

## Stablecoin Safety Assessment

<b>Coin</b>	TrueUSD (TUSD)
<b>Date</b>	04-06-2023
<b>Overall Grade</b>	D

**Factor Scores:**

S. No	Factor	Score	Assessment
1	Stability	0.48	Unstable
2	Management	0.00	High Risk
3	Implementation	N/A	Not assessed
4	Decentralization	0.15	High risk
5	Governance	0.04	High risk
6	Externals	N/A	Not assessed

**Summary**

- TUSD is issued by Techterxy Ltd, a China-based conglomerate shrouded in mystery. Details about the company's corporate information, ownership and the identity of the management team are not disclosed. However, we suspect that it is controlled by Justin Sun.
- TUSD claims to be backed by US cash deposits, cash equivalents and short-term, highly liquid investments. However, Techteryx is not transparent about the exact type and amount of each asset held in reserve.
- TUSD claims to provide real-time reserve attestations but these are fully-automated attestations based on data feeds from third parties. No manual verification or review is performed on source data or on the attestation reports.
- In our opinion, the general lack of transparency in relation to reserves, management structure and operations, risk makes us apprehensive about TUSD. We strongly advise against using TUSD.

## Evaluation

### 1. Stability [Score 0.46]

#### 1.1. Reserves [Score 0.56]

##### 1.1.1. Collateralization % and Type of Collateral [Score 0.65]

As of June 2, 2023, TUSD claims to be backed by cash, cash equivalents and short-term, highly liquid investments of sufficient credit quality. However, the issuer does not disclose the exact nature and amount of each asset.

##### 1.1.2. Storage of Assets [Score 0.53]

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

TUSD reserves are believed to be held at Flow Bank (Switzerland) and Capital Union Bank (Bahamas).

##### 1.1.3. Asset Segregation [Score 0.50]

All customer assets in TUSD's reserves are claimed to be in fully segregated from the issuer's corporate treasury. However, they are not bankruptcy-remote.

The third-party attestation provider for TUSD's reserves, The Network Firm, recently identified that a new bank account of the issuer is not clearly segregated.

#### 1.2. Market Feedback [Score 0.65]

##### 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: 0.61%

##### 1.2.3. Volatility (% per day) [Score 1.00]

Daily volatility (%) over the past 180-day period: 0.18%

##### 1.2.4. Downside Volatility in a Market Downturn [Score 0.75]

Biggest daily VWAP deviation below peg: 0.081%

##### 1.2.5. Liquidity Pool Imbalance [Score 0.50]

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

- TUSD Share of Pool - 50%
- Pool Type - 2 Token

- Optimal Share of TUSD - 50%
- Deviation from Optimal Share - 0%
- Non-TUSD TVL in the pool - \$6,641,382
- Pool Score - 0.5

**Pool 2 - TUSD FRAXBP (TUSD/crvFRAX)**

- TUSD Share of Pool - 44%
  - Pool Type - 2 Token
  - Optimal Share of TUSD - 50%
  - Deviation from Optimal Share - (12)%
  - Non-TUSD TVL in the pool - \$2,402,116
  - Pool Score - 0.5
- TVL-weighted Liquidity Pool score - 0.5

**1.3. Stability Mechanism**

[Score 0.17]

**1.3.1. Core Mechanism**

[Score 0.33]

Normally, TUSD relies on market participants to arbitrage differences between the market price of TUSD and the net asset value of TUSD (typically, \$1 if TUSD is fully-collateralized). However, redemptions are not being fulfilled by the issuer currently.

**1.3.2. Primary Liquidity Access**

[Score 0.00]

Normally, users who possess a KYC'd account with TrustToken can redeem TUSD for US Dollars. Currently, TUSD redemptions are not being honored.

**2. Management**

[Score 0.00]

**2.1. Restrictions**

[Score 0.00]

**2.1.1. Known Core Teams**

[Score 0.00]

The management team of Techteryx, the issuer of TUSD, remains undisclosed. Although a certain Jeniffer Jiang has been named as the CEO, no public profile or data exists to corroborate this claim. We believe this person is a proxy of Justin Sun.

(Source - <https://twitter.com/adamscochran/status/1674869182893023238?s=20>).

**2.1.2. Jurisdiction Score**

[Score 0.00]

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'.

Since, Techteryx is an entity registered in the British Virgin Islands, which is not covered in the RoL Index, we look at the residency of management personnel. However, this information is not available.

## **2.2. Track Record**

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

[Score N/A]

Not scored

## **3. Decentralization**

[Score 0.15]

### **3.1. Regulatory Oversight**

[Score 0.25]

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.

While Techteryx is neither regulated nor registered with FinCen, it relies on US depository institutions for banking operations.

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 0.50]

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.

Assets are believed to be predominantly held at Flow Bank (Switzerland) and Capital Union Bank (Bahamas).

### **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.

TUSD is fully backed by USD denominated 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 TUSD 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]

Techteryx 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 0.29]

**4.1. Holder Protection**

[Score 0.00]

Contrary to claims, TUSD and Techteryx are not regulated. Holders of TUSD solely rely on general protections under law, which we deem inadequate. Further, Techteryx and TrustToken expressly disclaim that they do not guarantee any right of redemption or exchange of TrueCurrency tokens for fiat currency.

The absence of regulatory oversight, the lack of transparency about reserves management and the unclear nature of the relationship between Techteryx (owner of TUSD) and TrustToken (manager of the TrueCurrencies platform) concern us.

**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.

TUSD's reserves are attested by The Network Firm, a new accounting firm constituted by former members of Armanino. The reports include an opinion that provides a reasonable level of assurance to users of the report.

Readers are advised to know that the attestations are generated in real-time on demand. There are no manual checks/reviews in place. In the absence of any information about type of procedures and error-checking processes employed by the accountant, we advise caution when relying on such attestation reports.

#### **4.3. Financial Audits**

[Score 0.00]

Periodic reserves attestations alone are inadequate to ascertain the existence and adequacy of reserves, they must be complemented by full scope annual financial audits.

We do not know whether Techteryx's financial statements are being audited by an independent account.

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

[Score 0.00]

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

TUSD can only be redeemed by customers registered on [www.trusttoken.com](http://www.trusttoken.com). TrustToken's terms of service do not mention turnaround times for redemption of TUSD. However, the following disclaimer is worth noting:

"TrueCurrency holders can mint or redeem tokens for their respective fiat currencies held in escrow

accounts managed by our independent fiduciary network through the Platform. The Platform is only intended to facilitate such mints and redemptions. The Company utilizes TrustToken's asset tokenization smart contracts and escrow accounts managed by banks, depository institutions, or trust companies (each a "Banking Partner" and together our "Banking Partners") in order to maintain 1 to 1 parity between TrueCurrency tokens and the fiat currencies, cash equivalents, or short-term government securities, or liquid investments held in escrow accounts for the benefit of our users. The Company itself does not guarantee any right of redemption or exchange of TrueCurrency tokens for fiat currency."

In the absence of any clear terms, we remain skeptical about TUSD.