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To: Irish National Payments Strategy – Coinbase’s response to the Department of Finance’s Public Consultation

Michael McGrath
Minister of Finance
Department of Finance
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Ireland

Coinbase Global, Inc. and its EU subsidiary Coinbase Europe Limited. (together, **Coinbase**) welcome the opportunity to respond to the Department of Finance’s consultation on “National Payments Strategy”.

Date:

19 February 2024

Coinbase started in 2012 with the idea anyone, anywhere, should be able to send and receive Bitcoin easily and securely. Today, we are publicly listed in the US and provide a trusted and easy-to-use platform relied on by millions of verified users in over 100 countries to access the broader crypto economy.

We are deeply committed to Ireland and the EU, where we have a significant presence reflecting their importance as one of our largest international markets outside of the US. Coinbase has an EMI licence and VASP registration in Ireland and a number of registrations in national markets across the EU. Ireland is well positioned to capitalise on this new wave of technological innovation.

Blockchain and crypto-assets represent the future – and adoption of these technologies is necessary for the future-proofing of payments systems. Countries around the world continue to adopt stablecoins and smart contracts for their programmability, instant access, and cost efficiencies. Ireland’s position in the EU as a fintech hub presents the right conditions to further encourage domestic innovation and growth. We appreciate the thoughtful approach the Department of Finance is taking to consider the scope and future of the sector, and we stand ready to support it in this important work.

Yours sincerely,



Tom Duff Gordon
Vice President, International Policy
Coinbase

Introduction

Crypto-assets and the blockchains on which they operate represent a new generation of internet-native payment instruments and rails, which people and businesses can use to move value around the world in near real-time, without relying on the intermediary institutions that currently sit at the centre of payments ecosystems. According to the European Central Bank, 6% of Irish people hold crypto, the third highest percentage in the EU. 27% of these Irish crypto holders already use their assets for payments.¹ This foundation presents Ireland with a unique opportunity to future proof the payments system with digital native money that is programmable, interoperable and instantaneous, providing better outcomes for Irish consumers and businesses alike.

Different crypto-assets may be used for a broad range of use cases / purposes including investment, identity, protocol utility, gaming, the metaverse, art, decentralised social offerings etc. Stablecoins are one group of crypto-assets that have emerged which tend to be less volatile than other crypto-assets as their value is pegged to another form of stable asset e.g. fiat currency. This makes them a compelling instrument for payments.

According to a report by Brevan Howard, stablecoins settled over \$11 trillion onchain in 2022.² While these numbers are crypto-centric and hard to verify from an economic relevance perspective, the reported magnitudes are remarkable, dwarf the volumes processed by PayPal at \$1.4 trillion, and almost surpass the payment volume of Visa (\$11.6tn). Adapting to this innovation, Visa, the largest payments provider, recently enabled settlement with Circle's USDC stablecoin allowing the network to send settlement payouts in USDC and routing these payments in USDC to merchant clients. Moreover, PayPal has launched its own US dollar denominated stablecoin (PYUSD). The movement of traditional payments operators into this market segment is strong evidence that its potential is significant.

In developing NPS's four objectives of 1) Access and Choice, 2) Security and Resilience, 3) Innovation and Inclusion, and 4) Sustainability and Efficiency, crypto-assets and more specifically stablecoins offer an important tool to achieve these goals and enhance the overall objective to build public trust in the effectiveness of the payments system and future proof digital payments infrastructure, for reasons we outline below.

First, stablecoins increase **Access and Choice** as a payment option for consumers and small businesses. They offer a compelling alternative to restrictive and exclusive access to payment rails, built and operated by a handful of firms, and represent competitive options for making and receiving payments.

¹ European Central Bank. 2022. "[Study on the Payment Attitudes of Consumers in the Euro Area \(SPACE\) - 2022.](#)"

² Johnson, Peter , and Sai Nimmagadda. 2023. "[The Relentless Rise of Stablecoins.](#)" Brevan Howard Digital.2023.

Second, crypto-assets and blockchain technology introduce several advantages to payments systems that bolster **Security and Resilience**. The transparency and immutability of public blockchains allows for all transactions to be viewable making the technology an important tool in the fight against illicit finance. Further removing single centralised points of failure through decentralised networks reduces risk, as blockchain transactions can continue as long as a majority of the nodes, or participants, remain online.

Third, blockchain represents the future of payments **Innovation and Inclusion** through its programmability and scope to increase financial access to anyone with access to the internet. The programmability of digitally native money creates scope not only to automate how and when transactions are made and settled (e.g. micropayments, salaries, subscriptions, trading, insurance, prediction markets, lending etc) but also regulatory requirements (e.g. compliance checks). More broadly, with the acceleration of digital transformation (including global commerce), a mechanism to transact and exchange using a digitally native instrument on the internet is needed; stablecoins make it possible to send money to anyone, anywhere in the world as easily as sending a text message.

Finally, blockchain technology facilitates **Efficiency and Sustainability** objectives. Stablecoins give users the ability to transact with increased efficiency with near instant settlement, 24/7 and competitive fees - providing a compelling alternative to incumbent payment systems that can be slow and more costly. Blockchain also has vast potential to effectively manage and meet sustainability requirements - disintermediation resulting in greater efficiencies and lower environmental impact, consensus mechanisms like “proof of stake” drastically reducing energy consumption mitigating carbon footprint associated with the ecosystem and utilisation of blockchain transparency and verification of sustainable practises (providing a tangible mechanism to verify the financial impact of a transaction).

The Department of Finance’s work is critical for the development of innovation in the payments space and to ensure end benefits to Irish consumers and businesses are realised. As this nascent industry develops, the Department of Finance’s balance of ensuring financial stability and consumer protection, and creating the right conditions to spur innovation and growth, is welcome. We have four key recommendations for your consideration, to ensure that Ireland is well placed to benefit from this technology building on its growing fintech and crypto ecosystem:

1. Ensure that MiCA implementation in Ireland creates a level playing field for non-bank and bank issued stablecoins and that regulatory clarity is provided in relation to the treatment of EMTs / ARTs for payments under existing and upcoming payment regimes,
2. Ensure the Central Bank of Ireland has the appropriate resources to upskill in digital assets and payments,

3. Create a banking and fintech wide taskforce to guide the adoption of stablecoins for payments, and
4. Continue to support innovation-forward initiatives like sandboxes and innovations hub.

We applaud the Department of Finance for investigating the future of Ireland's National Payments Strategy and stand ready to support the Department in building a multi payment ecosystem that is efficient and future proof for an increasingly digital age.

Advantages of Crypto-Assets for Payments

At its core, the utility of crypto-assets in payments is to future proof the system and its infrastructure in an increasingly digital age. The features and use cases highlighted below are available today but we will only see the full impact and benefits of crypto for payments as widespread adoption continues. As many of these use cases develop and become more integrated into the financial system, stablecoin's opportunity to broaden functionality, increase speed, and open access will further drive adoption, underscored by decreasing costs for consumers and businesses.

Digital payments should be simple. They should comport with the intuition behind cash payments – a bearer instrument that can be transferred seamlessly person to person . That is not, however, how digital payments work today. Currently, digital payments make use of a complex, interconnected web of debtor-creditor relationships involving multiple intermediaries and financial institutions. Specifically, a typical digital payment involves a sender's account being debited by the sender's bank, the recipient's account being credited by the recipient's bank, and the two banks settling the transaction between themselves through their accounts at the central bank. This process subjects the user of digital payments to credit and operational risks requiring comprehensive prudential supervision and regulation to manage.

Stablecoins used for payments are able to offer significant advantages and mitigate these risks due to three key paradigm shifts: 1) programmability, 2) near instant settlement, and 3) open participation and interoperability. Each of these shifts produces improvements to existing processes but also introduces entirely new functionality and uses. The following section outlines the three shifts, explains their significance as well and demonstrates the potential use cases that can be derived from this technical breakthrough.

Programmability

Blockchain based technology enables new levels of programmability and automation for payments. Up until this point, "standing orders" are one of the only examples of

automated banking payments. With the ability to embed “smart contracts”³ into a network, comes the possibility of automating transactions based on predefined coded conditions. Automatic execution of payments once a predefined set of conditions are met offers greater flexibility, automation and control in financial transactions. Unlike traditional contracts, smart contracts automatically execute and enforce rules when predetermined conditions are met.

This programmable nature allows for the creation of dynamic and automated processes, empowering users to streamline complex transactions and operations on blockchain networks. For example, payment could be programmed to be conditional on certain criteria being met e.g. delivery of goods, insurance claim criteria being met, credit checks completed, KYC / compliance requirements realised, invoices raised - the scope of automation and increase in efficiencies is endless.

Programmability not only enhances efficiency but also provides better information and controls, ultimately reducing risks and costs for payer and payee.

Near Instant Settlement

Instantaneous and atomic settlement of payments facilitated by DLT have the power to transform traditional settlement practices in financial transactions with potential to eliminate delays, increase efficiency, and mitigate risks associated with settlement failures in the existing delivery versus payment (DvP) transaction system. Reducing settlement timelines from traditional T+2 to T+0 significantly reduces credit risk, counterparty risk and cost of locked up capital and has the power to reinvent and retool financial market infrastructure but also will have a huge impact for SMEs and consumers.

Reducing settlement timelines to a matter of seconds (as opposed to days) greatly reduces cost and risk. For SMEs that make frequent and/or large cross-border payments, the value of these speedier transactions is significant. At the same time, atomic settlement is less expensive than traditional correspondent banking due to the involvement of fewer intermediaries – and thus fewer parties collecting fees. This can be especially useful for smaller businesses or individuals who may not have the resources to pay the higher fees associated with conventional methods.

Today, most consumer payments are made via credit or debit cards, a trend that accelerated during the Covid-19 pandemic. While entirely invisible to customers, merchants pay fees — to card-issuing banks, card-network assessment, and payment processors — that can reach above 3% of the transaction value, and are likely to increase in the near future.⁴ Online transactions, mainly through marketplace platforms such as

³ Smart contracts are self-executing contracts with predefined terms and conditions directly written into code.

⁴Surane, Jennifer. 2021. “[Visa, Mastercard to Delay Merchant Fee Hikes Another Year](#).” Bloomberg.com, March 16, 2021.

Amazon or Shopify, can be even more expensive.⁵ Additionally, it can take several days to actually receive the funds, which increases the working capital needs for small businesses. This puts small businesses at a clear disadvantage, particularly given their thin margins, limited cash buffers, and expensive financing costs. While large businesses, such as Dunnes or Penney's, can negotiate significantly lower fees when accepting digital payments, small businesses do not have much negotiating power. Right now, there are few alternatives to the major card networks, meaning that small businesses operating on smaller margins do not have a choice but to attempt to pass part of the fees to customers through higher prices, which lowers their ability to compete with deeper pocket rivals.

Stablecoins for payments offers an advantage to traditional payment transactions by offering instant and atomic settlement capabilities, presenting a paradigm shift in the way businesses conduct financial transactions - reducing inefficiencies, third party costs and settlement cost and risk with clear benefits for SMEs and consumers.

Open Participation and Interoperability

Open participation and interoperability are two unique and highly advantageous features of blockchain and associated stablecoins used for payments. Public blockchains are open networks where anyone can participate, transact, and view the ledgers. These systems accordingly allow individuals and groups to build tools, applications, and other uses on top of them. Builders are incentivized by financial rewards and mechanisms incorporated into the blockchain to maintain and grow their products. Open participation and interoperability of blockchain solutions for payments therefore create greater efficiencies, fuels innovation and competition and enhanced transparency for payments.

This stands in contrast to traditional open source technologies that are often viewed as common goods, struggling to keep long term maintenance or development incentives in place. It also stands in contrast to opaque, privately controlled payment incumbents of today. Relatedly, interoperability refers to the ability of different smart contracts, applications, and protocols to interact and exchange information with each other, compounding the benefits of the individual with the larger ecosystem. Seamless transfer of assets across multiple blockchains in a secure efficient manner means there is scope to benefit from economies of scale, no single point of failure and greater efficiencies afforded by digital payments. Combined, open participation and interoperability serve as the bedrock for increased financial inclusion brought by crypto-assets - democratising access to payments, making transfers as easy as sending an email or text.

Open participation brings access and transparency to these large blockchain protocols that encourage anyone to build on top creating an App Store like platform where many, diverse projects can co-exist, fueling innovation and competition. Open participation also

⁵["The 2020 McKinsey Global Payments Report"](#) 2020. McKinsey & Company.

allows financial incentives to be rewarded for contribution but without the gatekeeping control of a centralised platform. Interoperability, allows one builder's tools to seamlessly integrate and operate with others. In this analogy allowing apps to interact with other apps but also allowing one App Store to work with an entirely different App Store and its apps. By creating modular rules and principles for a blockchain, developers can build on top of others and grow the utility of their products. Combined open participation and interoperability form the foundations of the incentives and the technical mechanisms to collaborate with others in a safe and transparent manner.

One example where the interoperability of blockchain provides specific advantages is in cross-border remittances. Cross border payments are currently expensive, slow and opaque, because of inherent frictions. Frictions come from the lack of a common settlement instrument and system and multiple intermediaries, resulting in FX volatility, credit risk, increased cost and delayed settlement. Stablecoins present a solution to these problems as they are bearer instruments on a common system - blockchain, largely disintermediated with scope for interoperability cross chains.

The majority of cross-border payments are currently carried out via telegraphic transfers supported by SWIFT's network of correspondent banks. These transfers often involve multiple intermediaries, high fees, and long processing times. A transfer can take several days to complete, while the World Bank estimates the average cost of a transaction to be about 6% of the transfer value. However, blockchain technology enables interoperability between different networks, offering a more efficient and cost-effective solution for cross-border payments using digitally native bearer instruments. We believe stablecoins are the next generation of payment instruments both for domestic and cross border payments.

Stablecoins usage for "real world" payments is still relatively small but growing and therefore one of the key disadvantages of using this technology for payments is lack of widespread usage. Digitalisation is accelerating, the need for a mechanism to transact and exchange value on the internet is required, we think stablecoins are the answer. MiCAR, if implemented proportionately, will provided much needed clarity to the EU market on the issuance and services associated with E-money Tokens (EMTs) and Asset Referenced Tokens (ARTs). However, questions still remain and important work will need to be done to clarify how EMTs will be treated under existing payment regimes and upcoming PSD3.

Opportunity for Ireland

Blockchain technology can transform payments through 1) programmability, 2) near instant settlement, and 3) open participation and interoperability and be leveraged by both the public and private sectors to upgrade payment and financial infrastructure for

the public good. Ireland and the Department of Finance have a unique opportunity to support and encourage this new age of digital payments. We have four key recommendations to ensure that the benefits of an internet-native payment system are realised in Ireland:

1. Ensure that MiCA implementation in Ireland creates a level playing field for non-bank and bank issued stablecoins and that regulatory clarity is provided in relation to the treatment of EMTs / ARTs for payments under existing and upcoming payment regimes,
2. Ensure the Central Bank of Ireland has the appropriate resources to upskill in digital assets and payments,
3. Create a banking and fintech wide taskforce to guide the adoption of stablecoins for payments, and
4. Continue to support innovation-forward initiatives like sandboxes and innovations hub.

Ireland already has a strong reputation as a global financial and technology centre - Dublin is the clear hub for multinational banks and technology companies looking for access to EU markets. The existing talent and infrastructure makes Ireland an attractive prospective home for Web3 companies that are expanding beyond their current jurisdictions or as a home for new companies to set up. Major crypto firms including Coinbase, but also Kraken, Gemini, Moonpay, Zodia Markets have an existing presence in Ireland and are further expanding.

In addition, crypto market adoption in Ireland ranks 3rd in the EU with only Slovenia and Luxembourg higher.⁶ Furthermore, while 75% of crypto-asset holders cited using them for investment purposes, 27% of asset holders already cited using them for payments, a number poised to grow.

This adoption of crypto-assets for payment use cases highlights the need for further integration of crypto-assets to drive innovation and protect consumers. It also presents an opportunity to bring together Irish consumers, SMEs, and crypto firms to build a next generation low cost, programmable payments ecosystem all whilst developing the NPS's four objectives of 1) Access and Choice, 2) Security and Resilience, 3) Innovation and Inclusion, and 4) Sustainability and Efficiency.

We commend the Department of Finance for investigating the future of Ireland's National Payments Strategy and building a multi payment ecosystem that is efficient and future proof. We stand ready to assist the Department in the efforts to develop a strategy that will usher consumers and businesses into the next generation of payments innovation.

⁶ European Central Bank. 2022. "[Study on the Payment Attitudes of Consumers in the Euro Area \(SPACE\) - 2022.](#)"