



October 29, 2016

FinTech & Innovation Group  
Monetary Authority of Singapore  
10 Shenton Way, MAS Building  
Singapore 079117

Re: Ripple's Comments to MAS' Proposed Payments Framework

Dear Sir or Madam,

Ripple understands the P009-2016 Consultation Paper is the first in a series of consultations on the Proposed Payments Framework ("PPF") and appreciates the time the Monetary Authority of Singapore ("MAS") has invested in creating this first draft. We aim to assist MAS in this and subsequent public consultations and hope that our initial feedback proves useful.

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

Ripple strongly supports MAS' goal of creating a unified regulatory framework for payments in Singapore. We believe the proposed framework has the potential to eliminate the overlapping nature of today's requirements, minimize uncertainty, and promote safe innovation.

However, clear, narrowly-tailored definitions are needed to minimize unintended consequences and ensure non-payment activities are not inadvertently covered by the PPF. In crafting definitions, Ripple urges MAS to consider our views that:

- **Interbank Messaging Platforms and Technology Providers Remain Outside of PPF.** The PPF is designed to govern payment activities under one framework. Yet, interbank messaging platforms and underlying technology such as Ripple present specific IT risk, distinct from the type of risk which MAS seeks to mitigate under PPF. We feel these services are properly regulated under existing technology and vendor risk guidelines.
- **National Payments Council's Authorities Should Be Balanced So Not To Limit Innovation Within Private and Cross-Border Schemes.** The shift of power to the NPC could negatively impact the availability of certain payment services, including private, cross-border schemes. Ripple suggests ways to ensure the NPC is effective, while preserving innovation and flexibility for privately-owned systems.



Ripple applauds MAS' efforts to create a more unified payments framework in Singapore and is thankful for the opportunity to provide our input. We believe that as payment systems and other providers of financial services become more complex, integrated, and interrelated, a more calibrated activity-based regulatory framework becomes necessary.

Sincerely,

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## About Ripple:

Ripple licenses its interbank communication tools to financial institutions. Ripple's technology allows banks and payment providers to make real-time cross-border payments with certainty of costs and visibility into payment status.

In this capacity, Ripple is a technology vendor and is generally subject to the technology and vendor risk management expectations of its financial institution clients (and their regulators). The financial institutions that use Ripple for payments maintain the customer relationship and remain responsible for Know Your Customer and Anti-Money Laundering compliance; consumer protections; safety and soundness; and any other relevant regulation within its jurisdiction.

Ripple also offers a digital asset called XRP, which can be used by financial institutions as a liquidity tool. XRP allows financial institutions to source fiat liquidity in real-time, then send a fiat-to-fiat payment with Ripple's technology. This differs from Bitcoin where the consumer converts fiat currency into virtual currency to send a payment. In Ripple, the consumer has no exposure to virtual currency/XRP. The consumer's payment remains in fiat currency with all existing consumer protections and payment regulations staying intact. XRP is an optional tool used by the financial institution to source liquidity (fiat currency in the destination country) for the payment.

XRP eliminates the need for financial institutions to hold capital in several nostro accounts for broad currency reach. By using XRP, financial institutions can initiate cross-border payments from one domestic account, reducing the liquidity and capital cost of cross-border payments. Use of XRP is entirely optional and at the discretion of the financial institution.

For additional information, please visit [www.ripple.com](http://www.ripple.com).



Question 1. MAS seeks views on its approach to regulation of payment activities under the PPF.

**Ripple strongly supports MAS' intent to create a unified framework under the PPF.**

The framework would create a clear, cohesive, and comprehensive set of regulations for participants. Creating a single regulatory framework would ensure consistent treatment and protections across all payment types, especially for important issues such as consumer protections, money laundering, and terrorism financing.

**Ripple strongly supports MAS' intent to require only one license from covered entities.** Regulated activities may have overlapping requirements which result in redundant licensing obligations, possibly restraining what would otherwise be safe and responsible innovation. Ripple believes that requiring only one license and having licensees update their applications to reflect additional activities will increase the efficiency and effectiveness of Singapore's payments framework.

With the exception of points raised later in the letter, this proposal would reduce barriers to innovation while ensuring a safe, thoroughly regulated payments sector.

Question 4. MAS seeks views on the scope of the PPF, including whether foreign payment service providers that provide services to Singapore residents should be required to establish a local presence.

**A clearly-defined definition of "payment service provider" is needed to limit unintended consequences.** As MAS crafts detailed definitions and the scope of the PPF, we urge MAS to (1) define the types of entities considered "payment service providers" and (2) highlight the risks it seeks to mitigate through requiring providers to have a local presence. Requiring a local presence may be an appropriate way to address the risks posed by activities of some types of payment service providers.

Yet, it may not be appropriate or necessary to require some types of payment services providers – especially providers of underlying technology – to establish a local presence. This requirement may not be helpful in mitigating the risks posed by these activities, and could limit both innovation and the entry of new companies into Singapore.

Ripple does not interpret "payment services providers" to encompass providers of software and infrastructure. These companies are presently subject to technology and vendor management guidelines, which we feel is appropriate given their activities and risk. Yet, we cannot know for sure how PPF impacts technology providers until a definition of "payment services provider" is confirmed. While the graphic on page 7 of the Consultation Paper does list seven activities, other activities such as inter-bank messaging platforms are listed elsewhere in the paper and not represented on this graphic. Providing additional clarity in future drafts will remove uncertainty and ensure a properly tailored framework.

By defining the terms and the risks it seeks to mitigate, MAS can ensure requirements for establishing a local presence are applied to the firms that pose those specific risks. This



approach ensures requirements are calibrated and targeted where necessary, without creating burden on unrelated companies.

Question 5. MAS seeks views on whether the proposed activities are comprehensive, and whether any activities in the payments ecosystem have been left out.

Ripple believes that the activities encompassed under the PPF as currently drafted are comprehensive. **However, Ripple is concerned that the covered activities may be overly inclusive.**

Specifically, Ripple is concerned about the inclusion of inter-bank messaging platforms within the scope of Activity 4. We do not feel regulating a communication platform under a payments framework is the most effective way to mitigate the risks posed by these technologies. The risks posed by interbank messaging platforms differ from the risks of the other payment activity captured within the PPF. We feel technology and vendor management guidance is the preferred way to address the technology-specific risks posed by these platforms. Please see the response to Question 23 for a detailed explanation.

Question 18. MAS seeks feedback on the inclusion of virtual currency intermediaries under Activity 3.

**Ripple agrees that it is appropriate to include virtual currency intermediaries that present consumer risk under Activity 3.** Over the last several years, consumers have adopted virtual currencies as a means of exchange and store of value. In response, many jurisdictions have sought to bring virtual currency intermediaries and exchanges within regulatory bounds in order to mitigate consumer and money laundering risk. We feel the inclusion of these activities within the PPF is appropriate and prudent.

To date, virtual currencies have been used by consumers in place of fiat, government-issued currencies. Yet, **new use cases of virtual currencies are developing as financial institutions consider their potential.**

Ripple features an optional digital asset/virtual currency called XRP. Instead of being used by consumers to replace fiat currency, XRP is designed to be used by financial institutions to source fiat currency for cross-border payments. In instances where a financial institution needs to send a payment to a currency or counterparty that it does not have an account (nostro account or existing liquidity relationship), XRP can be exchanged between the financial institutions to secure the fiat currency needed in the destination country. After this, the financial institutions make a fiat-to-fiat payment for their



customer. It is important to note that the financial institution remains responsible for compliance with all payment-related regulations, including KYC and AML.

In this design XRP is used to secure fiat currency efficiently and quickly, not replace fiat currency as is seen in the use of other virtual currencies. XRP is only exchanged between the financial institutions; the customers' payments are not exposed to XRP. XRP is used to support the liquidity between fiat currencies, not eliminate their use.

While this use case is still developing, Ripple [partnered](#) with R3 CEV and twelve banks to explore XRP's use as a liquidity sourcing tool. The banks were specifically interested in using XRP to access and scale liquidity more efficiently, reducing the costs of cross-border payments. This use case demonstrates the willingness of financial institutions to utilize digital assets in enterprise use cases that pose little or no risk to consumers.

The risk in this use case is different from the risks that stem for consumers' use of virtual currencies. Noting this, it may not be appropriate to consider these two different use cases under the same regulatory framework. Ripple looks forward to discussing XRP in greater detail with MAS, and wanted to take this opportunity to note the emergence of new uses cases for virtual currencies.

Question 23. MAS seeks feedback on the potential merits, or lack thereof, of including inter-bank payments messaging platforms in the scope of Activity 4.

**Ripple believes technology service providers offering interbank payments messaging platforms should remain outside the scope of Activity 4.** Such entities pose technology risks which are appropriately regulated under existing technology and vendor risk management guidelines. Generally, the providers of interbank messaging platforms do not pose money laundering or terrorist financing risks, the primary purpose behind MAS' consideration to include these services within PPF.

For instance, Ripple licenses its interbank messaging software to financial institutions. All payment information sent via Ripple's software is private and viewable only to the financial institutions that are part of the payment. Ripple (the company) neither receives nor is able to view the messages sent between financial institutions. This design limits data breach vulnerabilities and ensures protection of consumer data.

The financial institutions maintain the customer relationship, including providing a front-end service, authenticating customers, and holding their funds. As the provider of a payment service to customers, the financial institution is responsible for compliance with Know Your Customer rules, consumer protection requirements, anti-money laundering obligations, safety and soundness requirements, and all other relevant regulatory



expectations. These activities and compliance requirements properly fall within the scope of the PPF.

However, Ripple (and other similar interbank messaging services) do not pose consumer protection, money laundering or other payment-specific risks. At no point does Ripple custody funds, obtain or retain consumer information, or establish a business relationship with any party beyond the financial institution. Therefore, including interbank messaging services within the scope of PPF would not enhance the oversight of money laundering or terrorist financing risk.

**Technology service providers do present technology and cybersecurity risks, which we feel are best governed under existing guidelines.** While interbank messaging services do not present payment-related risks, they do create technology and cybersecurity risks that should be mitigated. Technology and cybersecurity risks are inherently different from the payment-related risks discussed above.

We feel the risks posed by interbank messaging systems are best governed by MAS' *Guidelines on Outsourcing* and *Technology Risk Management Guidelines*. These frameworks address the risks and outline the duties of those providing technology, including interbank messaging systems.

Ripple urges MAS to treat separately the technology risk posed by messaging platforms from the consumer protection, terrorist financing, and money laundering risks posed by providers of payment services.

**Regulating messaging platforms within PPF would hinder innovations aimed at reducing money laundering.** Including messaging platforms within PPF would not improve the oversight of payment-related risks, yet would limit innovation and adoption of new services.

Technology companies, including Ripple, have developed new messaging capabilities that allow financial institutions to better detect and reduce risk. Today, cross-border messaging services are one-directional and provide limited payment information. Ripple has developed a next generation messaging capability that allows a two-way conversation between the financial institutions. Ripple's messaging service uses standard formats (ISO 20022) yet provides extensible fields to share additional contextual information about the payment. Financial institutions can use the two-way messaging capability and additional information to better identify and resolve compliance concerns, errors and failed payments.

New services like Ripple enable providers to more efficiently and accurately address fraud and money laundering risks. As discussed above, Ripple feels the technology risk inherent in its messaging service is best governed by the technology and vendor



management guidelines. If the service was subjected to PPF – which we do not feel necessary or appropriate – it would place undue burden on technology companies, and hinder both innovation and adoption of new capabilities.

Ripple believes that because technology providers are already subject to both institutional and regulatory frameworks that ensure safety, soundness, and resilience, it is not necessary or appropriate to include them in the scope of Activity 4.

Question 51. MAS seeks comments on the extent and nature of the National Payments Council's (NPC) powers over participants and schemes.

The Consultation Paper identifies a “lack of interoperability and limited formal participation” by stakeholders as challenges to governance, resulting in a fragmented payments landscape. The proposed National Payments Council would govern scheme rules, standards for access, and membership fees and pricing policies. Some of the payment systems that would be covered are privately owned, operated, and governed.

**The PPF could trigger a large transfer of control from the diverse private sector entities to the NPC. This may be challenging for some private systems, particularly those that are cross-border in nature.** The NPC's broad reach and control may hinder some schemes from either being based in or simply operating in Singapore. Given the growing importance of cross-border services, especially in financial centers like Singapore, MAS should consider how NPC's power may negatively impact the availability of services.

To minimize these negative impacts, MAS can ensure NPC's authorities balance private and public interests in some of the following ways:

- Limit the covered payment systems to those that operate only in Singapore
- Establish default rules that parties can freely contract around or out of
- Establish minimum floors that allow parties to maintain some discretion
- Limiting applicability to only widely-used payment systems (e.g., those that process some minimum dollar amount of transactions) to allow innovation and emerging payments technologies to freely develop.

Considering some of these measures can ensure the NPC can be effective in representing views and driving interoperability, without negatively impacting market offerings and Singapore's role as a financial capital.

Thank you for the opportunity to share these comments and we are happy to assist with any questions.

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