



October 30, 2024

Via the Federal eRulemaking Portal – www.Regulations.gov

Mr. Michael Hsu
Acting Comptroller
Office of the Comptroller of the Currency
400 7th Street, SW, Suite 3E-218
Washington, DC 20219

Ms. Anne Mishback
Secretary
Federal Reserve Board of Governors
2001 C Street NW
Washington DC, 20551

Mr. James Sheesley
Assistant Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Request for Information on Bank-Fintech Arrangements Involving Banking Products and Services Distributed to Consumers and Businesses, Docket Number OCC-2024-0014, Docket No. OP-1836, RIN 3064-ZA43

Dear Mr. Hsu, Ms. Mishback, and Mr. Sheesley,

This response is being submitted by Paxos Trust Company, LLC (Paxos). Paxos is a New York limited purpose trust company that is regulated by the New York State Department of Financial Services (NYDFS). Paxos provides a range of services associated with digital assets, including stablecoin issuance; custody and management of USD stablecoin reserves; and cryptocurrency services, such as providing the trading and liquidity services that enable Paxos' enterprise partners to provide their customers functionality to buy, hold, sell and transfer cryptocurrency. We appreciate the opportunity to deepen the agencies' understanding of the relationships between banks and fintechs.

Background on Paxos

Paxos was founded on the principles of consumer protection and regulatory oversight. Since the firm started in 2012, it has been core to our mission that we seek the most rigorous regulatory authorizations and highest compliance standards, and subject ourselves to bank-like full regulatory examination processes. We are committed to protecting consumers through the design of our products, ensuring that they are fully backed, transparent, and secure. This



commitment helps mitigate the risks often associated with fintech innovations and gives confidence to our enterprise partners, retail consumers, and the broader market.

In 2015, Paxos became the first firm approved to operate in crypto and blockchain as a limited purpose trust company by the NYDFS. Since that time, we have continued to emphasize a regulation-first approach even as we have expanded our global footprint. In addition to New York, Paxos entities are also regulated by the Financial Services Regulatory Authority in the Abu Dhabi Global Market and by the Monetary Authority of Singapore – first-tier prudential regulators that reflect our commitment to proactively seeking rigorous oversight.

Paxos enables fintechs and financial institutions to offer crypto capabilities to their users through our Paxos Crypto Brokerage and Stablecoin as a Service products. Most recently we announced that Paxos powers the stablecoin solution for Stripe, but we also support partners like PayPal, Interactive Brokers, Nubank, Mercado Libre, and more. Our work with enterprise customers illustrates bank-fintech arrangements that effectively combine the innovation of blockchain with the reliability of traditional finance. Our products are benchmarks for how these arrangements can be structured.

Promoting Responsible Bank-Fintech Arrangements

We agree with the RFI's assessment that bank-fintech arrangements may provide significant benefits, particularly around allowing traditional financial institutions to quickly and more cost effectively deploy new products and services and to reach previously underserved markets and customers. Bank-fintech arrangements may also introduce new potential risks, but we believe that strict adherence to existing regulatory frameworks appropriately mitigates these risks. Paxos, as a prudentially regulated entity, is an example of how responsible actors in the fintech space can support banks in pursuing innovative approaches in a manner consistent with safe and sound practices. While Paxos does not currently service any U.S. banks with these partnerships, we believe the services Paxos provides to other financial actors can serve as a model for responsible bank-fintech arrangements and demonstrates how regulated fintechs can mitigate potential risks and support safety and soundness.

- **Descriptions and Categorizations of Arrangements** Paxos is at the forefront of integrating blockchain technology with traditional financial systems through our partnerships with leading global financial services companies. We offer a range of regulated digital assets, including stablecoins (e.g., Pax Dollar, PayPal USD) and tokenized commodities (e.g., Pax Gold), all designed to be fully compliant with the highest regulatory standards.
- **Risk Management and Compliance** Paxos's business model is built around a "regulation-first" approach. As an NYDFS regulated entity under NY banking law, we ensure that our digital assets are fully backed, legally protected and held in bankruptcy-remote accounts. Our partnerships are structured to prioritize compliance with all relevant laws, including BSA and AML/CFT regulations, and we provide our partners with the infrastructure necessary to manage these risks effectively. This regulatory rigor sets a standard for how fintech companies can collaborate with banks to deliver innovative products while maintaining safety and soundness.



- **Consumer Protection** Paxos's commitment to consumer protection is evident in our product design and operations. Our stablecoins, for example, are fully backed by U.S. dollar reserves, ensuring that they maintain their value. We also adhere to stringent transparency requirements, regularly publishing audits and reports that demonstrate our commitment to responsibly managing customer reserve assets. This focus on consumer protection helps mitigate the risks often associated with fintech innovations, providing users with confidence in the safety of our products.
- **Data Use and Management** Paxos places a high priority on the secure and compliant management of data. Our partnerships with banks involve the use of blockchain technology, which inherently provides a transparent and immutable record of transactions. This technology not only ensures the accuracy of data but also supports compliance with regulatory requirements related to data protection and privacy.
- **Impact on Financial Stability** Paxos believes our regulated digital assets can contribute to greater financial stability. By offering products like approved and prudentially regulated stablecoins, we provide a reliable complement to traditional financial instruments, reducing volatility and the risk of financial shocks. Our partnerships with established financial institutions further amplify this stability, as these collaborations bring blockchain-based solutions into mainstream financial systems in a controlled and secure manner.

Reducing Concentration Risk in the Digital Assets Industry

Beyond the specific areas identified above, we also wish to comment broadly on the challenges facing digital asset companies seeking to establish and maintain banking relationships, and the impact that additional regulatory barriers would have on these companies' ability to obtain bank accounts in the United States. The digital assets industry relies heavily on banking partners to provide a variety of essential services, including safeguarding customer assets and facilitating daily business operations. Ultimately, banks provide the fiat rails needed for digital assets companies to service their own customers.

However, guidance from policymakers and regulators in recent years has had a chilling effect on banks' willingness – or ability – to service the digital assets industry. As a result, the digital assets industry has been left with limited banking options, undermining efforts to create diversified banking partnerships. This leads to concentration risk and is also pushing firms to look overseas for banking partners, at times in jurisdictions that do not share the same high standards as present in the United States.

We raise these issues in the context of this RFI response because creating additional regulatory burdens for banks that wish to partner with even the most prudentially regulated digital assets firms is likely to exacerbate the difficult banking environment facing the industry. The penchant to treat all firms in the digital asset space *pari passu* ignores that the industry is not a monolith, and that there are digital assets firms like Paxos that have chosen to submit to rigorous licensing regimes and prudential oversight. These firms are well-positioned to support traditional financial players as they look to innovate responsibly and future-proof U.S. financial architecture.



Conclusion

Paxos appreciates the opportunity to provide our firsthand perspective on bank-fintech arrangements and contribute to this important regulatory discussion. As the leading regulated blockchain and tokenization infrastructure platform, we believe we represent an important model for how these arrangements can enable traditional financial players to provide new, innovative products and services that meet evolving customer demands in the age of digitalization. We believe that the risks outlined in the RFI can be addressed through the application of the existing regulatory framework, rather than the creation of new rules or requirements that could inadvertently hinder financial innovation in the United States.

Respectfully,

A handwritten signature in black ink, appearing to read "Charles Cascarilla".

Charles Cascarilla
CEO & Co-Founder

[Paxos](#)