

Stablecoin Safety Assessment

Coin	Pax Gold (PAXG)
Date	04-06-2023
Overall Grade	A

Factor Scores:

S. No	Factor	Score	Assessment
1	Stability	0.90	Stable
2	Management	0.84	Very low risk
3	Implementation	N/A	Not assessed
4	Decentralization	0.30	High risk (Not relevant to the grade)
5	Governance	1.00	Very low risk
6	Externals	N/A	Not assessed

Summary

- Paxos, the issuer of PAXG, is regulated by the NYDFS, and therefore subject to stringent guidelines and monitoring requirements.
- Each PAXG token is backed by 1 fine troy ounce of LBMA-accredited Good Delivery gold stored in highly secure LBMA vaults in London.
- PAXG is a convenient, cost-effective, and safe alternative to other digital gold instruments. Holders have direct ownership over underlying gold reserves
- PAXG is one of the safest asset-backed stablecoins. It is suitable for all types of users.

Evaluation

1. Stability [Score 0.90]

1.1. Reserves [Score 1.00]

1.1.1. Collateralization % and Type of Collateral [Score 1.00]

As of May 31, 2023, PAXG is fully backed by 263,472 troy ounces of LBMA-accredited Good Delivery gold.

1.1.2. Storage of Assets [Score 1.00]

PAXG reserves are stored in Brink's Global Services Ltd. and Industrial and Commercial Bank of China Ltd (ICBC) Standard Bank, both of which are LBMA-approved vaults.

1.1.3. Asset Segregation [Score 1.00]

All gold held in vaults are held by Paxos in segregated accounts for the benefit of PAXG holders. Each holder is allocated ownership over specific gold bars. All assets are bankruptcy-remote.

1.2. Market Feedback [Score 0.50]

1.2.1. Frequency of Deviation Below Peg [Score 0.50]

Number of Days where VWAP < Peg by 1.5% or more during the past 180 days = 8

1.2.2. Max Deviation Below Peg [Score 0.50]

Biggest daily VWAP deviation below peg: 2.1%

1.2.3. Volatility (% per day) [Score 0.50]

Daily volatility (%) over the past 180-day period: 0.77%

1.3. Stability Mechanism [Score 1.00]

1.3.1. Core Mechanism [Score 1.00]

PAXG relies on market participants to arbitrage differences between the market price of PAXG and the spot price of 1 fine troy ounce of LBMA Good Delivery gold.

When PAXG trades away from the spot price of gold, any user who has a KYC'd account with Paxos can mint or redeem PAXG for US Dollars and make an instant profit. This risk-less profit opportunity attracts more participants and eventually pushes the market price of PAXG towards the spot price of gold.

1.3.2. Primary Liquidity Access**[Score 1.00]**

Any users who possess a KYC'd account with Paxos can redeem PAXG for US Dollars or underlying gold bars.

There is a minimum order size 430 PAXG tokens for redemptions involving physical settlement.

However, for USD redemptions, the minimum order size is only 0.03 PAXG (<USD 60).

2. Management**[Score 0.84]****2.1. Restrictions****[Score 0.84]****2.1.1. Known Core Teams****[Score 1.00]**

Paxos was founded and continues to be led by Charles Cascarilla (CEO and Co-founder) and Rich Teo (CEO, Asia and Co-founder).

2.1.2. Jurisdiction Score**[Score 0.68]**

Our jurisdiction scores are derived from the World Justice Project's Rule of Law (RoL) Index – which ranks countries. We specifically consider the index's factors 'Regulatory Enforcement' and 'Civil Justice'.

Paxos is headquartered in New York, USA.

2.2. Track Record**2.2.1. Team's Background****[Score N/A]**

Not scored

3. Decentralization**[Score 0.30]****3.1. Regulatory Oversight****[Score 0.00]**

Regulatory oversight increases the risk of censoring endpoints of the stablecoin's network (such as the issuer, banks and custodians) as well as users. A score of 0 indicates a high degree of government censorship risk.

PAXG's issuer, Paxos, is regulated by the NYDFS as an issuer of gold-backed tokens.

Note: Censorship resistance is not a key objective common to all stablecoins. Consequently, a low score may not be a relevant source of concern to most stablecoin users. Furthermore, regulatory oversight can

also be beneficial to some users as it entails more robust consumer protection mechanisms and increased transparency.

3.2. Custodian Risk

[Score 0.50]

When evaluating custodian risk (i.e, credit risk of entities holding assets), we consider the distribution of assets between entities that hold the assets, such as the issuer, their banks, and custodians.

LBMA Good Delivery bars can be stored in any of 6 approved vaults in London. PAXG reserves are held at Brink's Global Services Ltd. and ICBC Standard Bank.

3.3. Type of Collateral

[Score 1.00]

When evaluating decentralization, it is important to consider the extent to which the stablecoin's value is tied to a central authority or external fiat currency. Monetary policies / decisions taken by such authorities / central banks can have an impact on the purchasing power of the collateral.

PAXG is backed by gold bars. Gold has proven itself as a haven asset over centuries

(Fiat currencies earn a score of 0 and decentralized cryptocurrencies/gold earn a score of 1)

Note: Independence from a nation's monetary policies is not a key objective common to all stablecoins. Consequently, a low score may not be a relevant source of concern to most stablecoin users.

3.4. Decision Making & Voting Power

[Score 0.00]

Asset-backed stablecoins such as PAXG are run by private corporations. As such, the absence of decentralized decision making and voting power is a feature, not a bug.

3.5. User Blacklisting

[Score 0.00]

Paxos can blacklist specific user wallets.

Note: Censorship through blacklisting helps prevent legitimate users from transacting with criminals. This is particularly relevant to institutional users who are obligated to report their transactions and activities.

4. Governance

[Score 1.00]

4.1. Holder Protection

[Score 1.00]

PAXG's issuer, Paxos, is regulated by the NYDFS as an issuer of fiat-backed and gold-backed stablecoins. Paxos is required to comply with the following:

- PAXG reserves must be segregated for the benefit of PAXG holders
- Procure monthly attestations of reserves including (i) end of period reporting and (ii) one random day reporting.
- Annual attestation report by a US-licensed CPA pre-vetted by the NYDFS.
- Such other conditions that may be imposed by the NYDFS on a case-to-case basis.

4.2. Periodic Reserves Attestations

[Score 1.00]

Our rating considers the type & frequency of reserves attestations.

Type [Score 1.00]

Attestations can be broadly classified into 2 categories based on the nature of the auditor's report. – 'Assurance Engagements' and 'Agreed Upon Procedures'.

Assurance Engagements are similar to audits in that the auditor determines the nature and extent of work required to express an independent opinion (provide assurance) on a particular matter. The auditor is free to conduct as deep an examination as they may deem appropriate to arrive at a reasonable conclusion. Assurance Engagements require the auditor to stake their reputation, and therefore carry more weight. Assurance Engagements provide either a 'reasonable level of assurance' (also called examinations) or a 'limited level of assurance' (also called reviews). The former is better and offers the same level of assurance that is provided in a full-fledged financial audit but with a comparatively smaller scope and subject matter.

Agreed Upon Procedures are engagements wherein the auditor is engaged by the issuer to perform specific tasks and report on factual findings. The auditor's scope of work is limited by the issuer and does not involve expressing an opinion. Instead, the auditor provides factual statements in his or her report and the users of such reports are expected to form their own opinions on the matter. In such cases, the auditor does not stake their reputation and provide an assurance of any sort. AUPs, while useful, are inferior to Assurance Engagements.

Frequency [Score 1.00]

Reserves attestations can be monthly, quarterly, half-yearly or annually.

Since review procedures are performed on reserves data as of a particular day (typically, last day of the quarter), they do not consider transactions and events which occur in between reporting dates. Consequently, periodic reserves attestations provide a lower degree of assurance compared to a full scope financial audit.

Paxos has engaged WithumSmith+Brown, a CPA firm, to provide monthly assurance opinions on its reserves.

4.3. Financial Audits

[Score 1.00]

Periodic reserves attestations alone are inadequate to ascertain the existence and adequacy of reserves, they need to be complemented by full scope annual financial audits.

As an entity regulated by the NYDFS, Paxos is required to furnish financial statements audited by an independent CPA.

4.4. Redemption Policy

[Score 1.00]

Our scoring reflects whether stablecoin issuers have reasonable and transparent timelines for processing redemptions.

According to Paxos' Terms of Service:

"Withdrawals may take up to two (2) days to complete, provided that larger withdrawals may take substantially longer to complete."

(Note - This represents the timeline for withdrawal of USD balances in customers' Paxos accounts to their personal bank accounts.)

Paxos' policy for redemption of PAXG is consistent with the terms imposed by NYDFS on US Dollar backed-stablecoins.