

Scoring Guidelines

How Grading Works

- To rate a stablecoin, assign scores for each of the parameters (E.g., 1.1.1, 1.1.2, 1.1.3) based on the criteria given in Table A.
- Calculate sub-factor scores using the parameter scores and weights.
E.g., Score of Sub-factor 1.1 =

$$\frac{[Wt. (1.1.1) \times Score (1.1.1) + Wt. (1.1.2) \times Score (1.1.2) + Wt. (1.1.3) \times Score (1.1.3)]}{[Sum\ of\ Wt. (1.1.1),\ Wt. (1.1.2),\ Wt. (1.1.3)]}$$
- Calculate factor scores using factor scores and weights (Same logic as In Step 2)
E.g., Score of Factor 1 = $\frac{[Wt. (1.1) \times Score (1.1) + Wt. (1.2) \times Score (1.2) + Wt. (1.3) \times Score (1.3)]}{[Sum\ of\ Wt. 1.2, Wt. 1.2, Wt. 1.3]}$
- Once all factor scores are calculated, convert scores for Management, Decentralization and Governance into Risk Grades (Very Low, Low, High etc.) using Table B.
- Compare the Risk Grades from Step 4 against the Grading Scale in Table C and check which is the highest achievable grade, ignoring the Stability cut-off.
- Now check whether the Stability factor score of the coin exceeds the Stability cut-off of the grade identified in the previous step. If it does, the grade identified in Step 5 applies. If not, move down to the next lower grade and check whether the Stability factor score exceeds the relevant cut-off. Repeat until the relevant grade has been identified.
- Note: If any red flag is triggered, a grade of 'F' is automatically assigned irrespective of Risk Grades and Stability factor scores.

Table 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)
1	STABILITY	100%	
<u>1.1</u>	<u>Reserves</u>	50%	
1.1.1	Collateralization % & Type of Collateral	25%	<p>For fiat-denominated and stablecoin collateral:</p> <ul style="list-style-type: none"> ● 100% CR - 1 ● 95% to 100% CR - 0.5 ● <95% CR - 0 <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 data-bbox="655 206 1254 241">Asset Type</th> <th data-bbox="1254 206 1394 241">Discount</th> </tr> </thead> <tbody> <tr> <td data-bbox="655 241 1254 277">Cash & Bank Deposits</td> <td data-bbox="1254 241 1394 277">0-5%*</td> </tr> <tr> <td data-bbox="655 277 1254 313">US Treasury Bills (<3Mo)</td> <td data-bbox="1254 277 1394 313">0%</td> </tr> <tr> <td data-bbox="655 313 1254 349">US Treasury Debt</td> <td data-bbox="1254 313 1394 349">0-5%**</td> </tr> <tr> <td data-bbox="655 349 1254 385">Non-US Treasuries (Issuer Disclosed)</td> <td data-bbox="1254 349 1394 385">0-15%</td> </tr> <tr> <td data-bbox="655 385 1254 421">Non-US Treasuries (Issuer Undisclosed)</td> <td data-bbox="1254 385 1394 421">30%</td> </tr> <tr> <td data-bbox="655 421 1254 501">Money Market Funds (Investing in US Treasuries only)</td> <td data-bbox="1254 421 1394 501">0%</td> </tr> <tr> <td data-bbox="655 501 1254 568">Money Market Funds (Mix of various short dated instruments) ^</td> <td data-bbox="1254 501 1394 568">0-15%</td> </tr> <tr> <td data-bbox="655 568 1254 636">Overnight Reverse Repos (Backed by US Treasuries only)</td> <td data-bbox="1254 568 1394 636">0%</td> </tr> <tr> <td data-bbox="655 636 1254 703">Term Rev Repos (<3Mo) (Backed by US Treasuries only)</td> <td data-bbox="1254 636 1394 703">1.25%</td> </tr> <tr> <td data-bbox="655 703 1254 739">Credit Instruments (CP, CD, Corporate Bonds, Loans)</td> <td data-bbox="1254 703 1394 739">10-30%*</td> </tr> <tr> <td data-bbox="655 739 1254 775">Investments</td> <td data-bbox="1254 739 1394 775">35%</td> </tr> <tr> <td data-bbox="655 775 1254 810">Undisclosed Assets</td> <td data-bbox="1254 775 1394 810">35%</td> </tr> </tbody> </table> <p data-bbox="655 831 1059 860">*Based on bank/issuer's credit rating</p> <p data-bbox="655 860 887 889">** Based on maturity</p> <p data-bbox="655 889 876 918">^Based on asset mix</p> <p data-bbox="655 958 1358 1021">A fully-collateralized stablecoin backed entirely by long-dated US Treasuries would attain a score of 0.95.</p> <p data-bbox="655 1057 884 1086">For crypto collateral:</p> <p data-bbox="655 1086 906 1115">If collateral is BTC/ETH:</p> <ul data-bbox="655 1122 959 1279" style="list-style-type: none"> • >220% CR - 0.875 • 180% -220% CR - 0.75 • 150% - 180% CR - 0.625 • 120% - 150% CR - 0.5 • <120% CR - 0 <p data-bbox="655 1317 828 1346">If non-BTC/ETH:</p> <p data-bbox="655 1346 1294 1375">Discount collateral value by 15% and apply scores as above</p>	Asset Type	Discount	Cash & Bank Deposits	0-5%*	US Treasury Bills (<3Mo)	0%	US Treasury Debt	0-5%**	Non-US Treasuries (Issuer Disclosed)	0-15%	Non-US Treasuries (Issuer Undisclosed)	30%	Money Market Funds (Investing in US Treasuries only)	0%	Money Market Funds (Mix of various short dated instruments) ^	0-15%	Overnight Reverse Repos (Backed by US Treasuries only)	0%	Term Rev Repos (<3Mo) (Backed by US Treasuries only)	1.25%	Credit Instruments (CP, CD, Corporate Bonds, Loans)	10-30%*	Investments	35%	Undisclosed Assets	35%
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1.1.2	Storage of Assets	12.5%	<p data-bbox="655 1464 1010 1494">For stablecoins issued off-chain:</p> <ul data-bbox="655 1494 1394 1650" style="list-style-type: none"> • With disclosed*, regulated custodians in reputable jurisdictions - 1 • With disclosed*, regulated custodians not in reputable jurisdictions - 0.5 • With others / Undisclosed – 0 <p data-bbox="655 1688 1385 1751">*If names of custodians/depository institutions are not disclosed, a penalty of 30% is applied</p> <p data-bbox="655 1789 1007 1818">For stablecoins issued on-chain:</p> <ul data-bbox="655 1818 1362 2009" style="list-style-type: none"> • Assets in protocol's own smart contracts. Contracts audited and immutable - 1 • Assets in protocol's own smart contracts. Contracts audited - 0.75 • Assets in third-party smart contracts. Contracts are audited - 0.5 																										

			<ul style="list-style-type: none"> Assets in multi-signature wallet - 0.25 Assets in EOA accounts - 0
1.1.3	Asset Segregation	12.5%	<ul style="list-style-type: none"> Assets segregated & bankruptcy remote: 1 Assets segregated & not bankruptcy remote: 0.5 Assets not segregated: 0
1.2	Market Feedback	20%	
1.2.1	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"> days - 1 <5% of days - 0.5 5-10% of days - 0.25 >10% of days - 0 <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>
1.2.2	Max Deviation Below Peg	4%*	<p>Biggest daily VWAP deviation (%) below peg price during the 180-day period preceding the reporting date:</p> <p>>2.5% - 0 1.5-2.5% - 0.25 0.5-1.5% - 0.5 <0.5%: 1</p>
1.2.3	Volatility (% per day)	4%*	<p>Daily volatility during the 180-day period preceding the reporting date:</p> <p><0.25% - 1 0.25-0.5% - 0.75 0.5-1% - 0.5 1-2% - 0.25 >2% - 0</p>
1.2.4	Downside Volatility 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><0.05% - 1 0.05-0.10% - 0.75 0.10-0.15% - 0.50 0.15-0.2% - 0.25 >0.2% - 0</p>
1.2.5	Liquidity Pool Imbalance	4%*	<p>Stablecoin's % share of liquidity pool TVL:</p> <p><u>Pool Scores for 2-token pools:</u> >75% - 0 60-75% - 0.25 40-60% - 0.5 25-40% - 0.75 <25% - 1 (Balanced state is 50% share)</p> <p><u>Pool Scores for 3-token pools:</u> >47% - 0</p>

			<p>40-47% - 0.25 26-40% - 0.5 17-26% - 0.75 <17% - 1 (Balanced state is 33.33% share)</p> <p><u>Pool Scores for 4-token pools:</u> >42.5% - 0 30-42.5% - 0.25 20-30% - 0.5 (Balanced State) 12.5-20% - 0.75 <12.5% - 1 (Balanced state is 25% share)</p> <p>Method of deriving scores: Pool liquidity-weighted average of Pool Scores in the top 2-3 pools of a stablecoin.</p> <p>Calculation of a stablecoin's pool scores: Middle Tier (M) = Balanced State +/- 20% deviation</p> <p>(Example: In a 3-token pool, the 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 +/- >50%</p>
<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.</p>			
1.3	Mechanism	30%	
1.3.1	Core Mechanism	15%	<p>Scores assigned based on mechanism:</p> <p>Mint & Redeem (Arbitrage/ Peg Stability Module) - 1 (Consistent peg stability as long the stablecoin is fully collateralized. E.g., USDC, USDT, USDP)</p> <p>Stableswap/Range-bound Liquidity (Reserves deployed as liquidity on DEXs like Curve Finance/Uniswap v3) - 0.92 (Peg stability can exist for a prolonged period of time but not when liquidity pools are excessively unbalanced. E.g., FRAX)</p> <p>Collateralized Debt Positions (Liquidation) - 0.67 (Doesn't contribute to peg stability, but maintains protocol stability. E.g., DAI, RAI, LUSD)</p> <p>Bonus points:</p> <ul style="list-style-type: none"> • If collateral can be redeemed by stablecoin holders at par - 0.17 (Redemption guarantees a price floor) • If interest rates can turn negative – 0.08 <p>Discretionary Mechanisms - 0.33 (Stabilization efforts are either done on a discretionary basis by</p>

			humans. E.g., Open Market Operations. E.g., USDD, CeloUSD) Seigniorage Shares / Bonds - 0 (Short-term peg stability can be achieved but no long-term protocol stability in the absence of collateral. E.g., UST, sUSD, ESD, DSD)
1.3.2	Primary Liquidity Access	15%	Liquidity access: Generally available to all* holders - 1 Generally available to some holders - 0.5 (E.g., USDT) Available only at shutdown to all holders - 0.25 (E.g., RAI) No primary liquidity - 0 (E.g., USDD) Liquidity cost: *Redemption prerequisites such as completion of KYC/account onboarding etc. to comply with applicable laws in force will not affect the score.
2	MANAGEMENT		
2.1	Restrictions	100%*	
2.1.1	Known Core Team	50%	Core Team Known: 1 Core Team Unknown: 0
2.1.2	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 the default weight. 50% is used when the M.2 Track Record is also scored.			
2.2	Track Record	50%*	
2.2.1	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 the default weight. 50% when the M.2 Track Record is scored.			
3	IMPLEMENTATION	N/A	Not assessed currently
4	DECENTRALIZATION	100%	
4.1	Regulatory Oversight	20%	<ul style="list-style-type: none"> ● Issuer is regulated in any capacity in a reputable jurisdiction: 0 ● Issuer is indirectly connected to a regulatory body through a reporting relationship (E.g., FinCen in USA) or through regulated intermediaries <ul style="list-style-type: none"> a) Both issuer and associates domiciled in a reputable jurisdiction - 0.25 b) Issuer or associates not domiciled in reputable jurisdictions - 0.5 ● Issuer is unregulated and has no ties to a regulatory body - 1

4.2	Custodian Risk	20%	<p>For reserves held off-chain: Assets held by 1 custodian/bank: 0 Held by 2-3 custodians/banks: 0.5 Held by >3 custodians/banks: 1</p> <p>For reserves held on-chain: EOA - 0 Team controlled multi-sig: 0.25 Governance controlled multi-sig - 0.5 Smart Contract: 1</p>
4.3	Type of Collateral	20%	USD-denominated assets held off-chain/other fiat-backed stablecoins: 0 Cryptocurrencies: 1
4.4	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
4.5	User Blacklisting	20%	Blacklisting possible - 0 Blacklisting not possible - 1
5	GOVERNANCE	100%	
			<u>For fiat-backed and asset-backed stablecoins issued by a registered entity</u>
5.1	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.) <ul style="list-style-type: none"> • With Bankruptcy protection for holders - 0.75 • Without bankruptcy protection for holders – 0.5 3) Issuer registered with a government authority/agency (E.g., FinCen) AND Contractual protections - 0.25 4) Contractual protections only - 0
5.2	Periodic Reserves Attestations	28.5%	The overall score is an average of the scores of (A) and (B) below. A) Type of Attestation Opinion / Examination - 1 Agreed Upon Procedures (no opinion) - 0.5 None - 0 B) Frequency of Attestation: Monthly or better - 1 Quarterly - 0.5 Half-yearly - 0.25 Annually - 0.125 None - 0
5.3	Financial Audits	28.5%	Annual full-scope audit performed or statutorily required to be performed? Yes - 1

			No - 0
5.4	Redemption Policy	14.5%	Are timelines for redemption clearly stipulated in the issuer's Terms of Service? Yes - 1 No - 0
			<u>For stablecoins issued and managed natively on-chain</u>
5.1	Voting System	50%	Are governance votes binding and executed automatically on-chain? No - 0 Yes - 1
5.2	Anti-Governance Attack Measures	50%	Score is a sum of (A) and (B) A. Preventive Measures: 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 predefined period, after which voting rights kick in. No disproportionate voting power). B. Reactive Measures: 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)
6	EXTERNALS	N/A	Not assessed currently

Table B - Risk Grades

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				

Table C - Grading Scale

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

Grade	Stability cut-off	Risk Criteria
A+	0.97 (Highly stable)	<p>Fiat/asset-backed stablecoins: “Very Low Risk” in Governance and Management factors.</p> <p>Additional Conditions: Reserves must be bankruptcy-remote.</p> <p>On-chain stablecoins: “Very Low Risk” in Governance, Management and Decentralization.</p>
A	0.9 (Stable)	<p>Fiat/asset-backed stablecoins: “Very Low Risk” in Governance and Management factors.</p> <p>Additional Conditions: Reserves must be bankruptcy-remote.</p> <p>On-chain stablecoins: “Very Low Risk” in Governance. “Very Low Risk” in at least 2 factors in total.</p>
A-	0.8 (Stable)	<p>Fiat/asset-backed stablecoins: “Very Low Risk” in Governance and Management factors.</p> <p>Additional Conditions: Reserves must be bankruptcy-remote.</p> <p>On-chain stablecoins: “Low Risk” (or better) in Governance. “Very Low Risk” in at least 2 factors in total.</p>
B+	0.75 (Moderately stable)	<p>Fiat/asset-backed stablecoins: “Very Low Risk” and “Low Risk” (or better) in Governance and Management factors.</p> <p>On-chain stablecoins: “Low Risk” (or better) in Governance. “Very Low Risk” and “Low Risk” (or better) in at least 2 factors in total.</p>

B	0.7 (Moderately stable)	<p>Fiat/asset-backed stablecoins: “Low Risk” (or better) in Governance and Management factors.</p> <p>On-chain stablecoins: “Low Risk” (or better) in Governance. “Low Risk” (or better) in at least 2 factors in total.</p>
B-	0.65 (Moderately stable)	<p>Fiat/asset-backed stablecoins: “Low Risk” and “Moderate Risk” (or better) in Governance and Management factors.</p> <p>On-chain stablecoins: “Low Risk” (or better) in Governance. “Low Risk” and “Moderate Risk” (or better) in at least 2 factors in total.</p>
C	0.6 (Moderately stable)	<p>Fiat/asset-backed stablecoins: “Moderate Risk” (or better) in Governance and Management factors.</p> <p>On-chain stablecoins: “Low Risk” (or better) in Governance.</p>
D (Unsafe)	<0.6 (Unstable)	<p>Fiat/asset-backed stablecoins: “High Risk” in Governance or Management factors.</p> <p>On-chain stablecoins: “Moderate Risk” or “High Risk” in Governance.</p>
F (Fail)	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:

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