



November 27, 2024

Via: Comments@fdic.gov

Attention: Comments - **RIN 3064-AG07**

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

Re: Recordkeeping for Custodial Accounts

Dear Mr. Sheesley,

We write on behalf of Paxos Trust Company, a New York State (NYS) limited-purpose trust company chartered and prudentially regulated by the New York State Department of Financial Services (NYSDFS). Paxos issues and redeems stablecoins, and holds stablecoin reserves in omnibus “for-benefit-of” (FBO) accounts backed by a mix of cash, short-term U.S. Treasury bills, and overcollateralized overnight reverse repurchase agreements. These reserves are always held 1:1 and are managed in strict compliance with NYSDFS’s rigorous regulatory framework.

To underscore this, NYSDFS actively oversees Paxos with respect to our operations and each of our tokens to ensure full reserve backing, mandating regular audits by reputable third-party accounting firms and subject to full prudential examinations. Further, as required by the NYSDFS, Paxos provides unparalleled transparency by publicly disclosing the specific backing assets of stablecoin reserves. These measures ensure that every stablecoin is fully reserved, eliminating ambiguity and safeguarding financial integrity.

For example, Paxos serves as the issuer and custodian of PayPal’s PYUSD stablecoin. Reserves backing PYUSD are meticulously managed within omnibus accounts designated exclusively for PYUSD holders. This structure guarantees that, even in the unlikely event of Paxos’ failure, there is no question about the recordkeeping or the ability to identify and return reserve assets to stablecoin holders.

While we share the FDIC’s commitment to depositor protection and financial stability, the proposed rule, with its extensive recordkeeping obligations for custodial deposit accounts, raises significant concerns. As proposed, the rule risks creating regulatory redundancy, operational inefficiency, and potential conflicts with established state regulatory frameworks. Moreover, it threatens to divert attention and resources from meaningful risk management to excessive compliance requirements, ultimately harming innovation and efficiency in the financial ecosystem.

Practical and Operational Concerns

The proposed rule's recordkeeping requirements fail to account for the operational realities of entities like Paxos. Our reserves are pooled in omnibus accounts and proportionally backed by high-quality liquid assets. Individual allocations are not tied to specific cash deposits but are supported by the entirety of the reserve portfolio.

When reserves are dynamically rebalanced across cash, Treasury bills, and reverse repos, the cash portion at any given moment does not correlate directly to individual customer holdings. Mandating such granular tracking would impose significant operational burdens on Paxos and our banking partners, undermining the efficiency of our reserve management practices without providing any tangible benefit to customers. Worse, these burdens risk creating systemic inefficiencies that could hinder the broader adoption of innovative financial instruments such as stablecoins.

Legal and Policy Considerations

Paperwork Reduction Act (PRA): The proposed rule's extensive recordkeeping obligations impose significant administrative burdens without clear evidence of necessity or proportionality. Under the PRA, federal agencies must balance the benefits of information collection against the costs imposed. Here, the FDIC has not demonstrated how these additional burdens meaningfully advance depositor protection, particularly given the existing safeguards under state oversight. The benefits remain speculative at best, while the costs are clear and substantial.

Federalism and the Dual Banking System: The FDIC's proposed rule undermines the principles of cooperative federalism that underpin the dual banking system. By imposing federal requirements on state-regulated trust companies, the FDIC risks encroaching on the jurisdiction of competent state regulators like NYSDFS. Such overreach not only weakens the credibility of state oversight but also disrupts the balance between state and federal regulators that fosters innovation while ensuring robust consumer protection.

Recommendations:

To address these concerns, we respectfully urge the FDIC to:

Provide an Exemption for State-Regulated Trust Companies: Banks engaged in business relationships with trust companies prudentially supervised by competent state regulators, such as NYSDFS, should be exempt from the proposed recordkeeping requirements as they pertain to these counterparties. This approach aligns with principles of regulatory efficiency and avoids duplicative oversight.

Adopt Proportional Requirements: The FDIC should consider alternative frameworks that achieve its policy goals without imposing undue burdens. For example, aggregate-level

reporting and periodic attestation of reserve adequacy could ensure depositor protection without creating unnecessary operational complexity.

Engage Stakeholders: We recommend that the FDIC convene a joint working group with state regulators, industry participants, and other stakeholders to refine the proposed rule and address its operational and jurisdictional implications. This collaborative approach would ensure that any final rule reflects both the realities of modern financial operations and the strengths of existing regulatory frameworks.

Conclusion:

Overly prescriptive federal rules that duplicate or conflict with existing state oversight risk eroding trust in the dual banking system and undermining the effectiveness of state regulators. Paxos, like other state-regulated entities, operates under rigorous standards designed to protect customers while fostering innovation. The FDIC's proposed rule jeopardizes this balance. We urge the FDIC to adopt a more collaborative and proportionate approach, recognizing the strengths of state frameworks like NYDFS while refining its own oversight objectives.

Thank you for the opportunity to provide feedback on this critical issue. We remain available to discuss our concerns and recommendations in greater detail

Respectfully,



Charles Cascarilla
CEO & Co-Founder
[Paxos](#)