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Visa, Inc. (V)

RBC Capital Markets Financial Technology Conference

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MANAGEMENT DISCUSSION SECTION

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Welcome back, everybody. And normally, at this time, it's like, I don't want to stand in between someone and their drinks. But right now, it's I want to make sure you get some food in you. But we have a really fantastic keynote with us today. You put Visa and crypto in the same statement and you get Cuy Sheffield as it turns out.

QUESTION AND ANSWER SECTION

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

So, thank you so much for being here. This is a very timely discussion. So much to talk about, so much volatility, maybe some misconceptions. And since we're talking about one of the largest payments companies in the world and their view on this, one of the things I thought maybe we would start with is just simply when you think about Crypto at Visa, how do you guys view it? What do you think your role in that world is? And also maybe, if you would start maybe with a little bit of your background so people understand kind of where you came from into this market, so?

Cuy Sheffield
Vice President, Head-Crypto, Visa, Inc.

A

Sure. Thanks for having me. Great to be here. So my background, I came to Visa in 2015 through the acquisition of a fintech company called TrialPay. And when I got to Visa, I didn't know anything about payments and I didn't know anything about crypto either. It was my first job out of college. I came through the acquisition. And when I got inside Visa, I started learning about payments. I got really fascinated with this complex ecosystem and how it worked. And I would talk to people, who knew everything about payments. They had been at Visa for 30 years.

But then I was living in San Francisco in a house with a bunch of friends and we just started getting into crypto, started to go to crypto meet-ups. And so, during the day, I'd be inside Visa and people knew everything about payments, they didn't know anything about crypto. It was weird, it was new. And then at night, I'd go to a crypto

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meet-up, there people knew everything about crypto. They didn't know about payments. They didn't know what Visa actually did.

And so, it seemed very clear early on that the future was some intersection of the two. And so I decided I want to spend the next decade of my career really focused on how these two worlds come together. And I couldn't think of a better place to be than at Visa. And so I became the annoying crypto person running around Visa in 2016 and 2017 and annoyed people enough to where we made a little bit of progress every week. And that's where we are today.

And so, maybe I could just give you how we think about broadly for a minute. And so, first, we think it's really important to acknowledge that crypto isn't just one thing. Crypto is a collection of technologies and assets that we like to put in really three main categories, and the first being cryptocurrencies. Now that represent new assets like Bitcoin, then you have fiat-backed digital currencies, and these include stablecoins that are created by the private sector and they are live today like USDC as well as central bank digital currencies, or CBDC, the acronym that everybody talks about and that governments are exploring across the world; and then the third category being non-fungible tokens or NFTs, which represent unique digital goods or really any arbitrary data.

And so we think what these three categories have in common is they're really built upon this concept of how can you use a private cryptographic key to represent ownership of a digital asset that can be registered and transferred over a blockchain. And we think that's a big deal. And so then when we look at each of these categories, what are we seeing within them, we saw with cryptocurrencies, we see Bitcoin a lot more like digital gold than digital cash. We see most of the interest in it really predominantly being around an investment, a perceived sort of value. And we do not see significant demand for consumers to spend Bitcoin as a currency and use it as a medium of exchange at merchants. And so, many of our clients and partners, they're integrating Bitcoin as an investment. They're using Bitcoin as a rewards program. You spend with fiat and a card, you earn Bitcoin back. So, that's where we see Bitcoin today.

Then, when we look at fiat-backed digital currencies, first, these aren't new currencies. These are really just a new form factor for existing currencies like the dollar. And so, we think this is fundamentally a payment technology. It's a payment innovation. And now that you can represent a fiat currency as a token that runs over a blockchain, it starts to make blockchains potentially useful as payment infrastructure. And so, we think we look at stablecoins running on blockchains as just another network similar to RTP or ACH, and that fits into our broader network of network strategy.

And then, on the third area which we could talk about a lot more of NFTs, we really see these as an interesting technology that could play an important role in both commerce and identity. It's super early. We think there are a lot of consumer-facing applications that will emerge around them. And I think with all of these things, crypto is super early. And regardless of what the price is of any asset on any given day, it's very clear to us that many of the technologies built in this ecosystem could have a really important role in payments and commerce and financial services over the long term. And that's why we're so committed to it.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Yeah. How Visa is – how you remove this fear of failure, that your ability to be successful in developing these types of innovations inside of an organization that is structured in a lot of ways, in a way that Visa is, which is viewed as an outsider looking in to be a little bit more of an incumbent-like player versus an innovation in terms of crypto. So, what is the real role that Visa is willing to play based on who they are in the whole payments ecosystem?

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Cuy Sheffield
Vice President, Head-Crypto, Visa, Inc.
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So, when we set up the crypto product team in 2018, we really started and said, how can we become a bridge between these crypto platforms and our global network of 15,000 financial institutions and 80 million merchants across the world.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC
Q

Yeah.

Cuy Sheffield
Vice President, Head-Crypto, Visa, Inc.
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And so, that really started with how do we improve fiat on-ramps and off-ramps. A major problem that the crypto ecosystem has to solve. And so. we started looking at crypto exchanges as merchants, just another new type of a merchant on our network, and how can we make Visa products one of the easiest, most convenient ways to purchase crypto, to load a wallet, to purchase an NFT, and we started making a lot of progress there. Then, we started looking and saying, okay, if you have a balance of crypto on an exchange or in a wallet, how do you get access to that and actually spend it? And instead of having to convert it and ACH it back to your bank account and wait weeks, we already said merchants aren't really accepting this at scale, how do we make it really easy for a consumer to spend on a Visa card?

So, we started working with crypto exchanges to help them as issuers. And so, since then, we have about 70 crypto platforms, exchanges and wallets, at various stages of issuing cards by us. And we think there's a real value proposition. And many of these companies, if you talk to crypto companies, they're incredibly ambitious. They see themselves not just as like a speculative retail brokerage, they want to be global crypto banks. They're integrating – you can get your paycheck deposited. You could pay your bills. Like, they want to be your primary account. They want you to close your bank account and go full time with a crypto platform. And so, cards become an important part of that. And we've seen that they're looking to issue and to launch cards in many different markets across the world. So, there's a – we think there's a big opportunity there.

And then, as we were making all this progress, as we started working with them, we said, how can we take these digital assets and currencies and actually have them natively run across our network? And so, if you think about what Visa does today, we have a world-class treasury systems, where we can have transaction – people can transact at 160 currencies. They can settle in over 25 today. And so, we can convert between dollars and euros.

Now, when you have these stablecoins emerging, again, they're just another way to represent dollars, how can we have them natively run on our network where we can convert between digital dollars and traditional dollars? And so, we've been really committed to building out crypto treasury capabilities that we think can underpin many of our existing products, as well as enable new products in the future. And as we've been doing all this, we started getting calls and questions from our existing clients, saying, what should we be doing? How should we approach crypto?

And so, we said the same way that we've been a bridge between the crypto companies in our ecosystem, how can we start to be a bridge between our existing clients, between banks and merchants and the crypto ecosystem? So, we started our Visa crypto consulting practice and we started working closely with banks, helping them figure out everything from launching Bitcoin rewards programs, we're working with processors on how to integrate stablecoins, working with the merchants around how to design an NFT strategy. So, we think there are

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many opportunities for Visa to offer these crypto value-add services. And at the end of the day, it really fits into the overall network of network strategy.

Visa the company is not just VisaNet, the card network. We want to be the single connection point and partner for clients to move value and participate in commerce, either over our existing network or over these new emerging networks, which blockchains and crypto fit into. So we think there are a lot of roles that we can play.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Yeah. If we think about the monetization opportunity with crypto and Visa, a lot of people sometimes I think maybe think about them in different lights. And so is there a well-defined pathway that Visa's already established in how they're going to go about monetizing crypto? Or is it going to take on a similar rail, this network-to-network strategy, some of the Treasury management is going to be more of a traditional model?

Cuy Sheffield
Vice President, Head-Crypto, Visa, Inc.

A

And so we think Visa's business model, how we make money today, extends very nicely into the crypto ecosystem. And so if you just look at those categories, on-ramps, we think there's really merchant volume that we can have with crypto exchanges if Visa cards are the convenient way to load a wallet. And so we're doing a lot of work to enable that ecosystem.

On the off-ramp side, with issuance, we continue to win issuance deals and partnerships with some of the largest crypto platforms in the world. And they're not just looking to issue one card program in one country. They want to issue debit, they want to issue credit, and they want to do it in dozens of countries across the world. And so we think that these can be major partners and issuers on our network over time. And in the same way that we monetize or we make money off value-add services on our existing network, we think that there will be crypto value-add services that many of our clients will need, because they're going to need a lot of help. Crypto is complex. And so for traditional banks, for merchants to figure out how can they actually connect into and leverage these new networks, we think there are a lot of roles that Visa can play in the similar construct that we do with value-add services now.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Yeah. You think this is now a competitive advantage that you have or a competitive necessity. In other words, a lot of people would sit here and say, Visa's playing nice, this is all great, but it's a necessity because, over time, in order for them to remain relevant, they need to have developed expertise in this area. What do you think about it?

Cuy Sheffield
Vice President, Head-Crypto, Visa, Inc.

A

I think our general philosophy is that any time someone's talking about payments or money movement, we want to be a part of that. We want to be in the middle of it. And we think that there are a lot of things that Visa can do, the payments innovation isn't just zero sum.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Yeah.

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Cuy Sheffield
Vice President, Head-Crypto, Visa, Inc.

A

And there are – crypto is very early. There are a long way for Visa – or for crypto to go to become mainstream. And the problems that need to be solved aren't going to be solved by one company. They're going to take the entire crypto ecosystem and the entire payments ecosystem working together. And so, I think way too often there's this dichotomy of decentralized and centralized crypto and TradFi. And really, we see these things just coming together and being more intersected over time. And we think Visa plays a critical role as that bridge.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

All right. Let's talk about some of these partnerships since you brought that up. And you have a pretty broad breadth here. So you've got Coinbase and Circle and BlockFi and Anchorage. I mean, the list is long. How do you think about these relationships? Which ones are most important in terms of what you need next, maybe to get you to the next step? Who do you think are kind of the next wave of partners? And what does Visa ultimately have to overcome in its own judgment of these companies in order to be comfortable partnering with them?

Cuy Sheffield
Vice President, Head-Crypto, Visa, Inc.

A

So I think it's important to note first that crypto platforms are both merchants on our network and they're issuers on our network. And so we think that having deep strategic relationships with these companies will be very important for us going forward. And so, I mentioned we have 70 exchanges and wallets at various stages of issuing, and it's also worth noting that many of these partnerships we really formed in the very early stages where they came through our Fintech Fast Track program. And so, we've been hanging out on crypto Twitter for years, meeting founders of crypto companies and figuring out how Visa could help and support them from the earliest stages. And so these companies are being born Visa and then they're growing and scaling with us together over time.

But to be able to work with them, we've also had to invest very deeply in how do we improve and update our compliance processes and our onboarding. So, we're looking at how do we use on-chain analytics to be able to monitor transactions? How do we have separate compliance processes and extra diligence on crypto platforms? And so, that's something we take very seriously that we're only going to work with crypto platforms and help them release products if they can meet the high bars and standards that Visa has for compliance.

And in that sense, it's really interesting to look at. There are hundreds to thousands of crypto wallets and exchanges all across the world, and they take very different approaches to compliance in how they how they comply with regulations. And for us, we're building the largest network of vetted crypto wallets, because you can't work with Visa, you can't issue a card if you can't pass our bar. And so, we think there's a lot that we can do to continue to build that network, as well as how can we add value to that network over time and separate – not every crypto exchange is created equally, how do we work with the market leaders that can meet our standards and then be able to avoid working with ones that can't? And that's something we've invested very deeply in.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Yeah. All right. So, the crypto market has been super volatile as of late, Cuy. So, give us your views on what the current economic and variabilities in the economic backdrop are playing into the crypto market. It would seem it's a lot more correlated to traditional assets than maybe some would have originally thought. You look at it from a very different lens. So, what are you actually seeing in that regard?

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Cuy Sheffield
Vice President, Head-Crypto, Visa, Inc.

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So across our overall business, we do not pretend to be economic forecasters and especially not in crypto. And I mentioned, we started the crypto team in the depths of the bear market in 2018, and so we've seen these cycles before. And here's what tends to happen. Prices go up, a lot of people coming to the space. That includes speculators. That also includes developers and entrepreneurs. Prices go down, a lot of speculators leave. Many of the developers and entrepreneurs stay, and they build the new infrastructure and applications that then catalyzes excitement and the cycle starts again.

And so, ultimately, we want to follow where developers are going. And independent of the price, we've just seen continued growth of these global developer ecosystems and just the talent coming into the space, and they're coming in to build for the long term. And we think there's a lot of value that we can provide for them, and so we focus on developer numbers much more than we focus on prices. And I think it's a – we're in a great position to be able to do that where we can take a long-term approach, and we can annoy – kind of, we can ignore the noise of the prices and just focus on what value can we add for the ecosystem. And we're convinced that there will be real technologies that come out of the space that we can incorporate and we can accelerate and that will impact payments and finance.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Yeah. All right. So, where are the developers going right now? Like, where are you helping them foster growth and following them in terms of opportunities?

Cuy Sheffield
Vice President, Head-Crypto, Visa, Inc.

A

I think stablecoins and NFTs are kind of both examples of this in different categories. And so, when a lot of people think about stablecoins, they think about it just as like a consumer-facing, why would a consumer want a stablecoin. But it's also interesting to think about this as a developer-facing technology. Why would developers want a stablecoin, because it's easier to build new products on top of. And so, we're seeing developers all across the world that are both building products that might look like an existing product today, like Venmo, but it's built by two teenagers at a hackathon in Pakistan. And they're able to do that, because it's on an open public blockchain network. And we're able to say, okay, well, you need on-ramps, you need off-ramps, how can we help guide you and interact with you there?

And I think there's kind of similar really interesting things happening with this concept of Web3 and NFTs, all these brand new applications that are starting to become more consumer-facing products that developers from Facebook and Google and the big kind of Web2 giants are heading increasingly into the space, creating companies, looking at building new social networks, new marketplaces and products that we think will be valuable in the future. And so, we're staying very close on both of those sides.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

So, on stablecoins, let's start there for a second with your fiat-backed and algorithmic and some of the things that have actually taken place here with like Terra and all that stuff. What does that done to the market from where you sit? Like the dialogs, have they changed? Maybe how have some conversations with regulators changed? Has it really been a major setback, a minor setback? What do you think about that?

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Cuy Sheffield
Vice President, Head-Crypto, Visa, Inc.

A

So, I think that the term stablecoin can be very confusing, because it's being used – it's being applied to products that are very different and have very different risks. And I think many people in the space have been aware of that for a while, and now people are increasingly aware that all stablecoins are not created equally. They're just very different types of products. So, I think there's just a lot of education that needs to happen. And we spent a lot of time talking to regulators and policymakers across the world and say, USDC and some of the new use cases that it's enabling in the developer ecosystem is very different than some of the more experimental algorithmic stablecoins that are not really payment technologies, and we don't see payment activity there.

And so, I think that there's still a long way to go for the public sector and the private sector working together to say there's real value in representing a fiat currency as a token that can run on a public network. But what should the rules be? What type of fiat should be backing that? What type of assets should be there? What are the redemption rights? How should that be governed? How should that be regulated? And so, that is a topic that is top of mind for most policymakers across the world. And we think ultimately for the space to continue to grow and for stablecoins to become more deeply integrated into the existing payments ecosystem, you have to have more clarity around that.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Yeah. All right. NFTs, I know you feel very strongly about this topic. And I think Visa has got this the creator program inside of it. So, let's delve into your views on NFTs first, and then maybe how that can also be parlayed into Visa's business in the creator program that you guys have.

Cuy Sheffield
Vice President, Head-Crypto, Visa, Inc.

A

Yeah. So, we think about NFTs as really a new technology that's enabling new forms of e-commerce. And you can think about – if you look at what e-commerce is today, consumers are purchasing things online, but those things that they purchase are – tend to be often physical goods. They have to be produced in a factory. They have to go through a supply chain. They have to be delivered to someone across the world. That requires pretty high upfront cost. There's a high barrier to entry and it tends to be the smaller of a merchant or business you are, the more expensive it is to produce physical goods at a factory and to ship them. And if you're selling a good for $5, you can't sell that to someone across the world if it's going to cost $10 to ship it to them. And so, there are all these physical constraints that have limited the growth of e-commerce.

And so now when we look at NFTs, we see NFTs enabling digital goods that can have many of the properties of physical goods. And so, NFTs are effectively created in what you can think of as a digital factory, which is a smart contract. And then they're delivered over a blockchain to a crypto address of anyone across the world, which we like to think about as almost like your mailing address for the metaverse. And then once you receive that NFT, you can get utility both in digital environments, you can get access to a token-gated social network, and in physical environments. There are events and conferences that you have to have an NFT to actually be able to get into, and then you could resell it. And so you could get the funds that you paid. And we think that that's a really, really interesting property, a new primitive that can drive a lot of innovation.

And so, what does this mean for Visa? Today, an average Visa cardholder uses their card about once a day. That's the normal consumer behavior that you have. And so we want to ask ourselves, what world could we live in where a Visa cardholder might use their card 10 times a day or 20 times a day? Like, what could they possibly be

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buying? And we realized it's probably not going to be physical goods. They're probably going to be digital goods that they truly own, that they take possession in, that give them utility that they can then resell at some point in the future. And so with NFTs as a technology, it can really start to increase the velocity of commerce and bring more people across the world that maybe wouldn't have made sense to ship them a good, but you can give them a digital good.

We think that is a big opportunity for the entire payments ecosystem. And we think a lot of this is going to be driven and built by individual creators, which we see as kind of the next generation of small businesses. And so we started working with Micah Johnson, who's a former Major League Baseball player turned crypto artist, to design this Visa Creator Program, which is a one year immersion program to teach creators how to leverage NFTs to create all types of commerce experiences.

And it's not just you hear headlines about digital art, but it's – also it's music. It's fashion. It's all these really interesting areas that are kind of coming together in this new form of commerce that NFTs enable. And we want to be at the center of it. And we think for NFTs to really go mainstream, it needs to be as easy to purchase an NFT as it is to buy anything else in e-commerce. I think it needs to be a lot easier for merchants to figure out how to create NFTs.

And so we think there's a big role for us to play. And there'll be trillions of – there maybe trillions of NFTs created at some point in the future. We have no idea what value, if any, any individual NFT will have. But as a technology, we think that there are really interesting things that you can do for commerce.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

How do you think about that from a disruptive standpoint against kind of the incumbent industries? Because I would imagine a lot of the things that we've read around NFTs, I mean, there's a lot of big industry that would be very much disrupted in terms of their traditional economic models. And so how do you approach that in the context of making that a successful technology?

Cuy Sheffield
Vice President, Head-Crypto, Visa, Inc.

A

I think that what they're proving today is just another path for creators to make money. And I think there are more and more people creating digital content and there's more and more demand and need to say how can they actually earn a living from that content. And so, you can, as a musician, you'll have a song on Spotify and there's an existing business model there, or you can tokenize that into an NFT and sell it to 50 of your fans. And so, we think that it's great to have this healthy ecosystem of experimentation around different ways that creators can make money.

And I think there are also some aspects of the early stages of new social networks that are emerging. If you've interacted with NFTs at all, it's not just a solo, single player, I buy an NFT by myself and that's it. There are entire communities that are forming around this. If you go on Discord, if you buy an NFT and there are people who are meeting their significant other at a Discord community, because they bought the same NFT. And so, we don't know where this is going to go, but it's this community formation around commerce. And in many ways, that's – we think that's a very authentic thing. In the real world, a lot of community gets formed around a local bakery or a local restaurant, and people are meeting each other and getting to know each other. They share affinity for goods that they purchase. And we're starting to see the early stages of that within the NFT ecosystem. And I think that there are major implications for what the future of social media can look like when commerce can become this aggregation point that communities form around.

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Daniel R. Perlin
Analyst, RBC Capital Markets LLC

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Are you wanting to be more of the on-ramp for that community or means with which to kind of facilitate interoperability around that community?

Cuy Sheffield
Vice President, Head-Crypto, Visa, Inc.

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So, we think there are a lot of different roles to play. I think in the near term, it's how do you just make it easier to buy the NFT to join that community? And if you've ever tried to buy an NFT today, I recommend it. It's like a good exercise to go through. It's not easy. There are a lot of steps you got to go through. And I – there are plenty of people who just stop saying that this isn't worth it. And so, if you can just show up with your Visa card and purchase that NFT, have it delivered to your crypto address, we think that there's going to be a lot more experiences that are more mainstream that can come out of the space.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Yeah. When you think about infrastructure that Visa needs to build in order to have that, be it network of network effect for you guys longer term, where are you in that investment cycle? What type of incremental investments do you think you have to make in order for this to become a real reality?

Cuy Sheffield
Vice President, Head-Crypto, Visa, Inc.

A

So on the NFT side, really, it's a lot about just how do we enable the ecosystem with this new kind of merchant category. And there are a whole host of new crypto-native payment processors, gateways and acquirers. There are new ones that are being founded, it seems like every week. There are established ones trying to come into the space. And so we really see our job as kind of governance and what should the rules be, and how do you identify these transactions, how do you classify them and how do you make sure that there is acceptance in that ecosystem? And so I think that's the main role that we have to play in near term.

On stablecoins and some other areas, we think there are important pieces of infrastructure like custody that we've invested in over the past few years and we'll continue to invest in, where if you want to be able to directly interact with a stablecoin, you need a way to manage that private cryptographic key, you need access to liquidity, you need compliance tools. And so, we think there's a whole class of crypto-native infrastructure that we have taken an early approach to invest and integrate into our network, and there'll be many more things that we can do there.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

How have the banks, traditional financial institutions, I would say, come to Visa, have this discussion? You talked about the advisory and consulting practice. I mean, are they truly engaged with the product itself yet, or are you just going through the educational process for them? And then once they decide they're going to be engaged, what are they doing next with you?

Cuy Sheffield
Vice President, Head-Crypto, Visa, Inc.

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So it's definitely still early for banks and it depends kind of banks in which market. There could be banks that are further along in one place. And we have this really interesting perspective, because we see we have clients that –

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I'll spend my day having a call with some brand new DeFi protocol founder in the morning and then I'll talk to an executive at one of the largest banks somewhere across the world in the afternoon. And just like where different companies are on that spectrum and everyone's in a different place. And I remember when I used to be excited when an account executive would reach out and they'd say, my bank client wants to talk about crypto. Bank wants to talk about crypto, this is awesome. And then it happened every week, then it happened every day. And we're like every bank across the world wants to talk about crypto.

Now, at this point, it's talking about crypto and it's trying to understand it, what implications it will have for their business, what are ways that they can get involved? And so that's where the consulting practice really came out of that to say we think we can really help. And some of these conversations that we have with banks, they don't directly lead to a consulting engagement, but we're deepening our partnerships, and we're really helping them think through and becoming more and more relevant across their business. Others become paid consulting engagements and the example I gave before of just doing Bitcoin rewards on a card program. Like that's a very simple thing that a lot of banks are interested in. And they see that millennial and Gen Z consumers might be more excited about Bitcoin than loyalty points, but how do you actually do that? And so, that's something that we'll help banks on.

And then, I think there's also the piece of how can banks offer their existing products to crypto companies. If you just look at like where the venture capital is going and the entire ecosystem of crypto startups, they need traditional banking services and it could still be difficult for many crypto companies to work with banks. And so, we spent a lot of time helping banks think through, what does it mean to offer business checking account to a crypto company? How do you invest in your compliance processes the same way that we have? Where is the regulatory environment heading?

And so, I think, over time, what the consulting practice allows us to do is really deeply understand where banks are, what some of the roadblocks and the challenges are. And then that informs the product development cycle of, okay, well, what can we build and how can we help them and be this bridge between banks and the crypto ecosystem over the long term.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

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Yeah. So, where geographically are they most advanced as you look across your partnership network and least advanced? Are you mostly focused in the developing world or are you working in more the emerging economies? Like how do you balance the dynamics between those because, I suspect, they're massively different?

Cuy Sheffield
Vice President, Head-Crypto, Visa, Inc.

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It's really hard to say. And it's kind of like on a country-by-country basis.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Okay.

Cuy Sheffield
Vice President, Head-Crypto, Visa, Inc.

A

And it also even within countries, there's just this broad spectrum of their banks that are like cryptos, the future and we want to be on the forefront, and there are banks that say, we don't have to invest in this at all. I think that

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there are – we've come across banks in a number of emerging markets, who've seen kind of greater per capita adoption of crypto and interest of crypto in some countries in Africa and some countries in Latin America, who have had more interest and still TBD how they actually are able to offer products. But they recognize that there's – there is consumer demand and they want to figure out how to serve them.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Yeah. I wanted to get your opinion on the Lightning Network and Stripe. I think a lot of people are worried that there could be a potential for, that could be a competing rail in some way, shape or form to Visa. So, what are your views just broadly on the Lightning Network? Are you concerned in any way, shape, or form as you sit as a Visa employee, relative to what they're potentially going to be able to do around payments?

Cuy Sheffield
Vice President, Head-Crypto, Visa, Inc.

A

So, first, the way we think about the Lightning Network and it's really this second layer that sits on top of Bitcoin that could do instant off-chain authorizations and on-chain settlement. So, it's helping to improve the scalability of Bitcoin. And we're excited about it. We think that there are going to be many innovations that are happening that can help address and improve scalability. And we want to see engineers and developers experimenting and working in that ecosystem.

We've spent a lot of time over the past few years with the Visa research team in Palo Alto, the office I work out of, and we created a concept. We published a paper called Universal Payment Channels, taking some of the same technologies of Lightning, but applying it to being able to do interoperability between a number of other blockchains.

And so, we've been involved in closely following a lot of the research, a lot of the work that's happening in the space for a while. And I think as we look at like what are the applications of the use cases, to us, the most interesting applications are like, what are brand new payment flows? And so things like subset micro transactions. There's a website that I've used that they actually let you feed chickens. You can scan a QR code with the Lightning Network. And when you scan it, feed dispenses to chickens who, I believe, are somewhere across the world. And it costs, I think, a fraction of $0.01. That was never really possible before.

And those are the types of like weird new things that Lightning could help enable, and we think that's a lot more interesting than how do you get someone to move from the existing payment method that works very well that already has trust to use some brand new network that they don't really understand. And if you look at – I think, El Salvador is another really interesting example, where you had a stimulus payment in Bitcoin, you had a law requiring merchants to accept, and we still haven't really seen significant adoption of Lightning as a medium of exchange.

And so, it's early. We're going to follow it closely. But we think that new payment flows, micro transactions are much more interesting use cases than – most retail payments, there's not a real problem that consumers have today, they work very well. And so, even if you have scalability, even if you can do X transactions a second, how do you get every merchant to accept, and how do you get every consumer to switch over and start using it? There has to be some value prop for them, and that's what we haven't really seen yet emerge in that ecosystem.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

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Right. So, it's oftentimes trust, it's speed and cost that is brought up in terms of the three things that need to displace Visa. Are there other things out there that we need to be mindful of as investors in Visa that we should be watching outside of maybe the Lightning Network, other developments? What would it take, I guess, in a lot of ways to truly be disruptive to someone like Visa?

Cuy Sheffield
Vice President, Head-Crypto, Visa, Inc.

A

So, I guess, I would frame it as what every new payment network needs, there's the technology, there's the universal merchant acceptance, and there's a consumer value prop. And if you think about the technology, scalability is one piece.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Right.

Cuy Sheffield
Vice President, Head-Crypto, Visa, Inc.

A

Then, you have security and resilience. And so there are new high throughput blockchains like Solana that can do many transactions per second, but it's also gone down multiple times in the last few months. And so there is no perfect blockchain, there are trade-offs. And there's this really interesting ecosystem of a lot of different developers creating different designs for networks that take these trade-offs between trust and security and decentralization and scalability.

And what that's really led to is a ton of fragmentation, where even if you just say, how do you accept stablecoins? And so the second bucket of like universal merchant acceptance, how does that happen? I want to accept USDC, well, USDC, which is one stablecoin, currently runs across eight different blockchains. So if you want to accept USDC, are you going to accept it across eight different blockchains? What if you choose a blockchain and I show up with USDC and my USDC is on another blockchain than what you accept?

There is a really challenging ecosystem for merchants to figure this out, and many are like, we're going to let them battle it out. I'd like to see how this consolidates over time, if ever, versus how do we do a bunch of dev work to integrate eight different new blockchains and they all have their own properties, their own programming languages, their own nuances and levels of security.

And so, I think the merchant acceptance piece is a big challenge. And then, the consumer value prop that I keep coming back to, it has to really solve a problem. And we've seen this before as like how much work it requires to move from swiping to dipping to tapping, how long that takes. Changing consumer behavior is really, really hard. And so when you see people in the crypto ecosystem and say, we did it, look at all these transactions per second that we have. Like, what about the next step of getting every merchant and getting every consumer to change behavior? We think there are many different paths there. And I use myself as an example of like, I am a crypto payment nerd. I have some USDC, a small amount of USDC in a spendable wallet that I have on me.

And if I woke up tomorrow, and even if every single merchant that I transacted with had a QR code where I could scan and pay in USDC, I still wouldn't use it. I'd rather use a Coinbase Visa card and tap to pay to be faster and I'd get 2% back in Bitcoin. And so, I think you really have to look at what would be the incentive and the value prop for a consumer to change. And we think we're a long way from finding that. And in brand new payment flows

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like feeding chickens over the Internet, a long way away for a set, that's a value prop that you couldn't do before, which is very different than buying coffee, which we think works very well.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Yeah. I hear you. So I got to ask you about Bitcoin and Ethereum, just specifically. I mean, they represent so much of the market. I think it's like 65% of the value of crypto is between those two assets. And we have another company that we cover Block, where their founder, Dorsey, certainly feels as though Bitcoin is really the only scalable currency and that will be what will ultimately be used for the Internet. But, again, through your lens, and you look at those two in particular, how do you view the world of those two currencies longer term? Like is there a room? Is that the only scalable one? I know you're not going to place a bet on it necessarily, because you're Visa. But when you think about it, how would you articulate the difference maybe?

Cuy Sheffield
Vice President, Head-Crypto, Visa, Inc.

A

I mean, I think today the world is multiprotocol where there are many different blockchains that exist, that are optimized towards different use cases and have different properties. And so we think about this as – we don't know which one's going to be used for what. We think it's likely that there will be multiple. And so our approach is we're going to be protocol agnostic and we're going to support the networks and the protocols that our clients demand. And we see interest in a number of different funds.

And I think, particularly, with Bitcoin, there is still the challenge around volatility that we think is one of the main reasons why it hasn't become a mainstream medium of exchange. And so a lot of the interest that we see from clients today around payments is more about stablecoins than Bitcoin. And because it's about stablecoins, it's about multiple blockchains, because stablecoins run on many different blockchains. And so we think Visa is in a really unique position where we don't have to bet on one, and we plan to closely follow and support the networks that our clients want to access.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

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Yeah. In the last few seconds that we have here, since the clock is actually going backwards on us now. I did want to give you the last word and just say when you think about the next five years, 10 years, whatever kind of framework and understanding what you know now, both personally, professionally and organizationally from Visa, what do you want to see the industry become? What do you think is going to happen over the near and longer term? And what's kind of aspirational that may or may not even come to fruition but is in the realm of possible?

Cuy Sheffield
Vice President, Head-Crypto, Visa, Inc.

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So, I think as the industry matures and as you have more infrastructure and you have better user experiences, what we'll see is that crypto becomes more and more intertwined and integrated into the existing payments ecosystem, existing financial system and commerce with NFTs. And my favorite meme on crypto Twitter today is the DeFi mullet, which is – it's a picture of a mullet with fintech in the front and crypto or DeFi in the back. And I think there's a lot of validity to that where like crypto will go mainstream when people are using products that they don't even realize crypto is on the back end. They're using a payment network. They're using a marketplace or a social network. And they don't know it happens to be enabled by crypto.

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Daniel R. Perlin
Analyst, RBC Capital Markets LLC

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Yeah.

Cuy Sheffield
Vice President, Head-Crypto, Visa, Inc.

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And we think that's going to require all of these new innovative start-ups building really cool things and it's going to require large institutions with experience in operating global networks, and working together to figure out how do we bridge and create these experiences that combine the best of both worlds. And so we think there's a major role for Visa to play there.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Awesome. Well, Cuy, thank you so much. Yeah, 45 minutes is a – I think it's too short a period of time to cover this topic appropriately. But I really appreciate your time today and good luck in building the future. So, thank you.

Cuy Sheffield
Vice President, Head-Crypto, Visa, Inc.

Thanks for having us.

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