

Testimony of

Greg Kidd, Chief Risk Officer

Ripple Labs Inc.

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Chairman Gerstein, Deputy Chair, and members of the Committee: My name is Greg Kidd. I am the Chief Risk Officer of Ripple Labs, a technology company that builds payment tools for financial institutions.

Previously, I worked on payment systems at the United States Federal Reserve and advised financial institutions on risk and governance.

I greatly appreciate the opportunity to meet with you today. I commend your leadership in investigating virtual currencies and other emerging technologies. I am pleased to offer an overview of Ripple and address any questions you may have.

Ripple Labs is based in San Francisco, CA and employs a team of 95 men and women with experience in government and regulation, finance, and technology. Their previous experience includes the Federal Reserve, U.S. Securities and Exchange Commission, the National Security Agency, Goldman Sachs, Deloitte, Apple and Google.

Our goal is to create faster, safer and more efficient payments domestically and across international borders.

In my view, a large portion of today's inefficiencies in payments stem from antiquated infrastructure. In many countries, the technology underpinning payments was last updated in the 1970s and was not designed with interoperability in mind.

Because systems are not compatible, banks have to rely on a patchwork of intermediaries to move funds – a process which introduces risks, delays, and costs.

Ripple Labs aims to improve payments by offering modern, interoperable payment infrastructure for registered financial institutions, clearinghouses, and central banks. As Ripple is a payment technology for financial institutions, consumers may never know their transactions are being sent through Ripple, just as they have little to no knowledge of the ACH and wire rails that facilitate their payments today.

Our technology is designed to minimize payment and counterparty risk, reduce costs, and enable connectivity between banks and payment networks.



Before discussing the technology we use, I want to highlight that Ripple's technology fully complements existing regulations. When using Ripple, a financial institution's responsibility for OFAC reporting, anti-money laundering compliance, Know Your Customer requirements, and other regulatory reporting stays fully intact – just as with existing payment rails.

This reflects Ripple Labs' view that ensuring robust security, consumer protections, and safety are crucial as we move toward improving payment systems.

I would like to highlight two aspects of the Ripple technology that are most relevant to the Committee's work: a shared ledger and a virtual currency.

At the core of a financial institution is its ledger, which is used to keep track of all its customers' balances. As each bank and payment system have their own ledger, they must rely on intermediaries or clearinghouses to make payments across different ledgers. This process adds delays, costs and risks to payments.

Ripple uses a shared ledger that enables transactions to be completed in real-time, 24/7/365 direct from sending to receiving bank. This eliminates intermediaries and minimizes risks and costs.

While today's system requires regulators to piece together several banks' ledgers to track funds, Ripple's shared ledger stores all payments records in one location, giving complete visibility into transactions and vastly improving funds traceability. Ripple's shared ledger enables greater transparency and more direct, point-to-point payments, improving banks' compliance capabilities and supporting regulators in their anti-money laundering efforts.

In addition to the ledger, Ripple utilizes a virtual currency, referred to as "XRP", but in a very different way than most virtual currencies are being used today.

As your previous hearings have noted, a majority of virtual currencies are marketed to consumers to be used as a means of exchange and a store of value. This poses serious liquidity, volatility and security risks for consumers.

Within Ripple, XRP is used very differently: as a security mechanism and as an optional bridge between currencies.



Each financial institution that uses Ripple is required to hold a small reserve of XRPs to be used as postage stamps on transactions. With each transaction, a portion of XRP is destroyed, typically equating to a tiny fraction of a cent. This imposes a small cost on transactions, yet makes overwhelming the network with illicit traffic or a denial of service attack prohibitively expensive.

In this way, XRP helps secure the network from attack and ensures its resiliency and reliability.

The other use case for XRP is as an optional bridge between currencies. If a bank needs to make a payment for a customer to a recipient in another country, the bank may choose to use XRP as a low-cost, efficient bridge between the sending and receiving currencies. XRP lowers the reserve requirements for making cross-border payments. However, use of XRP as a bridge is entirely optional; a bank can freely choose to transact only in fiat currencies.

In your investigations and ultimate regulations on virtual currencies, I strongly urge the Committee to consider these alternative use cases for virtual currencies and related technology. As this sector continues to mature, I trust that there will be additional innovative use cases for these technologies - many of which offer benefits to payment systems. Regulations should account for the varying use cases to ensure Canadian banks and consumers can realize their benefits.

In summary Ripple's technology allows banks to provide its customers faster, cheaper and safer payments to countries it previously could not access. Ripple does so while fully complementing and supporting regulatory compliance.

I hope these comments are helpful in understanding Ripple. Thank you for your time, and I am happy to address any questions.