



January 13, 2017

Via E-mail

Office of the Comptroller of the Currency
400 7th Street, SW
Washington, D.C. 20219

Re: Exploring Special Purpose National Bank Charters for Fintech Companies

Ladies and Gentlemen:

Ripple¹ appreciates the opportunity to comment on the paper published by the Office of the Comptroller of the Currency (OCC) entitled *Exploring Special Purpose National Bank Charters for Fintech Companies*. The OCC's paper explores the chartering process and supervisory standards for special purpose national banks in light of technological advances in financial services and evolving customer needs.

Ripple appreciates the OCC's transparent and deliberate exploration of potentially granting national bank charters to financial technology (fintech) companies and strongly supports the OCC's continued focus on reducing regulatory uncertainty and facilitating responsible innovation. Advances in fintech continue to nimbly respond to the changing needs of consumers, communities, and businesses in a diversity of enhanced ways. At the same time, this innovation sits within a carefully regulated financial system that is built on trust and confidence, with recognition that safety, integrity, and resilience are critical to a healthy financial ecosystem. We therefore commend the OCC's willingness to explore an appropriately tailored national bank chartering process that fosters innovation while continuing to provide clear, coherent, and robust oversight.

As the OCC has recognized, a national bank charter does not displace the other choices a fintech company may have,² and a variety of avenues remains available for pursuing innovation in the fintech space. Based on its business model and strategy on how best to serve its customers, a fintech company may, for example, opt to partner with existing banks rather than become a bank itself. Even so, we appreciate the OCC's initiative to move forward with considering applications from fintech companies to become special purpose national banks, which we agree could drive growth across the U.S. financial sector and make the federal banking system more capable of adapting to evolving customer needs.

¹ Ripple is a technology company that provides financial institutions with real-time cross-border payment solutions. Ripple specializes in distributed financial technology, including shared ledgers and open protocols. These tools enable a more efficient and frictionless payment process, as well as broaden access to financial services.

² Comptroller of the Currency Thomas J. Curry, Remarks at the Georgetown University Law Center: "Special Purpose National Bank Charters for Fintech Companies" at 4-5 (Dec. 2, 2016) ("[W]e believe that companies that offer banking products and services should have the *choice* to become *national* banks if they wish to do so. Merely making a charter available, does not create a *requirement* to seek one.").

As our comments below reflect, we believe that appropriately tailoring the chartering process and supervisory standards to create the right balance is critical to enabling responsible innovation to thrive. As institutions develop and implement innovative products and services, they must assess and appropriately manage corresponding risks; at the same time, it is important that regulatory and supervisory expectations not impose undue burdens on innovations capable of providing sustained benefits for customers, businesses, and the broader financial system. Moreover, the supervisory approach should be sufficiently flexible to keep pace with an increasingly complex financial sector landscape, evolving risks, and the emergence of diverse financial innovations that yield public benefit in genuinely novel ways. We therefore commend the OCC's willingness to appropriately tailor and adapt supervisory requirements to remain current and responsive to evolution in the financial services industry.³

Certain trade associations to which Ripple belongs, including the Bankers Association for Finance and Trade (BAFTI), have submitted comments on the OCC's paper, addressing many key points. We respectfully submit our own comments to provide additional thinking about: (i) financial inclusion, (ii) the ongoing transformation in customer preferences, and (iii) a risk-based proportionate approach to supervision.

- I. **Financial inclusion:** As the OCC fine-tunes its chartering process and supervisory expectations to promote financial inclusion, we encourage it to take into consideration the diversity of innovative ways that fintech companies can contribute to financial inclusion (in response to **Questions 3, 4, and 5** in the OCC's paper).

Ripple strongly supports the OCC's emphasis on the great potential for responsible innovation to sustainably promote financial inclusion and its continued encouragement for institutions to respond to the needs of the broader community. We would emphasize that beyond directly providing access to financial products and services for underserved consumers and small businesses, fintech companies and other institutions can conduct a diversity of other banking functions that meaningfully contribute to financial inclusion. For example, they can engage in activities that modernize and enhance the payments infrastructure to improve the quality, expand the scale, and deepen the reach of affordable financial services that meet evolving customer and community needs.⁴ In particular, an institution can develop, integrate, or implement innovative financial products and services that improve the interoperability of today's payment systems and processes to create an enabling environment that enhances the scope and range of financial services

³ OCC, *Exploring Special Purpose National Bank Charters for Fintech Companies* at 14 (Dec. 2016) ("The OCC recognizes it also may need to tailor some requirements that apply to a full-service national bank to address the business model of a special purpose national bank. The OCC has experience in adapting legal requirements to different types of business models.... Similarly, the OCC would consider adapting requirements applicable to a fintech applicant for a special purpose national bank charter to the extent consistent with applicable law.").

⁴ See, e.g., Global Partnership for Financial Inclusion (GPII), *G20 High-Level Principles for Innovative Financial Inclusion* at 13-14 (Jul. 2016), available at www.gpfi.org/publications/g20-high-level-principles-digital-financial-inclusion ("Examples of key actions to expand a country's digital financial ecosystem include ... collaborat[ing] with industry to explore the potential of distributed ledger technology to improve the transparency, efficiency, security, and reach of wholesale and retail financial infrastructure, allowing for appropriate risk mitigation and safeguards.").

available to currently underserved customers.⁵ One such industry development is the Interledger Protocol (ILP), an open and universal protocol which enables interoperability across bank ledgers and payment systems around the world, facilitating cross-border exchanges of value.⁶ Enhancements to the payments infrastructure like ILP also foster the development of other innovative financial products and services, as well as facilitate the entry of new financial service providers — which, in turn, promotes robust competition that can lower costs to customers.⁷

We believe that fostering responsible innovation capable of yielding sustained public benefit requires a clear and consistently applied supervisory framework that does not unnecessarily inhibit the emergence of new and useful financial products and services, business models, and channels whose safety and integrity are sufficiently proven. In particular, transparency and certainty around the OCC's expectations with respect to financial inclusion would enable institutions to understand and anticipate its views, ensure that all businesses are treated even-handedly, and effectively catalyze marketplace competition that genuinely meets the needs of underserved customers. Periodically fine-tuning these supervisory expectations, with continued open dialog with industry participants and collaboration with other regulators, will ensure that such expectations continue to be responsive to multi-faceted community needs as they evolve.

II. **The ongoing transformation in customer preferences:** Given the scale of transformation we continue to witness in customers' financial services preferences, we believe the OCC's chartering process and supervisory standards should support responsible innovation that prudently adapts to these changing needs (in response to **Questions 1, 7, and 13** in the OCC's paper).

Ripple commends the OCC's willingness to consider granting special purpose national bank charters to fintech companies, which we believe is an important step toward developing a robust, unified, and nationwide supervisory framework that fosters responsible innovation and responds to evolving customer and market needs. We believe the OCC, in applying its bank regulatory framework to fintech companies that wish to become national banks, will help ensure that such institutions appropriately focus on long-term sustainability and mitigate associated risks for both the institution itself and the broader financial system.

⁵ Committee on Payments and Market Infrastructures (CPMI), Bank for International Settlements and World Bank Group, *Payment Aspects of Financial Inclusion* at 34 (Apr. 2016), available at www.bis.org/cpmi/publ/d144.pdf (the CPMI Financial Inclusion Report) (“[I]nteroperable payment systems enable the seamless interaction of two or more proprietary acceptance and processing platforms, and possibly even of different payment products, thereby promoting competition, reducing fixed costs, enabling economies of scale that help in ensuring the financial viability of the service, and at the same time enhancing convenience for users of payment services. The consequences of low interoperability are overlapping or limited coverage, sunken investment costs and inefficiency.”).

⁶ For more information about ILP, see Stefan Thomas and Evan Schwartz, *A Protocol for Interledger Payments* (2015), available at interledger.org/interledger.pdf

⁷ See CPMI Financial Inclusion Report at 8 (“[R]elevant factors that can result in high fees include little competition in the market for payment services, including significant barriers to entry for new [payment service providers] (e.g. lack of access to infrastructure or high prudential requirements), underdeveloped basic infrastructure and high sunk costs (e.g. as a result of lack of interoperability of infrastructures).”).

As the OCC has concluded, an effective supervisory approach should be receptive to financial innovations that responsibly provide public benefits and be vigilant to ensure risks are thoroughly assessed and managed,⁸ rather than adopt an unduly rigid supervisory posture. We are witnessing a transformation in the financial services preferences of modern customers and businesses, and innovative products and services continuously adapt to satisfy these evolving market needs.⁹ Indeed, the ability to discover unmet customer needs and nimbly respond is often a driver of a fintech company's success.

We encourage the OCC to adopt an appropriately tailored chartering process and supervisory approach that reduces unnecessary administrative costs and delays which would otherwise disproportionately affect first-movers, unduly slow the innovation process, and create needless obstacles to the prudent introduction of new products and services to market. For example, the requirement of a detailed business plan covering a minimum of three years and a formal OCC evaluation process for significant departures, if prescriptively and rigidly applied, would impair a fintech company's ability to responsibly explore new business models and offerings capable of yielding public benefit. We recognize that a charter proposal must provide sufficient detail to demonstrate the applicant's strength and integrity to the OCC; however, we caution that the strict application of supervisory processes and expectations designed around traditional financial products and services may unintentionally stifle, rather than promote, responsible innovation that adapts to meet fast-evolving customer needs.

In the spirit of the OCC's vision for responsible innovation — in particular, its guiding principle of fostering an internal culture receptive to responsible innovation¹⁰ — we encourage the OCC to calibrate its standards and timelines to ensure that the chartering and supervisory processes support responsible innovation, rather than inadvertently introduce unnecessary frictions and undue burdens. Toward that end, we believe the OCC's Office of Innovation will be an important resource in continuing to facilitate open and fruitful dialog with industry stakeholders to develop a shared understanding of fintech innovation as it evolves, taking a holistic view to ensure that responsible innovation realizes its positive potential, and ensuring that institutions can prudently adapt to the ongoing transformation in customer needs.

⁸ See OCC, *Recommendations and Decisions for Implementing a Responsible Innovation Framework* at 12 (Oct. 2016) (“Given the rapid and dramatic advances in fintech, it is important that the OCC improve its ability to identify and understand trends and innovations in the financial services industry.... The pace, magnitude, and volume of change means that regulators need to learn and understand the changes as they occur, in a manner that allows them to anticipate the impact to the federal banking system.”).

⁹ OCC, *Exploring Special Purpose National Bank Charters for Fintech Companies*, at 1 (“[C]onsumer preferences and demands are evolving, driven by important demographic changes: for example, the entry of 85 million millennials into the financial marketplace in the United States. Responding to those market forces are thousands of technology-driven nonbank companies offering a new approach to products and services.”).

¹⁰ OCC, *Supporting Responsible Innovation in the Federal Banking System: An OCC Perspective* at 6-7 (Mar. 2016). See also Comptroller of the Currency Thomas J. Curry, Remarks before Chatham House ‘City Series’ Conference: “The Banking Revolution: Innovation, Regulation & Consumer Choice” at 4 (Nov. 3, 2016) (“The principles [that guide the OCC’s approach to innovation] include fostering a culture within the OCC that is receptive to new ideas and gives more open and thoughtful consideration of opportunities as well as risks.”).

III. **Risk-based proportionality**: We believe that a risk-based, proportionate supervisory approach would allow the OCC to appropriately tailor its standards and expectations to account for differences in business models and facilitate diverse innovation, while at the same time even-handedly applying robust safety and soundness principles (in response to **Questions 2, 8, 10, and 12** in the OCC's paper).

Ripple appreciates the OCC's focus on developing a fair and balanced supervisory approach that encourages financial innovation without compromising safety and soundness. We recognize that an overly lenient approach can fail to address risks and market failures and, on the other hand, an unduly cautious stance risks inadvertently stifling competition and innovation. Moreover, the supervisory approach should be sufficiently flexible to keep pace with the emergence of genuinely novel and diverse innovations aiming to meet different financial services needs. Digital assets, for example, are an innovation with potentially broad applications and diverse use cases — they can serve useful functions beyond merely as an alternative to fiat currencies (like the U.S. dollar or euro) for consumers in their retail payments.¹¹

We believe that a risk-based and proportionate supervisory approach — *i.e.*, supervisory expectations and practices that are attuned to the particular context of their application and commensurate with the risk profile and systemic importance of the supervised institution¹² — would accommodate the diverse breadth of financial products and services, with predictability and clarity. We encourage the OCC to take a supervisory approach that considers, for example, an institution's particular technology deployment, the scope of its activities, and its systemic importance, as well as any enhanced functionality introduced by financial innovation that allows for more efficient or effective risk management.¹³ Such an approach would coherently and fairly accommodate a broad spectrum of institutions and business models — ranging from internationally active banks with large customer bases, to growth-stage institutions seeking to prudently deploy a new financial product or service on a small scale before gradually building to a full implementation.

¹¹ For instance, banks can use XRP, the digital asset native to the Ripple Consensus Ledger, as a bridging tool that streamlines liquidity provision for their interbank foreign exchange transactions. Using XRP in this way allows banks to reduce the costs, enhance the transparency, and extend the global reach of their cross-border payments. For more information, *see, e.g.*, Press Release, Ripple, R3 Trials Interbank Cross-Border Payments With Ripple's Digital Asset XRP (Oct. 20, 2016), available at ripple.com/ripple_press/r3-trials-interbank-cross-border-payments-ripples-digital-asset-xrp/

¹² Basel Committee on Banking Supervision, Bank for International Settlements, *Consultative Document: Guidance on the Application of the Core Principles for Effective Banking Supervision to the Regulation and Supervision of Institutions Relevant to Financial Inclusion* at 6 (Dec. 2015), available at www.bis.org/bcbs/publ/d351.pdf (“If the banking supervisor oversees several different types of financial institutions, it should – in accordance with a proportionate approach – prioritise the allocation of supervisory resources based on the institutions’ risk profiles and systemic importance, taking into account the different mitigation approaches adopted by the institutions.”).

¹³ Banks that use distributed financial technology like Ripple's solutions for their cross-border payments, for example, can mitigate their risks through the technology's enhanced transparency and atomicity (*i.e.*, transactions, including those that involve more than one currency, are either fully and irrevocably settled in real-time or they do not occur at all, in contrast to payment mechanisms that require sequential processing or delayed settlement). Karen Gifford & Jessie Cheng, *Implementation of Real-time Settlement for Banks Using Decentralised Ledger Technology: Policy and Legal Implications*, Banque de France, 20 Financial Stability Review 143 at 148-149 (Apr. 2016), available at ibfi.banque-france.fr/fileadmin/user_upload/banque_de_france/publications/Revue_de_la_stabilite_financiere/RSF20/FSR20-Full-text.pdf

A risk-based and proportionate supervisory approach does not call for the OCC to relax the rigorous supervisory standards that it applies to all national banks and federal savings associations. As the G20's Global Partnership for Financial Inclusion (GPFI) has highlighted:

The concept of proportionality does not imply dilution of requirements under the [*Basel Core Principles for Effective Banking Supervision*]. Rather it puts supervisors in a position to adapt approaches to accommodate the full range of providers relevant to financial inclusion, and to the potentially rapid changes in scale taking place in some markets with the advent of digital financial inclusion.¹⁴

Such a supervisory approach effectively promotes safety and soundness through forward-thinking supervision that also supports the multi-faceted nature of responsible innovation and its complex linkages to important policy objectives, such as financial inclusion.¹⁵

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The OCC's policy, regulatory, and supervisory decisions, as well as its coordination with other regulators, will have a lasting impact on the development and implementation of new financial innovations. The OCC's paper takes an important step in continuing to foster responsible innovation while providing robust oversight. With the right balance and appropriate tailoring of supervisory requirements, we believe we can achieve our shared goals of promoting socially beneficial innovation, ensuring that accompanying risks are understood and managed, and sustainably expanding access to financial services.

¹⁴ GPFI, *Global Standard-Setting Bodies and Financial Inclusion: The Evolving Landscape* at 19 (Mar. 2016) (emphasis added), available at http://www.gpfi.org/sites/default/files/documents/GPFI_WhitePaper_Mar2016.pdf

¹⁵ *Id.* (“The proportionate approach also allows for assessments of compliance with the [*Basel Core Principles for Effective Banking Supervision*] that are commensurate with the risk profile and systemic importance of a broad spectrum of banks and other deposit-taking institutions, from large internationally active banks to small, non-complex institutions offering deposits and deposit-like products. This, too, is fundamentally important to financial inclusion, given the significance in many countries of smaller banks and non-bank deposit-taking institutions in reaching currently excluded and underserved customers.”).

Ripple appreciates the opportunity to provide comments on the OCC's paper, and we look forward to continuing to work with the OCC and other stakeholders to promote responsible innovation. If you have any questions or need further information, please contact Jessie Cheng (jcheng@ripple.com) or Ryan Zagone (zagone@ripple.com).

Respectfully submitted,

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Jessie Cheng
Deputy General Counsel
Ripple