

ORDER NO. 2023-002

IN THE MATTER OF:

PAXFUL USA, INC.

WILMINGTON, DELAWARE

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BEFORE:

**THE BANKING
COMMISSIONER OF TEXAS**

AUSTIN, TRAVIS COUNTY, TEXAS

CONSENT ORDER

On this day, the matter of Paxful USA, Inc. (Respondent) was submitted to me, Charles G. Cooper, Banking Commissioner (Commissioner) of the State of Texas, for consideration and action.

1. Respondent is a for-profit corporation formed under the laws of Delaware and based in Wilmington, Delaware. Respondent provides exchange, custodial, and transmission services relating to various categories of virtual currency, including sovereign-backed stablecoin (stablecoin).

2. The Texas Department of Banking (Department) has jurisdiction over the subject matter of this proceeding pursuant to *Texas Finance Code* (Finance Code) Chapter 151 (Chapter 151). The Commissioner has the authority to issue this Consent Order (Order) and to assess administrative penalties pursuant to Finance Code §§ 151.706 and 151.707.

3. Respondent has been properly notified of its right to an administrative hearing under Chapter 151.

4. The undersigned representative of Respondent has full authority to enter into and bind Respondent to the terms and conditions of this Consent Order.

5. The statutory provisions at issue in this matter include, but are not limited to, Finance Code §§ 151.301, 151.302, 151.702, 151.706, and 151.707.

6. Any violation of this Order could subject Respondent to additional regulatory or enforcement actions authorized by Chapter 151 and other provisions of Texas law. Nothing in this Order diminishes the regulatory or enforcement powers of the Department, the Commissioner, or the Finance Commission of Texas under Chapter 151 or other applicable law.

7. For purposes of this proceeding, Respondent knowingly and voluntarily waives:

- a. service upon Respondent of this Order;
- b. the right to present defenses to the allegations in this proceeding;
- c. notice and hearing prior to imposition of this Order;
- d. the filing of proposed findings of fact and conclusions of law;
- e. the issuance of a proposal for decision by an administrative law judge;
- f. the filing of exceptions and briefs with respect to such proposal for decision;
- g. any review of this Order by the Texas Finance Commission; and
- h. judicial review of this Order as provided by *Texas Government Code* § 2001.171 *et seq.*, and any other challenge to the validity of this Order.

8. Respondent and the Commissioner agree to this Order solely for the purpose of this proceeding, and without Respondent admitting or denying the factual findings of the Commissioner stated herein or any violations of law or regulations. This Order does not constitute an admission by Respondent that Chapter 151 or a rule adopted or order issued under Chapter 151 has been violated.

9. The Commissioner has considered this matter and finds as follows:

- a. Respondent provides transmission services in connection with virtual currency exchange. In connection with these activities in 2020 and 2021, Respondent received stablecoin from customers in Texas and elsewhere and promised to retain, return, or transmit that stablecoin as ordered by the customer. Respondent has represented to the Department that it ceased accepting new stablecoin transfers for custody and further transmission as of March 4, 2021.
- b. Under Finance Code § 151.301(b)(3), “money” or “monetary value” means “currency or a claim that can be converted into currency through a financial institution, electronic

payments network, or other formal or informal payment system.” Holders of the stablecoin received by Respondent have express or implied redemption rights allowing them to redeem the stablecoin for sovereign currency from the issuer. Due to such redemption rights, stablecoin is “money or monetary value” under Chapter 151 because it is a claim that can be converted into currency through formal or informal payment systems.

- c. Under Finance Code § 151.301(b)(4), “money transmission” means “the receipt of money or monetary value by any means in exchange for a promise to make the money or monetary value available at a later time or different location.” The Finance Code defines engaging in the business of money transmission as receiving compensation or expecting to receive compensation, directly or indirectly, for conducting money transmission. Finance Code § 151.302(b). The Department has concluded that by receiving stablecoin in exchange for a promise to return or transfer that stablecoin at a later time or different location, Respondent has been conducting money transmission.
- d. Finance Code § 151.302(a) provides that “a person may not engage in the business of money transmission or advertise, solicit, or hold itself out as a person that engages in the business of money transmission” without a license unless it is an authorized delegate of a license holder, is excluded from licensure under Chapter 151, or has been granted an exemption under Chapter 151.
- e. As described above, the Department has concluded that: (i) Respondent has been conducting money transmission in Texas; (ii) the Department has not licensed Respondent; (iii) Respondent is not an authorized delegate of a license holder; (iv) Respondent is not excluded from licensure under Chapter 151; and (v) Respondent is not subject to an exemption under Chapter 151 or applicable rules. Consequently, the Commissioner finds that Respondent has been in violation of Finance Code § 151.302.
- f. As required by Finance Code § 151.707(d), the Commissioner has considered the seriousness of the violations, Respondent’s compliance history, and Respondent’s good faith in attempting to comply with Chapter 151.
- g. Based on these findings and based on the representations made by Respondent as to the volume of transactions and length of time it has been conducting an unlicensed money transmission business in Texas, the Commissioner finds that an administrative penalty of \$16,350 is appropriate.

10. Respondent has agreed to pay the administrative penalty set out in the Order below.

11. This Order does not restrict the Department with respect to any enforcement action or other recourse regarding any violations by Respondent not arising under Chapter 151. This Order does not restrict does not restrict the Department with respect to any enforcement action or other recourse regarding any other violations by Respondent arising under Chapter 151 not now

known to the Department that come to the attention of the Department. Nothing herein shall be construed to limit Respondent's right to contest any future finding or determination of non-compliance.

Order

It is hereby ORDERED, ADJUDGED, and DECREED that:

Respondent will pay \$16,350 to the Department as an administrative penalty under Finance Code § 151.707 on or before February 15, 2023.

Respondent will not provide, offer, or advertise money transmission services to Texas customers unless and until it obtains a Texas money transmission license.

On or before January 31, 2023, Respondent will confirm to the Department in writing that:

- i. Respondent has ceased and desisted from performing money transmission services for Texas residents since March 4, 2021, and set all Texas customer stablecoin accounts to "withdrawal only" so that customers can transfer any and all of their stablecoin on the Respondent's platform to a wallet of their choosing that is not hosted by Respondent; and
- ii. Respondent has sent an electronic or written copy of this Order to all Texas customers along with a letter explaining withdrawal options.

Effective Date

This Order against Respondent is effective on the date signed by the Commissioner and is final and non-appealable as of that date.

Signed on this 14th day of January, 2023.

/s/ Charles G. Cooper
Charles G. Cooper
Commissioner, Department of Banking

AGREED AS TO FORM AND SUBSTANCE:

Paxful USA, Inc.

/s/ Jude Ogene

By: Jude Ogene

Date: January 13, 2023

APPROVED AS TO FORM:

/s/ Jesse Moore

Jesse Moore

Assistant General Counsel

Texas Department of Banking

Date: January 14, 2023