



September 23, 2016

By Electronic Submission

Financial Services Regulatory Authority
Abu Dhabi Global Market Square
Al Maryah Island
PO Box 111999
Abu Dhabi, UAE

Re: Consultation Paper No. 3 of 2016 Consultation on Proposed Legislative Framework for Innovative Financial Technology

Ladies and Gentlemen of the FSRA:

Innovation often results from the convergence of three key domains: financial services, technology, and regulations. Within this view, the regulatory framework is a crucial aspect of innovation. When crafted in a balanced, proactive way, regulations can directly drive innovation and market competition.

We applaud FSRA's proactive effort to foster safe innovation in financial services. We find the FSRA's most recent consultation paper to be a well crafted framework that will support responsible innovation. Ripple expects this effort will directly drive new innovation in Abu Dhabi.

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

We are thankful for the opportunity to provide comments and greatly appreciate the FSRA considering our input.

In this response we:

1. Discuss Ripple's role and involvement with the RegLab
2. Address the importance of creating a safe space for innovation
3. Highlight areas in which we feel that the FSRA can enhance and clarify the RegLab's scope and processes



1. Role of Ripple

Ripple's distributed financial technology allows banks to directly transact and settle in real time.

The solution enables instant transaction verification and settlement certainty. It offers a cryptographically secure end-to-end payment flow with transaction immutability and contextual information about the payments.

By licensing software to banks, Ripple is typically considered a vendor or third-party technology service provider. As a result, Ripple is subject to our clients' vendor management and IT change management program requirements.

Ripple is technology service provider to banks with a fully functional product offering. Rather than acting as a direct participant in the RegLab with goals of product development, Ripple may be interested in vetting future product enhancements or future value-added services for our clients within the RegLab, as noted in Annex B, 3.1.b.

2. The importance of creating a safe space for innovation

Ripple believes that "sandboxes" such as the RegLab are an excellent way for financial technology companies and regulators to collaborate during the process of building out a new product. Companies are empowered to create innovative products with the effective oversight of their regulator in a safe environment. Further, both parties are better able to understand the risks and unique regulatory implications from the beginning of the product cycle.

We commend the FSRA for being a global leader in fostering innovation in the financial sector. It is encouraging to see regulators acknowledging the potential of new fintech products, and developing a safe space to enable their growth. Ripple appreciates the FSRA's open approach to creating this framework.

The paper's Authorisation Criteria explains, "As failure is an inherent part of an innovation cycle, the objective of the RegLab is to create a safe environment for FinTech Participants to develop and test innovative FinTech solutions so that, in the event of a failed business, the risks and impact to clients, and the financial system as a whole, are contained." Ripple applauds this mentality. Allowing products to develop in a safe environment is mutually beneficial for the regulator and the financial technology company: regulators gain first-hand experience of an emerging technology's benefits and risks, while innovators gather direct feedback about governance, controls and regulatory implications that will result in a safer, more effective product.

Further, it is evident that the FSRA is well-versed in the efforts of other regulators, as exhibited by the reference to the UK's Financial Conduct Authority and the Monetary Authority of Singapore. The FSRA's efforts to incorporate best practices from other regulators will result in an effective RegLab and further establish itself as a leader in financial innovation.

3. Suggested Enhancements

A. Scope of RegLab Participants and Clients

Ripple commends the FSRA for its “blank sheet” approach, as it allows room to consider unique use cases of new technology. It is important to acknowledge that not all FinTech companies have built direct-to-consumer products or client-facing applications, but instead may have created infrastructure technology or services. Companies operating infrastructure technology may not have a consumer component, but can still learn a great deal from participating in the RegLab.

Many companies today are focused on working to improve and innovate cross-border services, which is inherently beyond the scope of the ADGM. We urge the FSRA to consider the unique implications for cross-border FinTech innovation, as it pertains to Article 4 of Federal Law No. (8) of 2004, as it could ultimately benefit the Abu Dhabi market.

B. Authorisation Criteria for RegLab Applicants

The RegLab criteria states that, “...the FSRA will carefully assess, as part of the authorisation process, whether the applicant for a FinTech authorisation has put in place the necessary safeguards, risk management and control systems to address the risks of their FinTech Proposal.”

We would like to note that for new or truly novel technology, the risks and necessary safeguards may not yet be fully known. That said, Ripple sees the RegLab as an ideal venue for companies to explore these critical aspects of their business, and for the regulator to get first-hand exposure to the potential risks of these new technologies. Rather than turning these emerging technologies away due to risk controls and governance that may not be fully developed, FSRA can use the RegLab to learn and drive the direction in which a technology may become integrated into financial services. In these cases, the RegLab could be used to foster sound governance for companies by having participants describe their plans for building out board members and advisors, as well as instituting accountability measures and controls.

In this scenario, where a young company or immature technology enters the RegLab, we recommend that, at this stage, they not serve real clients or transact with live money. Proof of concepts without these real-life scenarios would prove beneficial, balancing the opportunity to learn with responsible behavior and safety.

C. Two-Year Validity Period

Ripple is in agreement with the FSRA that the two-year validity period for the RegLab provides ample time to develop a working product. One consideration is that a product or service may be fully formed before the two-year period comes to a close. In this case, Ripple suggests that the FSRA consider creating a flexible off-ramp for companies within the RegLab that achieve their product development goals in less than two years.



If the FSRA and RegLab participant both agree that the product or service is past the experimental and testing phase, the participant should be granted permission to exit the RegLab and continue their business venture in the greater global market. By that time, the participant may have reached a point of accelerated growth, beyond which it's inappropriate to be part of an incubator program. Facilitating these companies' exits from the RegLab will enable the FSRA to focus more closely on the goals and needs of the companies that remain.

Conclusion

The FSRA has undoubtedly made great strides in considering a well defined framework for responsible innovation. We ask the FSRA to consider these additional suggestions for enhancement to the RegLab framework. Ripple is grateful for the opportunity to provide these perspectives and is happy to address any questions.

Sincerely,

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