

## Stablecoin Safety Assessment

<b>Coin</b>	Gemini Dollar (GUSD)
<b>Date</b>	04-06-2023
<b>Overall Grade</b>	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	0.10	High risk (Not relevant to the grade)
5	Governance	1.00	Very low risk
6	Externals	N/A	Not assessed

**Summary**

- Gemini Trust Company (“Gemini”), the issuer of GUSD, is regulated as a stablecoin issuer by the NYDFS, and, therefore, subject to stringent guidelines and monitoring requirements. It is one of the safest fiat-backed stablecoins.
- GUSD’s reserves comprise short dated US Treasuries, money market funds invested in US Treasuries, and cash deposits in fully segregated and bankruptcy-remote accounts
- All KYC’d holders may redeem GUSD for USD directly through Gemini or trade GUSD for other stablecoins on centralized exchanges.
- Although GUSD is designed to be institutional-grade, compliant with regulations and customer protection-focused, it is not widely used in the crypto markets, and hence lacks significant liquidity on exchanges. Therefore, GUSD is most suitable for (a) making and receiving payments and (b) passive stablecoin holders who seek exposure to USD but cannot or do not want to hold USD in a bank account.

## Evaluation

### 1. Stability [Score 0.90]

#### 1.1. Reserves [Score 0.99]

##### 1.1.1. Collateralization % and Type of Collateral [Score 0.98]

As of May 31, 2023, GUSD is fully backed by US Treasury Bills (50%), cash deposits (46%), and money market funds (4%). All assets are held in fully segregated and bankruptcy-remote accounts.

##### 1.1.2. Storage of Assets [Score 1.00]

For off-chain collateral, we rank storage methods as follows (highest to lowest)

- With regulated custodians in reputable jurisdictions
- With regulated custodians not in reputable jurisdictions (e.g, BVI, Bahamas)
- Others / Undisclosed

GUSD reserves are fully held in regulated and insured banks, and financial institutions in the USA. Further, each custodian has been pre-vetted by the NYDFS.

##### 1.1.3. Asset Segregation [Score 1.00]

All customer assets in GUSD's reserves are fully segregated from Gemini's corporate treasury and held in bankruptcy-remote accounts.

#### 1.2. Market Feedback [Score 0.53]

##### 1.2.1. Frequency of Deviation Below Peg [Score 0.50]

Number of Days where VWAP < Peg by 0.5% or more during the past 180 days = 6

##### 1.2.2. Max Deviation Below Peg [Score 0.25]

Biggest daily VWAP deviation below peg: 2.25%

##### 1.2.3. Volatility (% per day) [Score 0.75]

Daily volatility (%) over the past 180-day period: 0.27%

##### 1.2.4. Downside Volatility in a Market Downturn [Score 0.50]

Average deviation below peg during the 5 worst-performing days for BTC (DoD price change) in a 180-day period: 0.12%

### 1.2.5. Liquidity Pool Imbalance

[Score 0.63]

#### Pool 1 - GUSD Metapool (GUSD/3CRV)

- GUSD Share of Pool - 47%
- Pool Type - 2 Token
- Optimal Share of GUSD - 50%
- Deviation from Optimal Share - (5%)
- Non-GUSD TVL in the pool - \$5,800,614
- Pool Score - 0.5

#### Pool 2 - GUSD FRAXBP (GUSD/crvFRAX)

- GUSD Share of Pool - 37%
- Pool Type - 2 Token
- Optimal Share of GUSD - 50%
- Deviation from Optimal Share - (27%)
- Non-GUSD TVL in the pool - \$6,114,262
- Pool Score - 0.75

TVL-weighted Liquidity Pool score - 0.63

## 1.3. Stability Mechanism

[Score 1.00]

### 1.3.1. Core Mechanism

[Score 1.00]

GSDP relies on market participants to arbitrage differences between the market price of GUSD and the net asset value of GUSD (typically, \$1 if GUSD is fully-collateralized). We believe this is the most effective price stability mechanism.

When GUSD trades below its peg, any user who has a KYC'd account with Gemini can buy GUSD in the open market for less than \$1 and redeem it on Gemini for \$1. This risk-less profit opportunity attracts more participants and eventually pushes the market price of GUSD towards its peg.

### 1.3.2. Primary Liquidity Access

[Score 1.00]

Users who possess a KYC'd account with Gemini can redeem GUSD for US Dollars.

## 2. Management

[Score 0.84]

### 2.1. Restrictions

[Score 0.84]

#### 2.1.1. Known Core Teams

[Score 1.00]

Gemini was founded by Tyler and Cameron Winklevoss in 2014. Tyler and Cameron serve as Gemini's CEO and President respectively..

#### 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’.

Gemini is headquartered in New York, USA.

## **2.2. Track Record**

### **2.2.1. Team’s Background**

[Score N/A]

Not scored

## **3. Decentralization**

[Score 0.10]

### **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.

GUSD’s issuer, Gemini, is regulated by the NYDFS as a stablecoin issuer. Further, all custodians who hold assets on behalf of Paxos’s customers are regulated financial institutions pre-vetted by the NYDFS.

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 0.5]

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.

The Gemini Dollar reserves are held and maintained as cash deposits at State Street Bank and Trust Company, and U.S. Treasury bills and Money Market Funds are held at Flagstar Advisors.

### **3.3. Type of Collateral**

[Score 0.00]

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.

GUSD is fully backed by USD-denominated real-world assets which are subject to the monetary policies of

the United States.

(Fiat currencies earn a score of 0 and decentralized cryptocurrencies 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]

Fiat-backed stablecoins such as GUSD 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]

Gemini 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]

GUSD's issuer, Gemini, is regulated by the NYDFS as a stablecoin issuer. Under the NYDFS' guidelines, GUSD is required to comply with the following:

- GUSD reserves must be segregated from the proprietary assets of Gemini, and must be held in custody with (i) U.S. state or federally chartered depository institutions with deposits insured by the Federal Deposit Insurance Corporation ("FDIC") and/or (ii) asset custodians, approved in advance in writing by NYDFS.
- Hold reserves in asset classes pre-authorized by the NYDFS and within imposed limits
- 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.

Gemini has engaged BPM CPA (NY) LLP, 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, Gemini 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.

A. According to Gemini's User Agreement:

"The Gemini Dollar amount of your sell Order will be debited from your Digital Asset Account and the corresponding U.S. dollar amount of your sell Order will be credited to your Fiat Account at the time of sale. Gemini will settle this sell Order, and redeem your Gemini Dollars for U.S. dollars, by transferring assets or the proceeds thereof from the Gemini Dollar Accounts to you, in a timely manner. "Redemption" will be deemed to have occurred when Gemini has fully processed and initiated the transfer of such assets or proceeds from the Gemini Dollar Accounts to you"

"Timely" redemption means a redemption of not more than one full Business Day after the Business Day on which Gemini receives a sell Order for the relevant Gemini Dollars.

(Note - this represents the timeline for conversion of GUSD to USD balances in customers' Gemini accounts)

Upon credit of a customer's Fiat Account with Gemini, the customer may place a fiat currency withdrawal request.

"Wire / ACH withdrawals initiated before 3pm ET will typically be processed on the same day or next Business Day. Wire / ACH withdrawals may not be processed outside of normal banking hours. You agree and understand that wire / ACH withdrawal transfer times are subject to bank holidays, the internal processes and jurisdiction of your bank, and the internal processes of our Banks and financial institutions. You further agree and understand that in certain situations, wire / ACH withdrawal transfer times may be delayed in connection with Downtime or disruptions to Gemini Service Providers"

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

B. According to the NYDFS Guidance on Stablecoins, "Timely" redemption means redemption not more than two full business days ("T+2") after the business day on which the Issuer receives a "compliant redemption order," meaning the business day on which (A) the Issuer has received a redemption order and (B) the holder or the holder's designee has onboarded successfully with the Issuer and all other conditions necessary to permit compliant redemption have been met.

In extraordinary circumstances, where DFS concludes that timely redemption would likely jeopardize

the Reserve's asset-backing requirement or the orderly liquidation of Reserve assets, DFS has the authority to require or allow redemption that would not qualify as timely under item 1(b), as it deems necessary.

Based on the above, Gemini's policy seems to be compliant with the NYDFS' guidelines.



Appendix

## Scoring Guidelines

### A. Factor Weights and Scores (Step 1)

Assign scores for each factor based on the criteria in the table

Factor Code	Factor Title	Weights	Points (0 to 1 scale)																														
<b>S</b>	<b>STABILITY</b>	<b>100%</b>																															
<b>S.1</b>	<b>Reserves</b>	<b>50%</b>																															
S.1.1	Collateralization % & Type of Collateral	25%	<p><b>For fiat-denominated and stablecoin collateral:</b></p> <ul style="list-style-type: none"> <li>● 100% CR - 1</li> <li>● 95% to 100% CR - 0.5</li> <li>● &lt;95% CR - 0</li> </ul> <p>The CR determines the maximum possible score but the exact asset mix determines the actual score. We apply a discounting factor to each fiat-denominated asset as follows:</p> <table border="1"> <thead> <tr> <th>Asset Type</th> <th>Discount</th> </tr> </thead> <tbody> <tr> <td>Cash &amp; Bank Deposits</td> <td>10%</td> </tr> <tr> <td>US Treasuries - Short Dated (&lt;1Y)</td> <td>0%</td> </tr> <tr> <td>US Treasuries - Long Dated (&gt;1Y)</td> <td>5%</td> </tr> <tr> <td>Non-US Treasuries (Issuer Disclosed)</td> <td>0-15%</td> </tr> <tr> <td>Non-US Treasuries (Issuer Undisclosed)</td> <td>15%</td> </tr> <tr> <td>Commercial Papers / Deposits</td> <td>20%</td> </tr> <tr> <td>Money Market Funds (Investing in US Treasuries only)</td> <td>0%</td> </tr> <tr> <td>Money Market Funds (Mix of various short dated instruments)</td> <td>15%</td> </tr> <tr> <td>Overnight Reverse Repos (Backed by US Treasuries only)</td> <td>5%</td> </tr> <tr> <td>Term Rev Repos (Backed by US Treasuries only)</td> <td>8%</td> </tr> <tr> <td>Corporate Bonds (Unsecured)</td> <td>30%</td> </tr> <tr> <td>Investments</td> <td>35%</td> </tr> <tr> <td>Secured Loans</td> <td>25%</td> </tr> <tr> <td>Undisclosed Assets</td> <td>30%</td> </tr> </tbody> </table> <p>A fully-collateralized stablecoin backed entirely by long-dated US Treasuries would attain a score of 0.95.</p> <p><b>For crypto collateral:</b>                      If collateral is BTC/ETH:</p> <ul style="list-style-type: none"> <li>● &gt;220% CR - 0.875</li> <li>● 180% - 220% CR - 0.75</li> <li>● 150% - 180% CR - 0.625</li> <li>● 120% - 150% CR - 0.5</li> </ul>	Asset Type	Discount	Cash & Bank Deposits	10%	US Treasuries - Short Dated (<1Y)	0%	US Treasuries - Long Dated (>1Y)	5%	Non-US Treasuries (Issuer Disclosed)	0-15%	Non-US Treasuries (Issuer Undisclosed)	15%	Commercial Papers / Deposits	20%	Money Market Funds (Investing in US Treasuries only)	0%	Money Market Funds (Mix of various short dated instruments)	15%	Overnight Reverse Repos (Backed by US Treasuries only)	5%	Term Rev Repos (Backed by US Treasuries only)	8%	Corporate Bonds (Unsecured)	30%	Investments	35%	Secured Loans	25%	Undisclosed Assets	30%
Asset Type	Discount																																
Cash & Bank Deposits	10%																																
US Treasuries - Short Dated (<1Y)	0%																																
US Treasuries - Long Dated (>1Y)	5%																																
Non-US Treasuries (Issuer Disclosed)	0-15%																																
Non-US Treasuries (Issuer Undisclosed)	15%																																
Commercial Papers / Deposits	20%																																
Money Market Funds (Investing in US Treasuries only)	0%																																
Money Market Funds (Mix of various short dated instruments)	15%																																
Overnight Reverse Repos (Backed by US Treasuries only)	5%																																
Term Rev Repos (Backed by US Treasuries only)	8%																																
Corporate Bonds (Unsecured)	30%																																
Investments	35%																																
Secured Loans	25%																																
Undisclosed Assets	30%																																

			<ul style="list-style-type: none"> <li>&lt;120% CR - 0</li> </ul> <p>If non-BTC/ETH: Discount collateral value by 15% and apply scores as above</p>
S.1.2	Storage of Assets	12.5%	<p><b>For stablecoins issued off-chain:</b></p> <ul style="list-style-type: none"> <li>With regulated custodians in reputable jurisdictions - 1</li> <li>With regulated custodians not in reputable jurisdictions - 0.5</li> <li>With others / Undisclosed - 0</li> </ul> <p><b>For stablecoins issued on-chain:</b></p> <ul style="list-style-type: none"> <li>Assets in protocol's own smart contracts. Contracts audited and immutable - 1</li> <li>Assets in protocol's own smart contracts. Contracts audited - 0.75</li> <li>Assets in third-party smart contracts. Contracts are audited - 0.5</li> <li>Assets in multi-signature wallet - 0.25</li> <li>Assets in EOA accounts - 0</li> </ul>
S.1.3	Asset Segregation	12.5%	<ul style="list-style-type: none"> <li>Assets segregated &amp; bankruptcy remote: 1</li> <li>Assets segregated &amp; not bankruptcy remote: 0.5</li> <li>Assets not segregated: 0</li> </ul>
<b>S.2</b>	<b><u>Peg Performance (Market Feedback)</u></b>	<b>20%</b>	
S.2.1	Frequency of Deviation Below Peg	4%*	<p>Number of days where VWAP is less than peg price by 0.5% or more during the 180-day period preceding the reporting date:</p> <ul style="list-style-type: none"> <li>days - 1</li> <li>&lt;5% of days - 0.5</li> <li>5-10% of days - 0.25</li> <li>&gt;10% of days - 0</li> </ul> <p>For gold-backed tokens, we allow a deviation buffer of 0.75%/1.5% to reflect the impact of higher mint/burn fees (0.25% for XAUT and 1% on average for PAXG) which prevent perfect parity with the price of gold.</p>
S.2.2	Max Deviation Below Peg	4%*	<p>Biggest daily VWAP deviation (%) below peg price during the 180-day period preceding the reporting date:</p> <ul style="list-style-type: none"> <li>&gt;2.5% - 0</li> <li>1.5-2.5% - 0.25</li> <li>0.5-1.5% - 0.5</li> <li>&lt;0.5%: 1</li> </ul>
S.2.3	Volatility (% per day)	4%*	<p>Daily volatility during the 180-day period preceding the reporting date:</p> <ul style="list-style-type: none"> <li>&lt;0.25% - 1</li> <li>0.25-0.5% - 0.75</li> <li>0.5-1% - 0.5</li> <li>1-2% - 0.25</li> <li>&gt;2% - 0</li> </ul>
S.2.4	Market Correlation in a Downturn	4%*	<p>Average deviation below peg during the 5 worst-performing days for BTC (DoD price change) during the 180-day period preceding the reporting date:</p>

			<p>&lt;0.05% - 1                  0.05-0.10% - 0.75                  0.10-0.15% -0.50                  0.15-0.2% -0.25                  &gt;0.2% - 0</p>
S.2.5	Liquidity Pool Imbalance	4%*	<p><b>Stablecoin's % share of liquidity pool TVL:</b></p> <p><u>Pool Scores for 2-token pools:</u>                  &gt;75% - 0                  60-75% - 0.25                  40-60% - 0.5                  25-40% - 0.75                  &lt;25% - 1                  (Balanced state is 50% share)</p> <p><u>Pool Scores for 3-token pools:</u>                  &gt;47% - 0                  40-47% - 0.25                  26-40% - 0.5                  17-26% - 0.75                  &lt;17% - 1                  (Balanced state is 33.33% share)</p> <p><u>Pool Scores for 4-token pools:</u>                  &gt;42.5% - 0                  30-42.5% - 0.25                  20-30% - 0.5 (Balanced State)                  12.5-20% - 0.75                  &lt;12.5% - 1                  (Balanced state is 25% share)</p> <p><b>Method of deriving scores:</b> Pool liquidity-weighted average of Pool Scores in the top 2-3 pools of a stablecoin.</p> <p><b>Calculation of a stablecoin's pool scores:</b>                  Middle Tier (M) = Balanced State +/- 20% deviation</p> <p>(Example: In a 3-token pool, balanced state is 33%. Pools with deviations within 20% (i.e, 33.33% +/- 6.6%) are assigned a base score of 0.5.</p> <p>M + 1 and M-1 = Balanced State +/- 20-50%                  M +2 and M-2 = Balanced State +/- &gt;50%</p>
* Equal weights of 4% are used by default. When one or more of the sub-factors is not applicable, the rest are equally weighted.			
<b>S.3</b>	<b>Mechanism</b>	<b>30%</b>	
S.3.1	Core Mechanism	15%	<p><b>Scores assigned based on mechanism:</b></p> <p><b>Mint &amp; Redeem</b> (Arbitrage/ Peg Stability Module) - 1                  (Consistent peg stability as long the stablecoin is fully collateralized)</p> <p><b>Stableswap/Range-bound Liquidity</b> (Reserves deployed as liquidity on DEXs like Curve Finance/Uniswap v3) - 0.92</p>

			<p>(Peg stability can exist for a prolonged period of time but not when liquidity pools are excessively unbalanced)</p> <p><b>Collateralized Debt Positions</b> (Liquidation) - 0.67 (Doesn't contribute to peg stability, but maintains protocol stability)</p> <p><b>Bonus points:</b> If collateral can be redeemed by stablecoin holders at par, 0.17 is added to the score. (Redemption guarantees a price floor)</p> <p><b>Discretionary Mechanisms</b> - 0.33 (Stabilization efforts are either done on a discretionary basis by humans. E.g., Open Market Operations)</p> <p><b>Seigniorage Shares / Bonds</b> - 0 (Short-term peg stability can be achieved but no long-term protocol stability in the absence of collateral)</p>
S.3.2	Primary Liquidity Access	15%	<p><b>Liquidity access:</b></p> <p>Generally available to all holders - 1 (E.g., LUSD)</p> <p>Generally available to some holders - 0.5 (E.g., USDT)</p> <p>Available only at shutdown to all holders - 0.25 (E.g., RAI)</p> <p>No primary liquidity - 0 (E.g., USDD)</p>
<b>M</b>	<b>MANAGEMENT</b>		
<b>M.1</b>	<b>Restrictions</b>	<b>100%*</b>	
M.1.1	Known Core Team	50%	Core Team Known: 1 Core Team Unknown: 0
M.1.2	Jurisdiction Score (WJP Rule of Law)	50%	Our Jurisdiction Score is an average of a country's 'Regulatory Enforcement' score and 'Civil Justice' score from the World Justice Project's Rule of Law Index.
* 100% is default weight. 50% is used when <b>M.2 Track Record</b> is also scored.			
<b>M.2</b>	<b>Track Record</b>	<b>50%*</b>	
M.2.1	Team's Background	50%	Track Record is not scored by default for most coins. Scoring is done only when there are justifiable causes for concern with the team's history.
* 0% is default weight. 50% when <b>M.2 Track Record</b> is scored.			
<b>D</b>	<b>DECENTRALIZATION</b>	<b>100%</b>	
D.1.1	Regulatory Oversight	20%	<p>Issuer is regulated in any capacity in a reputable jurisdiction: 0</p> <p>Issuer is indirectly connected to a regulatory body through a reporting relationship (E.g., FinCen in USA) or through regulated intermediaries</p> <p>a) Both issuer and associates domiciled in a reputable jurisdiction - 0.25 b) Issuer or associates not domiciled in reputable jurisdictions - 0.5</p>

			Issuer is unregulated and has no ties to a regulatory body - 1
D.1.2	Custodian Risk	20%	<p><b>For reserves held off-chain:</b>  Assets held by 1 custodian/bank: 0  Held by 2-3 custodians/banks: 0.25  Held by 4-5 custodians/banks: 0.5  Held by &gt;5 custodians/banks: 0.75</p> <p><b>For reserves held on-chain:</b>  EOA - 0  Team controlled multi-sig: 0.25  Governance controlled multi-sig - 0.5  Smart Contract: 1</p>
D.1.3	Type of Collateral	20%	USD-denominated assets held off-chain: 0 Cryptocurrencies: 1
D.1.4	Decision Making & Voting Power	20%	Company or Protocol without Token voting - 0 Protocol with token & non-insiders / non-private investors holdings <50% - 0.25 Protocol with token & non-insiders / non-private investors holding 50-75% - 0.5 Protocol with token & non-insiders / non-private investors holding >75% - 1
D.1.5	User Blacklisting	20%	Blacklisting possible - 0 Blacklisting not possible - 1
<b>G</b>	<b>GOVERNANCE</b>	100%	
			<b><u>For fiat-backed and asset-backed stablecoins issued by a registered entity</u></b>
GC.1.1	Holder Protection	28.5%	1) Issuer regulated as a stablecoin issuer (E.g., by the NYDFS) - 1 2) Issuer regulated in other capacities (E.g., by the SEC/ as a Money Transmitter or Payment Institution etc.) - 0.5 3) Issuer registered with a government authority/agency (E.g., FinCen) AND Contractual protections - 0.25 4) Contractual protections only - 0
GC.1.2	Periodic Reserves Attestations	28.5%	The overall score is an average of the scores of (A) and (B) below.  <b>A) Type of Attestation</b> Opinion / Examination - 1 Agreed Upon Procedures (no opinion) - 0.5 None - 0  <b>B) Frequency of Attestation:</b> Monthly or better - 1 Quarterly - 0.5 Half-yearly - 0.25 Annually - 0.125 None - 0
GC.1.3	Financial Audits	28.5%	Annual full-scope audit performed or statutorily required to be performed? Yes - 1 No - 0

GC.1.4	Redemption Policy	14.5%	Are timelines for redemption clearly stipulated in the issuer's Terms of Service? Yes - 1 No - 0
			<b><u>For stablecoins issued and managed natively on-chain</u></b>
GD.1.1	Voting System	50%	Are governance votes binding and executed automatically on-chain? No - 0 Yes - 1
GD.1.2	Anti-Governance Attack Measures	50%	Score is a sum of (A) and (B)  <b>A. Preventive Measures:</b> Immutable Contracts - 1 (Contracts cannot be modified)  Vote Escrow - 0.17 (Longer the lock duration (future-looking lock period), higher the voting power.)  Time-weighted voting power - 0.25 (Longer the duration for which governance tokens were locked (historical lock period), higher the voting power) Voting cliffs - 0.5 (Users must lock up tokens for a pre-defined period, after which voting rights kick in. No disproportionate voting power).  <b>B. Reactive Measures:</b> Emergency Shutdowns 0.17 Time delays - 0.34 Veto & exit rights for stablecoin holders - 0.5  If 2 or more reactive measures exist, score = higher of (0.4, score of superior measure)

**B. Risk Grades (Step 2)**

Convert factor scores into risk grades using the table below

Factor	Very Low Risk	Low Risk	Moderate Risk	High Risk
Management	>0.83	0.66 – 0.83	0.33 – 0.66	<0.33
Decentralization				
Governance				

### C. Grading Scale (Step 3)

Assign grades using the Stability cut-off and risk criteria given below:

Grade	Stability cut-off	Risk Criteria
<b>A+</b>	0.95	<b>Fiat/asset-backed stablecoins:</b> 'Very Low Risk' in Management and Governance factors. Reserves must be bankruptcy-remote. <b>On-chain stablecoins:</b> 'Very Low Risk' in Management, Decentralization and Governance
<b>A</b>	0.85	<b>Fiat/asset-backed stablecoins:</b> 'Very Low Risk' in Management and Governance factors. Reserves must be bankruptcy-remote. <b>On-chain stablecoins:</b> 'Very Low Risk' in Management, Decentralization and Governance
<b>A-</b>	0.8	<b>Fiat/asset-backed stablecoins:</b> 'Very Low Risk' in Management and Governance factors. Reserves must be bankruptcy-remote. <b>On-chain stablecoins:</b> 'Very Low Risk' in at least 2 rating factors. No factors have 'High Risk'
<b>B+</b>	0.75	<b>Fiat/asset-backed stablecoins:</b> 1 'Low Risk' and 1 'Very Low Risk (or better)' in Management and Governance factors. <b>On-chain stablecoins:</b> 1 'Low Risk' and 1 'Very Low Risk (or better)' in at least 2 rating factors. No factors have 'High Risk'.
<b>B</b>	0.7	<b>Fiat/asset-backed stablecoins:</b> 'Low Risk' (or better) in Management and Governance factors. <b>On-chain stablecoins:</b> 'Low Risk' (or better) in at least 2 rating factors.
<b>B-</b>	0.65	<b>Fiat/asset-backed stablecoins:</b> 'Moderate Risk' (or better) in Management and Governance factors. <b>On-chain stablecoins:</b> 'Moderate Risk' (or better) in at least 2 rating factors.
<b>C (Unsafe)</b>	<0.65	<b>Fiat/asset-backed stablecoins:</b> 'High Risk' in Management and Governance factors. <b>On-chain stablecoins:</b> 'High Risk' in at least 2 rating factors.
<b>F (Fail)</b>		Any red flag triggered

#### Red Flags

Red Flags are highly negative traits of a stablecoin, the existence of which automatically results in a failing grade ('F').

**Examples:**

1. Stablecoins with zero or endogenous collateral.
2. Known issues pertaining to a stablecoin issuer's team, such as current/prior involvement in scams, theft or criminal activities.
3. Stablecoin reserves controlled by an Externally-Owned Accounts.
4. Collateral-drain functions in smart contracts which enable a person or a group of persons to transfer reserves to addresses not whitelisted by governance.
5. Core smart contracts have not been audited by a reputed audit firm.