

Written evidence submitted by Ripple Labs Inc.

Foreword

Ripple Labs Inc. (Ripple) welcomes the opportunity to feed into the Treasury Select Committee's Call for Evidence on the state of the crypto-asset industry, crypto-assets' role in the future economy, and the regulatory response that will enable the UK to become a global leader in standards setting through empowering these technologies to thrive while protecting consumers and businesses alike.

As a strong advocate for robust, sensible regulation, we have been encouraged by the UK Government's and UK Parliament's approach to crypto-assets and are supportive of efforts to raise awareness of the multifaceted roles that blockchain technologies and crypto-assets may play in the future British economy.

The Financial Services and Markets Bill, HM Treasury's proposed Crypto-Asset Engagement Group, and the Financial Conduct Authority's regulatory sandboxes are all encouraging signs that the UK Government is approaching the sector with the necessary openness and seriousness and we appreciate future efforts still to come.

Introduction

Using blockchain technology, Ripple allows financial institutions to process payments instantly, reliably, cost-effectively, and with end-to-end visibility anywhere in the world. Our customers are financial institutions that want tools to effect faster and less costly cross-border payments, as well as eliminate the uncertainty and risk historically involved in moving money across borders using interbank messaging alone. All this is done in compliance with AML/BSA regulations.

Some customers, in addition to deploying Ripple's "blockchain" solution (RippleNet), leverage a digital asset known as XRP. Just as Bitcoin is the native asset to the open-source Bitcoin ledger, and Ethereum is the native asset to the open-source Ethereum ledger, XRP is the native asset to the open-source XRP Ledger. XRP, given its unique design, can serve as a near instantaneous bridge between fiat currencies (or any two representations of value), further reducing the friction and costs for commercial financial institutions to transact across multiple global markets.

Although Ripple utilizes XRP and the XRP Ledger in its product offerings, XRP is independent of Ripple. The XRP Ledger is decentralized, open-source, and operates on what is known as a "consensus" protocol. While there are well over a hundred known use cases for XRP and the XRP Ledger, Ripple leverages XRP for use in its product suite because of XRP's suitability for cross-border payments. Key characteristics of XRP include speed, scalability, energy efficiency, and cost efficiency, all of which benefits the consumer and helps reduce friction in the market for cross-border payments.

With this overview, Ripple respectfully submits the following responses to the Treasury Select Committee's inquiry. If there are any points included in our response that the Committee may

wish to obtain further information about, we would welcome the opportunity to provide this at a later date.

Benefits to the UK

Crypto-assets and blockchain-based technologies offer significant benefits to the UK. These are both economic and social.

Economically, crypto-assets and blockchain-based technologies can make financial transactions cheaper, faster and more secure. By providing new, digitally-native ways for financial actors such as banks and fintechs to connect with each other, new technology can remove many of the frictions that make traditional finance expensive and inefficient. On top of this, the crypto-sector is also developing a whole new industry, feeding on the UK's traditional strengths in finance, tech, and a skilled work-force. This means there are new firms, with new business models, developing entirely new propositions. This development stands to invigorate the UK financial sector as a whole and contribute to the UK's economic growth.

Socially, these new technologies can improve financial inclusion across the country. Despite attempts to improve financial inclusion in the UK, there remain 1.2 million people who are 'unbanked' and unable to access the full range of basic financial services, such as savings, loans, mortgages and other forms of credit.¹ They similarly face difficulties establishing credit history, accessing peer-to-peer (P2P) lending, and being able to send cross-border payments in an efficient and cost-effective manner. Digital assets, including CBDCs should the UK decide to launch one, will [assist](#) in each of these three areas.

The need for a holistic regulatory framework

The United Kingdom is already a successful fintech hub and is equipped with the infrastructure, investment and talent necessary to champion the crypto industry. Ripple is especially encouraged by the steps being taken by UK regulators and governmental departments to better understand the sector and develop links with industry.

From Ripple's perspective, the single biggest obstacle facing UK crypto-asset businesses when competing globally is the current lack of regulatory clarity. The Government is encouragingly proactive in promoting the UK as a leading crypto hub, but without a holistic and nuanced regulatory framework for crypto-assets that accounts for the specifics of differing business models, industry will continue to face uncertainty. This risks creating an environment where existing market participants – many of whom are making good faith efforts to participate proactively in the development of a world-leading regulatory regime – simply do not feel comfortable innovating in the UK, restricting investment and delaying the expansion of present

¹ Financial Conduct Authority, Financial Lives 2020 survey: the impact of coronavirus, 11 February 2021

operations. This uncertainty could hinder UK businesses' ability to benefit fully from the advantages that the adoption of crypto-assets may offer them.

Other jurisdictions are beginning to snap at the UK's heels in this regard. For example, the European Union achieved a major agreement on its Markets in Crypto Assets (MiCA) regulation, harmonizing supervision of the section on scale. Meanwhile, President Biden's Executive Order recommended a whole-of-government approach towards the responsible development of digital assets while other jurisdictions, such as Singapore, have already established comprehensive frameworks governing crypto-assets. The UK has an opportunity to integrate suitable parts of these initiatives into its framework to ensure ongoing, world-leading best practice in crypto regulation.

UK regulators across the major institutions have been at the forefront of the UK's efforts to understand this new sector since the very beginning, and have played a leading role in the international public-sector analysis and response to crypto developments. The Bank of England was a pioneer in this field with its Fintech Hub, while the FCA is a leader in innovative regulatory development, for example through its regulatory sandboxes and "crypto sprints." Whatever challenges the UK has in developing as a global centre for crypto, everyone must acknowledge that the UK regulators are impressively open to innovation, well-versed in their subjects, and making good-faith efforts to provide the right public-sector response to breakneck industry innovation. But regulators lack the necessary resources to manage the development of this sector properly, given the volume of new firms that require authorisation and supervision as well as the complexity of updating policy for new activities with the necessary degree of nuance between different types of crypto-services offered.

As well as updating the regulatory framework, there is still an urgent need to improve education in the crypto space. Even some prominent MPs have recently treated the crypto-asset industry as a punchline and political football, resulting in the perpetuation of harmful stereotypes about the sector and further pushing back progress in establishing the UK's position as a world-leader in crypto-asset technologies. While prejudicial attitudes will always persist, industry growth means it will be more important than ever that the UK develop a fact-based, constructive conversation around crypto. Unhelpful comments made publicly and based on an underdeveloped understanding of the sector make industry feel little understood and poorly valued, which in turn hampers growth and investment. Overall, this can create an attitude of defensiveness, which undermines the very collaboration between the public and private sectors necessary to establish the UK as a global crypto hub. To combat this, both industry and policymakers need to make a concerted effort to improve public education in crypto: through joint events across the country, highlighting how certain crypto developments can help individuals and businesses in their daily lives, and through more technical "teach-ins" of policymakers and other public voices on new, relevant crypto propositions.

Although there will always be a certain amount of political disagreement, finalising an appropriate regulatory framework is essential for the crypto-assets sector to offer market

certainty and consumer protections that will build trust more widely around the crypto space and will empower crypto-asset and blockchain-based businesses to thrive.

Ripple hopes that the Government will use the momentum of the Financial Services and Markets Bill and the upcoming consultation on the regulation of crypto-assets to drive forward this framework and we would encourage the role and participation of industry in helping to shape this structure.

The role of nuanced regulation

Ripple believes that while there is a growing consensus on the need for better regulation of the sector, this regulation needs to be suitably tailored to the nuances of industry and differentiate between B2B and B2C crypto-assets. There remains a concerning deficit in awareness and understanding about the many different types of crypto-assets that exist – with much of the discussion focusing on ‘memecoins’ or pump-and-dump schemes – and a lack of focus on the potential business benefits B2B crypto-assets can bring.

It is essential that any legislation or regulation that is introduced by the Government successfully recognises these differences. We encourage the development of a holistic, nuanced regulatory framework, with tailored regulatory approaches to match the risk profile of the relevant crypto-asset.

The opportunities of a Central Bank Digital Currency (CBDC)

We believe there are strong arguments in support of why the UK should develop a CBDC. Designed correctly, a CBDC has the potential to offer new opportunities for innovation in domestic and cross-border payments that could, over time, increase the transparency and diversity of payment providers and other financial intermediaries, as well as the services they offer.

A successfully implemented CBDC would act as a publicly-provided infrastructure on which the private sector could innovate new technologies, services and business models alongside traditional financial actors. This should ultimately lead to a more resilient financial system with improved access to finance for consumers.

For example, a CBDC could make digital micropayments more viable by reducing transaction costs and speed essentially to zero. This would make it easier for people to use digital money (like a ‘digital cash’) in their day-to-day lives and would greatly improve the ability to pay for individual items and services cross-border, which is currently prohibitively expensive for low amounts. CBDC could also be designed to be programmable for specific uses to support government aims or macroeconomic policy, such as delivering targeted financial stimulus support to individuals and businesses. CBDCs used for this purpose could be time-bound, made

region-specific, or linked to specific industries to stimulate consumer demand and support key industries and policy outcomes like the green economy or decarbonisation.

The potential social benefit of CBDCs

While much of the focus on CBDCs has primarily centred around the economic value they may offer to the consumer, this approach does not take into consideration the social value they may have to households. Enabling unbanked households to access a CBDC through owned digital devices can empower them to conduct a range of basic financial activities which would allow them to establish a credit history, while also providing them access to ‘always-on’ resources, regardless of physical location.

Ripple’s vision is for the Internet of Value, where value flows over the internet as easily, freely, and cheaply as information does today. All Ripple’s efforts are in pursuit of this vision, and we expect that across the payments industry as a whole, the trend toward ubiquitous, virtually free, real-time payments accessible to anyone at any time will gather unstoppable momentum. CBDCs will be an important component of this future.

Challenges that need to be addressed prior to wider adoption of CBDCs and other crypto-asset technologies

Enabling interoperability between different crypto-asset networks is essential and will define success for CBDCs and crypto-assets alike. Although the UK stands to benefit significantly from the wider adoption of crypto-asset technologies, some hurdles still need to be overcome. In order to become a true leader in this space, the UK needs to lead the charge in global standards-setting while also empowering citizens throughout the UK to take advantage of these new opportunities.

The power of crypto-assets to reduce friction and enhance trust between two parties on either side of a payments transaction is already having a transformative effect on industry. Creating a faster, cheaper payments network or a smarter supply chain barely scratches the surface when it comes to achieving crypto-assets’ full potential, which could become as transformative to people’s financial lives as the internet has become to our daily lives. There is still a global educational gap when it comes to understanding crypto-assets which will need to be addressed in the UK. Ripple hopes that by providing certainty through a clear and nuanced regulatory framework, both businesses and consumers will be able to benefit from greater trust in the new system. We believe that proactively onboarding citizens in the UK through an education programme that engages communities and empowers people with the knowledge on how to use a digital wallet before they start handling digital assets will reward UK citizens with greater financial literacy. According to the FCA’s latest statistics, there are already 2.3 million people in the UK who actively own digital assets (4.4% of the population),² making it imperative that there is public action on ensuring citizens fully understand this new world

² Financial Conduct Authority, Research Note: Cryptoasset consumer research 2021, 17/06/21

There is a clear opportunity for Government and the private sector to partner on how this can be achieved and we would welcome the opportunity for future collaboration.

Environmental considerations of crypto-assets

The crypto-asset Ripple uses - XRP - was designed to have a minimal impact on the environment, but energy consumption is often a significant side effect of blockchain-related technologies. As we see greater adoption and usage of crypto-assets across the global financial system, the topic needs to be seriously addressed to help ensure a sustainable future for our planet and the global economy.

Ripple strongly believes, however, that crypto-assets can be compatible with a low-carbon economy that emphasizes renewable energy and reduces its environmental footprint. By way of example, in 2020, Ripple partnered with Energy Web (EW) and the Rocky Mountain Institute (RMI) to decarbonize public blockchains — starting with the XRP Ledger, the first major global blockchain to do so. As a company, Ripple also pledged to achieve carbon net zero by 2030 or sooner.

Additionally, Ripple is a supporter of the [Crypto Climate Accord](#) (CCA) — an initiative organized by EW, RMI and the Alliance for Innovation Regulation (AIR) focused on decarbonizing cryptocurrencies to ensure the global financial system is less harmful and more sustainable. Key objectives of the CCA, which counts over 200 companies and individuals as supporters, include:

- Enable all of the world’s blockchains to be powered by 100% renewables by the 2025 UNFCCC COP Conference
- Develop an open-source accounting standard for measuring emissions from the cryptocurrency industry
- Achieve net-zero emissions for the entire crypto industry, including all business operations beyond blockchain and retroactive emissions by 2040

Finally, while many currencies (whether digital or physical) are not environmentally friendly, the XRP Ledger processes transactions through a unique “consensus”³ mechanism that consumes negligible energy and all XRP currency is already in circulation. Specifically, the XRP Ledger utilizes a distributed agreement protocol which establishes super-majority agreement, or consensus, around a given transaction without the need for energy intensive mining characteristic of other digital assets. Further, XRP itself was designed with sustainability in mind; it is an inherently green currency. All XRP is already in existence, meaning no unsustainable mining practices or additional energy is ever required to produce more.

³ David Schwartz, [The Environmental Impact: Cryptocurrency Mining vs. Consensus](#) (July 8, 2020).

As the UK Government considers the climate impact of crypto asset-related products and services, there is an emerging consensus among crypto-asset industry members and climate advocacy organizations that blockchain can be an important, potentially transformative technology with respect to helping global carbon markets modernize and scale to accelerate progress toward globally agreed climate goals (e.g., the Paris Agreement). Blockchain's native characteristics make it a natural fit to address persistent pain points in carbon markets, including unclogging supply bottlenecks, reducing time to market for carbon credit producers, and bringing about dramatically higher transparency and data integrity. Blockchain can also help enable fairer price discovery and deliver a more equitable return to those engaged in high quality carbon removal activity (i.e., additive, permanent, verifiable removals). Finally, blockchain can improve the tracking and tracing of carbon removal activity and carbon market transactions, making it easier for buyers to meet their ESG commitments and both shareholder and regulatory reporting requirements. Far from exacerbating global emissions problems, blockchain can help solve them by creating a more powerful market infrastructure to accommodate the needs of both suppliers and buyers of carbon credits.

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