

July 1, 2021



Shri. Ashok Kumar Gupta
Competition Commission of India
9th Floor, Office Block - 1
Kidwai Nagar (East)
New Delhi 110023

Dear Shri. Gupta,

Ripple welcomes the issuance of the Competition Commission of India (“CCI”) discussion paper on blockchain technology and competition (“the Discussion Paper”), published in conjunction with Ernst & Young LLP on April 16, 2021.¹

We appreciate CCI’s initiative in proactively highlighting how blockchain technology interacts with competition law in India, and the Discussion Paper also raises a number of key policy issues for further deliberation.

We understand that the Discussion Paper aims to provide a high-level overview to all stakeholders on the interaction between the application of blockchain technology and competition law in India and does not seek to provide regulatory guidance. However, the Discussion Paper has highlighted several key considerations for the development of blockchain applications in India,² and Ripple respectfully offers feedback in the attached Appendix on some of these areas for further discussion.

By way of background, with over approximately 300 customers as of the date of this letter, Ripple’s software products allow financial institutions to send money globally on a real-time basis, at a fraction of the cost of traditional services available to market participants. Using blockchain technology, Ripple allows financial institutions to process payments instantly, reliably, cost-effectively, and with end-to-end visibility anywhere in the world.

Ripple’s aim is not to replace fiat currencies, but rather to enable a faster, less expensive, and more transparent method of making cross-border payments that is in the public’s

¹ See http://www.cci.gov.in/sites/default/files/whats_newdocument/Blockchain.pdf, Competition Commission of India discussion paper on blockchain technology and competition.

² See Discussion Paper, page 33.

best interest. Unlike the large majority of companies seeking to leverage digital assets, Ripple's customers and partners are regulated financial institutions, both banks and payment service providers, who operate within the contours of the existing financial system.

Ripple applies blockchain technology to drive the efficient globalization of value through multiple initiatives with financial services participants and open-source communities globally. RippleNet, our enterprise software solution which is powered by a standardized application programming interface and built on the market-leading and open standard Interledger Protocol, enables financial institutions to facilitate faster and less costly cross-border payments, which demonstrates that deep interoperability between commercial financial institutions can make payments truly efficient, particularly in eliminating the uncertainty and risk historically involved in moving money across borders using interbank messaging alone.

In addition, Ripple offers these entities an On-Demand Liquidity capability which leverages XRP as a bridge between fiat currencies, further reducing the friction and costs for commercial financial institutions to transact across multiple global markets. XRP is the digital asset that is native to the XRP Ledger, a distributed ledger platform. 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 based on cryptography. Ripple leverages XRP for use in its product suite because of XRP's unique suitability for cross-border payments. Key characteristics of XRP include speed, scalability, energy efficiency, and cost - the pro-competitive benefits of which have been underscored in the Discussion Paper, which highlights that *"Ripple may put competitive pressure on the traditional banking system given that it is faster, cheaper and transparent"*.³

Protocols used by global, cross-border payment networks and decentralized tools that support them should be considered and supported in this new age of domestic networks to enhance efficiency and encourage competition. Embracing the capabilities of these global networks, and better enabling domestic institutions to connect their individual capabilities with other systems and markets, will enable optimized outcomes for their respective domestic needs as well as fulfill the potential that globalization of value holds.

We would also like to highlight that on June 18, 2020, Ripple published a policy paper offering an overview of the global digital assets landscape, and proposing measures policymakers and regulators may consider implementing to support a comprehensive

³ See Discussion Paper, page 34.

and competitive digital asset policy in India (“Policy Paper”).⁴ These include adopting a digital asset taxonomy consistent with global best practices, enacting a facilitative legal framework for digital asset service providers, and implementing a conducive regulatory framework for digital assets by amending certain financial sector legislation.

With this overview, and in line with the recommendations of the Policy Paper, Ripple respectfully submits feedback on some use cases for how blockchain applications can promote greater competition in India, the benefits for consumers, and changes in the legal and regulatory framework that should be considered⁵ in the attached Appendix.

Ripple appreciates the opportunity to provide feedback on some of the topics highlighted in the Discussion Paper as the CCI studies these important issues, and we would encourage and support further dialogue with all stakeholders. Please do not hesitate to contact Rahul Advani (Policy Director, APAC) at radvani@ripple.com regarding any of the points raised in this letter or the Policy Paper.

Sincerely,

Ripple Labs, Inc.

⁴ See <https://ripple.com/wp-content/uploads/2020/06/Ripple-Perspective-The-Path-Forward-For-Digital-Asset-Adoption-In-India-June2020.pdf>, Ripple Policy Paper: The Path Forward for Digital Assets Adoption in India.

⁵ Feedback is focused on the issues for further deliberation highlighted in chapter 5 of the Discussion Paper only.

APPENDIX

1. Use cases for how blockchain applications can promote greater competition in India

As outlined in the Discussion Paper and Policy Paper, blockchain technology represents a promising breakthrough, showing the potential to transform many sectors of the Indian economy. However, for any technology, success is based on its use cases as well as its ability to solve real-world problems and provide benefits to consumers and end-users. A variety of use cases have emerged as blockchain and digital assets technologies have matured, and we have highlighted two main use cases relevant to India. More details on these use cases are also outlined in the Policy Paper.⁶

a. Minimize friction & promote competition in cross-border payments

Inward remittances into India accounted for approximately USD 83 billion in 2019,⁷ which makes India the world's top receiver of remittances with a share of more than 12.5% of global remittances in 2019.⁸ Even so, international remittances to India are costly, full of friction, and slow. Data from the World Bank indicates that the average cost of remittances globally is around 6.5%.⁹

The majority of banks currently use correspondent relationships - a network of *bilateral accounts-based* relationships - spread across the world to process payments originating from their corporate and retail clients. The market structure of correspondent banking injects significant friction, delay and costs in processing payments for the respondent banks due to the fragmented and bilateral nature of correspondent banking relationships,¹⁰ which can materially affect recipients of remittances and small businesses in consequential ways. For example, evidence shows that remittances increase the disposable income of recipients, and in most cases remittance inflows represent an additional source of income. Furthermore, surveys show that remittance receiving households have a relatively higher propensity

⁶ See Policy Paper, page 14.

⁷ Sourced from World Bank data. See https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?locations=IN&name_desc=false.

⁸ Sourced from World Bank data. See https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?most_recent_value_desc=true.

⁹ See https://remittanceprices.worldbank.org/sites/default/files/rpw_main_report_and_annex_q42020.pdf, Remittance Prices Worldwide Quarterly Report, December 2020.

¹⁰ See https://www.bis.org/publ/qtrpdf/r_qt2003f.pdf, BIS Quarterly Review March 2020, page 31.

to save than households that do not receive remittances.¹¹ However, these remittance corridors are sometimes too small to warrant adequate attention from correspondent banking and therefore cannot reach the economies of scale needed in order to reduce costs, which acts as a barrier to financial inclusion.

Digital assets issued on blockchains that serve the same end-use as the incumbent correspondent banking model can offer a compelling alternative for consumers in India, while still being compliant with global KYC and AML/CFT requirements such as those being consulted upon by the Financial Action Task Force (“FATF”).¹² Global multilateral bodies have also recognized the potential digital assets and blockchain technology have in facilitating faster cross-border payments.¹³

b. Micropayments

A micropayment is a transaction involving low value payments (i.e., payments made for very small amounts - under \$5). Traditional payment rails have high transaction costs, which means that payments below a certain level are not viable to process. Account-based payment systems incur substantial costs for the reconciliation of two ledgers, and that means they can only operate at a given scale. In other words, they cannot support micropayments as a use case.

However, digital assets embedded in blockchains can be used as neutral bridge assets¹⁴ to support frictionless value movement between fiat currencies that can be used to settle transactions on-chain.¹⁵ Since there is no need for reconciliation across centralized ledgers, the settlement is virtually instantaneous, eliminating almost all settlement risk. As a consequence, the cost of transferring value is negligible. These structural features mean that certain digital assets (such as XRP) are well suited to

¹¹ See <https://www.gpfi.org/sites/gpfi/files/documents/11-The%20Use%20of%20Remittances%20and%20Financial%20Inclusion.pdf>, G20 Global Partnership for Financial Inclusion report on the use of remittances and financial inclusion, page 19.

¹² See <https://www.fatf-gafi.org/publications/fatfrecommendations/documents/public-consultation-guidance-vasp.html>, Public consultation on FATF draft guidance on a risk-based approach to virtual assets and virtual asset service providers.

¹³ See <https://blogs.worldbank.org/psd/paying-across-borders-can-distributed-ledgers-bring-us-closer-together>, World Bank blog.

¹⁴ XRP is an example of a neutral bridge asset. Party A deposits a fiat currency with the Sending Bank, who then converts that fiat currency into an equivalent amount of XRP on RippleNet and sends it to the Receiving Bank. The XRP is then converted back into another fiat currency by the Receiving Bank, before being collected by Party B. In other words, the presence of a native digital asset like XRP makes the blockchain a token-based system, relative to the account-based system of traditional finance.

¹⁵ On-chain transactions are transactions that occur on a blockchain that are reflected on the distributed ledger. On-chain transactions are those that have been validated or authenticated and lead to an update to the overall blockchain network.

support micropayments. While these payments are very small in value, the low cost and fast settlement time means that they are still viable to process.

2. Changes in the legal and regulatory framework that should be considered to promote blockchain applications

As outlined in the Discussion Paper and Policy Paper, blockchain technology is an important innovation that can promote competition across different sectors of the Indian economy. Removing regulatory uncertainties and addressing policies that put blockchain applications at a competitive disadvantage may help in fostering the growth of this technology. We have highlighted the main recommendations for developing the blockchain ecosystem in India, and more details on these recommendations are outlined in the Policy Paper.¹⁶

- a. Adopting a digital asset taxonomy consistent with global best practices, such as those in the United Kingdom and Singapore, thereby providing clarity to the legal character of digital assets in India. As highlighted in the Policy Paper and in line with global best practices, we recommend that utility tokens be differentiated from payment (or exchange) and security tokens. Utility tokens describe those digital assets that create access rights for availing service or a network, usually offered through a blockchain platform. Payments tokens describe non-fiat native digital assets that are used as means of exchange and have no rights that may be enforced against any issuer, while security tokens describe tokens that create rights mirroring those associated with traditional securities such as shares, bonds, and collective investment schemes;
- b. Enacting a facilitative legal framework for digital asset service providers at the Gujarat International Finance Tec-City in the short term to attract mature global participants to develop enterprise use-cases of digital assets;
- c. Modifying the Reserve Bank of India's Regulatory Sandbox Framework to remove "cryptocurrency" and "crypto asset services" from the negative list, thereby offering service providers an opportunity to test the value proposition of this new technology in the Indian context; and
- d. Implementing a conducive regulatory framework for digital assets by amending specific financial sector laws, such as empowering the Securities and Exchange Board of India to license, regulate and supervise digital asset service providers.

¹⁶ See Policy Paper, page 29.