Cowen Fintech Bus Tour | March 23, 2022

CONFERENCE CALL PARTICIPANTS

George Mihalos, *Managing Director and Senior Research Analyst, Cowen*

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PRESENTATION

George Mihalos

Thank you everyone for joining us for this year's Fintech Bus Tour.

We're once again virtual. We're hoping the next one is going to be in person, but it is what it is at present. Really, no better way to kick things off than PayPal and a conversation on crypto, a fairly topical topic, I would say.

Really can't thank PayPal enough for being available and we do have with us, and we've got all the bases covered, we've got Jose Fernandez da Ponte, SVP and General Manager of Blockchain, Crypto, and Digital Currencies for PayPal. We also have Edwin Aoki, the CTO of Blockchain, Crypto, and Digital Currencies for PayPal. Guys, thank you so much for participating and for helping to kick things off.

Jose Fernandez da Ponte

Our pleasure. Thank you for having us, George.

George Mihalos

Before we get into a whole bunch of different things that we're looking to talk to, for anyone who does want to ask any questions, please feel free to do so through the chat box and I will endeavor to get to those throughout the course of the conversation. I think with that, Jose, Edwin, I think we're ready to kick things off.

Jose Fernandez da Ponte

Of course.

George Mihalos

Why don't we start off sort of at a high level and then we can kind of drill into some things. A little over a month ago PayPal launched its Crypto Advisory Council. Maybe just a two-part question to kick things off.

First, what are sort of the main objectives and if you will, the topics that the council is focused on?

Then maybe related to that, how are you guys liaising with other constituencies across the payments landscape, obviously, regulators, banks, other payment providers? Sort of bring us up to speed on what's going on there.

Jose Fernandez da Ponte

Yes, thank you, George. Maybe I can get us started and then pass it over to Edwin.

As you were saying, we announced our advisory council a few weeks ago. The reason that we assembled that group is first, it's a fantastic combination of minds coming from technology, capital markets, economics, and regulation. The reason we did that is because we do believe that blockchain technologies and digital currencies are a horizontal technology.

Depending on who you ask, it's very common that you ask them, and everybody will go to their side of the elephant. If you ask a technologist, they will tell you this is a technology issue. If you ask a regulator, they will tell you everything about regulation and financial stability. The truth is, is that all those aspects are really, really interwoven.

It's just beautiful when we are able to meet with our council in one go and we have there Pete Briger, the Co-CEO of Fortress, and we have Shafi Goldwasser, winner of the Turing Prize in cryptography, or Neha Narula from the MIT Digital Currency Initiative. Chris Brummer. There is Antoinette Schoar; she's an economist from MIT. Tim Massad, formerly with the CFTC [Commodity Futures Trading Commission].

The interdisciplinary aspect allows us to look at the issues around digital currencies from these at least four different topics: regulation, technology, economics, financial markets. We believe that gives us a privileged position to try to infer where the industry is going to go, as opposed to just looking at one of those factors. That is the reason why we assembled it.

Your second part of the question, George, was about engagement with the stakeholders. Is that right?

George Mihalos

Yes, that's correct.

Jose Fernandez da Ponte

As we all know, and I'm sure that the audience is very well aware, crypto is in the news every day. It's a very lively topic, both in the regulatory and the political and the technology side. We have a long history of engaging with regulators. We cherish those regulatory relationships in the markets where we operate, and we think it's important to have actors like us who have a track history of responsible innovation and engaging with regulators, being able to provide our opinion on the options and where the industry should be evolving.

We spend a significant amount of our time in those forums. Edwin himself is part of the task force that is advising the Bank of England on central bank digital currencies [CBDCs]. We are a part of the MIT Digital Currency Initiative. There is a significant push toward agreeing where the industry should go.

We should remember this is still very, very early stages in the central banks' technologies. I was looking at some information the other day that basically was saying that the total number of blockchain developers worldwide is about half the number of developers that Amazon has. Just one company has twice the developers that are working on blockchain. Very, very much early days and I think that this is a joint effort to push the industry forward.

Edwin Aoki

I think that, as Jose was mentioning, that real sort of notion of being able to look across the industry and look across all the constituencies is so important as this area emerges. As Jose mentioned, this is not just a technical issue. This is not just a policy issue. This is not just a financial or economics issue. We really do believe that this phase of digital assets, but also blockchain technologies more generally, really are a series of building blocks that can dramatically improve and enhance the way that people interface with the financial system and streamline and make more efficient the movement of value and the movement of commerce around the world.

We do feel very strongly that having that interdisciplinary approach, working across a multi stakeholder environment is going to be very important. That's one of the reasons why we've set up both the advisory council, but also it informs our partnership-based model for going after this and really falling in line with the broader PayPal view that this is an ecosystem that we want to support and that we want to be a part of.

George Mihalos

Okay, that's great color. Maybe put in a less diplomatically correct way, you guys are not just moving fast and breaking things as maybe some others in this space have in the past. Is that a very fair way to put it?

Edwin Aoki

I think we would like to move fast and not break things is our approach.

Jose Fernandez da Ponte

We are a regulated payments company. It's important when you're dealing with people's money that you do it responsibly, so yes, breaking things is not an option.

George Mihalos

Perfect. Maybe just moving on, and again perhaps this is a bit of a too simplistic way to think about it, but when I think of crypto from my sort of payments perch, if you will, I think of obviously bitcoin, which is decentralized. Then I think of stablecoin and central bank digital currencies. I'm just curious. From your perspective, again from a payments perspective, is one solution in your view superior to the others? Or maybe if we look at it differently, is one less attractive to you from a payment system standpoint?

Edwin Aoki

Maybe I'll start with that and throw it over to Jose. I think that we do believe that there is room and that there are reasons for having different types of digital assets and different kinds of tokens. That being said, we are very well aware that the current crop of cryptocurrencies, decentralized cryptocurrencies, do have limitations that make them less attractive for commerce and for payments. We're well aware, I think, of some of the scalability and throughput challenges that something like the bitcoin blockchain has.

We also think about things like the ability on the one hand to have great transparency and great visibility into transactions but also on the need for enterprises to have a certain amount of data privacy. It certainly would not be appropriate for an analyst to be able to look at the inflows of currency going into a company or into an enterprise and be able to extrapolate financials as a result of that, for example. Although perhaps some people on this call might enjoy that.

There are a number of factors, I think, that we look at when we think about digital assets and digital currencies that are appropriate for commerce and are appropriate for payments that aren't well-solved by

the range of decentralized cryptocurrencies today. Volatility, the regulatory clarity, and the ability to move that without and store that without certain tax implications. Of course, we're all very aware of the environmental impact that some of these cryptocurrencies and their consensus protocols have as well. We feel like there are opportunities for improvement across all of these spheres, whether they are stablecoins, cryptocurrencies, decentralized cryptocurrencies, or CBDCs.

That's one of the reasons why we've really taken an approach of engagement with some of the organizations that Jose mentioned but as well with the L1 and L2 protocols with a variety of players in the industry to really start to have a conversation around how do you make these systems better-suited for payments, bringing our payment expertise to the table, bringing our regulatory and compliance history and experience to the table, and starting to figure out what makes sense to be able to bring about a digital assets class that is really well-suited to handling the velocity, the variety, and the diversity of payments and commerce solutions that we think will be necessary in order to keep up with this space.

Jose Fernandez da Ponte

Yes, if I may add, I think that, look, the uber theme is that assets are becoming digital. Then these three classes that you referred to are different tools that have different use cases. If you are looking at something, bitcoin is a really, really robust framework for a highly secure network where you don't need to trust a central party. If you need speed and throughput, it's not the best product. It has probably by design a cap on the number of transactions that you can put through the system.

If you are thinking of stablecoins, we think of stablecoins as programmable electronic money. Something that is basically if you think about it, it's not really far from what the balance in your PayPal wallet is, only it's interoperable, it's open-loop, and it's programmable. That has a number of use cases. If you're thinking about CBDCs, the big thing about CBDCs is it's a claim on central bank money when they exist. Depending on what you're optimizing for, you might use one or the other but again, it's the same assumption that this is the first step on the wave of more assets becoming more digital and liquid.

George Mihalos

No, that makes a world of sense, and just while we're on that topic, I know something that's come up in my conversations with people, this sort of debate around stablecoin versus CBDC. I'm just curious if you guys have a view. Do you think the two can effectively coexist? Say if the U.S. government decided to come out with a centralized currency or centralized digital currency, does it matter to PayPal if it's stablecoin or a CBDC?

Jose Fernandez da Ponte

I would say that I personally have a strong conviction that they will coexist. I think that we will see central bank digital currencies that are issued by monetary authorities. We are seeing that already in some markets. We saw that is one of the aspects of the executive order that came out in the U.S. a couple of weeks ago. The European Central Bank is thinking about it. The Bank of England is thinking about it. I don't think that it's going to be overnight and there are many considerations that have to be made but I do believe that we'll see a world with central bank digital currencies, and they will coexist with private stablecoins.

Going back to our analogy. Think of it, we see central bank money today, cash or central bank deposits, and we see commercial bank money and we see electronic money. I think it's going to be the same. One example for instance, when we talk about stablecoins, part of the use case of stablecoins today is for trading on crypto markets and many of those stablecoins are deployed on Ethereum. I would think that probably it's unlikely that when a central bank deploys a digital currency that it will deploy that on these type[s] of protocols. I would imagine that most of them are going to be run on centralized protocols.

Folks will use that as a reserve to deploy their stablecoins on Ethereum or something else. It becomes another layer of the stack. Same thing that we have now, electronic money backed by commercial bank money, we will see stablecoins that are backed by CBDCs.

George Mihalos

Okay, and it sounds like you're working across a number of different sort of crypto categories, as opposed to trying to put your eggs in one basket, if you will. Certainly one of your peers seems to prefer bitcoin over everything else but it sounds like you guys are looking across the entire ecosystem.

Edwin Aoki

We absolutely are looking across the ecosystem. I think that as I said, we feel like there are different use cases for each of these activities and that they will be well suited for certain applications and certain audience groups. As a global player in this space, as one that is really looking at being able to take a very wide and long-term view to this, we feel that it's very important that we support the distribution and the activities across the ecosystem as they evolve. As Jose mentioned, it's still fairly early days and we think that making sure that we are able to establish expertise, we're able to establish credibility, and that we're able to really play where we see the trends emerging is going to be a significant asset for us as we go forward.

George Mihalos

Okay, and if we can maybe talk a little bit more about stablecoin and your initiatives there. I know it's obviously early days. There has been some news on that that's been out over the last several weeks or so. Maybe to the extent you guys can comment on what are your ambitions, experimenting I guess with stablecoin, and how do you envision that playing out?

Jose Fernandez da Ponte

Yes, as you were saying, George, very, very early stages. We have to say that we are exploring stablecoins on our side. We do think [] of stablecoin as a stable instrument that is fully regulated, and it runs on digital rails. We think that there is a fundamental promise there and potential to impact the payments space and we are a payments company. We care a lot about payments, and we would be remiss if we were not exploring alternatives there.

When we think of the stablecoins that are out there today, they are mostly used for two things, for trading in crypto markets and for decentralized finance. They do a beautiful work of serving those purposes and they work quite well if you are interested in doing 10 transactions of $10 million each. That is not our business. We are in the business of making 10 million transactions of $10 each. The reason that we have been exploring this space is because we have not seen anything in the market yet that is a stablecoin that is purpose built for payments.

If we end up moving ahead, obviously we will do that with the right regulatory engagement but at the exploration stage, we would like to see in the market stablecoins that are customized for payments and that bring this promise of innovation and also inclusion that is present in the executive order and in several other kind of mission statements for digital assets.

George Mihalos

Okay, great. We're going to touch on a couple of those topics in a few minutes but just from a technology standpoint, do you envision this being developed on the Ethereum blockchain, Solana? How do you guys think about that from a tech stack, if you will, perspective?

Edwin Aoki

Yes, I think, George, there's a lot of interesting developments going on across a number of the L1s that we're looking at. As I said, we have the privilege of being able to work with and speak with the principles and the groups that are behind most, if not all, of these initiatives. We definitely see the vast amount of developer support and the interoperability that comes with the Ethereum blockchain. We also see in some of the newer L1s greater efficiencies, greater throughput, and attention to some of these other areas around things like data privacy or auditability that are going to be harder to retrofit into something like an Ethereum.

I think that our approach is that we do believe that there will be multi protocol explorations that we will continue to do. As Jose mentioned, there are things that we are looking for in our experiments in terms of the capacity to be able to work across a number of different areas, to work at the scale and speed of the Internet, not necessarily the scale and speed of the public blockchains as we're seeing them today. We're going to continue the discussions across a variety of different protocols.

What I don't think that you'll see us doing necessarily is going down a route where we invent something new because again, our view is that we want to be part of the broader ecosystem and that we feel like our activities in this space should be accretive to all of the work that's going on across all of the smart minds that are going on in this industry, rather than taking a very proprietary view towards something that only we get to participate in.

Because again, if we're going to think long-term and we're looking at this in the bigger picture, we feel like this is really the start of a significant push across the digitization of finance and the digitization of value exchange, rather than just something that we're doing here on the side.

Jose Fernandez da Ponte

That is super important, George. If you think of stablecoins as platform products, you expect that people will build on top of them. The ultimate use case is I don't think that we can imagine some of them. There are many of them that the community will pick up and run with them. If you're thinking of that as a platform product, usually in platform products, open sources win and developer communities lead.

We don't have any pretension that we will tell the developer community where to go. I think it's much the other way around. The developer community will tell us where to go. That's why we think it is important that we keep a very close eye on how those developer ecosystems are being generated and established. Again, it feels like there's a strong advantage of open-source protocols there.

George Mihalos

That's super helpful and that pretty much dovetails into the next question that I wanted to ask you both and that's this sort of, maybe I'm phrasing it the wrong way, but the Balkanization, if you will, of stablecoins, the different platforms working on their own. Can you envision a scenario where you have some sort of general case stablecoins and then individual platforms or banks that are just rolling out their own solutions for their own sort of ecosystem? How do you think through something like that?

Jose Fernandez da Ponte

I can take a first crack and then, Edwin, I would love to hear your thoughts there as well.

I don't think that we will see one stablecoin to rule them all. I think that there is space for several aspects. There are multiple blockchains that we were just discussing. There are geographic components there and how it's going to work cross-border, and regulatory components as well. There are use cases as you were saying. It's not necessarily—one stablecoin that is purpose-built for trading is not going to be the same thing as one stablecoin that is purpose-built for play-to-earn, gaming, or NFTs [non-fungible tokens].

Probably we'll see a type of Cambrian explosion of multiple stablecoins, and I would assume that not all of them will get to maturity and to escape velocity, but I would assume that it's a safe bet to say that we will see a plurality of stablecoins, with slightly or radically different use cases. But I don't know, Edwin. You and I have not discussed about this, so I would love to hear your opinion as well.

Edwin Aoki

No, I think that that's absolutely right on, Jose, and as George, you mentioned, and we've sort of touched on I think thematically in a couple of different points throughout the conversation, as the space evolves, we do expect that there will be some specialization that occurs and some use cases which are naturally better-suited towards specific attributes of one versus another activity. That might be use case dependent. It might be geographically dependent and the like.

Again, I think that it would be unfortunate if there were hundreds of these out there. I think that our view is really around being able to help our customers cut through the confusion and be able to experience the benefits of digital assets and this ecosystem in a straightforward, safe, and easy to use way. But I do think that we will see a variety of different tokens that are useful for different purposes, and in some cases, for different audiences.

George Mihalos

Okay, that's helpful. We've had some questions come in, so let me maybe pivot to that a little bit before I monopolize all the speaking time. I'm going to try and paraphrase this question. It's basically around engagement with crypto. We're basically being asked if you can comment on merchant adoption of the crypto acceptance product as a payments tool, how that's going for you. Maybe at a high level, if you are pleased with activity amongst trading for crypto consumers, just at a high level.

Jose Fernandez da Ponte

Yes, so I would say at a high level as you know, we have enabled the ability to fund your transactions with PayPal with the crypto balances that you hold with us mid last year. The main reason we did that is for choice. I think that's the same thing that we enable. You know that consumer choice is a big factor for us and same thing that we want you to be able to pay with your credit card or your debit card or your bank account, or your rewards points if you are holding a crypto balance with us. We want to make this more useful and more accessible. It was kind of out of principle we were saying, if you are holding value with us, we want that value to be useful and that was the driver behind it.

Most people are thinking of crypto these days in two ways. Either a way to engage with the Web3 ecosystem, so I want to hold Ether because then I want to go to buy an NFT and I need to pay with Ether, or they're looking at is this something that I'm going to hold because I think it's going to increase in value. The drivers for people to use that to say buy a laptop at an electronics website, there are implications on the tax side and especially on the consumer mindset. There are folks who are using it. It's not a massive flow.

Interestingly, what we see more and more is people who buy and sell on our platform and when they sell, they deposit that into their balance and then they go and buy something with their balance as opposed to doing directly a straight crypto purchase. We think, and it's one of the aspects where we are engaging with merchants, what we are hearing from merchants is that many of them, especially on the smaller side, are thinking about enabling settlement with stablecoins.

If you remember our product today, we accept crypto from the consumer and we settle in fiat with the merchant. For massive adoption, probably in the system, that requires two things. First, as we said, broader

adoption of stablecoins as a payment instrument and second, that merchants are willing to settle directly on that stablecoin.

Edwin Aoki

I will add though I think that because sometimes it gets lost in the understanding that because of the two-sided network and the fact that we enjoy relationships with both our consumers and merchants, when we turned this on, we actually turned it on for virtually all of our merchants. There was no need for a merchant to opt in or to change an integration in order to be able to take advantage of the optionality that Jose mentioned.

For millions of merchants overnight, we were able to turn on this functionality and that if a consumer goes to a Best Buy or to a Nike that's already a PayPal merchant, they have the option to use the crypto that they're carrying on our platform to buy their shoes or laptop or what have you. I think in terms of the engagement from merchants, as Jose mentioned, I think that we have merchants that are more or less enthusiastic about being crypto native merchants but certainly, we have deployed crypto across the vast majority of our merchant population today.

Jose Fernandez da Ponte

Yes, and I think that George, the second part of the question was about consumer engagement if I remember right. Our crypto population is one of the most engaged we have. On average, I think that our crypto consumer does around six crypto transactions per year, and I think that about 60% of people who acquire crypto with us still were holding a crypto balance by the end of last year. It's a highly engaged population.

We care a lot about access and making this available to the broader public. In that sense, we really, really like to see folks who have not done, for whom we are their first crypto transaction. They have been hearing about crypto. They are intrigued about it, but they want to do it under the trust of a brand that they recognize, and they have been doing business before.

George Mihalos

Okay, that's great. Just on that point since we're talking about engagement here, curious as you think sort of longer term, if I think about the crypto offering today as it exists within PayPal, I think more about sort of, to your point, the crypto curious. Someone who is doing, maybe getting his initial engagement if you will, with a cryptocurrency. Down the road, do you see the offering evolving into also servicing more active users or traders, for lack of a better way of putting it, people that are more sort of engaged in the ecosystem?

Jose Fernandez da Ponte

You see some of the actors in the space have gone that route and becoming kind of more of a—or even some of them have evolved to be institutional platforms. I don't think that's our calling. That's not what we do. As you say, we are at heart a payments company and we care about making financial services accessible to the public. What is going to be interesting, but absolutely our users are getting more sophisticated over time. We see a ton of interest from consumers but also from merchants who are getting interested in NFTs is a big topic. We have a lot of our enterprise clients saying, "Help us think through what should be our position here."

The way forward for us and where we see our vision in the crypto space is by becoming this conduit between fiat transactions and experiences that you know and are familiar with and the Web3 world that is developing out there. But there are, whether they are NFTs, there are other applications on gaming. I think that we'll see a significant expansion of that activity in the market over the next years.

All those experiences today, they are not built for a mainstream consumer. If you have gone through the experience of trying to buy an NFT at any of the marketplaces, it requires you to go to an exchange and buy crypto. Then you need to have your own wallet, move the crypto into the wallet, then go to the marketplace, then the process send the crypto to the smart contract. That's something that my mom wouldn't do. We believe that our role here is to make those experiences familiar and easy and see it as that conduit between fiat methods and Web3 experiences.

Edwin Aoki

I think that one other thing that I would add though is that I do think that perhaps this notion of sort of active traders versus first timers is maybe a little oversimplified because one of the things that we do hear from folks that have tens of millions of dollars invested in crypto and NFTs often is, "It would be great if I could use and trust a company like PayPal who has a track record, who is well-regulated, who has customer service behind it and the safety and security of two decades' worth of being a financial services player. If I could safekeep my assets with a company like that, I would go ahead and do that."

I think that one of the things that we continue to hear is that as our users become more sophisticated, they also still need and demand the security, the safety, the customer assurances that we provide. When something happens and occasionally something will go wrong in these areas, the reassurance that a customer can pick up the phone, call our customer service agents and rely on our folks to make that right for the customer, I think is something that is starting to become more appreciated, even by some of the heavy traders and people that are accumulating a large amount of assets in this space.

I think that while we may never have the full diversity of assets or use cases that apply to every situation that an active trader might go into, I certainly think that there's going to be an area where people are going to start to look at some of the non-transactional aspects around the safety, around the compliance, and around the customer servicing that we offer and start to think differently about how they want to divvy up their assets.

George Mihalos

That makes a world of sense. Jose, since you touched on NFTs, maybe you can kind of talk about that opportunity for PayPal and how you're approaching it. Any sort of color you can provide around that opportunity?

Jose Fernandez da Ponte

Yes, we think that, and NFTs is definitely one of the aspects of the field that grew last year way faster, way earlier than I had expected it to grow. I think that the development that we have seen over the last year and a half, both on startups growing at scale but also large media brands getting involved is the beginning of something very relevant.

The way we think about NFTs is we think of them as a digital property right. Some of the first incarnation of those uses is collectibles and digital art but it can go way beyond that. I think that we're going to see that moving from the collectible space to things like our ticket to events or anything that will unlock, that will prove ownership of something that can unlock an experience in the real world.

By design, those are instruments when we're talking about fiat-to-fiat payments and fiat-to-crypto payments. By design, those platforms are built to accept crypto, not fiat. That's why we were saying this user journey is so complicated. Our purpose there is we want to be able to facilitate those transactions. In some cases, there are going to be platforms that will be willing to accept fiat and we are going to serve them on their payment needs as we serve crypto exchanges today in fiat-to-fiat deposits.

We will do that, but we are trying to figure out what is the right experience to make NFTs available for the broader public. For us, being able to streamline that experience and be a platform and a tool that people can use to get easier access to these digital property rights is something that we care [about] a lot. We think that it's a fantastic space that is going to develop exponentially over the next few years.

George Mihalos

Okay and now, we had another question come in, this one on the funding side as it relates to digital assets. Is there a difference in funding cost for PayPal as it relates to say crypto versus debit or if there's anything material there? Then should we expect that there will be a difference in funding costs if it's bitcoin versus say stablecoin?

Jose Fernandez da Ponte

I understand the question is about people who are doing a transaction and funding it with their crypto assets. So from the funding side, when people buy crypto on our platform, they are doing that, they are buying it through bank balance and debit cards. Credit card is not enabled as a funding instrument for the purchase of crypto itself. Then when people are using crypto at a checkout, what is happening as we have explained in the past is there is a transaction to sell the crypto, the crypto goes into the balance of the user, and then it gets transmitted to the merchant. Effectively, on the payment side, the funding cost of that is equivalent to a balance-funded transaction.

The other question, is it different for bitcoin and others? It is not. There are no network fees or anything related. It's an off-chain transaction.

George Mihalos

Okay. That's good. Maybe going back to some current events, and again something we touched on a little, but Jose, Edwin, any surprises or thoughts post the President's executive order on crypto, and do you think that the appreciation for the application broadly is improving on Capitol Hill? Just curious your thoughts there.

Jose Fernandez da Ponte

I think that the relevance of the executive order, it's difficult to overestimate it. I think it's a very, very significant development in the U.S. If you talk to many of the actors in the space, everybody has been saying we need clear regulation of this space in the U.S. Over the last few months, probably since the Presidential Working Group report was issued, I think it was October or November last year, that conversation has continued to gather traction about how is it going to be regulated in the U.S.

So far, we have seen a response that has been probably fragmented across agencies and focused very much on the risks, which is the right thing to do. There are considerations around financial instability and preventing financial crime and enhancing consumer protection that have to be there. But I think that it was very important to hear a whole of government approach who are saying, "Look, this industry is here to stay. There are advantages in terms of inclusion and innovation and there is a priority for maintaining leadership in this space. We need to ensure that that happens with the right guardrails and the right safety provisions."

That statement of saying this is important innovation and we want the U.S. to play a role here, and that direction provided by the executive order, I think is fundamental because then you're looking at something that starts to approach. For instance, Europe has been looking at it, as in the regulation, the European Union, the market in crypto assets, or MiCA, has been looking at that approach, saying, "This is a space that requires specific regulation, and it has to be developed comprehensively and for all the regions."

That's something that we had not seen in the U.S. yet and this executive order probably provides one additional step moving in that direction. I very much look forward to see the reports that have been commissioned by the order, [which] have different timelines in the range of three to six months. I do believe that we will learn a lot more about the direction of the space in the U.S. over the next six to nine months probably.

George Mihalos

Okay, appreciate that color. Just one more since we're on the topic of current events. Some big developments over the last couple of weeks. Obviously, from a geopolitical perspective the situation in Ukraine and I guess there are sort of two competing thoughts that we've been hearing about.

One, the role of crypto from a charitable giving standpoint and what that's been able to do for Ukraine, and then this other sort of concern, which it appears hasn't really played out, around circumvention of sanctions by using digital assets. I'm just curious if that has impacted your conversations at all or thought process as it relates to the advisory council and the like.

Jose Fernandez da Ponte

Maybe I can talk about the sanctions first and maybe Edwin, you can talk about the impact on sending funds.

I think it was as recently as last Friday that Undersecretary Nellie Liang from Domestic Finance at Treasury that she was saying that they have seen a small uptick in illegal activity on crypto following the developments in Ukraine or Russia but too small to make a significant factor on the circumvention of sanctions. I think that what we are hearing from agencies like Treasury is crypto is not a viable instrument to circumvent sanctions at scale. You cannot just turn a G25 economy and put it to run on crypto overnight.

It's important that over the last few years the infrastructure from the technology point of view to be able to do transaction monitoring, attribution of addresses doing suspicious activity, and the sophistication of law enforcement to be able to track that has become much, much, much stronger. I think that on the sanctions side, what we are hearing publicly from the administration is we have seen a bit of an uptick, but we have not seen that this is an instrument for sanctions circumvention at scale.

On the activity [] and also on the work that we have been doing to help the channel donations for the situation in Ukraine on the PayPal side, Edwin, maybe you can touch on that.

Edwin Aoki

Yes, just more generally, I think it is really interesting to see that this is really the first space where we have seen crypto play a major role in the movement of value across borders for humanitarian and other sort of charitable purposes, which I think is a watershed moment for the way that we think about this. If you think about the speed at which that's been able to happen, compared to taking three or seven or 10 days to be able to move those funds, it's unclear that that would have been as effective for the people of Ukraine as crypto movements were.

We are watching that very carefully. I think that we are very cognizant and certainly very aware of the regulatory and compliance implications of that, and we are committed to making sure that we are being able to do that responsibly, as Jose mentioned. I think that one of the things that we are committed to is really making financial services available where they are needed and so you've seen recently that we enabled Ukraine as a receive country through a significant effort, together with our partners for folks to be able to send funds on a peer-to-peer basis and to be able to support merchants and consumers and family and friends in that area.

I think that that's again a sign of how we've been able to take the network that we've been able to build, both on the fiat and the crypto side, and make that accessible to people where they need it and when they need it at the speed of the Internet. I think that those are themes that you'll continue to see across the BCDC side and crypto, but as well as we look across the entirety of the PayPal platform because we know that when disaster strikes, whether that is a conflict or natural disasters, that people need a way to get funds to family, friends, and relief organizations quickly.

That's one of the reasons why we're so invested in the digital asset space because we think that we've done a pretty good job of enabling that through our PayPal network and through the charitable contributions that we support. But we know that there's more that we can do, particularly in the cross-border area and with these international organizations to be able to speed commerce and speed payments.

George Mihalos

Okay, so it sounds like obviously an unfortunate situation, but it seems like more of a proof point for what you guys are doing as opposed to a threat based on what we're seeing right now.

Jose Fernandez da Ponte

I think that is correct and it's also an example of how crypto and fiat will coexist as there is more crypto activity running that event, but as Edwin was saying, everything that we have done in terms of enabling people in Ukraine to receive funds in PayPal accounts and [with our charity partners, helping to raise] $250 million in donations to Ukraine [Link: PayPal newsroom], that is done in fiat. That is the bread and butter of our business. I don't think that we are saying just move over fiat, everything is going to be crypto tomorrow. We do believe that there is a secular trend towards digitizing currency but it's gradual.

George Mihalos

Perfect. I think we're going to have to leave it on that note, given that we're out of time but Jose and Edwin, thank you so much for your time. Really appreciate it and very insightful.

Edwin Aoki

Thank you, George.

Jose Fernandez da Ponte

Thank you, George.

Edwin Aoki

Pleased to be here.

George Mihalos

Take care, guys. Thank you.