

# A LOOK AT USD PAX (PAX)

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## THINGS TO KNOW ABOUT BLOCKCHAIN ADDING WALLET SUPPORT FOR THE PAX STABLECOIN

- **Paxos Standard (PAX) powered stablecoin now available to millions of Blockchain wallet users:** the PAX stablecoin is now supported by the Blockchain wallet, making it the first stablecoin to be available to Blockchain's over 36 million wallets; Blockchain's web wallet users can now use PAX, and mobile will soon be supported
- **Using PAX in the Blockchain wallet brings added benefits:**
  - 1:1 fixed exchange rate between USD PAX and USD: in the Blockchain wallet PAX will always be pegged and convertible at precisely a 1:1 exchange rate to USD dollars, meaning it will not fluctuate above or below the 1:1 peg as PAX can on other exchanges
  - Zero transaction fees: transferring PAX on other exchanges or wallets will cause users to incur Ethereum transaction fees (gas fee), whereas Blockchain wallet users will avoid incurring gas fees when using USD PAX in the Blockchain wallet
  - **Why is the stablecoin named "USD PAX" in the Blockchain wallet?** PAX will have the same ticker symbol (PAX), functionality and transferability (ERC-20 token status) for Blockchain wallet users as Paxos Standard has everywhere else, but in the Blockchain wallet the stablecoin will be called "USD PAX" in recognition of enhancements, like the fixed exchange rate referenced above, made available to Blockchain wallet users

## PAX HIGHLIGHTS

- **Independently verified backing reserves:** recent legal filings show that the Tether (USDT) stablecoin is not fully backed by an equivalent amount of dollar reserves, whereas PAX's backing reserves are independently verified on a regular basis to ensure full fiat backing
- **Large size & liquidity:** PAX is one of the most actively traded stablecoins and the fourth largest stablecoin by market value.
- **Speedy and free redemptions:** redemptions are relatively speedy compared to other stablecoins, free of any fees, and there are no daily limits; PAX is one of the very few stablecoins that can process crypto-to-fiat redemption in less than 4 hours on average
- **Compliant:** Unlike Tether, PAX is regulated by the New York State Department of Financial Services, which is generally regarded as one of the most stringent regulators
- **Relatively low volatility amongst stablecoins:** PAX has been one of the least volatile stablecoins, making it an attractive store of value
- **Most similar to:** Gemini Dollar (GUSD), USD Coin (USDC), TrueUSD (TUSD)

## OVERVIEW

In late-2018, ItBit, a leading cryptocurrency exchange, launched a new regulated stablecoin called Paxos Standard (PAX). PAX was quick to attract support from a number of Tier-1 exchanges and has firmly established itself as one of the most actively traded stablecoins. It is currently the fourth largest stablecoin in terms of total market value.

PAX is a US dollar-backed stablecoin running on the Ethereum blockchain as an ERC-20 token. It was recently announced that PAX will also be issued on the Ontology (ONT) blockchain under its OEP-4 token standard. PAX has similarities with other major stablecoins, such as Gemini USD (GUSD), USD Coin (USDC) and TrueUSD (TUSD).

## PAX TOKEN OVERVIEW

Table 1: Paxos Statistics Highlight

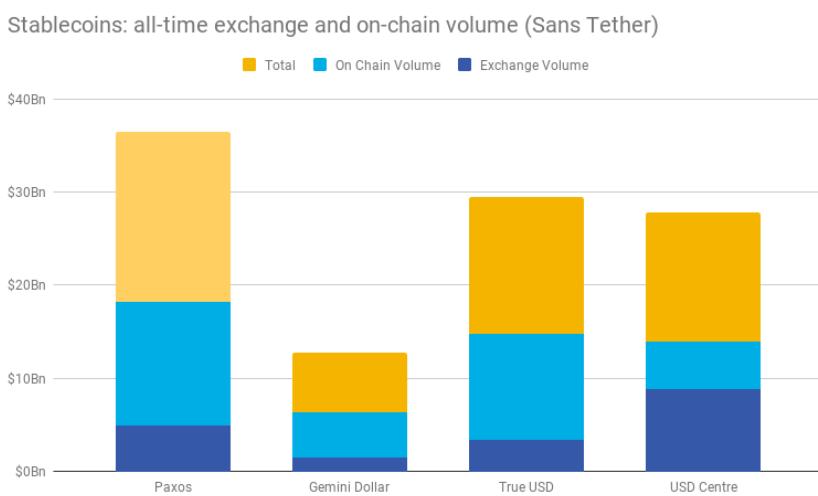
Overview	Paxos Standard
Ticker	PAX
Launch date	2018
Market capitalization	\$162,688,711
Volatility of daily returns (30d)	\$0.0073
Rank - overall crypto market liquidity	Top-20
Rank - stablecoin liquidity	Top-4
All-time transaction volume	\$18,234,155,330
All-time redemption	\$388,204,107
Average redemption time	3.5 hrs
Stablecoin Category	Asset-backed (Off-Chain Collateral Backed)
Collateral / Reserves Type	ETH (Future: Digix, Multi-CDP will allow any ERC20 approved by MKR token holders)
Most Similar to	USDT, USDC, GUSD

Note: data as of 1 May, 2019

## OTHER NOTABLE FEATURES OF PAX:

- PAX has often traded at a slight premium to USD, with an average daily price of \$1.01 since launch
- The lowest observed prices for PAX were approximately \$0.98, a level last observed in early Nov.
- Other than one brief spike in Oct. up to \$1.10 during a panic over Tether redemptions, PAX has remained effectively stable to its 1:1 USD peg
- Paxos is a trust company and regulated by the New York State Department of Financial Services
- PAX operates as a base currency trading pair on leading exchanges, like Binance
- Paxos/ItBit will generate revenue from PAX through interest earned on USD deposits

Chart 1: All-time exchange and on-chain trading volumes



Source: Coinmetrics  
and Etherscan

## STRENGTHS

### Liquidity and size

PAX is the fourth largest stablecoin by market value. According to self-reported trading volume from exchanges, PAX is the second most actively traded stablecoin (after Tether) and ranks as 17th most traded cryptoasset.

### Regulated and Legally Compliant Stablecoin

PAX is regulated by the New York State Department of Financial Services, which is generally regarded as one of the most stringent and powerful financial services regulators. Paxos parent, ItBit, was also one of the first exchanges to obtain a New York BitLicense. PAX also operates within the regulatory framework of U.S. and foreign money transmission laws, working with established banks and auditors. Many financial institutions are only interested and/or legally able to use compliant financial instruments like PAX, and it is with these institutions where PAX may have an outsized advantage.

### Zero Fees and No Minimum Purchases/Redemption Sizes

While now more common amongst USD-backed stablecoins, Paxos was one of the first to not charge any stablecoin-related fees, including currency conversion, transaction, or redemption fees (e.g., bank wire fees). There are also no minimums for purchases or redemptions. PAX can be redeemed 24 hours a day / 7 days a week to USD within one business day, with an average redemption time of 3.5 hours.

### Customer Service and Convenience

The Paxos global team provides customer service 24/7, including telephone support. Dedicated account managers are available for those able to make minimum purchases of \$100K.

### Independently Verified Reserves

The entire supply of PAX is collateralized by US dollars in dedicated omnibus cash accounts at FDIC-insured U.S. banks. Auditing firm Withum performs attestations (using standards established by the AICPA) on these accounts and the PAX tokens on a month-end basis to ensure they are consistent.

## ISSUES/TRADEOFFS

### Centralization

PAX is still heavily reliant on a single entity (Paxos/ItBit) and its focus on compliance means it is not fully censorship resistant. For example, Paxos/ItBit can deny or limit the use of PAX. Further, the PAX smart contract contains a “lawEnforcementRole”, which according to Paxos was “required by our regulators”. After receiving appropriate authorization, this law enforcement role can “freeze and unfreeze the PAX balance of any address on chain” and “wipe the balance of an address after it is frozen to allow the appropriate authorities to seize the backing assets”<sup>1</sup>.

### Ecosystem Competition Concerns

ItBit is actively competing against other cryptoasset exchanges like Circle, Coinbase, Gemini, Bitfinex, and others that have also launched their own stablecoins. Some of these competing exchanges will have a disincentive to adopt PAX for the following reason: the more revenue generated by PAX, the more competitive firepower ItBit possesses to compete against other exchanges. However, these competition concerns may be less of an issue for PAX given that ItBit has significantly smaller trading volume than some of the other exchanges that have launched stablecoins. Further mitigating competition concern is historical precedent: Tether, the most widely exchange-supported stablecoin, is also closely associated with another major exchange, Bitfinex. Also, PAX (as well as USDC and GUSD) have had success to date gaining listings on major exchanges.

### Adverse Shift in Regulations

Like other regulated stablecoins, the success of PAX is linked to it remaining in compliance with prevailing laws and regulations. Should an adverse regulatory shift occur, or should Paxos fail to maintain or gain necessary approvals, this could severely limit the use of PAX, particularly compared to other stablecoins or cryptoassets that are more difficult for regulators to bring enforcement actions against.

## CONCLUSION

While the regulated/compliant USD backed stablecoin space has become much more crowded in recent months, PAX has distinguished itself by taking a clear lead in use over Gemini USD, which it launched alongside. Even though TrueUSD and USD Coin were launched and announced, respectively, well in advance of PAX and have higher market values, PAX quickly caught up and has solidified its status as the fourth largest stablecoin by market value. The fact that PAX and other leading fiat-backed stablecoins tend to trade at a slight premium to their peg values is evidence of the convenience and utility offered by stablecoins to crypto traders and other users.

Overall, PAX is well positioned to provide strong competition for Tether and other similar fiat-backed stablecoins. While PAX and the other “better Tethers” have yet to dethrone the remarkably resilient USDT from atop the market value and liquidity leader board, regulators continue to keep Tether in their cross-hairs. Longer-term it is unclear how impacted the use of fiat-backed stablecoins like PAX will be if more access is gained

<sup>1</sup><https://github.com/paxosglobal/pax-contracts>

to stablecoin systems featuring “upside participation”, such as that offered by Dai (DAI) through its Maker governance token (MKR). For now, the market has clearly signaled a strong preference for stablecoins like PAX that offer a proven fiat-backed stability mechanism.

## APPENDIX 1

Table 2: Comparative summary of PAX and other leading stablecoins

	Paxos Standard	Tether	Gemini Dollar	USD Coin (CENTRE)	Dai (Maker)
<b>Ticker</b>	PAX	USDT	GUSD	USDC	DAI
<b>Launch date</b>	2018	2014	2018	2018	2017
<b>Stablecoin Category</b>	Asset-backed (Off-Chain Collateral Backed)	Asset-backed (Off-Chain Collateral Backed)	Asset-backed (Off-Chain Collateral Backed)	Asset-backed (Off-Chain Collateral Backed)	Asset-backed (On-Chain Collateral Backed)
<b>Collateral / Reserves Type</b>	USD	USD, EUR (Yen pre-announced)	USD	USD	ETH (Future: Digix, Multi-CDP will allow any ERC20 approved by MKR token holders)
<b>VALUATION &amp; USE</b>					
<b>Market Cap</b>	\$162,688,711	\$2,851,502,734	\$47,844,542	\$295,296,949	\$83,867,357
<b>Volatility of daily returns (30d standard deviation)</b>	\$0.0073	\$0.0065	\$0.0051	\$0.0074	\$0.0163
<b>Max (positive) peg-break i.e. x:\$1 ratio</b>	\$1.0400	\$1.0800	\$1.1500	\$1.0700	\$1.0500
<b>Max (negative) peg-break i.e. x:\$1 ratio</b>	\$0.9760	\$0.9160	\$0.9750	\$0.9827	\$0.9380
<b>Rank - overall market value</b>	44	8	101	28	66
<b>Liquidity (Avg. 30 daily volume)</b>	\$94,494,146	\$14,262,264,687	\$9,389,224	\$54,087,539	\$34,845,551
<b>Rank - overall market liquidity</b>	17	2	76	30	35
<b>Rank - Stablecoin liquidity</b>	2	1	6	4	5
<b>Number of crypto pairs (non-duplicate)</b>	76	59	28	59	38
<b>Number of exchange listings</b>	38	66	32	39	23
<b>Number of Tier-1 exchange listings</b>	5	6	4	4	1
<b>Tier-1 exchanges</b>	Binance, Bittrex, Upbit, Okex, Huobi	Binance, OKEx, Huobi, Poloniex, Kraken, Bittrex	Gemini, Okex, Huobi, Bitfinex	Poloniex, Coinbase, OKEx, Binance	Coinbase pro

Comprehensive Comparison of Stablecoin Mechanisms					
Stablecoin Type		Key Features		Performance Metrics	
Mechanism		Stability	Transparency	Scalability	Adaptability
Centralized	Bitfinex Tether	High	Medium	Medium	Medium
Centralized	Gemini USD Coin	Very High	Very High	Very High	Very High
Distributed	MakerDAO (MKR)	Medium-High	High	Medium	Very High
Distributed	WBTC (Wrapped Bitcoin)	Medium	Medium	Medium	Medium
Algorithmic	Algorithmic Stablecoins (e.g., TerraUSD)	Medium-Low	Medium-Low	Medium-Low	Medium-Low
Algorithmic	Algorithmic Stablecoins (e.g., Synthetix)	Medium-Low	Medium-Low	Medium-Low	Medium-Low
Legal & Compliance Overview					
Category		Regulation Status	License Type	Headquarters	Token Holder Structure
Ownership	itBit	iFinex (BitFinex parent)	Gemini	Owned by Circle Inc	Maker (MKR) Token Holders
Legal Entity	Paxos Trust Company LLC	Hong Kong-Based Ltd (Tether limited)	Gemini Trust Company LLC	Circle Inc, but not issued out of their broker dealer license.	Non-For-Profit Foundation headquartered in Denmark
Legal Entity Type	For-Profit	For-Profit	For-Profit	For-Profit	Non-Profit
Legal Jurisdiction (Country)	USA	British Virgin Islands	USA	Cayman Islands	Denmark
Technology Focus					
Technology Type		Protocol Stack	Blockchain	Smart Contracts	Consensus Mechanism
Platform (eg Ethereum)	Ethereum	Omni Protocol (Bitcoin), Ethereum, TRON	Ethereum	Ethereum	Ethereum
Transparency	Medium	Low	Medium	Medium	High
Automation	Low	Low	Low	Low	Medium-High
Complexity - Stability Mechanism	Low	Low	Low	Low	High

## **DISCLAIMER AND DISCLOSURES**

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