

⁶ See https://www.bis.org/publ/qtrpdf/r_qt2003f.pdf, BIS Quarterly Review March 2020, page 31.

⁷ See <https://blogs.worldbank.org/psd/paying-across-borders-can-distributed-ledgers-bring-us-closer-together>, World Bank blog.

Regulatory Foundation for Qatar

In order to reap the benefits of blockchain and digital assets for cross-border payments, Ripple believes it is imperative that Qatar implement smart, risk-based regulation that unlocks value from financial innovation. Ripple is supportive of the regulatory foundation identified in the Blueprint,⁸ where the regulatory approach is tailored to the use case(s), and policies, guidelines, regulatory instruments, or frameworks are developed accordingly.

An agile and risk-sensitive regulatory framework for blockchain and digital assets as well as a clear set of 'rules of the road' that enables innovation to flourish will lay a strong foundation for a vibrant digital asset ecosystem to take root in Qatar. With that in mind, we propose the following recommendations for developing the blockchain and digital asset ecosystem, which will also help provide clarity to the legal character of digital assets in Qatar. We believe that each of the policy proposals below - whether implemented separately or together - can succeed in achieving the policy goal of fostering innovation while ensuring sufficient safeguards.

1. Taxonomy for digital assets

Ripple respectfully submits digital assets should not be solely defined relative to a specific technology (e.g., cryptography), but, for the purposes of regulation, should instead fall under a broader heading such as "digital assets", and subsequently 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. A comparison of the taxonomies for the UK and Singapore is provided below, along with our recommendations for a proposed digital asset taxonomy for Qatar.

a. United Kingdom

The UK formed a Crypto Asset Task Force ("CATF") in 2018, to assess the potential impact of digital assets in the UK and to consider appropriate policy responses. Following the publication of the CATF Report⁹ and subsequent consultation, the Financial Conduct Authority ("FCA") created a framework for digital assets by categorising digital assets based on their intrinsic structure as well as their

⁸ See Blueprint, page 37-38.

⁹ See <https://www.gov.uk/government/publications/cryptoassets-taskforce>, Cryptoassets Taskforce: final report.

designed use, which is outlined in the FCA Guidance on Cryptoassets (“FCA Guidance”)¹⁰ issued in July 2019.

Under the FCA Guidance, exchange tokens, which “*can be used to facilitate regulated payment services*”¹¹ and utility tokens, which “*provide[s] consumers with access to a current or prospective product or service and often grant[s] rights similar to pre-payment vouchers*”¹² are both considered to be “unregulated tokens” (i.e., tokens that do not provide rights or obligations akin to specified investments) that fall outside the FCA’s regulatory perimeter.¹³

This stands in contrast to security tokens, which are described as “*tokens with specific characteristics that mean they provide rights and obligations akin to specified investments*” and do fall within the FCA’s regulatory perimeter as well as that of the Prudential Regulatory Authority, as the case may be.¹⁴

Ripple strongly believes these types of designations, which consider each token’s economic purpose and function in determining the appropriate degree of regulation assigned to them, should be accounted for when designing a taxonomy for digital assets. To the extent digital assets move from one category to another, as the FCA recognizes they might, any treatment should necessarily be flexible enough to account for such a shift.

The FCA taxonomy for digital assets is summarised in Figure 2 below.

¹⁰ See <https://www.fca.org.uk/publication/policy/ps19-22.pdf>, Guidance on Cryptoassets: Feedback and Final Guidance to CP 19/3.

¹¹ See FCA Guidance, paragraph 2.15, page 11.

¹² See FCA Guidance, paragraph 2.21, page 13.

¹³ See FCA Guidance, Appendix 1, paragraph 43, page 35 and paragraph 50, page 36. It is important to note that the FCA has recognized that XRP is a hybrid exchange/utility token, leaving it outside of its regulatory perimeter.

¹⁴ See FCA Guidance, Paragraph 1.9, page 4.

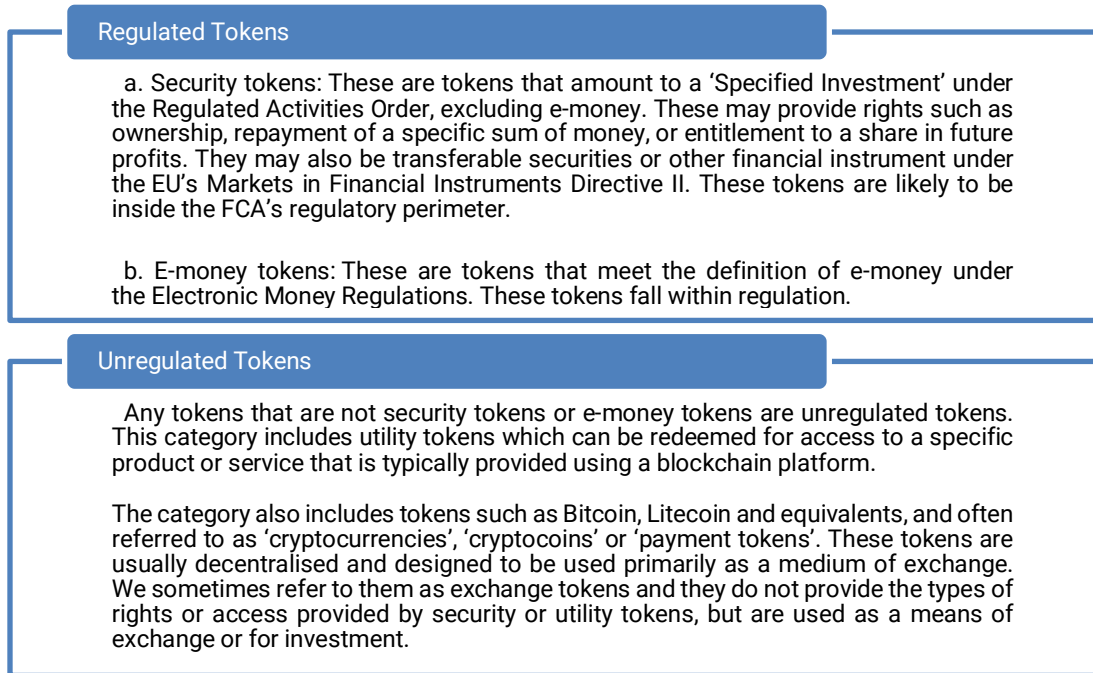


Figure 2: Summary of the FCA taxonomy for digital assets

b. Singapore

In Singapore, digital assets are regulated either as digital payment tokens (“DPT”) by the Monetary Authority of Singapore (“MAS”) under the Payments Services Act (“PS Act”),¹⁵ or as digital tokens which constitute capital markets products and are regulated under the Securities and Futures Act (“SFA”).¹⁶

The PS Act provides for an activity-based licensing framework for retail payment services which facilitates innovation and mitigates risks. The MAS payments licensing regime encompasses a wide range of payment activities, including the purchase and sale of DPTs, as outlined in the MAS Guidelines on Licensing for Payment Service Providers (“MAS Guidelines”).¹⁷

The MAS taxonomy for digital assets is summarized in Figure 3 below.

¹⁵ See <https://sso.agc.gov.sg/Acts-Supp/2-2019/Published/20190220?DocDate=20190220>, Republic of Singapore Payment Services Act 2019.

¹⁶ See <https://sso.agc.gov.sg/Act/SFA2001>, Republic of Singapore Securities and Futures Act (chapter 289).

¹⁷ 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 classified as a DPT under the MAS taxonomy, and XRP is also explicitly referenced as a DPT in the MAS Guidelines.

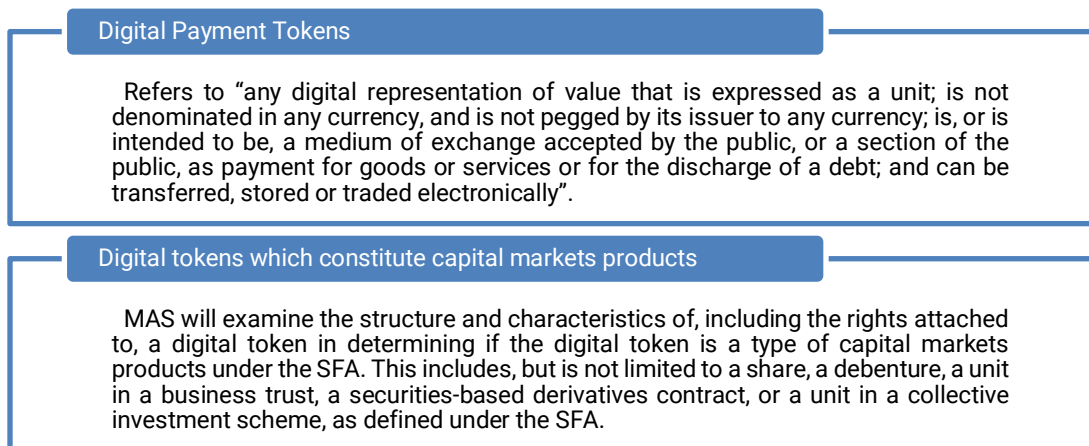


Figure 3: Summary of the MAS taxonomy for digital assets

c. Proposed digital asset taxonomy for Qatar

Taking into account the taxonomies of the UK and Singapore discussed above, we request that CRA consider adopting a digital asset taxonomy consistent with such global practices, thereby providing clarity to the legal character of digital assets in Qatar.

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

- *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 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.

2. Regulatory framework for digital assets

In addition to a taxonomy for digital assets, Ripple believes that the CRA should also consider an appropriate regulatory framework for digital assets in order to provide legal certainty and attract investment into the digital assets sector in Qatar. A comparison of the regulatory frameworks of the UK and Singapore is provided below, along with our recommendation for a proposed digital asset regulatory framework for Qatar.

a. United Kingdom

As discussed in section 1(a) above, the FCA Guidance classifies digital assets as either regulated or unregulated tokens. The FCA has determined that exchange tokens and utility tokens (as well as hybrid tokens) are presently outside its regulatory perimeter. Additionally, it is important to note that the FCA Guidance also states that market participants which only provide a platform for the trading of exchange tokens are outside the regulatory perimeter.¹⁸

However, digital asset exchanges will be subject to reporting obligations under the relevant AML & CFT regulations.¹⁹

On the other hand, security tokens that amount to a 'Specified Investment' under the Regulated Activities Order²⁰ ("RAO") are deemed to be securities, and are regulated the same as traditional financial securities. Likewise, any advisory services offered in connection with security tokens, or in connection with instruments that derive their value from underlying utility/exchange tokens are also subject to licensing and regulation under the RAO.

b. Singapore

As discussed in section 1(b) above, the PS Act adopts a risk-based approach for regulating payments services activities, consistent with the risks posed by a given activity. Consistent with that core principle, the MAS Guidelines subject all DPT service providers to AML & CFT requirements.²¹ Furthermore, according to the MAS FAQs on the PS Act,²² MAS requires any DPT service provider that facilitates the transfer of DPT or offers custodial wallet services for DPT to also apply AML & CFT measures, to mitigate the risks posed by these services.

The MAS guide to digital token offerings²³ highlights that 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 SFA. The expression 'Capital Markets Product' is a super-set of 'Securities' under the SFA, which means that MAS will treat such digital assets as securities. This includes, but is not limited to, a share, a debenture, a unit in a business trust, a

¹⁸ See FCA Guidance, paragraph 2.3, page 9.

¹⁹ See <https://www.legislation.gov.uk/ukxi/2017/692/contents/made>, United Kingdom Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017.

²⁰ See <https://www.legislation.gov.uk/ukxi/2001/544/contents/made>, United Kingdom Financial Services and Markets Act 2000 (Regulated Activities) Order 2001.

²¹ See MAS Guidelines, paragraph 4.2, page 8.

²² See <https://www.mas.gov.sg/-/media/MAS/Fintech/Payment-Services-Act/Payment-Services-Act-FAQ-31-March-2021.pdf>, MAS FAQs on the PS Act, paragraph 31.4, page 20.

²³ See <https://www.mas.gov.sg/-/media/MAS/Sectors/Guidance/Guide-to-Digital-Token-Offerings-26-May-2020.pdf>, MAS guide to digital token offerings, paragraph 2.3, page 3.

securities-based derivatives contract, or a unit in a collective investment scheme, as defined under the SFA. Licensing requirements under the SFA will also apply for dealing in securities tokens.

c. Proposed digital asset regulatory framework for Qatar

Taking into account the regulatory frameworks of the UK and Singapore discussed above, we request that the CRA consider adopting a digital asset regulatory framework consistent with these global practices in order to provide legal certainty and investments into the digital assets sector in Qatar.

We recommend that such a regulatory framework should align with the following principles outlined below:

- 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 digital assets 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 digital assets, prescriptive regulation risks obsolescence. Prescriptive regulation could also have the unintended consequence of hindering innovation. Therefore, we recommend the CRA consider a *principles-based regulatory framework*, which will guide market participants to regulatory and policy goals, without imposing an overly prescriptive and onerous process in doing so; and
- The regulatory framework should use a *risk-based approach* to identify digital asset services that pose sufficient risk to warrant regulation, and where such risks are crucial to address. This is in order to build a simple, secure, and accessible digital assets ecosystem that will encourage investment into digital assets in Qatar, while mitigating any potential risks.

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 Blueprint's policy goals of encouraging innovation and growth of digital assets in Qatar.

3. Public-private collaboration is essential

Finally, any policy framework intended to regulate digital assets should promote an active dialogue between regulators and market participants. The publication of the Blueprint is one such example, and we applaud the CRA for this initiative to collect feedback. We are supportive of the CRA continuing to foster public-private

collaboration, which will lead to more appropriate and effective policy outcomes for industry and consumers alike.

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

Ripple appreciates the opportunity to provide feedback on some of the topics highlighted in the Blueprint as the CRA 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 and Andrew Whitworth (Policy Director, EMEA) at awhitworth@ripple.com.

Sincerely,

Ripple Labs Inc.