

Stablecoin Safety Assessment

Coin	USDD
Date	04-06-2023
Overall Grade	F

Factor Scores:

S. No	Factor	Score	Assessment
1	Stability	0.12	Red flagged
2	Management	0.50	Moderate risk
3	Implementation	N/A	Not assessed
4	Decentralization	0.59	Moderate risk
5	Governance	0.00	High risk
6	Externals	N/A	Not assessed

Summary

- USDD is issued and managed by the Tron DAO Reserve (TDR). Only whitelisted members of TDR can mint and burn USDD.
- USDD is claimed to be an over-collateralized, decentralized stablecoin but it is substantially similar to the failed UST stablecoin (Luna <> UST). Only ~50% of USDD's supply is backed by non-TRX collateral, nearly all of which is BTC. Stable assets in reserve comprise less than 2% of USDD supply.
- The wallet containing USDD's BTC has been claimed by Huobi exchange as their own. As both USDD and Huobi are controlled by Justin Sun, we suspect commingling of assets.
- We strongly recommend users NOT to use USDD.

Evaluation

1. Stability [Score 0.12]

1.1. Reserves [Score 0.08]

1.1.1. Collateralization % and Type of Collateral [Score 0.02]

USDD's total reserves comprise TRX (69%), BTC (29%) and TUSD (2%). However, Bluechip does not consider TRX for determining collateralization ratios. The Terra/Luna collapse is a classic example that shows endogenous collateral's value can collapse to zero overnight.

Reserve Assets as of June 04, 2023 (excluding TRX)

BTC - \$382 Million

TUSD - \$23.6 Million

Based on the above, USDD has a collateralization ratio of 53%.

1.1.2. Storage of Assets [Score 0.28]

96% of USDD's reserves (excluding TRX) is held in multisig wallets and the remaining 4% is held in USDD's own smart contracts.

We expect minimal storage risk with respect to the assets held in smart contracts but the assets held in the multi-sig wallet entails higher risks.

1.1.3. Asset Segregation [Score 0.00]

We believe that USDD's reserves are commingled with assets of Huobi.

The address 1KVpuCfhftkzJ67ZUegaMuaYey7qni7pPj is claimed to be the BTC reserve wallet which holds USDD's BTC reserves.

However, according to Huobi executive James Hume and Huobi owner Justin Sun, the above wallet belongs to Huobi.

1.2. Market Feedback [Score 0.13]

1.2.1. Frequency of Deviation Below Peg [Score 0.00]

Number of Days where VWAP < Peg by 0.5% or more during the past 180 days = 85

1.2.2. Max Deviation Below Peg [Score 0.00]

Biggest daily VWAP deviation below peg: 3.39%

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

Daily volatility (%) over the past 180-day period: 0.60%

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: 0.47%

1.2.5. Liquidity Pool Imbalance [Score N/A]

Not relevant as on-chain liquidity is immaterial.

1.3. Stability Mechanism [Score 0.17]**1.3.1. Core Mechanism** [Score 0.33]

- USDD has a USDD <> TRX mint and burn mechanism similar to the LUNA <> UST mechanism which failed spectacularly. Even worse, only whitelisted members of Tron DAO Reserve have the ability to mint and burn USDD.
- USDD also has a Peg Stability Module similar to Maker's, that can theoretically provide redemptions to USDD holders. However, the PSM is nearly useless, barring the <\$14M of stablecoins within it.
- The Tron DAO Reserve claims to guarantee the stability of USDD through discretionary Open Market Operations involving the purchase and sale of BTC in reserves to maintain the price of USDD. Throughout its existence, USDD has fallen below \$1 several times and as low as \$0.96 but never have any OMOs been carried out till date.
- In our opinion, USDD has practically useless short term stability mechanisms and a theoretical long term mechanism that is yet to be seen in action.

1.3.2. Primary Liquidity Access [Score 0.00]

Please refer to the section above. USDD holders primarily must rely on secondary markets to exit from USDD. The PSM redemption is available only to users till the limited balance is drained out.

2. Management [Score 0.50]

2.1. Restrictions [Score 0.50]

2.1.1. Known Core Teams [Score 1.00]

USDD is managed by the Tron DAO reserve which comprises members including Amber, Poloniex, Ankr, Mirana, Multichain, FalconX, and TPS Capital. That said, we believe the role of TDR members is limited to minting and burning of USDD to maintain its price, while reserves management rests with undisclosed persons. De facto control over USDD lies with Justin Sun and TRON.

2.1.2. Jurisdiction Score [Score 0.00]

No information about the management of USDD's reserves or the entity that holds/controls the reserves is available publicly. We can only speculate that such an entity would be domiciled in a place where one can freely operate on the boundaries of regulation and compliance.

2.2. Track Record

2.2.1. Team's Background [Score N/A]

Not scored

3. Decentralization [Score 0.59]

3.1. Regulatory Oversight [Score 1.00]

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.

USDD's core functionality exists on the blockchain without any real world assets directly backing USDD. Further, the entity in control of USDD's BTC assets is likely located in a jurisdiction that enables regulatory arbitrage and operational freedom.

As such, USDD seems to benefit from little to no regulatory oversight.

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.

The reserves of USDD are likely controlled by the same person or group of persons that control Huobi exchange, as referred to in the 'Asset Segregation' section. We have no evidence to believe that assets are

not controlled by a single person or entity.

3.3. Type of Collateral

[Score 0.94]

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.

USDD is almost entirely backed by BTC (TRX excluded).

(Fiat currencies earn a score of 0 and decentralized cryptocurrencies earn a score of 1).

3.4. Decision Making & Voting Power

[Score 0.00]

Tron DAO Reserve does not seem to have a governance mechanism. We believe USDD is controlled by a small group of insiders.

3.5. User Blacklisting

[Score 1.00]

USDD's smart contracts currently do not support blacklisting of specific user wallets..

4. Governance

[Score 0.00]

4.1. Voting System

[Score 0.00]

USDD does not have a governance system. USDD holders have no legal or code-based protection and are at the mercy of Tron DAO Reserve.

4.2. Anti-Governance Attack Measures

[Score 0.00]

USDD does not have a governance system.