



**Testimony Prepared for the US House Financial Services**

**Subcommittee on Digital Assets and Artificial Intelligence:**

**“A Golden Age of Digital Assets: Charting a Path Forward”**

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Chairman Steil, Ranking Member Lynch, and members of the Subcommittee, thank you for the opportunity to testify today. My name is Jose Fernandez da Ponte and I serve as Senior Vice President and General Manager of PayPal’s Blockchain, Crypto, and Digital Currency (BCDC) Business. I appreciate the invitation to address the Subcommittee regarding PayPal’s vision for cryptocurrency in the future of digital payments.

Today, I would like to focus my remarks on how responsible innovation in cryptocurrencies can enhance payments infrastructure and make the digital economy more efficient for all participants. I will structure my remarks around the following topics:

- PayPal’s vision for payments involving digital assets
- How PayPal is developing the building blocks for the future of payments
- Building on our experience
- The road ahead: policies to enable US digital asset leadership into the future

**1. PayPal’s Vision for Payments Involving Digital Assets**

At PayPal, we are focused on digital assets to facilitate payments for the digital economy. We started as a payments company 25 years ago to develop digital payments that are faster, cheaper, and more customer friendly. Today, PayPal’s services include a portfolio of payments products and respected brands like Venmo, Braintree, and Xoom, that make it fast, easy, and safe for people to pay and get paid. PayPal offers a broad range of payments options to enable businesses to drive faster checkouts, increase conversion rates, and grow their customer bases.

Through all of this, we have always focused on responsible innovation. Our commitment to a strong compliance culture and developing new tools to both empower and protect users are fundamental to our work in building and sustaining trust in digital payments for our customers. We work with regulators and law enforcement to comply with the law in every country where we do business. We deploy advanced technology and machine learning to analyze transactions to help prevent money laundering, terrorist financing, and financial fraud. These activities have allowed us to do our part in thwarting criminal activity around the world, while maintaining some of the lowest loss rates in the payments industry.

## **2. How PayPal is Developing the Building Blocks for the Future of Payments**

Innovation is at the core of how we serve businesses and consumers. Twenty-five years ago, we embarked on a journey to digitize payments. Now, we are looking to take online payments onchain. We believe blockchain protocols will bring extraordinary efficiencies to the financial marketplace. We started this journey four years ago by enabling our customers to buy, sell, and hold four types of commonly used cryptocurrencies – bitcoin, bitcoin cash, litecoin, and ether. Our customers can also choose to check out with crypto thereby using crypto as a payment method with millions of merchants.

In 2023, PayPal launched PayPal USD (PYUSD), a fully backed and regulated stablecoin issued by Paxos, designed for commerce and payments. PYUSD reinforces our company’s mission to revolutionize commerce globally by enabling efficient and cost-effective payments to transition from online to onchain.

Our objective in engaging in the digital asset space and, ultimately, in bringing PYUSD to market was twofold: leverage the latest innovation to provide a faster, cheaper, and stable payment medium; and ensure it has utility for users in commerce and payments. Through responsible innovation, consumers can conduct faster and cheaper transactions, send money to loved ones, buy goods and services online, and settle those transactions quickly. Small and medium-sized businesses (SMBs) as well as large enterprises can use stablecoins to enable cross-border payments, open new markets, and manage their own treasury more effectively.

### *Benefits to SMBs and Large Businesses*

Businesses rely on PayPal to securely offer fast and low-cost transfers. Creating a stablecoin with a 1:1 USD-denominated backing gives our users the confidence they need to send and receive payments with the speed they require to conduct global business. PYUSD is available through more than 25 partners, has been used by our venture affiliate, PayPal Ventures, to fund a portfolio company, and has started to be used by companies to conduct payments to their vendors.

PYUSD can be a tool for small businesses to better compete in a global market. Making fast and low cost B2B payments can eliminate the delays and inefficiencies involved in making payments using traditional settlement rails. By using stablecoins, businesses can reduce financial costs,

foreign exchange risk, and counterparty risk. Stablecoins provide one more step in PayPal's journey to make it easier for all parties in digital commerce, especially small businesses, to find new customers, to provide goods and services, and to get paid quickly.

The difficulties in commerce multiply when firms have to send payments internationally, where days-long delays and the high cost of wire transfers result in expenses we can increasingly help to minimize. Ensuring that companies can allocate capital rapidly across subsidiaries, send prompt, just-in-time payment to suppliers in response to invoicing, and dispatch or receive corporate funds, speak to dynamics that can help squeeze efficiencies from the time value of the dollar.

Within volatile macroeconomic environments, delays of a single business day or longer can cost businesses money in lost interest income as well as the potential need to find bridge financing or having to retain ample reserves of working capital. Stability in purchasing power is particularly meaningful in these environments.

Particularly for large, complex organizations, such liquidity management can result in operationally intensive processes, where navigating around frictions in the payment system requires logistical expertise. Using stablecoins and their settlement rails offers an economical solution. Additionally, large corporate groups can manage their treasuries in a more timely way. Where both parties have wallets on a shared stablecoin network, payments can be settled within minutes. The party being paid can redeem the stablecoins for US dollars at a time of its choosing.

Stablecoins seek to achieve a basic aim: to make it easier, faster, and cheaper for businesses to manage their financing, pay or borrow only exactly when needed, and lower their overall operating costs. And as a result, firms take on lower levels of risk.

### *International US Dollar Payments*

Increased costs are known challenges in international payments that the G20 and many other organizations are attempting to address.<sup>1</sup> Financial institutions navigate these costs by leveraging global networks of intermediaries, contend with business hours in different time zones, harness international messaging services and, sometimes, adapt their own data and communication conventions to fit with those in different countries.

We think digital currencies are an important part of the solution. Stablecoins can enable efficiencies for cross-border payment systems. By using stablecoins, transmission of value from one wallet to another can occur through blockchains seamlessly with lower cost and time lost.

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<sup>1</sup> Financial Stability Board, *G20 Roadmap for Enhancing Cross-border Payments: Consolidated progress report for 2024*, 21 October 2024, <https://www.fsb.org/2024/10/g20-roadmap-for-enhancing-cross-border-payments-consolidated-progress-report-for-2024/>.

In addition, sending funds to friends or family overseas can incur significant costs moving through correspondent banking channels. Stablecoins can be used to streamline the secure transmission of funds from one person to another, reducing cost and the time it takes to receive the funds on the other side. For example, we have enabled US customers of our Xoom product (which is a digital remittance flow) to fund remittances with PYUSD. If Xoom users choose PYUSD as a funding source, no Xoom transfer fees are incurred. In addition, we have enabled several of our disbursement partners to settle directly with us using PYUSD on the back end of transactions.

### **3. Building on Our Experience**

Our focus when entering the cryptocurrency market was to develop useful tools to enable our customers to buy and sell goods in commerce. This is an area that was underdeveloped, and we felt a responsibility to explore it.

We started with services for four crypto tokens, leading to transfers of crypto to and from our platform. We subsequently launched our stablecoin in the United States with Paxos, a regulated state-chartered trust in New York. We view PYUSD as having immense opportunity to transform the payments landscape, and we are taking a measured approach to building this in a responsible way in a regulated environment.

At every stage of our cryptocurrency journey, beginning with our Buy/Hold/Sell Product, continuing through enabling crypto transfers and into launching a stablecoin, PayPal has been deliberate and methodical in its approach. For every product, we:

- 1) Understood and appreciated the risks associated with the new products we intended to launch;
- 2) Took appropriate steps to mitigate those risks through the implementation of existing as well as new and enhanced financial crime controls;
- 3) Worked with regulators to provide details of the new products, and receive and incorporate feedback; and
- 4) Engaged with law enforcement agencies, leveraging relationships developed through years of public-private partnership, to advise of new product capabilities and cooperate on information sharing.

PayPal built its robust cryptocurrency financial crime controls on its existing controls and experience, which continue to make our products an unattractive means of financing terrorism. As a financial services company subject to the Bank Secrecy Act and US sanctions laws, PayPal has a demonstrable track record of 1) investment in and prioritization of its financial crime compliance program; 2) active collaboration and partnership with regulatory agencies; 3) proactive, appropriate engagement with law enforcement that has earned praise from agencies both within the US and worldwide for its efforts in combating terrorism and human exploitation.

We also provide customer protections for our PYUSD token holders, including: a) safe reserves that maintain a stable 1:1 backing, segregated from our own assets with attestations from an independent PCAOB-governed firm, b) fast redeemability, c) clear disclosures and education for our customers, and d) monitoring for market activity off platform. PayPal's website offers extensive resources to educate users about the safe and proper use of the platform, as well as how to avoid scams. The app also allows users to easily contact us with any questions or concerns.

#### **4. The Road Ahead: Policies to Enable US Digital Asset Leadership into the Future**

Regular and predictable market policy is necessary for the crypto industry to grow and thrive in the United States. New York State has led the way on supervision, with its Department of Financial Services providing a regulatory framework on digital asset oversight, including stablecoins. At the federal level, we have seen important discussion and progress for some time. We urge Congress to work together on a bipartisan basis to pass legislation providing frameworks for the industry, both for stablecoin issuers as well as for markets and trading. We have an opportunity for the United States to lead in this space and Congress providing the clarity and guardrails to grow responsible business is a necessary step in that process.

##### *Enable Crypto Use for Payments and Commerce*

Other countries have begun to address these questions and to implement far-reaching changes within their domestic payment systems. In some cases, these policies have expanded into broad regimes governing the crypto space.<sup>2</sup> The United States has an important opportunity now, to create forward leaning frameworks that support responsible development of stablecoins built for payments and other common sense regimes for crypto.

It is important to enable non-banks to participate in crypto payment systems. In the United States, state-based regulation has anchored payments regulation for non-bank financial institutions. States set rules governing how much capital a money transmitter needs to keep, the amount of a surety bond or insurance, as well as restrictions on the kinds of investments through which the money transmitter can maintain customer money (e.g., in US Treasuries, etc.). State-based regulation has given rise to dedicated and experienced local regimes for rulemaking, monitoring, and enforcement.

US States have long been innovation laboratories for payments. An existing example of such an approach is that established by the New York State Department of Financial Services, where a dedicated state-based oversight regime for digital asset and stablecoin issuance offers a specific framework with specific obligations related to issuer safety and soundness, governance, and

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<sup>2</sup> For more information on payments systems, payments regulatory regimes, and cryptocurrencies, see Yadav, Yesha, Fernandez da Ponte, Jose, and Kim, Amy Davine, *Payments and the Evolution of Stablecoins and CBDCs in the Global Economy*, April 21, 2023, [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4425922](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4425922).

conduct of business. This approach comes with a number of advantages. Namely, it reduces any administrative and corporate disruption arising from rapid shifts in the regulatory and administrative oversight environment. This can ensure that existing expertise housed within state regulatory agencies can be leveraged and harnessed.

### *Stablecoin Issuer Legislation*

Congress has discussed stablecoin legislation for some time, and we support efforts to pass thoughtful, appropriate, and forward-looking rules that keep the United States at the forefront of responsible innovation. As a result, we urge lawmakers to adopt a stablecoin issuer framework that continues to enable a state-based option. This framework must have uniform standards for certain reserve requirements, for example, but a state pathway is critical to the continued growth of the industry. It is the approach most crypto companies have taken, thus leveraging the expertise developed by the State of New York, for example, and maintaining continuity of business operations.

A federal regime may also be suitable as an alternative for non-bank financial institutions. Such a charter should be tailored to the purpose of payments and not expanded into a broad range of banking activities – the regime should be fit for the purpose of payments as we have seen in other countries. In addition, a charter holder under a federal regime should be pre-empted from state-based supervision to avoid duplicative oversight.

In both regimes, the requirements for reserve asset management, governance, disclosures, and prudential risk management should be the same. A federal set of standards is important for certainty, consistency, and growth. Conversely, its absence impedes clarity and growth. But state and federal charters can work simultaneously under a core set of standards. These standards for bank and non-bank issuers must provide:

- The quantity of assets that the issuers are required to reserve (*i.e.*, 1:1),
- The quality of assets that issuers are required to reserve (*i.e.*, high quality liquid assets such as cash, US Treasuries, and overnight reverse repurchase agreements),
- Ensuring that reserve assets are held for the benefit of customers,
- Assets are reviewed regularly by an independent third party to attest that the assets are of the quantity and quality required by law,
- Disclosures are made to consumers on a regular basis with such attestation and reserve asset information,
- Redemption rights are clearly disclosed and redemptions are made as quickly as practicable, and
- Those issuers that provide stablecoins to US consumers or market to US consumers must obtain authorization in the United States.

Finally, we note that payment stablecoin issuance is not the business of banking or money creation. Stablecoins maintain reserve assets supporting their value – they do not add to the

money supply. Instead, payment stablecoins facilitate payments for consumers and businesses. Payment stablecoin issuers are not engaged in the business of banking by merely making payment more efficient. Traditional banks have obligations and requirements associated with the risks unique to the business of banking, which are designed to protect against the risk that bank reserves are not maintained 100% (or 1:1) against deposits. Banks maintain capital to cover a fraction of the deposits they have received, with the remainder being lent out as part of the fractional reserve credit system.

### *Digital Asset Trading Legislation*

As a leading provider of retail payment services, PayPal believes that virtual currencies offer exciting opportunities to improve the efficiency and integrity of the global payment system. Payments operate differently than trading platforms, however, and raise fundamentally different policy and practical issues than trading platforms. Functions like order matching and price discovery are not present in a digital commerce platform like ours. As a result, it will be important that any market trading legislation that is designed to apply to capital markets, rather than payments systems, maintain principles that exclude from coverage the purchase, sale, and transfer of stablecoins and any other use of virtual currencies as a payments vehicle.

Finally, legislation should recognize the critical contribution that state chartered entities have made to developing the digital asset ecosystem. In particular, state chartered-trust companies should be able to provide custody services as Qualified Custodians when meeting certain standards, thus harnessing the experience of state regulators with years of experience in overseeing digital asset services.

### *Clarification of Other Laws to Enable Payments and E-Commerce*

Given the importance of cryptocurrencies to payments and e-commerce, we urge lawmakers to consider these additional points to clarify existing law so that responsible innovation in the digital marketplace can occur:

- Specify that payment stablecoins are not securities as they do not generate the expectation of profit.
- Exclude payment stablecoins from those digital assets subject to information reporting requirements, as they do not generate capital gain or loss income. Instead, the current approach creates a significant operational burden and more paperwork for the government without associated revenue.
- Provide specific guidance from the SEC with respect to the classification of other tokens as the current environment has a detrimental impact on the market as a whole.

These concepts are necessary to support the United States as a leader in blockchain technology and financial services.

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We are excited by the opportunity to continue responsible innovation in this space that will identify new use cases for businesses and consumers. The current environment offers an important moment for the United States to benefit from a thoughtful and proportionate legislative framework. We look forward to working with the Subcommittee to complete this important work. Thank you for the opportunity to provide our views on these topics.