

## Stablecoin Safety Assessment

<b>Coin</b>	XSGD
<b>Date</b>	04-06-2023
<b>Overall Grade</b>	B+

## Factor Scores:

S. No	Factor	Score	Assessment
1	Stability	0.82	Stable
2	Management	0.84	Very low risk
3	Implementation	N/A	Not assessed
4	Decentralization	0.00	High risk (Not relevant to the grade)
5	Governance	0.79	Low risk
6	Externals	N/A	Not assessed

## Summary

- XSGD is a Singapore Dollar-denominated stablecoin issued by XFERS Pte Ltd.
- XFERS is licensed by the Monetary Authority of Singapore (MAS) as a Major Payment Institution.
- XSGD is fully backed by cash deposits at banks and bills issued by the MAS.

## Evaluation

### 1. Stability [Score 0.82]

#### 1.1. Reserves [Score 0.89]

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

As of May 31, 2023, XGD is fully backed by Singapore MAS Bills (68%), and cash deposits (32%) in fully segregated accounts.

##### 1.1.2. Storage of Assets [Score 0.70]

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

XSGD's reserves are held at regulated banks/financial institutions in Singapore.

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

XFERS holds a Major Payment Institution License. As prescribed by the Singapore Payment Services Act, a major payment institution has to put the following safeguards in place: a) an undertaking or guarantee by any bank in Singapore or prescribed financial institution to be fully liable to the customer for such monies; b) a deposit in a trust account; or c) any other safeguards as may be prescribed by MAS.

Thus, XSGD reserves are fully segregated and bankruptcy-remote.

#### 1.2. Market Feedback [Score 0.38]

##### 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 = 1

##### 1.2.2. Max Deviation Below Peg [Score 0.50]

Biggest daily VWAP deviation below peg: 0.80%

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

Daily volatility (%) over the past 180-day period: 0.58%

**1.2.4. Downside Volatility in a Market Downturn****[Score 0.00]**

Average deviation below peg during the 5 worst-performing days for BTC (DoD price change) in a 180-day period: 0.20%

**1.2.5. Liquidity Pool Imbalance****[Score 0.00]**

Not assessed since on-chain liquidity is immaterial.

**1.3. Stability Mechanism****[Score 1.00]****1.3.1. Core Mechanism****[Score 1.00]**

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

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

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

Users who possess a KYC'd account with Xfers can redeem XSGD for Singapore Dollars.

**2. Management****[Score 0.91]****2.1. Restrictions****[Score 0.91]****2.1.1. Known Core Teams****[Score 1.00]**

Xfers, the issuer of XSGD, is led by Liu Tianwei (Deputy CEO of Fazz, the parent company of Xfers) and Kenny Chan (Head of Xfers).

**2.1.2. Jurisdiction Score****[Score 0.82]**

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'.

Xfers is headquartered in Singapore.

## **2.2. Track Record**

### **2.2.1. Team's Background**

[Score N/A]

Not scored

## **3. Decentralization**

[Score 0.00]

### **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.

Xfers is regulated by the Monetary Authority of Singapore as a Major Payment Institution.

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 0.00]

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.

Xfers holds cash deposits at banks and MAS Bills. However, we do not know the number of banks/custodians engaged by Xfers.

### **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.

XGD is fully backed by SGD-denominated real-world assets which are subject to the monetary policies of Singapore.

(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 XSGD 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]

Xfers 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 0.79]

### 4.1. Holder Protection

[Score 0.75]

XFERS holds a Major Payment Institution License issued by the Monetary Authority of Singapore. The Payment Services Act imposes a variety of conditions on licensees for the protection of customer assets.

As prescribed by the Singapore Payment Services Act, a major payment institution has to put the following safeguards in place: a) an undertaking or guarantee by any bank in Singapore or prescribed financial institution to be fully liable to the customer for such monies; b) a deposit in a trust account; or c) any other safeguards as may be prescribed by MAS. Thus, XSGD reserves are fully segregated and bankruptcy-remote.

### 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.

Xfers has engaged KK YAP & Associates, a Singapore-based accounting 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 a holder of a Major Payment Institution license, Xfers is mandated to present audited financial statements to the Monetary Authority of Singapore.

#### **4.4. Redemption Policy**

[Score 0.00]

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

XFER's Terms of Service do not mention turnaround times for redemption of XSGD. However, the following excerpt highlights XFER'S power to suspend or delay redemptions:

*"XFERS reserves the right to delay the redemption / purchase of XFERS Tokens by XFERS, if such delay is necessitated by the illiquidity or unavailability of any XFERS Reserves held by XFERS to back the redemption / purchase of XFERS Tokens in circulation. XFERS also reserves the right to redeem / purchase XFERS Tokens using other currencies or assets other than the currency in which the relevant XFERS Token is denominated in or pegged to."*

