Meeting Between Federal Reserve Staff
and Representatives of PayPal
April 12, 2011

Participants: John Muller, Alison Nicoll, and Becky Relic (PayPal); and Doyle Bartlett (Eris Group)

Dana Miller, Samantha Pelosi, Mandie Aubrey, Vivian Wong, and Ky Tran-Trong, Greg Evans (Federal Reserve Board)

Summary: Staff from the Federal Reserve Board met with representatives of PayPal to discuss the remittance transfer provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Using prepared materials, PayPal representatives addressed the scope of the legislation, written initial disclosure of information regarding the transaction, error resolution, the posting of Internet disclosures containing information about model transfers, and the potential effective date for the final regulation.

Attached below is a copy of the presentation that PayPal provided to Federal Reserve Board staff to guide discussion during the meeting and sample transaction flows.
Agenda

• PayPal Overview
  – Understanding PayPal
  – PayPal’s Current Regulatory Framework
• Sending Money Internationally Through PayPal
• Remittance Transfer Provisions
Understanding PayPal
Understanding PayPal

• PayPal is an internet-based payment system that enables customers to make electronic payments online without sharing financial information.

• PayPal sits on top of traditional banking and financial institution infrastructure to facilitate online payments.

• PayPal is available in 190 markets and supports 25 currencies: U.S. Dollar, Australian Dollar, Canadian Dollar, Hong Kong Dollar, Singapore Dollar, Taiwan New Dollar, New Zealand Dollar, Euro, Swiss Franc, Czech Koruna, Swedish Krona, Danish Krone, Norwegian Krone, Hungarian Forint, Mexican Peso, Philippine Peso, Malaysian Ringgit, Chinese RMB, Israeli New Shekel, Pounds Sterling, Brazilian Real, Polish Zloty, Turkish Lire, Thai Baht and Japanese Yen.

• Customers receive electronic payments to their PayPal account and can either spend/use those funds online or withdraw them to their bank account.

• Two general categories of transactions:
  – Purchase Payments (purchase of goods and services).
  – Personal Payments (not tied to purchase of goods and services).
Understanding PayPal

Purchase Payments

- PayPal enables global e-commerce for buyers in 190 markets.
- PayPal offers a variety of merchant services (invoice, express checkout) to help merchants enhance their ability to sell online.
- 84% of the payments of users in the United States sent abroad are purchase payments.

Personal Payments

- Users are able to send/receive personal payments that are not related to the purchase/sale of goods and services to 104 countries.
- 5.4% of the payments of users in the United States sent abroad are personal payments.
For each payment, no actual funds are moved between users.

Amounts shown through real-time electronic debits/credits in the virtual wallets.

Average Transaction: $63.00

If necessary, settlement of funds occurs between two PayPal bank accounts. No actual funds movement may be necessary for every transaction.*

*Thousands of customer transactions are aggregated (daily) with transactions being netted against each other (accounting entries) based on PayPal entity and currency. Settlement between PayPal entities occurs 2 or 3 times a week.
PayPal’s Current Regulatory Framework
Global Regulatory Framework

- **United States**
  - Registered with the US Treasury Department as a money services business.
  - Licensed in 42 states and 2 territories subject to audit exams.

- **European Union**
  - Regulated by Luxembourg’s Commission de Surveillance du Secteur Financier.
  - Licensed as a bank.

- **Australia**
  - Licensed by Australian Securities and Investments Commission as a non-cash payment facility.
  - Providing on-line payment service granted by Australian Prudential Regulatory Authority.

- **Singapore**
  - PayPal Private Ltd., a Singapore company, responsible for operating the PayPal service in all countries (except US, China, Australia and EU).
  - Designated as a stored value system through the Monetary Authority of Singapore.

- **Hong Kong**
  - Registered as a Money Remittance Business.

- **Malaysia**
  - Licensed as a Electronic Money Business
Sending Money Internationally through PayPal
Cross border payments from US customers (PayPal Send Money Flow)

Send Money Flow – Page 1

Send Money Flow – Page 2

The 2.5% currency conversion spread retained by PayPal that is disclosed as a fee in the user agreement with PayPal is included in this conversion rate.

Includes the amount to be paid by sender and the amount to be received.

This links to a web page disclosing the fees that apply to PayPal payment, including the cross border fee that applies to this payment.
PayPal Send Money Flow

Send Money Flow – Page 3

Email Receipt

[Image of the confirmation page stating “The money has been sent!” Also stating that a receipt was emailed to the user and a notification was sent to the recipient.]

[Image of the email that is sent to the user. Two items were highlighted by the author of this document. One: the email shows the currency conversion. Two: the email states the exchange rate.]
# PayPal Send Money

Transaction Detail in PayPal account history (after logging in)

## Transaction Details

Payment Sent (Unique Transaction ID: 5686788988494744)

<table>
<thead>
<tr>
<th>Date</th>
<th>Type</th>
<th>Status</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 19, 2010</td>
<td>Payment For</td>
<td>Completed</td>
<td>$80.00 GBP</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Type</th>
<th>Status</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 19, 2010</td>
<td>Add Funds from a Bank Account</td>
<td>Completed</td>
<td>$80.74 USD</td>
</tr>
<tr>
<td>Dec 19, 2010</td>
<td>Currency Conversion</td>
<td>Completed</td>
<td>$80.70 USD</td>
</tr>
<tr>
<td>Dec 19, 2010</td>
<td>Currency Conversion</td>
<td>Completed</td>
<td>0 GBP</td>
</tr>
</tbody>
</table>

**Sent to:** [Redacted] (The recipient of this payment is Non-U.S. - Verified)

- **Amount sent:** $80.00 GBP
- **Fee amount:** $0.30 GBP
- **Net amount:** $79.70 USD (details: $101.34 USD)

**Conversion from:** $1.00 USD
**Conversion to:** $1.00 GBP
**Exchange rate:** 1.00 USD to 0.817155 GBP

**Date:** Dec 19, 2010
**Time:** 1:41:07 PM
**Status:** Completed

**Subject:** You’ve got money
**Note:** For the boys’ Christmas
**Funding Type:** PayPal Balance and Instant Transfer
**Funding Source:** $95.74 USD - PayPal Account
$85.74 USD - Citibank Checking (Confirmed) x 7027
Back Up Funding Source: Visa Card 40000000000004441
Remittance Transfer Provisions
Scope of Remittance Transfer Provisions

• Current definition of remittance transfer from a US “consumer who requests a remittance provider to send a remittance transfer” to “any person in a foreign country” could apply to cross border payments initiated for the purchase of goods and services in addition to the more tradition “person-to-person” type of remittance.

• For purchases from foreign merchants, a remittance provider (the payment method used by the consumer) typically will not be able to provide any disclosures to a user prior to the payment occurring.

• For these transactions, fees are generally applicable to the seller/merchant (recipient), not the sender.

• If only some remittance providers provide such disclosures the purpose of informing consumers of the costs associated with a cross border payment for different payment methods would be defeated.

• Specifically address the issue of whether the remittance transfer provisions extend to commercial payments, such as online purchase from overseas merchants.

• Provision should only apply to payments known to be international.
Uniformity of Fee disclosures

• Fully support clear disclosure of all the fees that apply to a cross border remittance transaction.

• In addition to how fees must be disclosed, we encourage specific guidance on what fees and other amounts should be disclosed.
  - More transparency for the consumer and ensures accurate comparison between remittance providers.
  - Includes flat fees and transaction fees, but should other assessments or amounts such as any spread on the currency conversion that is charged by, or shared with, the remittance provider also be included?
Consideration of Internet/Electronic only Transactions

• **Disclosures**
  - Providing initial disclosures in a “form that the sender can keep” does not adequately consider payments initiated through an online flow or on a mobile phone.
  - Encourage rule making to permit, as contemplated under 919(a)(5)(C), the combination of the initial disclosures and receipt requirements into one written disclosure if the information is accurate at the time the payment is made. This is particularly relevant to instant payments.
  - Encourage consideration of mobile phones and other devices when devising specific disclosure requirements for send money flows.

• **Error Resolution Timeframes**
  - PayPal cross border payments are instant and take the same amount of time as a domestic payment.
  - Longer error resolution times appear geared more to a remittance transfer that occurs at a physical location, rather than one that is electronic and instant.
  - Apply current error resolution procedures under Section 908 of the EFTA and 12 CFR 205.11 to remittance transfers that are completely electronic and instant.
  - Refund and cancellation procedures must take into account remittance transfers that happen immediately.
Storefront/Internet Notices

- Support clear disclosure of applicable fees and currency exchange rates to customers.

- Disclosure requirements need to contemplate multiple countries and multiple currencies as well as the most user friendly experience. PayPal already provides a tool to show currency conversion and calculate applicable fees for users who want to send money abroad.
Implementation Timeframe

- Current time table for implementation of the disclosure requirements not clear.
- Any rules that are issued will inevitably impact implementation e.g., if initial disclosures and receipts are put into one written disclosure.
- Request implementation of the disclosure requirements be *after* final rules have been issued.
ONLINE CROSS BORDER PURCHASE FLOW
(US Consumer purchasing from a UK merchant)

Merchant Shopping cart Page

Merchant Choose Your Payment Method page
PayPal Log-In (after selecting PayPal as the payment method)

Bunches Florapost


- Pay without revealing your credit card details.
- Free through checkout. There's no need to enter your address details.
- PayPal-safe, Simpler, Smarter.

Sign up for a PayPal account and continue shopping.

Payment review page:
Bunches Florapost

Review your payment

The information below is correct. Click "Pay Now" to complete your payment.

View returns policy and PayPal payment guarantees.

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your Bunches Order</td>
<td>£11.00</td>
</tr>
<tr>
<td></td>
<td>£11.00</td>
</tr>
<tr>
<td>Total</td>
<td>£11.00</td>
</tr>
</tbody>
</table>

Terms and Conditions

If the information below is correct, PayPal will use this transaction if your bank does not have enough funds. If there is any dispute, PayPal offers a buyer protection scheme. The amount paid may be used in this transaction. Learn more.

PayPal Conversion Rate as of April 10, 2011 12:01 EST 362 Editor Finance

Contact information

Card is issued by: Chase Bank

When you make a purchase on the Bunches Florapost website, you also agree to the 18.99% interest rate applicable to Bunches Florapost transactions from your PayPal account after 90 days. Reference: 1617913202.
MOBILE CROSS BORDER PERSONAL PAYMENT (P2P) FLOW

Start sending money to anyone with an email address or mobile number. You can also send money by using Bump – just shake your phone or select Bump from the drop down menu.
Sending money...

Please wait while we set up a secure connection and complete the transaction.
Done
You just sent £100.00 GBP to

[Redacted]