December 9, 2020

To: Senior US Treasury Staff

Subject: USDC, Centre and Open Blockchain Transactions

Since the founding of Circle in 2013, we have been focused on how it would become possible to build open protocols for fiat digital currency transactions on public blockchain networks. That vision has been grounded in a belief that open, interoperable value exchange could transform global economic activity in much the same way that open information and communications networks on the internet have transformed how people everywhere connect and work together.

We are making progress towards that vision. USDC has grown rapidly -- by far the leading compliant, audited and regulated dollar stablecoin in the world. We just passed 3 billion in circulation (500% YTD growth), and have seen over $200B in on-blockchain transaction volume in 2020. While a lot of attention has been focused on Libra er. Diem, the fintech and crypto industry has been leading the way here for some time.
https://medium.com/centre-blog/usdc-stablecoin-surpasses-3-billion-in-circulation-as-global-demand-for-digital-dollars-continues-7e150078c603

While initially co-launched by Circle and Coinbase through Centre Consortium, we are now ready to see the adoption and industry involvement expand significantly. To that end, we have been blessed with the opportunity to work with David Puth (cc'd here), who recently joined as the CEO of Centre. As you may know, David has an incredibly extensive career on Wall Street, helping lead very large core capital markets activities for JPM and State Street, as a senior executive leader, and with a significant focus on global currency markets. Most recently, David was the CEO of CLS, the payment and settlement system for the global foreign exchange market. Owned by over 70 of the world's leading financial institutions, CLS is designated by FSOC as a Systemically Important Financial Market Utility.https://medium.com/centre-blog/financial-industry-veteran-david-puth-joins-centre-as-chief-executive-officer-840712968ef4

It's an incredibly important moment in the history and development of crypto and blockchain technology and networks. By way of history, I was very involved in the earliest phases of the commercialization of the internet, and a staunch advocate for the power of open protocols and open networks, and correctly predicted that an embrace of this model would transform software, media, commerce and communications, despite deeply held conviction from entrenched industry players and policy makers that the public, global open internet would never scale, would be too fragile and insecure, and exposed society to too many risks.

It's 1996 all over again, and this time we are on the brink of dramatic breakthroughs on how value exchange and economic activity can be organized and executed around the world, built up on the fundamental innovation of public blockchain networks.

As an internet technologist with over 30 years of experience, I believe that the innovations on public blockchains are among the most significant technological advancements that we've seen in human history -- creating global, immutable and censorship-resistant recordkeeping and contract enforcement engines that are resilient even to nation-stake attack vectors. So many industries will be transformed by this, not just finance. As we are all aware, this technology is being developed by most advanced countries around the world with China competing most actively with the U.S. for leadership.

We have focused much of our effort on the safe and secure delivery of our technology to our growing list of clients across multiple industries. The promise of public blockchains is based in part on the security of our technology. Our industry is intensely focused on addressing concerns about the potential for financial crimes that exist with blockchain transactions and I am equally sensitive to the Treasury's focus on the same.

While I am not privy to what is directly being considered, I am aware of the fact that the administration, including Treasury FinCEN, are working towards new rule-making that would effectively attempt to "plug a hole" by significantly constraining how financial intermediaries can interact with public blockchain networks, via so-called unhosted or self-hosted wallets.

With all due respect, I believe the proposal would inadequately address the actual risks that are at issue, would significantly harm industry and American competitiveness, would continue to yield economic and industry advantage to Chinese firms, and would have significant unintended consequences around the broader use-cases for this technology.

In my view, the kinds of approaches I've heard that are being discussed would be taking a sledgehammer to a problem that needs precision tools and could materially curtail the much more significant potential for public blockchains to transform many industries.

There is a better way, a way that can continue to foster and support innovation on open public networks, that enhances privacy and security for individuals and entities, while also providing deeper levels of accountability and recordkeeping than are even possible in today's banking system.

These approaches, which rely on the introduction of "identity protocols" on blockchains, can offer a means for individuals and entities to interact peer to peer, through decentralized smart contracts, as well as as through financial intermediaries, while always ensuring that individuals have been appropriately KYCd, with protocol-level "attestations" that ensure compliance and enable law enforcement supervision, but preserve privacy and reduce the risks of PII data breaches.

But the industry needs time, probably 1-2 years, to put these kinds of technologies in place -- indeed, 3rd generation blockchain technologies have recently made this possible, and smart builders are working on these solutions. Not only does industry need this time, but this will allow the industry and financial regulators to collaborate together on building the rule sets and supervisory schemes that make sense in this new world. Time will allow us to work together to enable the U.S. to continue to lead the world with advancements in blockchain technology that can make our industries more competitive in a safe and secure manner.

With all of this in mind, it is my great hope that US Treasury can ensure that any further rule-making in this area accepts that software and protocol level solutions can address these issues, and provides a meaningful safe harbor for the industry to work on these over the next 1-2 years, yet still acknowledging that there are heightened risks with public wallets, and that US regulated financial institutions should apply appropriate levels of enhanced due diligence and blockchain transaction monitoring to entities involved in these transactions.

I realize that there is a lot here, and it’s hard to entirely convey in a summary note / email. As such, I would like to offer a conversation with David and myself, and any Treasury staff who you think would find input on these matters helpful. We will make ourselves immediately available to meet with you and your colleagues and respond with the sense of urgency necessary to address these challenges. We thank you for your consideration.

Kind regards,

Jeremy Allaire
Chairman and CEO, Circle