



February 24, 2017

Via E-mail

Fred H. Miller, Chair
Sarah Jane Hughes, Reporter
Uniform Law Commission

Re: ULC October 2016 Draft Regulation of Virtual Currency Businesses Act

Ladies and Gentlemen:

Ripple¹ respectfully submits to the Uniform Law Commission (ULC) Drafting Committee on Regulation of Virtual Currencies (the Drafting Committee) this comment letter regarding the Drafting Committee's October 2016 version of the draft Regulation of Virtual Currency Businesses Act (the Act).

Ripple appreciates the work of the Drafting Committee toward developing a model uniform regulation that establishes robust and transparent state-level protections to foster the prudent adoption of virtual currency-related products and services. We, too, believe that appropriate regulation can increase public trust in virtual currency businesses, enhance the resiliency of virtual currency markets, and provide important protections for consumers that engage in virtual currency transactions.

1. Clarity of scope and focus. We believe the Drafting Committee's work can shape a more effective and efficient regulatory system. Critical to doing so is specifying, with clarity and precision, the aims and scope of the Act. We encourage the Drafting Committee to clearly define an appropriate risk-based scope, focusing on those virtual currency-related businesses and activities that pose the greatest consumer and prudential risks — specifically, those that are able to operate largely beyond the reach of existing prudential oversight and customer protection requirements.

Clarity of scope and focus in drafting the Act are particularly necessary given that virtual currencies are an innovation with potentially broad applications and diverse use cases — they can serve useful functions beyond merely as an alternative to fiat currencies (like the U.S. dollar or euro) for consumers in their retail payments. For instance, regulated financial institutions can use XRP, the digital asset native to the Ripple Consensus Ledger, as a bridging tool that streamlines liquidity provision for their interbank foreign exchange transactions.² Using XRP in this way allows these institutions to reduce the costs, enhance the transparency, and extend the global reach of *their* cross-border payments — without the end-user payer or payee themselves necessarily having any contact

¹ 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. These tools enable a more efficient and frictionless payment process, as well as broaden access to financial services.

² For more information, *see, e.g.*, Press Release, Ripple, R3 Trials Interbank Cross-Border Payments With Ripple's Digital Asset XRP (Oct. 20, 2016), available at ripple.com/ripple_press/r3-trials-interbank-cross-border-payments-ripples-digital-asset-xrp/

with XRP. In this way, XRP is a component to an enterprise solution that allows liquidity to more efficiently flow between regulated financial institutions around the world. We do not believe new state regulation of financial institutions that use this enterprise solution is necessary at this time, given that such institutions, and their technology service providers, are already subject to robust banking regulations that exist today. The Act should not subject them to additional, duplicative regulatory burdens as virtual currency businesses.

2. Technology neutrality. Additionally, we encourage the Drafting Committee to adopt a technology-neutral approach in its drafting — *i.e.*, developing regulatory requirements based on the *intrinsic* characteristics of the virtual currency activities to be regulated and the risks arising from them. In contrast, introducing rigid categorizations and specific requirements tailored to the technological applications being used at this moment would result in regulations susceptible to obsolescence. In particular, we caution that importing into the Act certain provisions of Article 8 of the Uniform Commercial Code that may appear to be analogous to certain of today's virtual currency business activities, and prescribing by regulation specific mandatory commercial terms for the protection of consumers, may lead to outmoded provisions as customer needs continue to evolve.

Rather, we propose that the Drafting Committee adopt robust disclosure requirements designed to ensure consumers have clear information about the risks and relevant terms associated with a given virtual currency business activity, in a form they can easily understand and use for important financial decisions. We note that this is consistent with the approach adopted in the New York Department of Financial Services regulations regarding licensing of virtual currency businesses, which contains extensive disclosure requirements designed to ensure that consumers are fully aware of the key risks and relevant terms and conditions associated with virtual currency transactions. Moreover, this technology-neutral approach is sufficiently flexible to keep pace with the continuing emergence of genuinely novel and diverse virtual currency-related innovations aiming to meet diverse and ever changing financial services needs.

Thank you for your consideration of our suggestions regarding the Act. If you have any questions or need further information, please do not hesitate to contact me (jcheng@ripple.com).

Respectfully submitted,

A handwritten signature in blue ink that reads "Jessie Cheng". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Jessie Cheng
Deputy General Counsel
Ripple