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Circle Internet Group, Inc.

Q3 2026 Analyst Group Call Transcript

Call Participants

EXECUTIVES

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Jeremy Fox-Geen, Chief Financial Officer

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ANALYSTS

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Owen Lau, Analyst, Clear Street

James Friedman, Analyst, Susquehanna International Group

Bryan Bergin, Analyst, TD Cowen

Jacob Haggarty, Analyst, Baird

Vasu Govil, Analyst, KBW

Divyam Harlalka, Analyst, Goldman Sachs

Alex Markgraff, Analyst, KeyBanc Capital Markets

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Madison Suhr, Analyst, Raymond James

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Presentation

Operator

Hello, everyone. Thank you for joining us, and welcome to the Circle Internet Q3 2026 Analyst Group Call. After today's prepared remarks, we will host a question-and-answer session. (Operator Instructions). I will now hand the comments over to Scott Blair, Head of Strategic Finance. Scott, please go ahead.

Scott Blair

Senior Vice President, Strategic Finance & IR

Thank you, operator. Good afternoon, everyone, and welcome to our Q3 analyst call. Before we get into it, I need to remind everyone that this call may contain statements that are forward-looking. Because forward-looking statements are inherently subject to risks and uncertainties, some of

which cannot be predicted or quantified, and some of which are beyond our control, you should not rely on these forward-looking statements as predictions of future events. Information concerning risks, uncertainties, and other factors that could cause these results to differ is included in our SEC filings.

Additionally, nothing in this conversation constitutes an offer to sell or a solicitation of an offer to buy securities or an invitation or inducement to engage in investment activity. We will also disclose non-GAAP financial measures on the call today. Definitions of these non-GAAP financial measures and reconciliations can be found in the earnings release and earnings presentation, which are posted on investor.circle.com. Non-GAAP financial measures should be considered in addition to, not as a substitute for GAAP measures.

Today, I'm joined by Jeremy Allaire, our Co-Founder, CEO, and Chairman; Jeremy Fox-Geen, our CFO; and Heath Tarbert, our President. With that, I'd like to turn it back to the operator to kick us off.

Question and Answer

Operator

We will now begin the question-and-answer session. Please limit yourself to one question. (Operator Instructions). Please stand by while we compile the Q&A roster. Your first question comes from the line of Ken Worthington from J.P. Morgan. Your line is open. Please go ahead.

Ken Worthington

Analyst, J.P. Morgan

Hi, good afternoon. Thanks for taking the question. I'll take a shot here and see if this works. So I'm guessing the decline in aggregate USDC in recent months is not really reflecting the success that Circle is having in some of the initiatives around transaction activity. And I think it'd be great to get a layer deeper to get a sense of the impact on USDC market cap from what Circle is building. So is it possible to size how USDC that is core to rising transaction velocity is moving? And is it possible to get a sense of how market cap is currently growing the volumes?

And then maybe on the other side, there would appear to be some use cases that are on the decline. I assume it's just cyclicality, and maybe it's DeFi or brokerage. But what use cases are driving USDC to decline? And what's the market cap of USDC associated with those areas?

Jeremy Allaire

Co-Founder, Chairman, Chief Executive Officer

Hey, Ken, this is Jeremy Allaire. I'll kick this off. I can address a bunch of different dimensions to this, I think. And some of this is actually it's almost impossible to fully know from just on-chain data and things like that. But a few things.

Ken Worthington
Analyst, J.P. Morgan

Yes.

Jeremy Allaire
Co-Founder, Chairman, Chief Executive Officer

I think the first is yes. So absolutely, the cyclicality here is very real, which is essentially as the deployment of capital in digital asset markets has come down, that has led to balances that are associated with deployment of capital in digital asset markets coming down. And we've seen that amongst our largest peer as well. And so we certainly see that.

And we view that as a normalized cyclicality. And we believe that obviously the -- that there's a transition that ultimately is very important, which is if you think about the last five years where that cyclicality was principally driven by, let's just say, people trading Bitcoin and Ethereum and other, what I'll call endogenous digital assets, into a world where tokenization of real-world assets, on-chain derivatives, perpetuals, tokenized commodities, where the principal activity of digital asset markets becomes the activity of markets themselves.

And as those converge with TradFi venues and/or global venues that become registered and available in global markets around the world, that then means that over time, the digital asset market cyclicality looks more like the TradFi market cyclicality. And so I think that is what we will see take shape over time. And we have some indicators of that to some degree already, just in terms of when you look at volumes on things like perpetual exchanges and the like. Now, on the big centralized exchanges, the volumes are still heavily skewed towards what I'll call legacy digital assets or the endogenous digital assets, but you certainly see that.

I think the second piece is that -- and I say this often, which is higher interest rates are bad for Circle. I'm steadfast about that. Well, you guys might write higher interest rates are going to be a tailwind, it's going to help with revenue, et cetera. Just like higher interest rates are bad for lending businesses, higher interest rates are bad for Circle, in my view. And really what that means is that when you've got the short end at high rates, the opportunity cost of just sitting on your capital versus deploying your capital is higher. And so that actually creates a headwind.

And we've seen that over time. And you can run the correlations yourself using AI and you can see you can see the correlations. And so we would like to see lower interest rates that creates more money velocity, more risk capital, more invested capital. All of those things are positive catalysts. And so that is also a cyclical dimension to this. And again, we've seen that over the eight years that we've been running USDC.

I think the other part of the question, which is really key, which is the other activity that's growing.

And so, first of all, in digital asset markets, USDC remains an incredibly important infrastructure for liquidity, for collateral, for deployment, and volumes for us across both the, quote unquote, decentralized and centralized venues have continued to grow. And the fact that we are institutionally friendly, that we are regulated, that you have direct primary liquidity in the banking system all around the world makes those pipes work, and we just see more activity and velocity in USDC, especially as you think about institutional activity and the volumes that they move. And so that's certainly there.

The other piece, though, and I think this is more interesting, is that we continue to see rising adoption of USDC in settlements. And you see that in other public companies that even report some of this. Visa reporting continued record amounts of USDC settlement with them. We see that in the rising transaction volumes, the rapidly rising transaction volumes that we're seeing on CPN. And we see that more broadly as more and more FIs, fintechs, payments companies, capital markets firms plug in, that creates rising transactional activity.

I think an interesting measure there is not just the aggregate volumes, but actually the record amount of minting and redemption on USDC, despite a cyclically difficult environment for digital asset trading. And my view is that that represents the fact that basically we're wired into the biggest global financial market centers, and people can create and redeem very, very easily and quickly, and that primary liquidity and that infrastructure makes it a very powerful settlement medium.

And so even though there's more and more being settled over USDC, that is it in and of itself doesn't directly drive balances. And so I mentioned this on the call, and I think this is an overarching theme you will continue to hear from us, which is we love the fact that USDC is -- and CPN and transactions on Arc, all of these things. We love the fact that the volumes are accruing to Circle. But it's really important that we go from a world where it's a great payment and settlement medium to a great store of value and a place where firms, corporations, households, and FIs hold balances.

And so really, an important focus for us is the edges of the network, which is where typically that liquidity goes from stablecoin to fiat. We want the edges of the network to grow the balances that are held in USDC. And that's important. And it's something that not just Circle can do. It's actually the entire ecosystem that builds on top of us. Every wallet, every custodian, everyone, every -- the hundreds of FIs that are plugging into CPN, we want all of them to be able to have a way to hold balances as well.

And so driving towards essentially this digital cash being stored as working capital as opposed to being redeemed is really, really essential to make that transition. I know that's a long-winded answer, but hopefully helpful in providing some important color.

Ken Worthington

Analyst, J.P. Morgan

Great. Thank you so much.

Operator

Your next question comes from the line of Owen Lau with Clear Street. Your line is open. Please go ahead.

Owen Lau

Analyst, Clear Street

Hi, good afternoon, and thank you for taking my question. On CPN, annualized TPV was $41 billion in September. I think it went up to $58 billion in October. Could you please talk about the driver of these strings? What's the next step? And how much is the economics currently? Is it that only a few bit, or you haven't charged anything yet?

And then just one quick accounting question. Looking at your 10-Q, there was a $1.8 billion of treasuries held outside the BlackRock-managed Circle Reserve Fund, up from zero last year. Is it mainly for the liquidity to stablecoin holders? Why was there such a big jump? Thank you.

Jeremy Allaire

Co-Founder, Chairman, Chief Executive Officer

Sure. Why don't I take the first part of the CPN question and then I'll ask Jeremy Fox-Geen to talk about CPN monetization and then also the treasury question?

So a couple of things. I think first of all, obviously very rapid growth in CPN volumes. And a few things. So one is we keep adding more corridors. We keep adding more FIs. We keep adding more destinations. And effectively, that continues to grow counterparties. And so we are getting -- I think we are now fully into realizing the network effects there.

When we started this a year ago or so, a little over a year ago, everyone looked at it and said, cold start problems on payment networks is really hard. You got a chicken-and-an-egg issue. And we said to the street, and we said to the market, that we are going to focus on scaling volume. We are not going to focus on monetization because we want to overcome the cold start problem, and we want to make this have very high utility. And I think we're getting there.

Something I said in response to another question during the earnings call was a couple things. The first is that the aggregate volumes that are in the TAM for what we're building here are absolutely astounding, right? There's literally $100 trillion to $200 trillion of B2B payments in the world that happened. That's just in B2B.

When you look across the landscape, ultimately, the TAM is absolutely enormous. But as a first principle, our view is that, just like when you got voice over the internet, or when you got the ability to publish content and video on the internet, or you got the ability to easily put software in a browser, as you go through these architectural shifts where you move to internet-based

infrastructure, software-based, utility-based infrastructure, you can really change the unit economics of this. And so we're very committed to that.

We don't believe that the payment volumes should be 10, 20, 30, 50, 200 basis points. We really think that we can drive the unit cost of moving around value very, very low. And we're very committed to that. And I think that's important to the end customers. The businesses and households that need to move value, they want that. And so we're designing for that.

What does that mean? It means that when you think about take rate as a measure, right, there will be an implied take rate over time. And at some point, we will talk more about that. But our focus does still remain scaling the network effects and scaling the volume because we think it's super valuable to the franchise over time. And as I just mentioned in my answer to Ken's question, obviously, getting these wheels going and then also being able to drive more essentially end nodes storing balances becomes very valuable to us as well. So we'll always look at the trade space of balances, volume, take rates, et cetera, to try and optimize there.

So just very quickly, and then I'll turn it over to Jeremy, which is I think that there is very modest monetization happening right now, but we are now -- as we said, we are beginning to focus more on that.

Last piece, you were asking about use cases. I would say the dominant drivers continue to be global payments, including global payouts. The ability to make payments out to people on a global basis very, very efficiently using stablecoin is a very, very important driver. And then we also see a lot of PSP-to-PSP settlements, fundamental settlements that support the flows that go between a lot of different FIs. So its endogenous flows to the FIs and payments companies building on the network as well.

So those are some of the things that we see. Jeremy, I don't know if you want to add anything on the views on monetization, and then obviously this T-bill question.

Jeremy Fox-Geen
Chief Financial Officer

Yes, briefly, and Jeremy, you covered the forward-looking Visa monetization, right? We're starting to do it. And we expect it to build, and we will talk more about it at next earnings when we get other revenue guidance. And that will also include revenues from the Tazapay acquisition.

As to your other question, Owen, sharp eyes. Well done, good question. We have, out of Circle Internet Financial Europe, which is the entity that issues USDC in the EEA under MiCA, we do hold some treasuries directly in that reserve, and that is the bulk of the line item you're referring to.

Owen Lau
Analyst, Clear Street

Thanks a lot.

Operator

Your next question comes from the line of James Friedman with Susquehanna International Group. Your line is open. Please go ahead.

James Friedman

Analyst, Susquehanna International Group

Hi, thank you for doing this call. It's Jamie at Susquehanna. I wanted to ask about the payments network and the distribution strategy. So how are you thinking about the market motion or the distribution of CPN? Is it direct through partners, merchant acquires, for example, like Fiserv? What do you see as the biggest driver of acceptance, both -- I don't mean consumer acceptance, but merchant acceptance and issuer acceptance as the CPN evolves? Thank you.

Jeremy Allaire

Co-Founder, Chairman, Chief Executive Officer

Yes. Thanks for the question. So a few things. I think the first is that -- and actually, I would suggest for those of you that haven't looked at it, when we launched CPN last year in 2025, we published a -- essentially a roadmap, which is a white paper, which really outlined what we're trying to do with CPN, the long-term vision of CPN, where we see the use cases for this growing over time. And I would encourage you to take a look at that because I think it gives you a good view for where we see utility coming from over time.

But it relates to your question, which is, first and foremost, we built CPN right now really as an infrastructure and as a service, an application service and network that is useful to FIs. And those FIs can be fintechs, those can be merchant acquirers, those can be payment service providers, and they can be digital asset firms that are getting into the payment facilitation business as well. We're starting to see banks as well as targets there.

But the key thing is this is less about -- when we think about payment networks, obviously, we -- the bias is we're thinking about merchants that are taking payments, that are retail payment acceptance and things like that. This is really about global money movement as the first primary use case. That is very heavily what we're driving.

And so it's settlements that are going on between end users, whether those are businesses or households, that are making settlements that are international in nature, primarily, and those settlements are happening using this network. And so our distribution strategy is primarily to sign up FIs.

And so we've grown the number of FIs many hundreds of percent year over year. We talked about that on the call. We have over 200 financial institutions. I believe that was the end-of-quarter number, but over 200 financial institutions. And I think we're starting to get, as I said, some

flywheels there, which is as you have more and better financial institutions on it, it creates more and better routes and availability to the members themselves. And so it starts to be able to both carry more load. It starts to be able to provide greater reach. So we're seeing a lot of examples there.

And so we are -- it is very distribution dependent in that sense, but it's a member network, not dissimilar from a Visa or a SWIFT, meaning this is a network that FIs join, and then they can route flows amongst each other. We keep adding functionality to the network, which adds more use cases. So we have pay-ins and payouts. We have international settlements. We're adding the ability to provide greater forms of payment acceptance for AI, as an example. So we're adding more and more there. But that'll -- as on a go-forward basis, we're very much tied to those types of firms. And we have -- we feel very good about the progress. But that's at the heart of it.

James Friedman
Analyst, Susquehanna International Group

Thank you. I'll check out the white paper. Thank you very much.

Jeremy Allaire
Co-Founder, Chairman, Chief Executive Officer

You're welcome.

Operator
Your next question comes from the line of Bryan Bergin with TD Cowen. Your line is open. Please go ahead.

Bryan Bergin
Analyst, TD Cowen

Hi, guys, good afternoon. Thanks for taking the question. So I wanted to just dig in a little bit on the other revenue line here. So other revenue X, the token pre-sales, about $25 million. It sounds like other revenue may have troughed here on the quarterly non-Arc. And I think you've guided as such in 4Q based on some additional blockchain integrations, but I wanted to test your confidence on that front.

And then as it relates to Arc revenue recognition, the assumption here in 4Q and going forward, for the 4Q piece, is that related to a portion of the remaining $60 million for token pre-sale or some of the new revenue streams like staking? Just want to really understand, on the Arc front, the plan timing there as you consider needed milestones to recognize different streams of revenue. Thanks.

Jeremy Fox-Geen
Chief Financial Officer

Thank you. And I'll take that one. Thanks for the question. So a couple of pieces in there, other revenue and 4Q guidance in the shape of the non-Arc pieces and then Arc revenue recognition.

Yes, as you can see, right, the other revenue from our products prior to CPN and Arc, right, declined this quarter. The largest part of that other revenue is our subscription and services line. And as we've said before, there are two parts to that. There are upfront integration fees, and then there are ongoing recurring fees underneath that.

And when we enter into a partnership with a new blockchain over several years, and we bring the full weight of our products and services and liquidity and distribution to that partnership, we have fee structures of both of those. And there's a broad pipeline of those that we have been working through since the launch of that service line about 18 months ago.

And we've been pretty consistent that there's lumpiness in that depending upon the number of chains that we partner with. There's lumpiness in the upfront fee portion to be precise, depending on the number of chains we partnership -- partner with in any one quarter when we execute those. As we said, I think on the call, this quarter, we only executed one of those, and we expect more next quarter. So we do expect that line to pick up.

And the second piece of your question was Arc going forward. We haven't guided specifically on quarter-by-quarter future revenue recognition from Arc. There's a couple of pieces. We talked about all the pieces on the call, but the first piece to note is we have so far recognized $182 million out of the $242 million token pre-sale that we have previously announced. That means there is $60 more million of that to recognize over a set of additional milestones. We expect to recognize that primarily in 2027. There may be some in the fourth quarter, but there also may not be. That will depend upon the delivery of milestone.

Going forward then, Arc, which has been an incredible value creation success for Circle so far, and we expect it to be an incredible blockchain going forward, gives us potential to realize value and then financial statement value in different ways. We talked about staking rewards. When Circle stakes the Arc token that it has, it will earn network validator rewards as would any other validator, and those will depend upon the amount of token staked and the network validation rate and the price of Arc token and so forth. That will build from when Arc transitions to proof of stake from the current proof of authority consensus mechanism.

It's very important to understand. That's when the token goes live in that sense and validators start to earn token-based rewards and can stake their tokens and so forth. We haven't given a date for that. We're working hard towards it. I think we have said it will be in 2027, we just haven't said when.

Bryan Bergin

Analyst, TD Cowen

All right, very helpful. Thank you.

Operator

Your next question comes from the line of Jacob Haggarty with Baird. Your line is open. Please go ahead.

Jacob Haggarty
Analyst, Baird

Hey, guys. So just real quick, following up on the last question. Does that mean before the proof of stake, you're recognizing our gas fees as revenue? And then just for my actual question here, just talking about StableFX, is there an advantage to using the request for quote model? Why would you choose that versus some other chains that have it directly integrated into the protocol, use AMM or native order books? So just wondering on the rationale there.

Jeremy Fox-Geen
Chief Financial Officer

So I'll take the first part of that and hand over to Jeremy. Prior to the transition to proof of stake, we are not recognizing gas fee revenue of any form. The current consensus mechanism is proof of authority, and it doesn't have that same reward mechanism as will exist post the proof of stake transition. Jeremy, do you want to take the other piece?

Jeremy Allaire
Co-Founder, Chairman, Chief Executive Officer

Yes, sure. Yes, so a couple things. So StableFX in the initial release, which is where we are now, is it has a maker-taker model on it. And the RFQ model is actually something that we worked with many of the top makers -- market makers that trade in currencies and that trade in the convergence of currencies and digital assets, which is an increasing number of players out there. Some are regional, some are global. And there was a very strong preference for an RFQ model.

And the benefit of it for us today is that they're able to effectively quote off of, let's just call it real-world fiat. They can quote off of actually what the underlying looks like in underlying fiat FX, and that becomes a basis for quotes that then can settle in the stablecoin environment. It can be atomically settled, so you do have the option to do that. And the protocol allows for essentially an escrow with net settlement. So it's an on-chain protocol that provides that escrow and net settlement model. So RFQ combined with escrow and net settlement actually gives you the best of pricing from real-world fiat and the best of stablecoin settlement and delivery in the protocol.

And so that's the design center there. And that was really based on working closely with market participants, both takers that are fintechs and other distributors, our own views for CPN and how we would use it inside CPN, as well as working with the outside parties that are going to -- that are in fact standing in that liquidity.

That is not to say that is the only and best method. The prop AMA -- AMM model is one that is, I think, a very attractive one. And in fact, if you look at projects that are getting built up on Arc, some of the -- there are competing projects in this space. There's competing projects that are built on

prop AMM models, built on Uniswap, and we're seeing other projects as well.

And so I think the market is going to try a few different things. I think we have a specific design center on this as well. And all the counterparties on our protocol are known. So they're -- we underwrite them, the takers and the liquidity providers, so it's not a permissionless protocol. And that allows us to also make RFQ a little bit more effective as well. I don't know if that answers the question, but hopefully.

Jacob Haggarty
Analyst, Baird

Yes, and you charge a fee on top of the LP's fee there as well?

Jeremy Allaire
Co-Founder, Chairman, Chief Executive Officer

There is a fee model in StableFX. The participants themselves, either the takers or the makers, have their own fee structure on it. But it's obviously very, very small right now. And so I wouldn't look to that at least in the short term as a revenue driver.

Jacob Haggarty
Analyst, Baird

Got you. Thanks, guys.

Operator
Your next question comes from the line of Vasu Govil with KBW. Your line is open. Please go ahead.

Vasu Govil
Analyst, KBW

Hi, thank you for taking my question. Maybe I'll ask about the strategic distribution partnerships, and if you feel like that market is becoming more competitive. Specifically, with the deals that you sign with Binance, what we saw with Coinbase and Hyperliquid, they seem to imply that maybe the distributors have increasing leverage. And so just curious if you were seeing more pressure on economics on that front, and how do you think about the trade-off between expanding distribution but also trying to protect your margins long term.

Jeremy Allaire
Co-Founder, Chairman, Chief Executive Officer

Yes, no, it's a great question. I think there's a short, medium, and long-term view on this. And what does market structure look like over the long term? And then there's also, I think, a very important component to this, which is we have this unincentivized versus incentivized division between pre-circulating USDC that is out in the wild, is used as cash and working capital and held across an enormous range of platforms, and then major distributors, and major distributors that concentrate

large numbers of users and concentrate large amounts of liquidity and obviously concentrate large amounts of balances.

And I think the market structure is moving towards one where the largest distributors have, I think, a stronger economic participation around the distribution that they provide. And so I do think that that is the case. And we certainly -- we look at that on a go-forward basis. At the same time, I talked about this on our last earnings call as well, we're leaning into the most important distribution platforms, which are the ones that have the greatest reach, not just necessarily the current reach, which is, say, the players that are deep in digital asset markets or some of the key fintechs and neobanks that have direct adjacency to the space.

But we're looking more broadly as well. We're looking at what are the major platforms that are going to come into the space with GENIUS Act going effective that are -- that have huge levers on them. These are companies with $50 billion, $100 billion, $500 billion user distribution, so we're obviously very focused on those. And those kinds of distributors would have a different economic relationship.

Now, at the same time, we effectively have this permanent economics in free-circulating USDC. And when you look at the existing banking system as a proxy, if you look at M2 electronic money, about half the numbers -- this is last time I looked, so forgive me if they're not precise. But roughly half of M2 electronic money or the aggregates of M2, which was around $60 trillion, was either cash or non-interest-bearing demand deposit.

So there's a huge amount of cash working capital that sits in the global economic system. And we believe that digital currency will also behave not necessarily exactly the same, because I think you'll get more market efficiencies out of the on-chain world than the legacy world. But I do think you're going to have that permanent free circulation, which we have a huge amount of operating leverage around as a business ultimately and can be very quite margin accretive across the board.

But I think right now, when we look at where we are in the market, stablecoin circulation, stablecoin transaction volumes, stablecoin active wallets across people, households, businesses, is so small compared to what it can and we believe will be in the next five years that we want to win. We're going to do what it takes to win, and we're going to build the best partnerships with the best companies to do that. And we're going to obviously drive that business to continue to be in an accretive, profitable business for us while also scaling out a lot of other businesses alongside it.

Vasu Govil
Analyst, KBW

Great. Thank you for the color.

Jeremy Allaire
Co-Founder, Chairman, Chief Executive Officer

Of course.

Operator
Your next question comes from the line of Divyam Harlalka with Goldman Sachs. Your line is open. Please go ahead.

Divyam Harlalka
Analyst, Goldman Sachs

Hi, good afternoon. Divyam here from Goldman Sachs, filling in on behalf of James Yaro. With the full-year adjusted OpEx spending towards the high end of your $570 million to $585 million range, does that guidance fully absorb the Chelsea Football Club partnership costs? And what is the expense recognition cadence in 4Q '26 and beyond for the same?

Jeremy Fox-Geen
Chief Financial Officer

Hi. You broke up a little bit there, but I think your question was around OpEx trending towards the high end of guidance, and does it incorporate the Chelsea partnership costs? And the short answer to that question is yes, it does.

Divyam Harlalka
Analyst, Goldman Sachs

Okay, thanks. And I was just asking around on the expense recognition cadence in 4Q '26 and beyond for the same.

Jeremy Fox-Geen
Chief Financial Officer

Sorry, you broke up a little bit there again, the expense of what cadence?

Jeremy Allaire
Co-Founder, Chairman, Chief Executive Officer

Beyond '26 Chelsea expense cadence.

Jeremy Fox-Geen
Chief Financial Officer

Yes, and we're not giving --

Divyam Harlalka
Analyst, Goldman Sachs

The expense cadence for --

Jeremy Fox-Geen
Chief Financial Officer

-- the expense indications.

Divyam Harlalka
Analyst, Goldman Sachs

-- yes, exactly.

Jeremy Fox-Geen
Chief Financial Officer

Yes, we're not giving a 2027 --

Divyam Harlalka
Analyst, Goldman Sachs

Okay, thanks.

Jeremy Fox-Geen
Chief Financial Officer

-- expense guidance at this time. But if you're asking about the Chelsea contract in particular, I can say it would be normal accounting to recognize the cost of that partnership contract over the life of the contract, which is the English Premier League football season.

Operator
Your next question comes from the line of Alex Markgraff with KBCM. Your line is open. Please go ahead.

Alex Markgraff
Analyst, KeyBanc Capital Markets

Thanks. Hey, guys, maybe one quick point of clarification and then a follow-up on CPN. Just on the point of clarification, the implied RLDC ex-margin ex-Arc in 4Q, is that delta between 3Q and 4Q based on where you guided the full year fully attributable to the Binance relationship, or is there something else we should be thinking about in that?

Jeremy Fox-Geen
Chief Financial Officer

It's a good question. Thank you. Just so everyone's in the same place you are, we reaffirmed our RLDC margin guidance, and then ex-Arc, I think we said on the call that that dovetails with our original at the beginning of the year RLDC margin guidance ex-Arc of 38% to 40%, and then said we're trending towards the midpoint of that range. That implies -- if you make some sensible assumptions for other revenue and other revenue margin, that implies a step down in net reserve margin in the fourth quarter.

Our model, and for net reserve margin in general, as we've said before, there are many different puts and takes because we have different pools of USDC that are subject to different incentive agreements. And as you build your own models, some of these will grow faster and slower with different incentive arrangements. And then obviously, there is unincentivized USDC, which we

have found tends to grow at a roughly similar rate to aggregated USDC in major platforms.

The bigger -- the big -- the step down in the fourth quarter in our guidance is primarily due, as we said earlier, to that, including a full quarter of our renewed agreement with Binance. And this third quarter includes a full quarter of our renewed relationship with Hyperliquid.

Alex Markgraff
Analyst, KeyBanc Capital Markets

Okay. Very clear. Thank you, Jeremy. And then Jeremy Allaire, just maybe one quick follow-up. I appreciate all the comments on CPN and monetization. Just curious, when you talk about take rate compression over a longer period of time. Presumably, take rate is different for something like last-mile payout versus Arc settlement.

So just as you make those comments on take rate and how you're thinking about it over the long term, should we expect some variability depending on how Circle customers and partners are taking services, just at different layers of infrastructure, if that makes sense? Thank you.

Jeremy Allaire
Co-Founder, Chairman, Chief Executive Officer

Yes, it's a great question. And I think layers is the right way to think about that. I think there are many layers that take place here. A single currency that's going to another single currency that is moving across something like CPN rails, and you've got volatile FX on both sides of it, and you've got the cost of liquidity against that volatile FX, and you've got whatever the local ingress-egress costs are, there's real cost there, right?

And so I think the -- so that is there. And so at those edges, right, is where you probably see fees a little bit different than when it's a more stable value currency with greater direct liquidity and then the ability to wire into very low-cost RTGS-type pipes on both sides, then you can compress it really, really small. And so it does vary on the layer.

And then the other layers that I would think about there, and again, I would encourage you to look at the CPN white paper, is there are layers of value-added things that you can do. FX is one of those value-added things that you can do. Facilitation of compliance obligations is a value-added thing one can do. Providing escrow mechanisms and controlled release of funds is a value-added service that is necessary for various types of deferred settlement refunds and other use cases. And more and more of what we look at as the features of payment systems will just become features of on-chain smart contracts and on-chain protocols.

Now, I think our view is that just like you can take out WhatsApp or FaceTime or whatever messaging app and you can basically publish an unlimited amount of video, you could have real-time calls, you have incredible utility that far, far exceeds the utility that you had in the old system, and those utilities are, in some ways, monetizing indirectly, but are able to offer that really

effectively what is the cost of data, which is approaches zero, we do think over the long run, more and more of these things compress.

When you have something like StableFX and you have highly efficient, essentially what would be like interbank mid-type pricing on FX and the units are digital cash units, stablecoin units, or other similar types of tokenized money and you effectively have economic operating systems like Arc where, effectively, the environment can settle in fractions of a second at fractions of a cent, you start to compress down the cost structure that's there.

If you have, for example, the ability to use cryptographic proofs of identity to provide greater assurance around compliance than a lot of the more manual data-moving reconciliation models that you have for compliance today, you can drive those compliance costs down. And so the cost of compliance gets lower.

So all these things we think in a machine-driven, software-driven, open internet and on-chain driven world, drive costs lower. And that is our mission, right? We want to see that happen. But in the short to mid-term, I think you're absolutely right. There's different layers here where there's different value capture. And that's not just for Circle. That's for all the partners that build on top of our network. They need to build businesses, and they are.

Alex Markgraff
Analyst, KeyBanc Capital Markets

Got it. Thank you for the thoughtful answers. Appreciate it.

Jeremy Allaire
Co-Founder, Chairman, Chief Executive Officer

Of course.

Operator
Your next question comes from the line of Ken Suchoski with Autonomous Research. Your line is open. Please go ahead.

Ken Suchoski
Analyst, Autonomous Research

Hey, good afternoon. Thanks for taking the question here. Can you just describe the mechanics of how the Hyperliquid USDC transition to Coinbase's platform? I think, Jeremy, you mentioned that there was a full quarter impact. But one question we're getting is just the Hyperliquid data suggests the yield was only accruing economics from August 27th onward. And so can you just help us square why this quarter's sequential net reserve margin was down, I think it was only 80 basis points, versus what's implied next quarter, which I think is a few hundred basis points? So yes, any help there would be great.

Jeremy Allaire

Co-Founder, Chairman, Chief Executive Officer

Yes, I can touch on just overall mechanics. I don't know that we can get into too much of the fine-grained detail on the way the economics flow through here. And we're certainly not going to speak on behalf of Coinbase. So Circle plays a role as the what is called the technical deployer. We are the critical infrastructure that makes sure that USDC works in their core markets and their core infrastructure, HyperCore, and provide the infrastructure to provide liquidity across every (inaudible).

And as part of that, we have economics. We have economics in the role that we play to some certain level. And we don't disclose what that is in detail. And that does flow through into our income statement and margin as well. And then Coinbase essentially provides a wallet to store USDC, what is called the treasury wallet. And they provide that wallet to store USDC. And so they have that role as well.

Something I think we had shared previously was that broadly speaking, the ultimate net economics to Circle and the net economics to Coinbase on the Hyperliquid deal are very much almost identical. So it is economically valuable to each of us in roughly the same proportion, but we play different roles in the infrastructure. To the timing and how that flows through, I'll turn that over to JFG.

Jeremy Fox-Geen
Chief Financial Officer

Yes, on the specific question about August 27, I mean, we'll confirm and get back to you on that point.

Ken Suchoski
Analyst, Autonomous Research

Okay, great. Thank you.

Operator
Your next question comes from the line of Madison Suhr with Raymond James. Your line is open. Please go ahead.

Madison Suhr
Analyst, Raymond James

Hey, guys, good afternoon. Thanks for taking the question. I apologize in advance about belaboring the point, but wanted to ask around Arc staking as well. Can you just help us understand what really needs to happen underneath the hood for the transition to proof of stake to occur? And how quickly can staking revenue start to scale thereafter?

And then just second part of the question, given your token allocation, I mean, is there a way that we can think about the staking revenue opportunity? I would imagine it's a function of on-chain

activity, your staked allocation share. But anything else that I should keep in mind as it relates to the staking revenue model for Arc? Thanks, guys.

Jeremy Allaire
Co-Founder, Chairman, Chief Executive Officer

Yes, I mean, this -- so there was some discussion in detail in the earnings call from Jeremy on how these pieces work. What I would say, I'll answer part of this question and see if Jeremy wants to answer other parts of it. But the -- I think the first is that deploying the proof-of-stake model is a technology upgrade. So it is an infrastructure upgrade. And it is one which involves the fundamental security of the network and the integrity of all the transactions that happen on the network.

And that whole model is something that we're actively working on. And I think when it's technically ready is one thing. But then when we, alongside the other validators and stakeholders that we have that are part of what we're doing with the Arc, which I think you know who some of those firms are, we need to make sure everybody's aligned and ready to make that move. So we're not giving a specific timeline for that, but we're hard at work on it.

I think you're correct in that when we do move into proof of stake, that is when staking revenue would obviously begin. I think there are a few different variables that will drive that, and maybe I'll let Jeremy walk through what those variables are at a high level.

Jeremy Fox-Geen
Chief Financial Officer

I mean, for now, we'll just say, I mean, we're working on it. Some of those are within our -- most of those variables are within our direct control. We obviously want to make the transition to proof of stake at an opportune moment for the entire Arc network. We've said it'll happen in 2027. It is possible that on our next earnings call, as we talk further forward and give other revenue guidance, we'll have a clearer idea as to when during the year we expect it to happen.

Jeremy Allaire
Co-Founder, Chairman, Chief Executive Officer

But I would say one, I think, if not obvious point, is that we look at the activity, the applications, that are driving fees on the network, the ongoing issuance of Arc token, and a lot of this is also outlined in the Arc token white paper, which was published earlier this year. And then ultimately, the FTV of the network and the network token, all those are important inputs into that.

Madison Suhr
Analyst, Raymond James

Okay, I appreciate all the color. Thank you, guys.

Jeremy Allaire

Co-Founder, Chairman, Chief Executive Officer

Of course.

Operator

Our final question comes from the line of Pete Christiansen with Citi. Your line is open. Please go ahead.

Pete Christiansen

Analyst, Citi

Thank you. Good afternoon, everyone. Thanks for doing this call. Jeremy, I think you mentioned there's 2,500 or 3,000 agent endpoints listed in the marketplace. Just wondering if you can give us some context. What are some of the use cases that you're seeing and what are some of the KPIs that you're looking at when you're assessing how Agent Stack is performing? Is it x402 payments, which has gone through this progression, I guess, in the last year or so? Just curious if you can just help put some context on that.

And then final question. Pretty simple one. But I guess on January 18th, when GENIUS Act becomes effective, are you expecting a light switch, or are clients going to then start using USDC and things like that? Just curious your view. Thank you.

Jeremy Allaire

Co-Founder, Chairman, Chief Executive Officer

Yes, sure. I'm happy to take both of those, Pete. On the first question, I'd actually encourage you -- for all of you that are on the call, if you go to agents.circle.com, there's a link to the marketplace. And if you go to agents.circle.com and you click in the marketplace, you can see very broadly what all of these agent services are.

And there's a huge range of things that are in there. There's a lot of infrastructure. There's a lot of markets. There's a lot of data research. There's social media, communications tools, travel and shopping, creative tools. So there's quite a bit in there. And that continues to grow. I mean, I think it's grown quite a bit quarter over quarter in terms of the number that's there. And it gives you a flavor for the kinds of things that these AI agents are consuming and using.

And we obviously are focused on making sure that there are agent services that are really valuable. But this is like any two-sided market, right? You have both the supply side and you have the demand side. And so what we're really trying to do is make it easier and easier for what I'll call the demand side and the supply side to get flywheels going.

I talked a little bit about this in the earnings call. You're going to see quite a bit more information from us on this coming out very, very soon. We've been public about the roadmap. But ultimately, the killer solution here is one where anyone who wants to build an AI agent, deploy an AI agent, enable that AI agent to be verifiable to the internet and to users and other agents, to enable that

agent to monetize itself in multiple ways, buying and selling services, and enable that AI agent to develop its own reputation and discovery, like the full flywheel of what it is to actually monetize agents is what we're delivering.

And what we're -- we've given the roadmap. We're on target for a Q1 launch of a much more significant evolution of what it is to build, deploy, monetize, and then enable. And end consumers, whether they're using a consumer AI tool like a Muse or an Instinct or other, as well as B2B infrastructure where people are deploying AI agents in their businesses to be able to interact with these agents in these agent marketplaces.

And I think in some ways, we're not quite there. But I think it's not dissimilar from when you had app stores that launched, the creativity of the builders to craft new types of applications on mobile was unknown when those platforms came out. It was hard to know exactly all of the things that they would do, but I think we're trying to deliver that.

What we do obviously pay attention to is what are the agent services that are getting volume and traction? How do we continue to help promote those and support them in our own tools and in the marketplace? And then obviously we're paying very close attention to transaction volumes that are happening on x402 and machine payments protocol, both of which are our native machine-to-machine protocols that support USDC.

And then the second question, the light switch. Look, my view on this, and I talked about it in the earnings call, is I do think this is a very important catalyst moment. But I think like anything, this happens in a graduated fashion. We've been in that. If you think about where we were two years ago where adopting digital dollars and stablecoins like USDC, you might have people at the edges of traditional markets or payments starting to get involved. Now, we're in a place where everybody's starting to get involved. And when I think about where we are in terms of the adoption in commerce, in TradFi, in enterprise, we've barely begun.

And so it's not going to be everyone and their brother decides on January 18th we better deploy our USDC infrastructure, but it is, I think, a building wave of interest and demand in this. And I think we're going to see a lot of diversification in terms of the use cases, the enterprises, the types of firms that are adopting this as we go to 2027. I think we're seeing good indicators of that right now.

Pete Christiansen
Analyst, Citi

Thank you so much. A lot to look forward to.

Jeremy Allaire
Co-Founder, Chairman, Chief Executive Officer

Thank you.

Operator

We have reached the end of our Q&A session. This concludes today's call. Thank you for attending. You may now disconnect.