

TESTIMONY OF STUART ALDEROTY
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California State Assembly Committee on Banking & Finance and
Select Committee on Technological Advances
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Chair Limón, Chair Calderon, and distinguished members of the Committee and Select Committee, thank you for the opportunity to appear before you today.

I am Stuart Alderoty and I am the General Counsel of Ripple.

Ripple is an enterprise blockchain company headquartered in San Francisco with actual products in commercial use. We are working with - not against - regulators, governments, and central banks throughout the world, to improve the way the world moves money. Ripple's global payments network includes over 200 customers across 40+ countries and six continents.

I joined Ripple in January after over three decades of practicing law in New York where I was a partner with a global law firm and where I held senior leadership positions - including General Counsel roles - with public financial institutions such as American Express, HSBC, and CIT Group.

It is our firm belief that having a clear regulatory approach to digital assets is important for innovation if this space is to flourish. Bringing industry participants, consumer advocates, and regulators together, as you have done today, is precisely what is needed to reach such an outcome. To that end, we believe there is no better place for this conversation to take place than here in California.

As the birthplace of Silicon Valley - and thus, many of the start-ups that lie at the heart of Americans' everyday lives, including Google, Apple, and Amazon - California understands well the promise (and challenges) that new technology can hold. The state's recently established Blockchain Working Group is but one example of how California is choosing to take a leadership role. Ripple is proud that its own Vice President of Global Tax and Chief Tax Counsel will serve as a member of that Working Group.

And leadership is so very necessary given the potential transformative impact that advances in these technologies - particularly in the payments space - can have, not only for citizens of California but worldwide. First, today's global payments system is slow, often taking days to complete. Indeed, the quickest way for me to send money cross-border is literally to place it in a suitcase, drive to the LA airport, and physically take it with me to the destination. Second, the process is expensive - on average globally, currency conversions and fees equal approximately 7 percent of the total sent. Finally, cross-border transactions are frequently fraught with execution risk and offer little communication or visibility to either the sender or recipient of funds.

Blockchain technology and digital assets promise to change this by enabling faster, cheaper, and more transparent payment systems. RippleNet was specifically developed to provide instant settlement and complete transparency in cross-border transactions. RippleNet's On-Demand Liquidity solution uses the virtual currency, XRP, as a bridge to facilitate fiat to fiat currency transactions and deliver these benefits at scale. We partner with banks and financial institutions, including payment providers, to remedy the fundamental shortcomings of cross-border payments by enabling interoperability between networks.

Importantly, these advances do not require us to displace fiat currency or compete with the central banking system. Rather, as mentioned, Ripple works with regulators, governments, and central banks globally to improve the way the world moves money.

What does this mean for California specifically? It is currently estimated that approximately 800 million people globally (or one in nine) are the recipients of funds sent home by migrant workers. As many of you are personally aware, California is home to multiple counties where migrant workers - who are employed in many industries ranging from agriculture to technology - comprise more than a third of your constituents, including Santa Clara, San Francisco, and San Mateo. Ripple's solutions are specifically designed so that banks, financial institutions and payment providers can help immigrants send money home cheaply and efficiently, where it can then be used to cover living essentials. Even where remittances represent a small portion of what migrants earn, these funds often represent "a lifeline" for millions of families worldwide.

To date, neither Congress nor U.S. regulatory agencies have established a clear regulatory framework for digital assets. This space is thus ripe for leading states, like California, to set out a workable policy that would provide an example for other lawmakers and regulators to follow. Any framework should start with a clear token taxonomy - meaning a clear and simple categorization of tokens defining whether a token is, for example, a security token (does the token represent a share of a company), or a utility token (does the token represent access to a particular service or reward), or a payments token that helps bridge payments and remittances, or perhaps a simple store of value like digital gold.

With that clear token taxonomy as a foundation, the industry, the public, and the regulators would then know which digital assets fall inside which "regulatory perimeter" - meaning, which existing laws apply to which token asset class. For example, which tokens are regulated under security laws and which under money transmitter laws, and how do privacy regulations and consumer protection laws apply? Any taxonomy should also retain some flexibility in recognition of the fact that digital assets can (and do) move between classifications over time as the technology and use cases evolve.

Taking steps along these lines - as the U.K., Switzerland, and Singapore all have recently done - will not only foster innovation and protect consumers, but allow California to continue to recruit new companies and promote emerging technologies that bolster its status as a world-class

destination for innovation, and the jobs and tax revenues such innovation creates. If not, there is a real risk, that we are already seeing, that this technology will simply move offshore.

California has already started the process of trying to provide direction through the introduction of AB 1489. We believe that further study of this legislation (and any amendments to it) will be helpful in moving the discussion forward in a productive way.

We believe these innovations are here to stay. To us, this is a timely and important dialogue and we appreciate the opportunity to take part in it with you.

Thank you.