



SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-103624; File No. 600-39]

Paxos Securities Settlement Company, LLC; Notice of Filing of an Application for Registration as a Clearing Agency Under Section 17A of the Securities Exchange Act of 1934

August 1, 2025.

On July 14, 2025, Paxos Securities Settlement Company, LLC (“PSSC”) filed with the Securities and Exchange Commission (“Commission”) an application on Form CA-1 (“Application”) under Section 17A of the Securities Exchange Act of 1934 (“Exchange Act”) seeking to register as a clearing agency.¹ Specifically, the Application states that PSSC is applying to register as a clearing agency to provide clearance and settlement services as a central securities depository (“CSD”) and securities settlement system.² The Application explains that PSSC would provide such services through its private, permissioned settlement service that supports a distributed ledger, which is designed to conduct delivery versus payment (“DVP”) settlement on a bilateral basis.³ The Application provides additional information regarding how PSSC proposes to operate and to satisfy the requirements of the Exchange Act.⁴ The proposed rules of PSSC and its proposed fees are included as attachments to Exhibit E to the Application.⁵

¹ 15 U.S.C. 78q-1.

² *See, e.g.*, Application, Exhibit I at 1; Exhibit J at 1. Consistent with the activities described in the Application, PSSC’s proposed settlement system meets the definition of “central securities depository” under Commission rules. *See* 17 CFR 240.17ad-22(a); *see also* Release No. 34-88616 (Apr. 9, 2020), 85 FR 28853, 28857 (May 14, 2020) (describing the “cluster of services” provided by CSDs and securities settlement systems).

³ *See* Application, Exhibit J at 1.

⁴ The non-confidential exhibits of the Application are available for viewing on the Commission’s website www.sec.gov/rules/other/shtml. PSSC has sought confidential treatment regarding certain elements of the Application, *see* 17 CFR 240.24b-2, and made redactions from the Application materials available for public viewing on the Commission’s website where the Application contains information for which it has sought confidential treatment.

⁵ Exhibits E.12 through E.26 of the Application contain PSSC’s proposed rules. Exhibit E.37 of the Application describes PSSC’s proposed fees.

The Commission is publishing this notice to solicit comments on the Application. To grant PSSC's request to register as a clearing agency, the Commission must find that it satisfies the requirements of the Exchange Act and the rules and regulations thereunder, including the determinations required by paragraphs (A) through (I) of Section 17A(b)(3).⁶ Pursuant to Section 17A of the Exchange Act, the Commission is directed, having due regard for the public interest, the protection of investors, the safeguarding of securities and funds, and maintenance of fair competition among brokers and dealers, clearing agencies, and transfer agents, to use its authority to: (i) facilitate the establishment of a national system for the prompt and accurate clearance and settlement of transactions in securities (other than exempt securities); and (ii) facilitate the establishment of linked or coordinated facilities for clearance and settlement of transactions in securities in accordance with the findings and to carry out the objectives set forth in Section 17A.⁷ The Commission will consider any comments it receives in making its determination about whether to grant PSSC's request to be registered as a clearing agency.

I. Discussion

Prior to the formation of PSSC in June 2020, its affiliate, Paxos Trust Company, LLC ("Paxos") received on October 28, 2019, a no-action letter from the Commission's Division of Trading and Markets that enabled Paxos to conduct a feasibility study under specified conditions in connection with the operation of a securities settlement system using a private and permissioned distributed ledger system for an 24-month period, expiring on October 28, 2021.⁸ PSSC is now filing this Application seeking to register as a clearing agency to provide clearance

⁶ 15 U.S.C. 78s(a); 15 U.S.C. 78q-1(b)(3).

⁷ 15 U.S.C. 78q-1(a)(2)(A).

⁸ Letter from Jeffrey S. Mooney, Associate Director, Division of Trading and Markets, Commission to Charles G. Cascarilla and Daniel M. Burstein, Paxos Trust Company, LLC (Oct. 28, 2019). Both the request and response letters are available at <https://www.sec.gov/divisions/marketreg/mr-noaction/2019/paxos-trust-company-102819-17a.pdf>. As discussed below, Paxos is an affiliate of PSSC, both wholly owned by Kabompo Holdings, Ltd.

and settlement services similar to the services that were performed by Paxos during the feasibility study.⁹

The Application states that PSSC is a limited liability company formed under Delaware law and a wholly owned subsidiary of Kabompo Holdings, Ltd. (“Kabompo”), which is also the parent holding company for Paxos Holdings LLC (“Paxos Holdings”), which in turn is the parent of 20 other U.S. and non-U.S. subsidiaries, including PSSC and Paxos.¹⁰ Kabompo is domiciled in the Cayman Islands.¹¹

PSSC’s Board would be comprised of ten directors.¹² To assist the Board, PSSC would have five Board-level committees and one Participant Advisory Committee (“PAC”).¹³ Three of the ten directors would be “member directors,” selected by Paxos Holdings. Five directors would be “public directors,” initially specified in PSSC’s bylaws and thereafter elected annually by the PSSC’s Board from among nominees selected by the Board’s Governance Committee.¹⁴ Two directors would be “participant directors,” affiliated with a PSSC participant and nominated by participant representatives serving on the Board’s PAC. PSSC’s Board would not initially

⁹ See Application, Exhibit J.

¹⁰ PSSC was formed on June 23, 2020, and subsequently entered into a Limited Liability Company Agreement with Kabompo on October 20, 2021. PSSC Application, Exhibit E.1. The Application describes PSSC as a wholly owned single member limited liability company, operating as a stand-alone entity with no divisions or segregable entities or subsidiaries. In addition to PSSC, Kabompo is the parent holding company for a number of other U.S. and non-U.S. subsidiaries, including Paxos; Paxos Technology Solutions, LLC (“PTS”); Paxos Technology Limited (“PTL”); Paxos Services Limited; Paxos Canada Inc.; Lomami Intermediacao (dba Paxos Brazil); Bruntal SA (dba Paxos Uruguay); Molopo, Sociedad de Responsabilidad Limitada de CV (dba Paxos Mexico); Kabompo Lending Ltd.; Paxos Digital Singapore Pte. Ltd.; Paxos Lending LLC; Paxos Issuance MENA Ltd.; Paxos Insurance Company Ltd.; Paxos Singapore Pte. Ltd.; Paxos Middle East Ltd.; Paxos Issuance Europe Oy; Castor Pollux Holdings SARL (“Castor”); and HRQ, LLC. Paxos Global PTE, Ltd. (“PTE”) is a wholly owned subsidiary of Castor. In addition, the chairman of PSSC’s Board of Directors (“Board”) would also be PSSC’s Chief Executive Officer (“CEO”) and is one of the three owners of Kabompo. Another of the three owners of Kabompo is LCV Digital Currency II, LLC. The PSSC CEO is a majority stakeholder in both Kabompo and LCV Digital Currency II, LLC. See PSSC Application, Exhibits C.1 and C.2. respectively, for more information about each of these affiliates and PSSC’s governance and ownership arrangements.

¹¹ See Application, Exhibit C.2.

¹² See Application, Exhibit B.I.

¹³ See Application, Exhibit B.II. PSSC’s Board committees include the: Governance, Nominating and Policy Committee (“Governance Committee”); Audit Committee; Compliance and Risk Management Committee; Business, Technology and Operations Committee; and Compensation Committee. *Id.*

¹⁴ See Application, Exhibit B.I.

include the participant directors. PSSC's bylaws provide that within 180 calendar days of PSSC commencing operations and having at least two participants (or a different time that is agreed to by PSSC and its PAC), two additional participant directors selected by the PAC would be added to the Board.¹⁵

PSSC would provide clearance and settlement services through the Paxos Settlement Service ("PSS"), which is a private and permissioned system developed and operated by PSSC. The technology that supports PSS includes a distributed ledger called the Paxos Ledger, which records ownership of eligible securities and cash. PSS is designed to conduct DVP settlement, on a bilateral basis, of settlement obligations between counterparty pairs ("CP Pairs").¹⁶ As a participant in the Depository Trust Company ("DTC"),¹⁷ PSSC would make its services available to DTC participants who also (i) meet the participant qualifications specified in PSSC's proposed rules, including qualifications regarding the types of entities eligible to become a PSSC participant;¹⁸ (ii) are approved by the PSSC's Compliance and Risk Management Committee;¹⁹ and (iii) have met applicable margin requirements pursuant to PSSC's proposed rules.²⁰

Only trades received by CP Pairs established pursuant to PSSC's proposed rules would be eligible for settlement in PSSC. Prior to commencing participation in PSSC, each participant would be required to notify PSSC in writing of other participants with which it agrees to settle settlement obligations in PSSC.²¹ By providing such written notices, the PSSC participants and

¹⁵ *Id.*

¹⁶ *See* Application, Exhibit J.E.

¹⁷ DTC, a securities depository as that term is described in the Exchange Act, 15 U.S.C. 78c(a)(23)(A), is registered with the Commission as a clearing agency and provides CSD services. The Application states that PSSC has not yet applied to become a participant in DTC. *See* Application, Exhibit A.

¹⁸ *See* Application, Exhibit E.16 (Rule 2A); *see also* Application, Exhibit J. Pursuant to PSSC's proposed Rule 2A, the types of entities that would be eligible to become participants include registered broker-dealers, certain bank and trust companies, registered clearing agencies, insurance companies or insurance entities, and registered investment companies.

¹⁹ *See* Application, Exhibit E.16 (Rule 2A).

²⁰ *See* Application, Exhibit E.15 (Rule 2, referring to margin requirements in PSSC's proposed Rules 5A, 5B, and 5C); *see also* Exhibit J.

²¹ *See* Application, Exhibit E.19 (Rule 2D); *see also* Application, Exhibit J.

PSSC would agree between and among themselves that: (i) each participant would be a CP Pair of the other such participant as provided in PSSC's proposed rules for the purposes of settling settlement obligations between them through PSSC; (ii) the settlement obligations would be determined by PSSC pursuant to its proposed rules; (iii) each participant in the CP Pair agrees to be obligated to the other participant to settle the settlement obligations pursuant to PSSC's proposed rules; and (iv) PSSC and each participant in the CP Pair would have all the rights and obligations as against each other as specified in the proposed rules.²²

PSSC would not operate as a central counterparty. Instead, all settlement obligations submitted to PSSC would be settled on a net basis between CP Pairs unless both participants in a CP Pair provide written instructions to PSSC specifying that one or more transactions should be settled on a gross basis.²³ As explained more fully in its Application, PSSC would also make available the option for "enhanced netting" across CP Pairs.²⁴

Between trade date and settlement date, PSSC would calculate and collect from participants margin collateral on all settlement obligations in the form of cash. PSSC would require both an initial margin deposit based on factors detailed in its proposed rules and a "minimum required margin deposit" ("MRMD") of \$10,000, which may be increased based on specified factors detailed in PSSC's proposed rules.

In addition to the initial margin and MRMD, PSSC's proposed rules also would calculate a "required margin amount" ("RMA"), which would be defined as the greater of the initial margin deposit, the minimum required margin deposit, and the "computed margin requirement" ("CMR")." As described in more detail in the Application, the CMR would be calculated by (i)

²² *Id.* The Application states that, in the event of an unsettled close-out liability obligation, PSSC would apply the defaulting participant's margin assets for any close-out liability obligation not fully settled and generate a final value for any outstanding close-out liability obligation. Each CP Pair then has the discretion to pursue recovery of the amount of the final value against the defaulting participant, provided however, that any such process would not be governed by PSSC's proposed rules. *See* Application, Exhibit J.J.

²³ *See* Application, Exhibit J.H.

²⁴ *Id.*

determining a “preliminary computed margin requirement” (“PCMR”); (ii) adjusting the PCMR using PSSC’s “credit risk modification factor” to arrive at a CMR; and then (iii) adding to the CMR any fails charges, excessive fails penalties, or both.²⁵

PSSC would determine and communicate to each participant the RMA at least once daily by 10:00 p.m., or in certain circumstances not later than 11:59 p.m. on trade date, and participants would be required to satisfy its RMA by 10:00 a.m. the following day.²⁶ PSSC also would determine and calculate to each participant additional intraday CMR charges as soon as practicable, and participants would be required to satisfy an intraday CMR charge within two hours of communication by PSSC.²⁷ Under PSSC’s proposed rules, participants would be permitted to withdraw margin assets exceeding the required margin amount upon request, unless otherwise rejected by PSSC based on parameters set forth in its proposed rules.²⁸

To facilitate the clearance and settlement of obligations between CP Pair participants, each participant would be required to deposit eligible securities²⁹ into its PSSC participant account by instructing DTC to move its securities from the PSSC participant’s account at DTC to PSSC’s account at DTC, which in turn would hold such securities for the benefit of the PSSC participant.³⁰ Upon receipt, PSSC, through a process it describes as “securities digitization,” would create a security entitlement on the Paxos Ledger credited to the relevant participant’s account that is a representation of the eligible security held in PSSC’s DTC account.³¹ Upon

²⁵ See Application, Exhibit E.25. The PCMR would be calculated using the following measures: (i) a dynamic spot price; (ii) liquidity exposure requirement; (iii) low-priced securities requirement; (iv) market capitalization requirement; and (v) percentage of outstanding shares requirement. Each of these measures is further defined and explained in the Application. See Application, Exhibit E.25.

²⁶ See Application, Exhibit E.26.

²⁷ *Id.*

²⁸ See Application, Exhibit E.26.

²⁹ Pursuant to PSSC’s proposed rules, eligible securities include those that are securities eligible for deposit at DTC and that meet additional criteria as determined by PSSC. See Application, Exhibit E.20 (Rule 3).

³⁰ See Exhibit E.22 (Rule 4).

³¹ In its Application, in describing the indirect holding system for securities cleared and settled through its proposed clearing agency, PSSC uses the term “security entitlement” as defined in U.C.C. Section 8-102(a)(17). See Application, Exhibit L.

instructions from a PSSC participant, PSSC would facilitate a withdrawal of securities from the participant's PSSC account by removing the security entitlement to the securities credited to that participant's account on the Paxos Ledger and initiating relevant instructions through DTC to remove the security from PSSC's DTC account and deliver it to the PSSC participant's DTC account. PSSC would not remove the security entitlement to the securities credited to the participant's PSSC account without also transferring the securities "in rapid succession" to a DTC account designated by the PSSC participant.³²

With regard to the deposit of cash into a PSSC participant account, PSSC would maintain two types of omnibus cash custody accounts for the benefit of participants at a settling bank: (i) an operating cash account which would be used to settle PSSC participant settlement obligations and fees owed to PSSC;³³ and (ii) a margin cash account, which would be used to satisfy PSSC participants' margin obligations.³⁴ Upon receipt of cash from a participant into the operating cash or margin cash account, PSSC, through a process called "cash digitization," would create a securities entitlement on the Paxos Ledger credited to the participant account that would be a representation of the cash in the operating cash or margin cash account, as applicable.³⁵ Upon instruction from a participant, PSSC would also facilitate the withdrawal of operating cash or margin cash from the participant's account by removing the security entitlement credited to the participant in its account on the Paxos Ledger and initiating a transfer from PSSC to an account

³² *Id.*

³³ PSSC defines the term "Operating Cash Account" to mean an omnibus cash custody account at each settling bank that holds operating cash deposited by participants for the purpose of settling obligations to purchase securities from CP Pairs and to settle fees owed to PSSC. Application, Exhibit E.12 (Rule 1) at 12.

³⁴ *Id.*; see also Application, Exhibit E.34 (Rule 13) (providing information regarding eligibility and ongoing obligations of PSSC-approved settling banks). PSSC defines the term "Margin Cash Account" to mean an omnibus cash custody account at a settling bank that is maintained in PSSC's name for the purpose of holding cash that represents the margin assets of each participant. Application, Exhibit E.12 (Rule 1) at 10.

³⁵ See Application, Exhibit 22 (Rule 4) at 2.

designated by the participant. PSSC would not remove the security entitlement to cash without also transferring the cash “in rapid succession” to the account designated by the participant.³⁶

PSSC would use a cloud services provider to support its core clearing agency services, including trade capture, pre-settlement processing (*e.g.*, comparison, netting), margin, settlement, and custody of security entitlements to securities and cash.³⁷

Additional information concerning PSSC and its proposed operations may be found in the Schedule A and non-confidential exhibits appended to PSSC’s Application. For example, Schedule A to PSSC’s Application includes a description of the PSSC’s arrangements with other entities to perform its clearing agency activities, and internal policy and procedures for reconciling differences within its clearing agency activities. Exhibit A provide a list of PSSC’s Board of Directors and shareholder information, while Exhibit B provides a list of its officers and senior managers. Exhibit C includes both a narrative and graphical depiction of PSSC’s organizational and governance structure, and Exhibit E includes copies of PSSC’s proposed rules for participation, along with copies of PSSC’s governing documents and description of fees and charges. Exhibit J provides a description of PSSC’s services and functions. Finally, Exhibit K provides a description of PSSC’s security measures and procedures, and Exhibit M provides a description of PSSC’s systems used to prevent interruptions in the performance of its clearing agency functions.

II. Request for Comment

PSSC’s application on Form CA-1, including each exhibit thereto referenced above, is available online at www.sec.gov/rules/other/shtml. Interested persons are invited to submit written data, views, and arguments concerning the Application, including whether the Application is consistent with the Exchange Act and the rules and regulations thereunder

³⁶ *Id.*

³⁷ *See* Application, Exhibit M.4. PSSC intends to execute a service agreement with a cloud services provider through which that provider would provide computer system hardware and software services to PSSC. *Id.*

applicable to clearing agencies (e.g., Exchange Act Rules 17Ad-22, 17Ad-25, 17Ad-26, and Regulation Systems Compliance and Integrity, among others).³⁸

Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form

(<http://www.sec.gov/rules/other.shtml>); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number 600-39 on the subject line.

Paper comments:

- Send paper comments to Vanessa A. Countryman, Secretary, Securities and Exchange Commission, 100 F Street, N.E., Washington, DC 20549-1090. All submissions should refer to File Number 600-39.

To help the Commission process and review your comments more efficiently, please use only one method of submission. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/other.shtml>).

Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All

³⁸ See 17 CFR 240.17ad-22 ("Rule 17Ad-22"), 240.17ad-25 ("Rule 17Ad-25"), and 240.17ad-26 ("Rule 17Ad-26"); 17 CFR 242.1000 through 242.1007 ("Regulation Systems Compliance and Integrity").

submissions should refer to File Number 600-39 and should be submitted on or before [INSERT DATE 45 DAYS FROM THE DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³⁹

Vanessa A. Countryman,

Secretary.

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³⁹ 17 CFR 200.30-3(a)(16).