Financial Services Tax

Tax publication – FinTech edition

August 3, 2026

Issue 02

By Daniela Ielceanu, Mazhar Wani, and Julia Fang

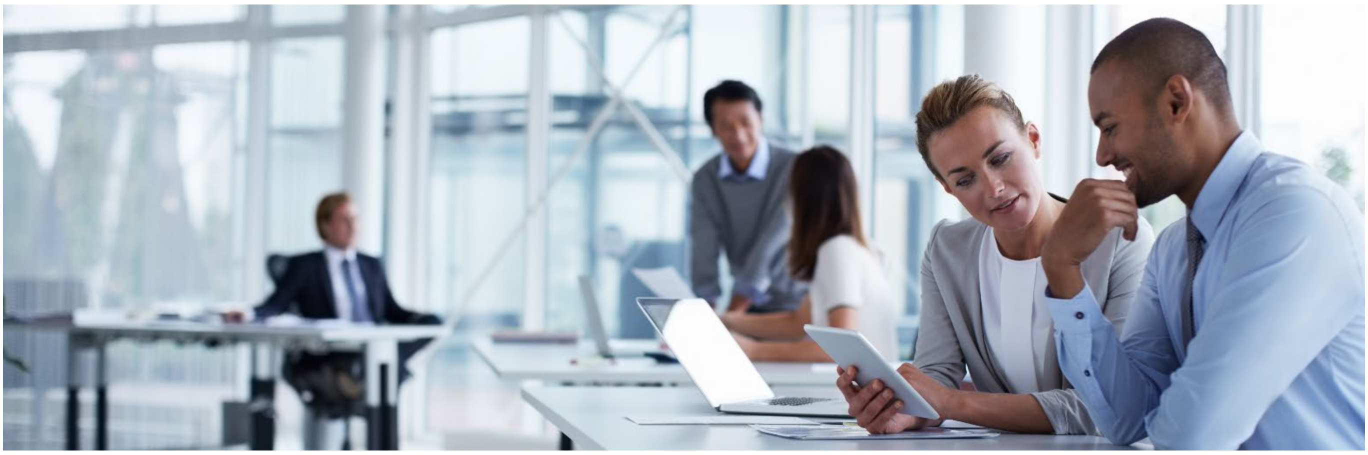
As fintech businesses mature, required capital is becoming more than a balance-sheet constraint. In payments and stablecoin models, reserve capital is often the commercial keystone that enables market access, customer trust, and scalable distribution, but capital requirements tend to follow the regulated perimeter, not necessarily the value-creating functions. For CFOs, Heads of Tax, and COOs, this creates a transfer pricing puzzle: how to compensate an entity that is capital-heavy, people-light, and responsible for maintaining capital that is commercially essential but regulatorily constrained.

Regulatory capital in fintech: How it creates value and how to price it

Reserve capital is frequently treated as a cost of doing business—an unavoidable compliance burden that traps cash and constrains growth. This view is incomplete. In fintech companies—payments and stablecoin models in particular—required capital is often the commercial keystone that enables market access, customer trust, and scalable distribution. The terminology varies—"own funds," "net worth," "reserve assets," or similar concepts depending on the jurisdiction and license type—but the underlying policy objective is similar: requiring firms to maintain financial resources that protect customers and support operational continuity. Yet this capital is also distinctively constrained: regulators may restrict how it is invested, where it is held, and how quickly it can be distributed. Those constraints raise questions about how the contribution of such capital should be understood and valued—particularly when the regulated entity is operationally light and does not alone control the key risks that capital is intended to absorb. For multinational fintechs, this creates a transfer pricing puzzle. When a customer-facing subsidiary must maintain substantial reserve capital but performs limited people functions, how should the group think about compensating it? The answer requires understanding what reserve capital does—and what it does not do—in the fintech context.

How regulatory capital creates value

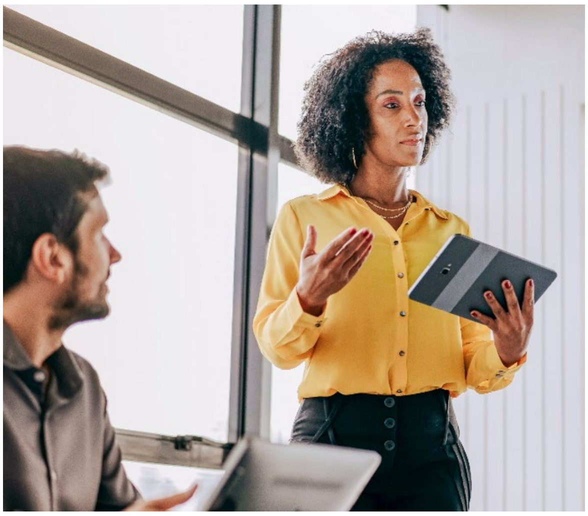
Reserve capital in payments and stablecoin businesses creates value in ways that may differ from traditional banking. Capital requirements are often the condition to obtain and maintain a license, reducing the probability of business interruption or license revocation—tail events that can destroy



enterprise value faster than any product underperformance. The underlying policy rationale echoes principles long established in banking supervision—that adequate capital buffers protect customers and promote financial stability—even though the specific regimes governing payments and stablecoin issuers developed independently and vary considerably across jurisdictions.

Payments and stablecoins are also trust businesses. Capital and reserves signal that settlement and redemption obligations can be met under stress, supporting customer conversion, partner acceptance, and expansions into new markets. Even when capital must be held in safe and liquid assets, it may provide capacity to absorb operational losses from fraud, chargebacks, cyber incidents, or extraordinary redemption demand. Meeting capital requirements is not only a prerequisite for maintaining good regulatory standing, but also a foundation that supports the firm's ability to pursue growth initiatives. The implication: reserve capital may behave less like a profit center and more like a cost of entry—a necessary condition to operate, but not sufficient on its own to drive competitive advantage. It is capital that must be set aside to maintain the license, not unlike other regulated industries where licensing requirements use resources that could otherwise be deployed for other, potentially more productive, purposes.

Why capital footprints vary



Capital and reserve requirements vary materially by license type and jurisdiction. Under the European Union's Second Payment Services Directive, payment institutions applying "Method B" use a tiered, declining percentage of monthly payment volumes: 4 percent on the first €5 million, descending to 0.25 percent above €150 million.[1] The UK's Financial Conduct Authority applies an equivalent methodology.[2] In the United States, state money transmission laws typically require a combination of minimum net worth and surety bonds, with specific thresholds varying by state.[3] Other jurisdictions impose flat-rate requirements that scale linearly regardless of operational maturity. For stablecoin issuers, reserve requirements are even more central because reserves are effectively the product’s trust mechanism. Frameworks such as the GENIUS Act increasingly formalize this by linking stablecoin issuance to strict reserve, liquidity, custody, and disclosure requirements. As a result, reserve capital in stablecoin models functions not only as a regulatory safeguard, but also as a core commercial enabler of customer confidence and market adoption. The Basel Committee's December 2022 standard distinguishes between Group 1b crypto-assets—stablecoins with effective stabilization mechanisms—and Group 2 crypto-assets attracting conservative 1,250 percent risk weights.[4] Under the Markets in Crypto-Assets Regulation, e-money token issuers must maintain reserves equal to outstanding tokens, invested in secure, low-risk assets.[5]

---

[1] Directive (EU) 2015/2366 (PSD2), Article 9 and Annex II, Method B.

[2] FCA, “Payment Services and Electronic Money – Our Approach” (2017, updated 2021), Chapter 10.

[3] BCBS, “Prudential Treatment of Crypto-asset Exposures” (December 2022).

[4] Basel Committee on Banking Supervision, "Prudential treatment of crypto-asset exposures," December 2022.

[5] Markets in Crypto-Assets Regulation (EU) 2023/1114 (MiCA), Articles 48–49.

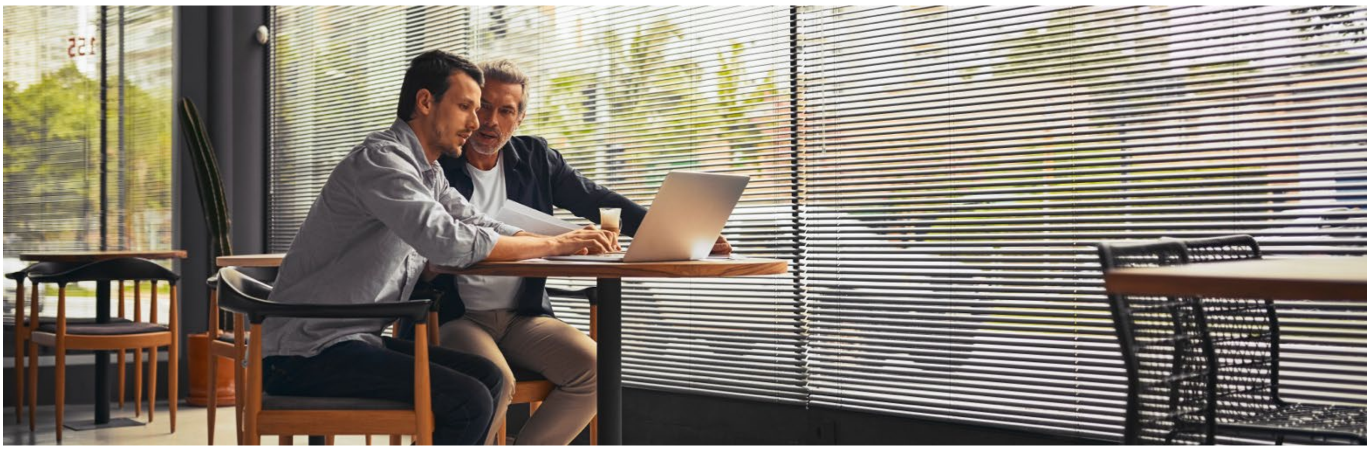
This variability means two entities performing similar activities can face very different trapped-capital needs, and a customer-facing regulated entity can become capital-heavy even when people-light. Capital requirements tend to follow the regulated perimeter, not necessarily the value-creating functions—a misalignment that raises interesting transfer pricing questions.

The core transfer pricing problem

A common fintech model places the regulated entity at the customer interface, holding the license and satisfying capital requirements, while product development, risk design, treasury policy, and key decisions are centralized elsewhere. The regulated entity may have limited staff and discretion, and, while it retains regulatory responsibilities, operates within risk and operational frameworks established by the parent.

The appropriate return to such regulated affiliates likely sits on a spectrum. At one end, returns may reflect those earned by entities engaged in active financial intermediation and risk-taking. At the other, where capital is deployed passively in low-risk instruments, expected returns may be closer to risk-free yields. The OECD's guidance suggests that where an entity provides funding but does not control the associated risk, it may be entitled to no more than a risk-free return. From a regulatory standpoint, however, the local entity is recognized as bearing responsibility for certain risks—including compliance with local prudential requirements, maintaining adequate capital buffers, and ensuring adherence to consumer protection and anti-money laundering obligations. This regulatory accountability creates a meaningful distinction: while the local entity may not exercise full entrepreneurial control over commercial risk decisions, it nonetheless carries regulatory exposure that cannot be disregarded in the transfer pricing analysis.

Where on this spectrum a particular fintech entity falls depends on facts and circumstances. Transfer pricing principles seek to align returns with control of risk and decision-making. To reconcile the regulatory perspective with these requirements, consideration should be given to factors such as the nature and extent of local regulatory obligations, the costs and risks of maintaining required capital, the operational substance present to manage and respond to those obligations, and the degree of decision-making authority exercised locally—even where constrained by group-wide policies. These factors do not lend themselves easily to precise quantification. However, their absence from the analysis would overlook a dimension that regulators themselves consider material. Given the regulatory weight attached to these obligations, a more robust approach may warrant deeper examination—one that explores whether and how these elements can be incorporated into the transfer pricing framework. Under this approach, the compensation framework reflects not only the



OECD's functional analysis but also the practical reality that regulators hold the local entity accountable for certain risk outcomes.

Principles over formulas

The regulatory environment will continue to evolve. What seems unlikely to change is the foundational principle: arm's-length outcomes should reflect economic substance. Regulatory capital in fintech creates real value—but that value may be better understood as enabling rather than entrepreneurial. A transfer pricing approach that grapples with this distinction—examining what capital actually contributes and where value-creating functions reside—could prove more defensible than one that borrows conclusions from other industries without interrogating their fit.

Let’s talk

For a deeper discussion of how this issue might affect your business, please contact:

Daniela Ielceanu

Transfer Pricing Principal

+1 408-439-1287

daniela.ielceanu@pwc.com

Julia Fang

International Tax Partner

+1 310-425-5923

jiayuan.fang@pwc.com

Mazhar Wani

Partner, FinTech Tax Leader

+1 415-515-4451

mazhar.wani@pwc.com

Coming Next:

Risk and Control in a Digital Asset Ecosystem