

December 5, 2021



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

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 – Stewardship Issues Paper (the "Stewardship Issues Paper") published by the Reserve Bank of New Zealand ("RBNZ") on September 30, 2021.<sup>1</sup>

Ripple would like to thank the RBNZ for the in-depth and comprehensive analysis that has been undertaken in the Stewardship Issues Paper, and in the related RBNZ Future of Money - Central Bank Digital Currency Issues Paper (the "CBDC Issues Paper") published on September 30, 2021,<sup>2</sup> and Cash System Redesign Issues Paper (the "Cash Issues Paper") published on November 30, 2021.<sup>3</sup> Ripple has responded separately to the CBDC Issues Paper on December 5, 2021, and also intends to respond to the Cash Issues Paper by the deadline of March 7, 2022.

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.

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<sup>1</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>2</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>3</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.

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.

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

Ripple appreciates the opportunity to provide feedback on the Stewardship 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](mailto:radvani@ripple.com).

Sincerely,

Ripple Labs Inc.

## APPENDIX

Ripple respectfully submits the following responses to the questions set forth in Part B of the Stewardship Issues Paper.

### **A. Stewardship of money and cash (Section 4)**

#### **Question 1: Do you agree with the proposed objectives of stewardship?**

Ripple agrees with the proposed objectives of stewardship.

#### **Question 2: Do you agree that the approach to the stewardship of money and cash should be proactive?**

Ripple agrees that the approach to the stewardship of money and cash should be proactive.

#### **Question 3: Do you agree that the stewardship role is broad, and extends across the whole financial system in New Zealand?**

Ripple agrees that the stewardship role is broad, and extends across the whole financial system in New Zealand.

#### **Question 4: Other than clear responsibilities, comprehensive functions, effective tools and strong accountability processes, what do you think a steward ought to have in order to be successful?**

Ripple agrees that clear responsibilities, comprehensive functions, effective tools and strong accountability processes are required in order for a steward to be successful. However, we also feel that interoperability and public-private partnerships are key areas that need to be considered when considering stewardship.

Ripple agrees with the definition of stewardship identified by RBNZ, namely *“the responsible management and oversight of a system to create long-term value and sustainable benefits for society”*.<sup>4</sup> Ripple also supports the taxonomy of money identified by RBNZ, where Central Bank Money and Private Money coexist,<sup>5</sup> and agrees that the RBNZ’s stewardship role extends beyond Central Bank Money, and that *“the systems that underpin central bank money, private money and payment instruments are interconnected”*.<sup>6</sup>

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<sup>4</sup> See Stewardship Issues Paper, Page 10.

<sup>5</sup> See Stewardship Issues Paper, Page 9, Box 2.

<sup>6</sup> See Stewardship Issues Paper, Page 20.

However, it is also important to note that stewardship also needs to include consideration of the access and competitiveness of local people and entities within an increasingly globalised economy - the key to which is interoperability.

Ripple respectfully submits that in order to meet the policy goals of creating long-term value and sustainable benefits for society, the RBNZ also needs to 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. In the Stewardship Issues Paper, the RBNZ notes that, *"the monetary system is more likely to be healthy, efficient and innovative, and meet the needs of diverse users more equitably, if there is strategic oversight of the whole system"*.<sup>7</sup> We agree and believe that the RBNZ can achieve its goals through the adoption and implementation of common protocols.

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.

Ripple also recently announced the pilot of a private ledger for central banks considering CBDCs ("the CBDC Private Ledger").<sup>8</sup> The CBDC Private Ledger<sup>9</sup> can be used for both payments and issuing currencies; by leveraging RippleNet technologies and the Interledger Protocol, commercial financial institutions and central banks are able to make cost-effective, reliable and close to instantaneous payments, including at high volumes and for use cases such as micropayments.

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.

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<sup>7</sup> See Stewardship Issues Paper, Page 20.

<sup>8</sup> See <https://ripple.com/lp/cbdc-whitepaper>, Ripple Report: The Future of CBDCs.

<sup>9</sup> For a more detailed overview of the CBDC Private Ledger, please refer to the Ripple response to the CBDC Issues Paper submitted to RBNZ on December 5, 2021.

Therefore, we respectfully submit that in its role as steward, the RBNZ also needs to consider infrastructure that considers 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.

Development of infrastructure that is fully interoperable would benefit private sector collaboration and engagement. To this end, Ripple would be supportive of the creation of a task force that involves the public and private sectors collaborating together to exchange ideas and test solutions, and whose efforts are informed by the work on interoperability occurring at the international level.

Ultimately, we believe that private sector solutions - such as the use of neutral bridge assets like XRP - could have an important role to play in supporting healthy liquidity markets that allow for frictionless and cost-effective value movement between new forms of Central Bank Money or Private Money in real time, enabling the exchange of less liquid digital money pairs, and increasing competition by lowering entry barriers to new and smaller market participants.

We strongly believe that an open platform approach, bringing together expertise and investment from different stakeholders, including private sector firms, governments and academia, provides the best opportunity to build value-adding services, and will support the strategic and coordinated approach<sup>10</sup> identified by the RBNZ.

**Question 5: Where do you see the gaps in the Reserve Bank’s legislative powers and responsibilities in fulfilling the role of steward that warrant further investigation?**

Ripple is supportive of how RBNZ has chosen to deploy the stewardship toolkit,<sup>11</sup> and the powers identified. However, while RBNZ has identified regulation for stablecoins as one possible future tool, there is a gap in the regulation of other forms of token-based Private Money (such as digital assets) that form an important part of the monetary system. Ripple respectfully submits that the RBNZ should also consider a taxonomy and regulation for digital assets as part of the stewardship toolkit, and as a part of the stewardship policy work program.

It is important to note that there is no single or generally recognised definition of digital assets at present. Ripple respectfully submits such 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.

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<sup>10</sup> See Stewardship Issues Paper, Page 20.

<sup>11</sup> See Stewardship Issues Paper, Page 25, Table 2.

We request that RBNZ consider adopting a digital asset taxonomy and regulatory framework consistent with such global practices, thereby providing clarity to the legal character of digital assets in New Zealand.

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.

We propose that the RBNZ consider a regulatory framework that aligns 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 payment services using digital assets as a solution should not be treated 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 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 the development of the digital assets ecosystem in New Zealand, 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 encourage innovation and growth of digital assets in New Zealand with the principle of 'same risk, same activity, same treatment'.

We would also like to note that the New Zealand Ministry of Justice is currently consulting on a review of the Anti-Money Laundering and Countering Financing of Terrorism Act 2009<sup>12</sup> (“AML/CFT Consultation”).<sup>13</sup>

The AML/CFT Consultation includes questions around licensing for some reporting entities, including virtual asset service providers.<sup>14</sup> Ripple is supportive of such a licensing regime being established, as long as it aligns with the principles for a regulatory framework outlined above, and respectfully request the RBNZ to coordinate with other relevant stakeholders on further consultation on a taxonomy and regulatory framework for digital assets in New Zealand.

**Question 6: Do you think as a priority the steward should regularly collect, analyse and report on money and cash data?**

Yes, Ripple feels that as a priority the steward should regularly collect, analyse and report on money and cash data.

**Question 7: What do you think are the key issues the steward will be grappling with in the next 10 years or so, and which of these should the Reserve Bank prioritise?**

As outlined in our response to Question 4 and Question 5 above, Ripple feels that the two main issues the RBNZ needs to prioritize are interoperability as well as developing a taxonomy and regulatory framework for digital assets in New Zealand.

## **B. Cash system redesign (Section 5)**

**Question 8: Do you agree that access to cash and the acceptance of cash are issues the steward should be concerned about as a matter of priority?**

Ripple agrees that access to cash and the acceptance of cash are issues the steward should be concerned about as a matter of priority.

**Question 9: Do you agree with the analytical approach we are considering for developing policy for the cash system?**

Ripple agrees with the analytical approach that RBNZ is considering for developing policy for the cash system.

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<sup>12</sup> See <https://www.legislation.govt.nz/act/public/2009/0035/latest/DLM2140720.html>, New Zealand Legislation Anti-Money Laundering and Countering Financing of Terrorism Act 2009.

<sup>13</sup> See <https://www.justice.govt.nz/assets/Documents/Publications/AMLCFT-Statutory-Review-Consultation-Document.pdf>, New Zealand Ministry of Justice Review of the AML/CFT Act Consultation Document.

<sup>14</sup> See AML/CFT Consultation, Page 16-17.

**Question 10: Are there any pressing issues with the ongoing effectiveness of the cash system that we should be particularly mindful of?**

Ripple broadly agrees with the important issues for the cash system and high-level policy options identified by the RBNZ,<sup>15</sup> and the importance of private sector initiatives to improve cash access. However, there are issues to consider with relation to cash access for remittances and cross-border payments. Ripple intends to provide more detail on this subject in our response to the Cash Issues Paper by the consultation deadline of March 7, 2022.

**Question 11: Do you have insights into or examples of the incentives operating within the cash system that you are willing and able to share?**

Ripple has no comments on this question.

**Question 12: Are there circumstances or impacts related to acceptance, availability, depositing, handling or transporting of cash that you wish to highlight?**

Ripple has no comments on this question.

**C. Stablecoins (Section 6)**

**Question 13: Do you think the key benefits and risks related to stablecoins have been identified in the paper?**

Ripple broadly agrees with the key benefits and risks related to stablecoins identified by the RBNZ.<sup>16</sup>

To be sure, stablecoins present regulatory hurdles that must be addressed before they can be used widely. The Stewardship Issues Paper observes that “*stablecoins may pose significant risks to the monetary system and the wider financial system*”,<sup>17</sup> which have been echoed by the Financial Stability Board (“FSB”).<sup>18</sup>

However, as noted in a recent speech by 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>19</sup> We believe that privately-issued

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<sup>15</sup> See Stewardship Issues Paper, Page 29-30.

<sup>16</sup> See Stewardship Issues Paper, Page 32-33.

<sup>17</sup> See Stewardship Issues Paper, Page 32.

<sup>18</sup> See <https://www.fsb.org/wp-content/uploads/P071021.pdf>, Regulation, Supervision and Oversight of “Global Stablecoin” Arrangements - Progress Report on the implementation of the FSB High-Level Recommendations.

<sup>19</sup> See <https://www.federalreserve.gov/newsevents/speech/quarles20210628a.htm>, Parachute Pants and Central Bank Money.



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.

**Question 14: Are there aspects of stablecoins that have been overlooked and should be considered as part of the analysis?**

Ripple has no comments on this question.

**Question 15: Do you have insights into or examples of stablecoins or crypto-assets generally that you are willing and able to share?**

Ripple has no comments on this question.

#### **D. Central Bank Digital Currency (Section 7)**

Please refer to the Ripple response to the CBDC Issues Paper submitted to RBNZ on December 5, 2021.