PAYWARD CANADA INC.
CRYPTO ASSET STATEMENT
XRP

XRP (XRP)
Last updated on April 20, 2023

Disclaimer

Please note that this Crypto Asset Statement is not exhaustive of all risks associated with trading XRP. Investors should perform their own assessment to determine the appropriate level of risk for their personal circumstances. Be sure to do your own research and due diligence while taking into account your own financial situation and risk tolerance. Please review the Risk Statement for additional discussion of general risks associated with the Crypto Contracts and Crypto Assets made available through the Canadian Platform. These materials are for general information purposes only and are not investment advice or a recommendation or solicitation to buy, sell or hold any crypto asset or to engage in any specific trading strategy. The information contained in this Crypto Asset Statement is based on publicly available information that may be inaccurate, incomplete, or change at any time.

What is XRP?

XRP , sometimes referred to as Ripple, is a digital currency and payment protocol running on the XRP Ledger that aims to provide faster, cheaper, and more reliable cross-border payments. XRP's payment protocol, known as RippleNet, allows financial institutions to transact directly with each other without the need for intermediaries. This can help reduce the cost and time required to transfer money across borders, as well as increase transparency and security.

Unlike other cryptocurrencies, XRP is not mined or created through a Proof of Work algorithm. Instead, all 100 billion XRP tokens were created at the project's inception, with a significant portion held in escrow by the Ripple company. XRP is used as a bridge currency for cross-border payments, allowing institutions to convert fiat currency to XRP and then back to another fiat currency in a matter of seconds.

Who is behind the project?

The XRP Ledger was developed in 2012 by David Schwartz, Jed McCaleb, and Arthur Britto. In September 2012, Chris Larsen and Jed McCaleb co-founded OpenCoin which later rebranded to Ripple Labs. In September 2020, the XRPL Foundation launched to accelerate the development and adoption of the XRP Ledger.

How does it work?

XRP's consensus algorithm is called the XRP Ledger Consensus Protocol. It is different from other consensus algorithms like Proof of Work or Proof of Stake. In the XRP Ledger Consensus Protocol, the consensus process involves a series of rounds where validators propose and vote on the state of the ledger. The goal is for a supermajority of validators to agree on the same state. Unlike blockchains that pay participants through their respective consensus mechanisms (Proof of Work, Proof of Stake, etc.), XRP Ledger participants do not receive rewards for validating transactions, and transaction fees paid by users are permanently destroyed.

RippleNet is the network that connects banks and payment providers to facilitate cross-border payments. The network uses XRP as a bridge currency to facilitate transactions between different fiat currencies. When a payment is initiated, RippleNet searches for the cheapest and fastest path to make the payment. This path can involve multiple intermediaries, but the use of XRP as a bridge currency helps to minimize the costs and time required for the transaction to settle. Every transaction made using RippleNet products is recorded on the XRP Ledger.

Tokenomics of XRP

XRP is the native cryptocurrency of the XRP Ledger and has a fixed total supply of 100 billion XRP. The token is designed to provide a bridge currency for global payments and acts as a mediator between fiat currencies, cryptocurrencies, and other assets.

Ripple Labs, the company behind XRP, received 80 billion XRP, which includes the 55 billion XRP held in escrow. The remaining 20% was distributed to the founders.

XRP has been working to increase the adoption of XRP by partnering with financial institutions globally, who in turn hold a portion of the XRP supply.

As of April 2023, the circulating supply of XRP is ~51.75 billion tokens.

General Risks

Like all other digital assets, there are some general risks to investing in XRP. These include short history risk, volatility risk, liquidity risk, demand risk, forking risk, code defects, cryptography risk, regulatory risk, concentration risk, electronic trading risk and cyber security risk. For more information on general risks associated with smart contracts and digital assets, see Kraken’s Risk Statement.

Risks specific to XRP

Competition

XRP faces competition from other cryptocurrencies such as Stellar, Bitcoin, Dash and many others. XRP’s value derives from XRP’s broader adoption in the market. If XRP fails to achieve sufficient adoption compared to the other options in the market, this could negatively impact the value of XRP.

Regulatory and Litigation Risk

On December 22, 2020, the Securities and Exchange Commission announced that it had filed an action against Ripple Labs Inc. and two of its executives, who are also significant holders of the token, alleging that they raised over $1.3 billion through an unregistered, ongoing digital asset securities offering. The case is ongoing. If the court finds in favor of the SEC and against Ripple Labs Inc., this may have consequences for the value of XRP.

Due Diligence

Prior to listing on the Kraken platform, Kraken performed due diligence on XRP and determined that XRP is unlikely to be a security or derivative under Canadian securities legislation. Our analysis generally includes, but is not limited to, reviewing publicly available information on the following:

- The creation, governance, usage and design of XRP, including the source code, security and roadmap for growth in the developer community and, if available, the background of the developer(s) that created XRP;
- The supply, demand, maturity, utility and liquidity of XRP;
- Material technical risks associated with XRP, including any code defects, security breaches and other threats concerning XRP and its supporting blockchain (such as the susceptibility to hacking and impact of forking), or the practices and protocols that apply to them; and
- Legal and regulatory risks associated with XRP, including (i) any pending, potential, or prior civil, regulatory, criminal, or enforcement action relating to the issuance, distribution, or use of XRP, and (ii) consideration of statements made by any regulators or securities regulatory authorities in Canada, other regulators of the International Organization of Securities Commissions, or the regulator with the most significant connection to XRP about whether XRP, or generally about whether the type of crypto asset, is a security and/or derivative.

No securities regulatory authority has expressed an opinion about the Crypto Contracts or any Crypto Assets (as defined in the Risk Statement) made available on the Kraken platform, including an opinion that XRP is not itself a security and/or derivative. Changes to applicable law may adversely affect the use, transfer, exchange, or value of any of your crypto assets, and such changes may be sudden and without notice.