September 30, 2022

Mr. Neil Esho
Secretary General
Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Dear Mr. Esho,

Ripple Labs Inc. ("Ripple") welcomes the opportunity to comment on the second consultative document on the prudential treatment of cryptoasset[1] exposures (the "2022 Consultation Paper") published by the Basel Committee on Banking Supervision ("BCBS") on June 30, 2022.[2]

Ripple would like to thank BCBS and its members for the in-depth and comprehensive analysis that has been taken on this subject prior to the publication of the 2022 Consultation Paper, including the statement on the risks associated with cryptoassets published in March 2019,[3] the discussion paper on issues related to the prudential treatment of cryptoassets published in December 2019[4] ("2019 Discussion Paper"), and the first consultative document on the prudential treatment of cryptoasset exposures published on June 10, 2021[5] ("2021 Consultation Paper").

Ripple submitted a response to the 2019 Discussion Paper on March 13, 2020[6] ("2020 Ripple Response") and the 2021 Consultation Paper on September 10, 2021[7] ("2021 Ripple Response"). Ripple thanks the BCBS for considering feedback from the 2020

[1] The terms digital asset, virtual currency, cryptocurrency, cryptoasset and others are used interchangeably in the marketplace. For the purposes of this letter, Ripple adopts the terminology and related definitions used by the BCBS in the 2022 Consultation Paper.
[2] *See* https://www.bis.org/bcbs/publ/d533.pdf, Consultative Document – Second consultation on the prudential treatment of cryptoasset exposures.
[3] *See* https://www.bis.org/publ/bcbs_nl21.htm, Statement on crypto-assets.
[4] *See* https://www.bis.org/bcbs/publ/d490.htm, Discussion Paper - Designing a prudential treatment for crypto-assets.
[5] *See* https://www.bis.org/bcbs/publ/d519.pdf, Consultative Document - Prudential treatment of cryptoasset exposures.
[6] *See* https://ripple.com/files/ripplelabs_BCBS.pdf, Ripple response to 2019 Discussion Paper.
[7] *See* https://ripple.com/files/Ripple_BCBS_Prudential-treatment-of-cryptoasset-exposures_June-2021_Final.pdf, Ripple response to 2021 Consultation Paper.

Ripple Response, 2021 Ripple Response, and other stakeholders in formulating the proposals outlined in the 2022 Consultation Paper.

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.

Some customers, in addition to deploying Ripple's blockchain solution RippleNet, leverage the digital asset known as XRP for an On-Demand Liquidity ("ODL") capability. 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.

General comments and policy considerations

As highlighted in the 2021 Ripple Response, we reiterate that any prudential framework for cryptoassets should encourage responsible innovation by financial institutions while also ensuring appropriate risk management. In doing so, the BCBS will not only promote the strengthened operational resilience of the financial system, but also transform the way financial services are provided. This will ultimately benefit both financial institutions and end-users, and encourage investment in new technologies and innovation.

We therefore believe it is important that the BCBS not assign a punitive prudential treatment to cryptoassets as this will make it uneconomical and unviable for financial institutions to provide any cryptoasset-related services for end-users. This could have the additional unintended consequence of making cryptoasset markets opaque and inefficient, to the detriment of end-users.

To this end, while Ripple wholeheartedly supports the principles[8] underpinning BCBS' approach to formulating an appropriate framework for the prudential treatment of cryptoasset exposures, we respectfully suggest that BCBS consider adjustments to the approach in order to be more fully consistent with those principles.

More specifically, we agree that the approach should follow the principle of *"same risk, same activity, same treatment"* and that the prudential framework should be technology neutral. However, as we suggest below, some adjustments are needed to achieve true technological neutrality. We also believe that the framework should be as simple as possible. However, there is an inherent trade-off between simplicity and risk-sensitivity, and BCBS should ensure that an appropriate balance between the two is maintained. Lastly, given the cross-border nature of cryptoasset markets, Ripple supports having minimum global standards, supported by coordination across jurisdictions to help ensure an approach that is consistent and comparable.

Specific comments

a. Recognition of hedging of certain Group 2 cryptoassets

As highlighted in the 2021 Ripple Response, Ripple believes that the 1250% risk weight for Group 2 cryptoassets proposed by BCBS in the 2021 Consultation Paper is not sufficiently risk-sensitive to account for the various economic functions and purposes served by cryptoassets, and is overly conservative.

Therefore, Ripple is supportive of the proposal in the 2022 Consultation Paper permitting banks to screen Group 2 cryptoassets against a set of hedging recognition criteria, with cryptoassets meeting the criteria to be included in a new Group 2a category, with the remaining Group 2 cryptoassets classified as Group 2b. Ripple is supportive of the hedging criteria identified in [SCO60.60][9] to determine Group 2a cryptoassets, and believes that this gives appropriate recognition to the risk reduction that comes from hedging, as well as the benefits of netting and diversification.

Moving away from a blunt, conservative capital requirement is a big step forward, and we commend the BCBS for reviewing this requirement. Ripple strongly believes that capital should be risk-sensitive, to align with the principle of *"same risk, same activity, same treatment"*, even if this requires a more complex methodology to effectively capture the risks of the cryptoasset market.

Ripple is of the view that the recognition of hedging allows banks to better manage risk and respond to client demand for intermediation in the cryptoasset market, and therefore we are supportive of this proposal.

[8] *See* 2022 Consultation Paper, Page 1.
[9] *See* 2022 Consultation Paper, Page 20.

b. Group 2 exposure limit

The 2022 Consultation Paper proposes to introduce a new exposure limit for all Group 2 cryptoassets outside of the large exposure rules. The Group 2 exposure limit set out in [SCO60.121] to [SCO60.124][10] has the following features:

- Limit set at 1% of Tier 1 capital, to be reviewed periodically;
- Limit applied jointly to all Group 2 cryptoassets on gross exposures with no netting or recognition of diversification benefits; and
- Measurement of derivative exposures via a delta-equivalent methodology.

Ripple believes this proposed Group 2 exposure limit, as currently designed, is not sufficiently risk-sensitive and will constitute a significant constraint on the extent to which banks can participate in cryptoasset markets. This may lead banks to conclude it is not worth the investment and lead to limited participation by banks in these markets, which could have the unintended consequence of making cryptoasset markets opaque and inefficient, to the detriment of end-users.

As we can see from Figure 1 below, the estimated exposure limit for select global banks will be in the range of approximately USD 1-2.5 billion.

Bank	Tier 1 capital (USD billion)	Estimated exposure limit (USD billion)
JP Morgan Chase	246	**2.46**
Bank of America	196	**1.96**
Citigroup	169	**1.69**
Wells Fargo	159	**1.59**
HSBC	156	**1.56**
Mitsubishi UFJ	126	**1.26**
Credit Agricole	122	**1.22**
BNP Paribas	113	**1.13**
Goldman Sachs	106	**1.06**
Banco Santander	93	**0.93**

Figure 1: Estimated exposure limit for select global banks

[10] *See* 2022 Consultation Paper, Page 30.

Given that this exposure limit is across all Group 2 cryptoassets on gross exposures with no netting or recognition of diversification benefits, we believe that the proposed 1% exposure limit is not sufficient to support banks' activities in cryptoasset markets. While the 2022 Consultation Paper indicates that the exposure limit will be reviewed periodically, Ripple strongly believes that the design and calibration of this additional measure should be reconsidered to align with the principle of *"same risk, same activity, same treatment"*.

Therefore, we respectfully request that the BCBS reconsider this proposal to allow netting and diversification benefits for the Group 2 exposure calculation. Additionally, the Group 2 exposure limit should be aligned closer with the large exposures framework,[11] in order to be truly technology-neutral.

Conclusion

Ripple appreciates the opportunity to comment on the proposals in the 2022 Consultation Paper as BCBS considers the prudential treatment of cryptoasset exposures. Ripple believes it is important that these standards are appropriately calibrated, and we urge the BCBS to ensure a framework that ensures bank participation in the cryptoasset market is appropriately capitalized.

Should you wish to discuss any of the comments raised in this letter further, please do not hesitate to contact Rahul Advani (Policy Director, APAC) at radvani@ripple.com.

Sincerely,

Ripple Labs Inc.

[11] *See* https://www.bis.org/publ/bcbs283.pdf, Supervisory framework for measuring and controlling large exposures.