

Written evidence submitted by Ripple

Digital, Culture, Media and Sport Select Committee **Call for Evidence on Non-Fungible tokens (NFTs) and the Blockchain**

Foreword

Ripple Labs Inc. (Ripple) welcomes the opportunity to feed into the Digital, Culture, Media and Sport (DCMS) Select Committee's Call for Evidence on 'Non-fungible tokens (NFTs) and the blockchain'.

As a strong advocate for robust, sensible regulation, we are encouraged by the UK Government's and UK Parliament's supportive approach to innovation in the cryptoasset and blockchain space. We support their interest in understanding the benefits of NFTs to the UK economy and what the optimal regulatory approach to them might be.

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 (XRPL). 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 XRPL in its product offerings, XRP is independent of Ripple. The XRPL 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 XRPL, 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.

Ripple also has an innovation business unit called 'RippleX' which contributes to the continuous enhancement of the XRPL and supports the growth of the Ledger's developer community. Ripple is supportive of the community's push to build an NFT ecosystem on the XRPL. Ripple offers developer grants to provide resources to foster global developer projects on the XRPL, and launched a \$250 million Creator Fund which enables a rich community of NFT creators to launch on the XRPL across a wide range of use cases. XRPL now offers

complete native enterprise-grade NFT functionality. It is now possible to mint, exchange, monetize, and display programmable NFTs on XRPL with robust tools that enable developers to build powerful NFT applications quickly and easily.

With this overview, Ripple respectfully submits the following responses to the DCMS 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.

DLT and Blockchains

The blockchain economy is diverse: there are a range of different actors, entities, and activities that can use a common type of technology. And Decentralised Ledger Technology (DLT) is a *technology*, not a product, company or service.

DLT uses a decentralised database managed by multiple participants across multiple nodes (i.e. independent computers) to improve visibility and coordination for certain activities. Blockchain is a type of DLT. Together they represent a new technological basis that can drive a new 'industrial revolution' in the underlying ability to digitise and improve real-world activities. This could have an economic effect analogous to the development of personal computing and then the internet.

Not all blockchains are designed for cryptoassets that are bought and sold. Many enterprises use blockchains for the specific task they want to offer, without the customer (business or consumer) ever needing to touch them. Blockchains can be used for multiple reasons across the whole economy – it is not only part of the financial system. For example, blockchains can be used to transfer real-world assets, such as land registry documents, to improve certainty and remove execution risk.

There are multiple 'blockchains' all designed with different objectives and based on different characteristics. Bitcoin is the most famous but it is far from the only one. Blockchains and the tokens that operate on them, are all designed, and optimised for different things. For example, Ethereum is optimised for smart contracts, while the XRPL is optimised for, among other things, cross-border payments. And because of their different design, each blockchain has a varying environmental impact that is based on the way it mines tokens and validates transactions. For example, XRPL was designed to have a minimal impact on the environment through a unique "consensus"¹ mechanism that consumes negligible energy; and all XRP currency is already in circulation meaning there is no ongoing mining. Ripple has also partnered with Energy Web (EW) and the Rocky Mountain Institute (RMI) to decarbonise public blockchains — starting with the XRP Ledger, the first major global blockchain to do so. Similarly, as a company, Ripple has pledged to achieve carbon net zero by 2030 or sooner.

¹ David Schwartz, [The Environmental Impact: Cryptocurrency Mining vs. Consensus](#) (July 8, 2020).

The overall blockchain ecosystem involves a wide range of different actors with different business models and different uses of cryptoasset technologies. This includes the retail activity that many people think of, and which captures most of the headlines. But it also includes market-facing cryptoasset businesses who improve the ‘plumbing’ of the financial system. An industry is developing around these different actors, in the UK and globally, akin to the financial services and technology industries. In practice, this means new enterprises, jobs, and economic connections.

NFTs: use-cases and benefits

NFT technology can best be thought of as a digital form of ownership. Since you cannot physically hold a digital piece of property, the NFT is a way to prove unique ownership and bearership. It is a way of ‘holding’ something digitally. So it is clear that NFTs can interact with or be used by most (or all) sectors of the economy and society. It is not correct to think of NFTs solely as financial instruments. They are unique, digital forms of ownership based on a given blockchain.

We are still in the early days of NFT development. In reality, we have not yet even scratched the surface of what NFTs will do to make our economic and social transactions digital and more efficient. Despite the youth of NFTs, there are already a number of clear, real-world use-cases for them. These uses already range from memberships, real estate and entertainment, and can in theory mimic anything in the real world. For example, Ripple works with:

- A famous French fashion house to create a membership NFT that provides unique benefits – such as discounts on goods or invitations to exclusive events – to the bearer of the NFT. Unlike a traditional membership, the token can be sold on to others in a secondary market should the NFT owner want.
- A property start-up in Portugal which uses real-estate NFTs to simplify the way customers communicate with their agents, schedule viewings, and gain control over the offer and acceptance process in a real estate transaction.
- A sustainably run securities exchange operated in partnership with the United Nations which develops a carbon credit solution to issue tokenised carbon credits from the Africa Great Green Wall Initiative. The uniqueness of an NFT is used to prevent double-counting of carbon credits, which is a significant problem in current carbon markets.

While just a selection of one company’s work in NFTs, the real-world benefit across a range of potential activities is already clear.

‘Regulate the use-case, not the technology’: the right policy approach to NFTs

It is this diversity of use-case that should drive the regulatory approach to NFTs. Rather than looking to regulate the technology, and assume there is something unique about NFTs and blockchain technology, regulation should attach to the use-case and activity that is being undertaken with or via an NFT. In so far as NFT usage is mimicking real-world activities with

a traditional underlying technology – be it a financial transaction, the advertising of a membership deal, or a speculative asset such as art or wine, for example – we should expect that activity already to have the relevant regulation attached to it.

The principle of ‘same activity, same risk, same regulation’ is long-established among financial policy-makers and is in part the basis for ‘tech agnosticism’ in regulation. This says that the activities and risks of something should be regulated, rather than the underlying technology it might be based on. This approach supports the development of innovation and growth while managing important questions of consumer protection and market integrity.

The policy approach to NFTs should be the same. Given NFTs are (at their simplest) a tokenised, digital form of ownership, the appropriate regulation for that type of ownership should be applied. Where the NFT-based activity mimics a regulated activity, for example in finance, the NFT should be treated under the rules of that activity. Regulation of an NFT needs to be considered on a case-by-case basis according to the activity undertaken with the NFT, rather than an approach that regulates the technology of NFT itself. That would risk stifling innovation and growth.

That said, given the need for technological resilience we might expect to need certain rules around the operational resilience and security of a given NFT platform and usage. Similarly, there may be a need for a broad rule on transparency and fair promotions of NFTs for consumer protection. This would enhance understanding of what the NFT is and is not, what rights attach to it and on what terms.

As far as possible, we would encourage the UK to work with other jurisdictions and International Organisations in developing a common understanding of NFTs and how to regulate them to ensure regulatory coherence across the world. This will reduce the potential for regulatory arbitrage.

A clear, coherent, risk-based approach to treating NFTs under the regulatory category of the activity they enable will support innovation in the sector, provide certainty to businesses looking to innovate and grow, and build trust with consumers and citizens who may want to use them. This will let the UK make the most of this new technology to promote growth and inclusion.