

# Congress of the United States

Washington, DC 20515

August 14, 2023

Daniel H. Schulman  
President and Chief Executive Officer  
PayPal  
2211 N First Street  
San Jose, CA 95131

Dear Mr. Schulman,

As a member of the House Financial Services Committee's (HFSC) Subcommittee on Digital Assets, Financial Technology and Inclusion and - in prior Congresses - the HFSC Digital Assets Working Group, I write with respect to your recent announcement of the launch of the stablecoin PayPal USD, which will be issued by Paxos Trust Company (Paxos).<sup>1</sup>

Web3 and digital assets present potential opportunities to bolster U.S. leadership in the global financial system and remain at the technological frontier.<sup>2</sup> The U.S. has always been a safe space for fostering responsible innovation and competitiveness within the digital assets space could be important to continued U.S. economic leadership.

As you are well aware, there are compelling potential use cases for stablecoins in our payment ecosystem, such as the instantaneous settlement of transactions and reducing the costs of cross-border remittances. However, there have also been failed stablecoins and abuses that have wiped out billions of dollars.

I recognize that Congress must pass legislation that provides a clear federal regulatory framework for stablecoins that prioritizes robust consumer protections and safeguards our financial system, and I am involved in crafting a bill that can pass both chambers and be signed into law.

Given your recent announcement, the current absence of a federal regulatory framework, and the size of your global financial footprint, I write to seek clarification on several questions to better understand how you intend PayPal USD to operate in this uncertain and evolving space:

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<sup>1</sup> "Press Release: PayPal Launches U.S. Dollar Stablecoin - Aug 7, 2023." 7 Aug. 2023, <https://newsroom.paypal-corp.com/2023-08-07-PayPal-Launches-U-S-Dollar-Stablecoin>.

<sup>2</sup> "FACT SHEET: White House Releases First-Ever Comprehensive" 16 Sep. 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/09/16/fact-sheet-white-house-releases-first-ever-comprehensive-framework-for-responsible-development-of-digital-assets/>.

1. Did you or did Paxos, at your request, communicate and/or seek approval from federal regulators, including the Federal Reserve, prior to the launch of PayPal USD? If so, please detail those conversations and any concerns that regulators may have relayed.
2. In the wake of the failure of many algorithmic stablecoins to maintain a dollar peg, I am pleased to see that PayPal USD will use a 1:1 U.S. dollar backup. Can you please provide further clarity on how this will function? Specifically:
  - a. Your press release says you will meet this test with “dollars, short-term treasuries, and other dollar equivalents”. Will you obligate yourself to maintain certain floor percentages of each? If so, how and at what level?
  - b. Will you work with Paxos to maintain and publicize third-party audited financial statements showing the status of all assets backing PayPal USD, including where those reserves are held?
  - c. Circle held more than \$3 billion in uninsured cash reserves at Silicon Valley Bank (SVB) and was effectively bailed out by federal regulators after the collapse of SVB, Signature, and Silvergate. Will you commit to working with Paxos to ensure that dollar deposits being used as reserves are in fully insured accounts?
  - d. What measures will you take working with Paxos to ensure there is sufficient liquidity to meet all redemption requests in the event of a run by PayPal USD users during a period of unexpected stress or contagion?
  - e. How will you ensure reserve assets supporting PayPal USD, including any non-dollar holdings, will be sufficiently liquid and not unexpectedly lose value to ensure there is enough cash on hand to promptly meet all redemption requests? Are there specific reserve assets you will work with Paxos to prioritize over others?
3. It was reported that Terraform Labs made secret deals with a trading firm to help prop TerraUSD in the trading markets in exchange for discounts.<sup>3</sup> These undisclosed financial deals provide significant incentives for market manipulation and abuse.
  - a. Will you commit to never, under any circumstance, selling PayPal USD through non-public transactions?
  - b. What tools will you establish to ensure transparency and prevent fraud/market manipulation for other users of PayPal USDC?
4. Blockchain technology, in theory, provides a complete audit trail of all past transactions. In practice, who is allowed to decrypt the blockchain, under what circumstances, and whether those transactions are allowed to go through un-hosted or otherwise anonymized wallets have provided a path to obfuscate transactions in contradiction of anti-money laundering / know-your customers (“AML/KYC”) laws.
  - a. Please describe what steps you took in working with Paxos to ensure the design and issuance of PayPal USD will be fully compliant with AML/KYC rules.

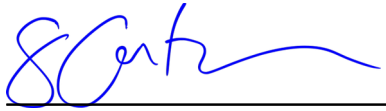
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<sup>3</sup> "Jump Trading Did Secret Deal to Prop Up TerraUSD Stablecoin" 15 May. 2023, <https://www.wsj.com/articles/jump-trading-did-secret-deal-to-prop-up-terrausd-stablecoin-sec-says-11335951>.

- b. To what extent would PayPal USD, either now or in the future, be accessible and stored on un-hosted wallets?
- c. As a payment processor, will you accept any payment for stablecoins with blockchain history through un-hosted wallets or other entities that make it near-impossible to ensure AML/KYC compliance?
- d. What AML/KYC rules will you establish specifically for payments made in PayPal USDC?
- e. Will your AML/KYC compliance for PayPal USDC differ from your AML/KYC compliance used for existing dollar-based PayPal transactions? If so, please detail how.

I appreciate PayPal's commitment to responsible innovation and compliance and respectfully request a written response by August 28, 2023.

Sincerely,



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Sean Casten  
Member of Congress

cc: Charles Cascarilla, Chief Executive Officer and Co-Founder of Paxos