Testimony of

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Introduction

Chairman Carper, Ranking Member Coburn and members of the Committee, my name is Jeremy Allaire and I am the Founder and CEO of Circle Internet Financial, a recently launched financial services company aimed at facilitating payments and money transfers using global digital currency such as Bitcoin. I have been building Internet software platforms and online service companies for twenty years, having founded and helped to lead multiple global public companies. The products that I have conceived and helped to build include software and online services used by hundreds of millions of consumers and hundreds of thousands of businesses around the world.

I am here to testify because I believe that global digital currency represents one of the most important technical and economic innovations of our time. Specifically, digital currency introduces advancements in electronic payments and money transfers, potentially materially lowering costs for businesses around the world, decreasing fraud risk for consumers and merchants, increasing consumer privacy and protection, and expanding the market for consumer financial products on a worldwide basis.

As this technology moves from early adopters into mainstream acceptance, it is critical in my view that Federal and State governments establish policies surrounding digital currency that uphold consumer protections associated with fraud and privacy risks, ensure that criminals and bad actors find it increasingly difficult to utilize these platforms and provide clarity to consumers and businesses that conduct business using digital currency.

The Emergence of Global Digital Currency

Digital currency platforms such as Bitcoin have emerged over the past several years, fostered by a number of significant technical and social advancements, including:

- Continued and broad based adoption of the Internet on a worldwide basis, which has enabled billions of consumers to instantly connect and interact anywhere and anytime.

- Dramatic growth in the adoption of smartphones and mobile devices, now used by nearly 4 billion people, and which enable digital payment applications to be available ubiquitously.

- Advances in distributed and peer-to-peer computing that enable highly efficient, global and low-cost systems and infrastructure, enabling decentralized systems of finance.

- Advances in cryptography and digital signature technology, which provide a tremendous foundation for establishing trust, security and privacy in financial transactions.

- Accelerating globalization of trade and labor, which is driving demand for more efficient, secure and cost-effective cross-border payments.

Finally, it seems clear to me that the global financial crisis shattered the trust of many consumers and businesses around the world. It should not be surprising to anyone that in the midst of what appeared to be an emerging global depression in late 2008 that innovative mathematicians, cryptography experts, and computer scientists designed a system, Bitcoin with the goal of providing a resilient yet decentralized platform for finance.

Open Internet Platforms and Global Economic Innovation

To put all of this in context, I think it's critical to look at the role of the Internet and open platforms in transforming industries and fostering global economic innovation. Today, open Internet-based platforms are at the center of global economic innovation in industries ranging from communications, to media, software, education, commerce and retail. However, for a variety of reasons, the technologies and business models surrounding finance have been relatively insulated from these changes over the past twenty years. Open standards, protocols and formats based on digital currency, and Bitcoin specifically, present an opportunity to transform finance to the same degree that these other industries have been transformed. Indeed, the intense globalization that we are experiencing because of the Internet is in many ways calling out for more efficient forms of currency, trade and payments than existing institutions provide.

The Need for Innovation in Banking and Finance

I don't think there is much debate that we need to see innovation and transformation in banking and finance, and that on a global level we need to be thinking about what new platforms and rules of the road are needed to meet the global economic challenges that we face. Specifically, our payments systems are cumbersome and inefficient, and very much built upon systems and processes that are decades old. The result is that consumers and businesses all around the world are paying an implicit tax in the form of higher costs, lower margins and less efficient economic interaction. And, in many cases, our financial systems have excluded enormous bases of consumers who remain un-banked or under-banked. The combination of ubiquitous Internet-connected mobile devices and digital currency presents a tremendous opportunity to radically expand access to financial services on a worldwide basis.

Payments and money transfers are still operating in the pre-internet era. Today, we can communicate freely and instantly with nearly any human on the planet; we have nearly free and instantaneous access to enormous volumes of human knowledge; we have access to — and collectively create — more media and content than was ever thought possible, also at essentially no cost. Yet, to send money between friends and family, whether across the table or across the planet, it takes days and costs a significant amount in transaction fees. Our cash-based currency systems are very costly to operate and are

easily subject to abuse by criminals and money launderers. To make payments, merchants must bear significant fraud risk, consumer privacy is threatened, and likewise it takes days for a merchant to actually receive money from an electronic payment, not to mention the widely perceived high costs of transaction fees. The costs and complexities rise as we look at these issues on a global basis.

How Circle Is Building on This Innovation

I founded Circle with a vision that open Internet platforms for digital currency could transform and improve financial products to the same degree that Internet platforms have transformed media, communications, commerce, education and so many other industries. Specifically, we are building online services for consumers and businesses to be able to easily use digital currency, and specifically Bitcoin, to send and receive money and make and accept payments. For consumers, we intend to enable them to easily purchase, store, send, receive and make payments using Bitcoin, and for businesses we are providing tools to help them easily accept digital currency payments.

We are fully committed to complying with all applicable laws and regulations and establishing comprehensive risk management protocols. In particular, recognizing that we are subject to regulation as a money services business, we have registered with FinCEN as a money transmitter, and are actively seeking licenses from U.S. State financial authorities to operate as a money transmitter within their jurisdictions. We are developing our platforms to provide very high levels of security for our users, and employing industry-leading approaches to customer identity verification, fraud remediation and anti-money laundering, including a BSA/AML/OFAC compliance program, designed in partnership with leading regulatory advisors and experts.

Risks and Threats Created by Global Digital Currency

As digital currency gains more traction, U.S. regulators and law enforcement are justifiably focused on the potential use of digital currencies to finance criminal activities, including terrorism. As evidenced by Silk Road, and other recent legal and enforcement actions, digital currency, just like cash, can indeed be used for nefarious means. Silk Road also demonstrates the importance of industry players implementing robust fraud and anti-money laundering programs and working closely with law enforcement to prevent and report this type of behavior.

A number of potential risks exist with digital currency that need to be considered by government, including:

- Criminals and terrorists will seek to employ digital currency if it remains unregulated, leaving Bitcoin operators to operate without stringent controls and effective systems to verify identities, monitor transactions, and report suspicious activity.

- Tax cheaters will seek to employ digital currency to evade taxes if the government doesn't issue and enforce clear guidelines and rules on the role of digital currency in accounting for income and taxation in U.S. Dollars, and businesses will be uncertain as to how to account for revenue and income received in digital currency.

- Consumers and businesses could be defrauded if Bitcoin operators are allowed to operate without the highest levels of security when storing digital currency and associated personal information.

- Consumers and businesses could be exposed to financial loss if Bitcoin market prices fluctuate wildly, and central banks and institutional investors are not able to act as market-makers in Bitcoin.

- Because Bitcoin is not centrally controlled and relies upon an open network of computing nodes that provide transaction processing and payment confirmations while securing the network as a whole, it is potentially subject to malicious "51% attacks" that aim to disrupt Bitcoin's records of asset ownership.

At Circle, we are committed to working with key government agencies and policy makers to ensure safeguards are in place to mitigate these risks. These safeguards include the development of strong Know Your Customer ("KYC") standards for customers and counterparties, transaction monitoring, and regulatory reporting. We are encouraged by the ongoing dialogue and the formation of groups, such as the Bitcoin Foundation and the Digital Asset Transfer Authority ("DATA"), which are coordinating to develop best practices within the industry.

Government and Regulatory Regimes Needed for Digital Currency

All of these risks and opportunities require that governments around the world take a proactive stance with regards to guidance around digital currency. It should be noted that digital currency has expanded globally due to different regulatory standards and attitudes overseas, particularly in the European Union and China. Several foreign firms have also refused to accept U.S. customers due to the lack of clear regulatory guidance. We do not think that it is in anyone's best interest for digital currency to become an offshore industry, or an industry dominated by China. No other country in the world has a startup entrepreneurial culture like the United States. We should protect and embolden this spirit that creates economic growth and provides us with a considerable global advantage.

In terms of U.S. regulation, it appears to me that Federal and State regulators generally appear to have ample statutory authority to adopt regulations and take enforcement actions as necessary to protect consumers and ensure responsible conduct in the world of Bitcoin commerce, that their actions to date have been constructive, and that we stand ready to assist them in their ongoing efforts to adapt their regulatory tools to new digital currency.

I believe we are at the forefront of another twenty year journey of Internet-led transformation, this time in our global financial systems, and the opportunity is to foster that economic change while simultaneously putting in place the safeguards that only government can enable.

Mr. Chairman, that concludes my prepared testimony. I would be happy to answer any questions for the Committee.