

USDM - Mountain Protocol

Rating Action

Rating for USDM by Mountain Protocol upgraded to A-

A-

Summary

- Mountain Protocol is regulated by the Bermuda Monetary Authority (BMA). Previously, they were granted a Class M license under the Digital Asset Business Act 2018 of Bermuda. This is a temporary license granted to new projects in a sandbox mode.
- In July 2024, Mountain Protocol announced that it was upgraded to a Class F license by the BMA. This is a permanent license granted to projects with an effective compliance program and proven business model.
- In May 2024, the BMA released draft guidance for stablecoin issuers. This outlines the BMA's expectations on asset segregation, custody requirements, and bankruptcy remoteness. If published, it will provide a specialized regulatory framework for stablecoins.
- USDM is fully backed by US treasury bills. Since July 2024, a significant portion of this exposure has shifted from direct holdings to tokenized funds such as BUIDL and USTB. This provides additional transparency into custodians who hold the collateral.
- Under our rating framework, these factors produce the required change in scores to upgrade USDM's rating from B+ to A-.

Factor Scores

Factor	Score	Assessment
Stability	0.85	Stable
Management	0.82	Low risk
Governance	0.93	Very low risk

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USDM by Mountain Protocol

USDM is a yield-bearing stablecoin issued by Mountain Protocol. The yield is generated by investing the collateral in short-term, debt obligations guaranteed by the US Treasury (such as US treasury bills or repurchase agreements). A significant portion of this exposure comes via tokenized funds like BUIDL and USTB. These funds are typically available only to accredited and whitelisted investors. USDM also serves as a permissionless wrapper for retail investors to access these funds.

Mountain Protocol is regulated by the Bermuda Monetary Authority (BMA) as a Class F licensee, issued under the Digital Asset Business Act 2018 of Bermuda. In May 2024, the BMA also released draft guidance for stablecoin issuers.

Accordingly, the collateral backing USDM is segregated from Mountain Protocol's corporate accounts. It is held in a bankruptcy remote structure on behalf of, and for the benefit of, USDM holders. Custodians that hold the collateral are pre-vetted by the BMA.

Currently, USDM holders earn an annual yield of 5%. Mountain Protocol distributes the yield via rebasing and issuing additional tokens to holders daily.

 USD pegged	 Fiat backed	 Fixed peg	 Yield bearing
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Suitability

Mountain Protocol issues USDM to institutions from supported countries that have completed a KYC process. These are primary users who are free to transfer USDM to secondary users with no direct relationship with the issuer. Mountain Protocol relies on the SEC's Reg S exemption to avoid SEC oversight and prohibits US persons from onboarding to the platform or purchasing USDM.

USDM is suitable for non-US users who want a regulated option to earn yield paid by the US Treasury in a stablecoin format. USDM is appropriate for retail as well as institutional users, including DAOs. However, users who are unable to complete KYC will need to rely on onchain liquidity pools.

Users interested in employing USDM in onchain strategies may access wrapped USDM (wUSDM). This facility distributes the yield by increasing the redemption value of the tokens daily using an ERC-4626 vault standard.

Stability

Score

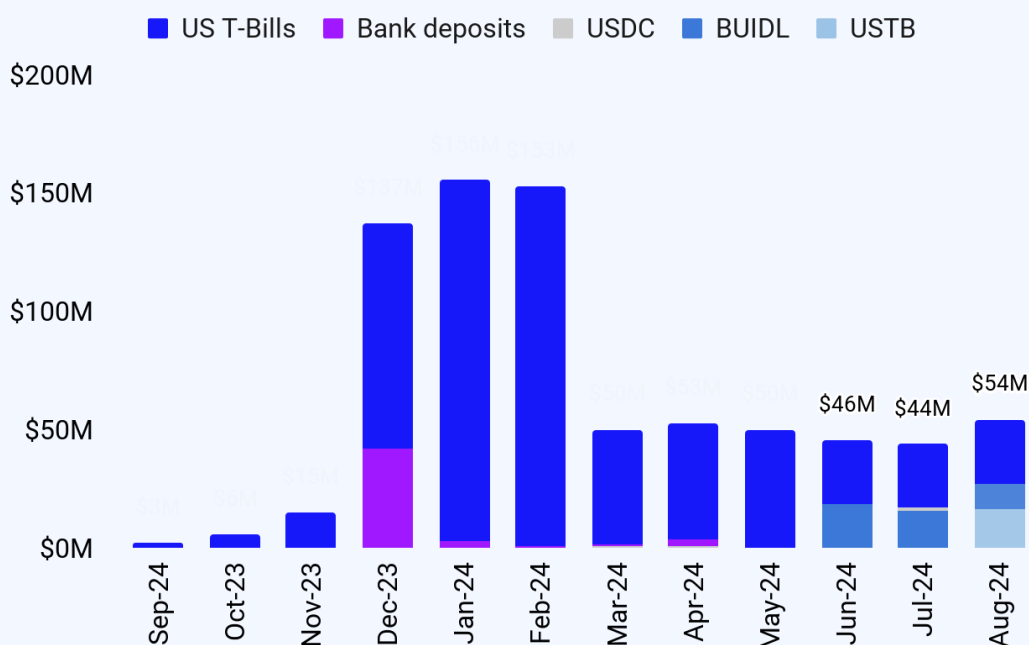
Reserves - Collateralization and Type of Collateral

1.00

USDM is fully backed by US treasury bills via direct holdings, and tokenized funds like BUIDL by BlackRock and USTB by Superstate. Collateral also includes stablecoins such as USDC and bank deposits.

Mountain Protocol's [investment mandate](#) requires 99.5% of total collateral to be invested in bank deposits, and US treasury bills or notes. This includes equivalent assets like repurchase agreements secured by the bills, and money market funds or ETFs that invest in the bills.

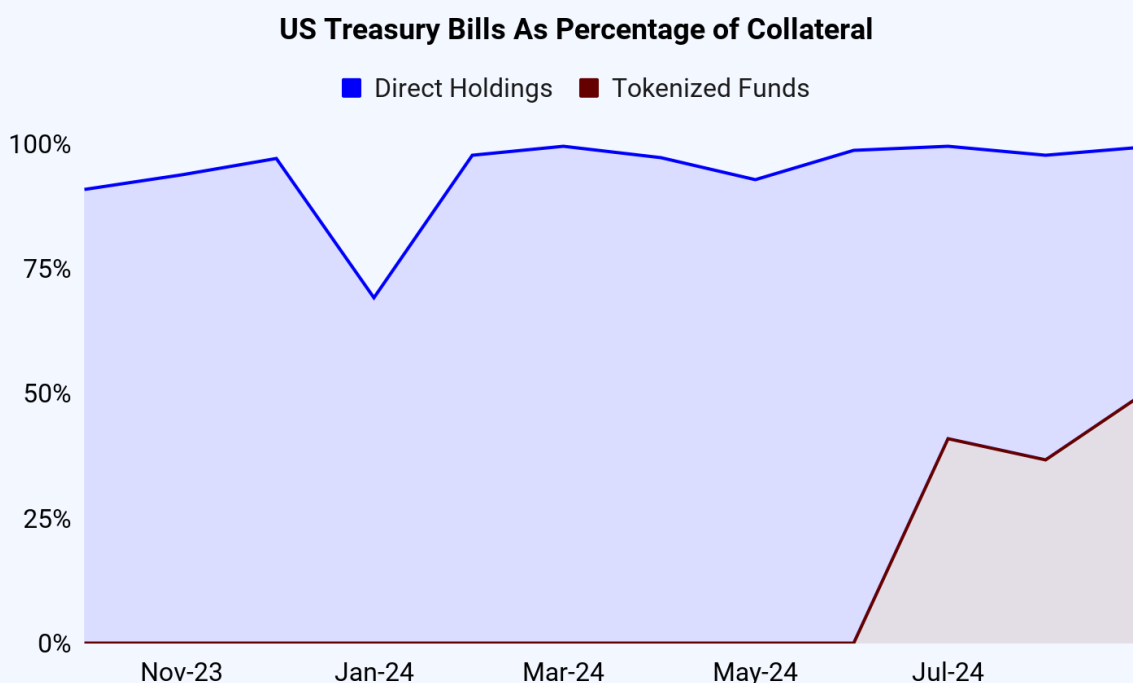
USDM Collateral Allocation



Collateral - Sep 2, 2024 attestation	Value (\$)	Value (%)
US treasury bills (direct holdings)	\$ 26,945,008	49 %
Bank deposits	\$ 98,742	0 %
USDC (stablecoin)	\$ 229,324	0 %
BUIDL (tokenized fund)	\$ 10,277,035	19 %
USTB (tokenized fund)	\$ 16,919,861	31 %
Total collateral	\$ 54,469,970	100 %
USDM market cap	\$ 53,115,527	

US treasury bills held as collateral have a dollar-weighted average maturity of less than 60 days. They present some of the lowest credit and duration risks, while trading in a highly liquid secondary market.

Historically, 94% of collateral has been invested in US treasury bills. Since July 2024, a significant portion of this exposure has shifted from direct holdings to tokenized funds like BUIDL and USTB. We look through the tokenized wrapper and consider the ultimate make-up of the collateral.



BUIDL by BlackRock is a tokenized [fund](#) that invests in US treasury bills and equivalent assets. The fund only buys floating rate securities maturing within 3 months of purchase. Investors can redeem BUIDL instantly at any time via a smart-contract controlled pool of USDC established by Circle.

USTB by Superstate is a tokenized fund that also invests in US treasury bills and equivalent assets. As per the latest [attestation](#) (Aug 2024), the fund has a dollar-weighted average maturity of 34 days and yield of 5.33%. On market days, investors can redeem USTB and receive funds on the same day.

Historically, the remaining 6% of collateral has been invested in stablecoins like USDC and bank deposits. These holdings are largely used to manage liquidity and facilitate daily issuance and redemption. USDC is one of the safest stablecoins with a Bluechip [rating](#) of B+.

Stability	Score
Reserves - Storage of Assets	0.85

Mountain Protocol does not publicly disclose the custodians that hold US treasury bills on its behalf. However, custodians are required to be pre-vetted by the BMA, as part of the issuer’s Class F license.

Collateral backing [BUIDL](#) and [USDC](#) is held by the Bank of New York Mellon, which is regulated in the US as a “systemically important financial institution” by the Federal Reserve. Collateral backing [USTB](#) is held by UMB Bank, which is also regulated in the US by the Office of the Comptroller of the Currency.

Since July 2024, a significant portion of exposure to US treasury bills has shifted from direct holdings to tokenized funds. As per the latest [attestation](#) (Sep 2, 2024), exposure is evenly split among the two options. Shifting exposure from direct holdings (with undisclosed custodians) to tokenized funds (with disclosed custodians) provides additional transparency in custodians.

Stability	Score
Reserves - Asset Segregation	1.00

Mountain Protocol is regulated by the BMA as a Class F licensee, issued under the Digital Asset Business Act 2018 of Bermuda (DABA). Further, the BMA has released draft guidance for stablecoin issuers.

The [Code of Practice](#) for DABA 2018 recognizes the concept of “client assets” and mandates that such assets be segregated from the issuer’s corporate treasury. The BMA’s draft guidance on stablecoins supports this requirement and prohibits rehypothecation of the collateral for the issuer’s benefit.

The Code of Practice for DABA 2018 also requires the issuer to return the assets to clients, in the event of a bankruptcy or liquidation. The BMA’s draft [guidance](#) on stablecoins supports this requirement and advises issuers to obtain a legal opinion on bankruptcy remoteness from an independent law firm.

After a period of enhanced supervision, Mountain Protocol’s license in Bermuda was upgraded to Class F. This represents a vote of confidence from the BMA and reinforces the issuer’s ability to comply with regulations that mandate asset segregation and bankruptcy remoteness.

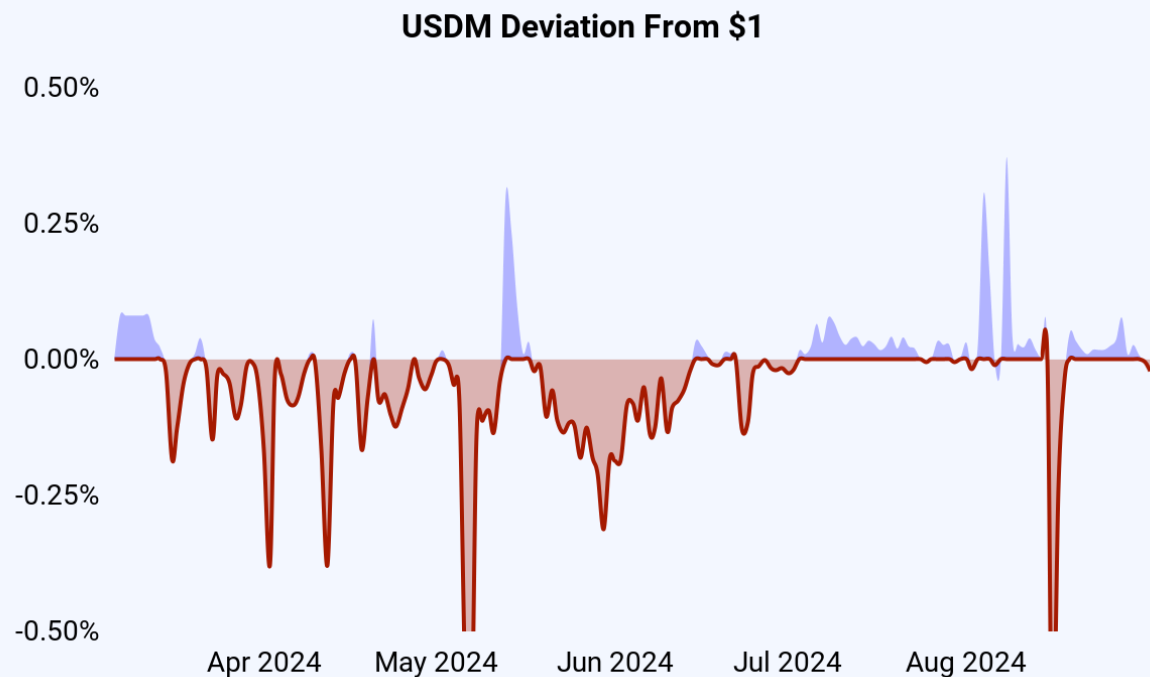
As specified in the [terms of service](#), Mountain Protocol does not retain legal title to the assets. The issuer holds the assets in custodial accounts, the terms of which expressly state that the accounts are held for the benefit of USDM holders.

Stability	Score
Market Feedback - Frequency of Deviation Below Peg	0.50
Market Feedback - Max Deviation Below Peg	0.50
Market Feedback - Price Volatility	1.00
Market Feedback - Downside Volatility in a Downturn	1.00

The period under evaluation includes the past 180 days from 15th Mar 2024 to 11th Sep 2024. Price data is sourced from [CoinMarketCap](#). View all calculations for this section [here](#).

During the period under evaluation -

- USDM traded below peg by more than 0.50% only on 3 days.
- Daily standard deviation of price is 0.12%.
- Average USDM deviation below \$1 during the 5 worst performing days for BTC is 0.05%.
- Largest USDM deviation below \$1 occurred on 16th Aug 2024 at -0.74%.



Stability

Score

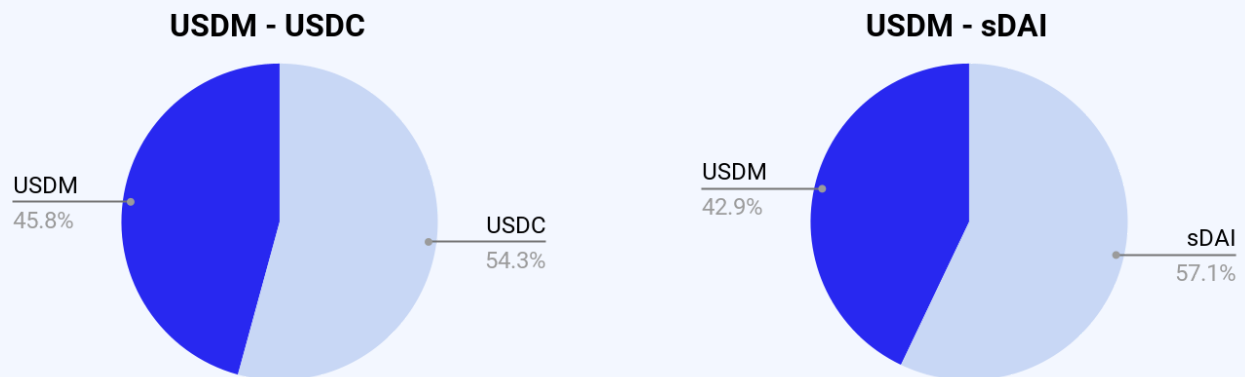
Market Feedback - Liquidity Pool Imbalance

0.50

The top 2 onchain liquidity pools are on the Curve DEX and have total value locked (TVL) of \$23M. Both are two-token pools with an average of 44% in USDM liquidity and 94% of Curve LP tokens staked.

Since retail users can't access primary liquidity, DEXs are the only venues to trade USDM.

Pool	DEX	TVL	USDM Share (%)
USDM - sDAI	Curve (Ethereum)	\$ 14,496,877	42.93 %
USDM - USDC	Curve (Arbitrum)	\$ 9,009,464	45.75 %



Stability

Score

Mechanism - Core Mechanism

1.00

USDM relies on market participants to arbitrage differences between USDM's market price and net asset value. This is the most effective price stability mechanism, as long as the stablecoin is fully collateralized.

When USDM trades away from its \$1 peg, any institutional user who has a KYC'd account with Mountain Protocol can mint or redeem USDM and make an instant profit. This riskless profit opportunity attracts more participants and eventually pushes the market price towards the peg.

The issuer provides a high level of transparency in collateral allocation and assurance that collateral is segregated and held in bankruptcy remote structures. This allows market participants to have adequate confidence in USDM's full backing and redeemability, allowing them to arbitrage the difference.

Stability	Score
Mechanism - Primary Liquidity Access	0.50

Only institutions from supported [countries](#) who have a KYC'd account with Mountain Protocol can mint or redeem USDM for USDC. The issuer supports USD payments only for transactions above \$1M.

Primary liquidity is not available to retail users, who rely on secondary liquidity on Curve DEX to buy or sell USDM. Primary liquidity is also not available to US persons, who are [prohibited](#) from opening an account or purchasing USDM due to the SEC Reg S exemption.

Management	Score
Restrictions - Known Core Team	1.00

Mountain Protocol was founded in Oct 2022 by Martín Carrica and Matías Caricato.

Both founders have an adequate level of prior experience in crypto and new ventures. Previously, Martín founded Naru (fintech start-up) and worked as a consultant at McKinsey, while Matías was the CTO at Buenbit (crypto exchange) and worked as engineering manager at Elementum (software firm).

The issuer's board includes compliance experts, such as Jeffery Baron (Chief Compliance Officer at Coinbase Bermuda and Bittrex) and Firas Habach (Swiss Head of Compliance at Revolut).

Team	Title		
Martín Carrica	Co-founder and CEO	Twitter	LinkedIn
Matías Caricato	Co-founder and CTO	Twitter	Github
Jason Mindlin	Chief of Staff	Twitter	LinkedIn
Erika Gonzalez	Chief Compliance Officer	LinkedIn	
Emanuele Rossi	Head of Sales & Expansion	Twitter	LinkedIn
Juan Capelli	Head of Operations & Finance	LinkedIn	
Jeffery Baron	Board Member	LinkedIn	
Nic Carter	Board Member	Twitter	LinkedIn
Firas Habach	Board Member	Twitter	LinkedIn
Matthew Homer	Advisor	Twitter	LinkedIn

Investors in Mountain Protocol [include](#) Coinbase Ventures, Castle Island Ventures, Multicoins Capital, and Bankless Ventures. Other investors include the founders of OpenZeppelin, Reflexer, and Nansen.

Additionally, the issuer has introduced a third-party oversight mechanism for critical operational and financial functions with meaningful impact. [Steakhouse Financial](#), a service provider, acts as a third-party signer for the issuer's Fireblocks wallet. Members of the service provider must approve any transactions over \$10M and those implementing new withdrawal addresses or modifying this policy.

Other service providers [engaged](#) by the issuer include EQ Capital (investment manager), The Network Firm (auditor), Nephos Accountants (proof of reserves attestations), Fireblocks (digital asset custody), and Winston & Strawn LLP and Carey Olsen (legal services).

Management	Score
Restrictions - Jurisdiction	0.64

Mountain Protocol is headquartered in Bermuda, a leading offshore financial center and one of the world's largest reinsurance centers. The issuer is regulated by the BMA as a Class F licensee, issued under the Digital Asset Business Act 2018 of Bermuda.

Bermuda is not scored by the World Justice Project. The World Bank's Rule of Law governance [indicator](#) can be used as an alternative. This indicator rates the quality of contract enforcement, property rights, the judiciary system, and the likelihood of crime and violence.

The governance indicator scores Bermuda at 0.69 in a range of -2.50, +2.50, which is translated to a range of 0,1 to calculate the score.

Governance	Score
Holder Protection	0.75

Mountain Protocol is regulated by the BMA as a Class F licensee, issued under the Digital Asset Business Act 2018 of [Bermuda](#). The legislation requires the issuer to custody collateral with pre-vetted custodians, segregate it from any corporate accounts, and ensure its return to customers in the event of a bankruptcy.

Further, the BMA has also published draft [guidance](#) for stablecoin issuers. This guidance outlines the regulator's expectations on asset segregation, bankruptcy remoteness, and custodial arrangements. If published, this will provide a more robust regulatory framework to protect USDM holders.

Previously, Mountain Protocol was granted a Class M license by the BMA. This is a temporary license that is typically offered to projects in a sandbox mode, but comes with scale restrictions and enhanced supervision from the BMA.

In July 2024, Mountain Protocol announced that it was [upgraded](#) to a Class F license by the BMA. This is a permanent license that is typically offered to projects that have demonstrated an effective compliance program and a proven business model. The upgrade is a vote of confidence from the BMA that reinforces the issuer's ability to comply with regulations.

Governance	Score
Periodic Reserves Attestations	1.00

Monthly [attestations](#) of collateral are published by Nephos Global, UK-based accounting firm (working via its subsidiary in Dubai). These attestations are performed in line with International Financial Reporting Standards (IFRS).

The attestations represent the accounting firm's opinion on the assertion that all USDM tokens are fully backed by collateral held by Mountain Protocol. The firm was able to select the nature, timing, and extent of the work required to express an independent opinion with a reasonable level of assurance.

Governance	Score
Financial Audits	1.00

Periodic attestations can ascertain the existence of adequate collateral, but they need to be supported by full-scope financial audits. As part of the Class F license, Mountain Protocol is required to submit such audits to the BMA every year. Auditors who perform this work are required to be pre-vetted by the BMA.

The issuer has engaged [The Network Firm](#), a Miami-based auditor that specializes in crypto accounting. Other prominent clients of the accounting firm include Ledn, CoinShares, and ArchBlock. It was [founded](#) by the former accounting team of Armanino, the auditor to FTX US.

Governance	Score
Redemption Policy	1.00

Mountain Protocol has adopted best-in-class redemption terms. As specified in the [terms of service](#), the issuer keeps liquidity to facilitate 24/7 redemptions (via a USDC line of credit from Wintermute). However, large requests may be subject to a T+2 business day redemption period.

Factor Scores

Factor	Weightage	Scores
Stability		0.85
Reserves		
Collateralization and Type of Collateral	25%	1.00
Storage of Assets	12.5%	0.85
Asset Segregation	12.5%	1.00
Market Feedback		
Frequency of Deviation Below Peg	4%	0.50
Max Deviation Below Peg	4%	0.50
Price Volatility	4%	1.00
Downside Volatility in a Downturn	4%	1.00
Liquidity Pool Imbalance	4%	0.50
Mechanism		
Core Mechanism	15%	1.00
Primary Liquidity Access	15%	0.50
Management		0.82
Restrictions		
Known Core Team	50%	1.00
Jurisdiction	50%	0.64
Governance		0.93
Holder Protection	28.5%	0.75
Periodic Reserves Attestations	28.5%	1.00
Financial Audits	28.5%	1.00
Redemption Policy	14.5%	1.00

Rating History

Date	Action	Rating	Report
20-Nov-2023	Initial rating	B+	Click to read
29-Aug-2024	Rating upgrade	A-	

Recommendations

The following actions by Mountain Protocol may improve factor scores.

- Publicly identify the custodians that hold US treasury bills or increase exposure to tokenized funds that offer higher transparency.
- Enable primary liquidity access for retail users directly or through exchange partnerships.

Additionally, the following outcomes outside the issuer's control may also improve factor scores.

- Deviations in USDM's market price below the \$1 peg reduce in frequency and magnitude.
- Onchain liquidity pools constitute a higher share of non-USDM tokens.
- Bermuda receives a higher score in the World Bank's Rule of Law governance indicator.

Decentralization

Decentralization is not a key objective for Mountain Protocol. USDM is not suitable for users who prioritize censorship resistance over other factors.

As a regulated entity, Mountain Protocol complies with relevant legislation and enforces sanctions from international authorities, such as the US Treasury or the US Office of Foreign Assets Control. The issuer retains the ability to blacklist specific wallets to comply with regulators.

While regulatory oversight results in a high degree of government censorship risk, it also provides robust consumer protection and increased transparency to USDM holders. Regulatory oversight prevents legitimate users from transacting with criminals, which may be a key requirement for institutions who are obligated to report their transactions.

USDM's value is tied to a fiat currency since it is fully backed by collateral denominated in USD. Thus, the monetary policy of the Federal Reserve and decisions taken by US government authorities impact the purchasing power of USDM.

Bluechip

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