



Virtual Currency Regulation: Addressing Risk While Preserving Innovation

## The Promise of Enterprise Use Cases

Digital assets have been a promising technology breakthrough, showing the potential to transform many sectors of the global economy. Consumers initially adopted the technology as a currency.

Yet, similar to other breakthroughs like the internet, the initial use case is not indicative of the technology's ultimate potential. A variety of use cases emerge as a technology matures. This paper highlights a novel enterprise use case for digital assets and provides policy recommendations.

### **Enterprise Use Case: Liquidity Tool for Financial Institutions**

Enterprise-focused use cases for digital assets have come forth and are gaining traction. Financial institutions are beginning to leverage digital assets to source liquidity for global payments more efficiently than has ever been possible.

Liquidity is one of the most critical, yet costly aspects of cross-border payments reach. Until now, liquidity was sourced by pre-funding accounts in foreign markets, limiting reach by locking up capital and creating exposure to foreign currency risk.

Certain digital assets such as XRP, a digital asset native to XRP Ledger, have the potential to revolutionize payments, allowing regulated financial institutions to source liquidity in real-time, without having to pre-fund foreign accounts. This expands payment reach, lowers foreign currency risk exposure, and reduces the cost of a payment. Consumers are never exposed to digital assets and the financial institutions remain subject to existing regulations. ***In this use case, digital assets are used to connect fiat currency more efficiently, not replace it.***

### **Addressing Consumer Risks While Enabling Enterprise Use Cases**

Effective regulation is critical to addressing risk while enabling new enterprise use cases. To achieve this balance, we recommend three actions:

#### **1. Recognize that Bans or "One Size Fits All" Approaches Can Stifle Innovation**

Each use case presents unique benefits and risks. To preserve future potential and ensure effective rules, avoid broad regulation of the underlying technology. Rather, focus on tailoring rules to the unique aspects of each use case. We urge global coordination as the technology is global in scope.

#### **2. Virtual Currency Use Case: Address Risk Through a Licensing Framework**

Consumer use cases are meeting market needs, yet regulation is needed to address risk. We urge policy makers to issue licensing frameworks that include: consumer protections against abusive practices, anti-money laundering requirements and reporting, and safety and soundness measures including capital, cybersecurity and risk requirements.

#### **3. Liquidity Tool Use Case: Provide Guidance for Banks to Leverage Digital Assets**

Reflect emerging enterprise use cases in regulation, recognizing their potential to lower barriers to commerce and increase financial inclusion. Create risk-based guidance for financial institutions to assess and adopt new use cases of digital assets.

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