

Stablecoin Safety Assessment

Coin	Euro Tether (EURT)
Date	04-06-2023
Overall Grade	D

Factor Scores:

S. No	Factor	Score	Assessment
1	Stability	0.54	Unstable
2	Management	0.62	Moderate risk
3	Implementation	N/A	Not assessed
4	Decentralization	0.30	High risk (Not relevant to the grade)
5	Governance	0.29	High risk
6	Externals	N/A	Not assessed

Summary

- EURT is a EURO-denominated stablecoin issued by Tether.
- EURT is backed by the same pool of assets that USDT is. Reserve assets include US Treasury Bills, Non-US Treasury Debt, Reverse Repos, corporate bonds, secured loans, Bitcoin and miscellaneous investments whose exact nature and liquidity profiles are undisclosed.
- In our assessment, there are safer Euro-denominated alternatives to EURT.

Evaluation

1. Stability [Score 0.54]

1.1. Reserves [Score 0.43]

1.1.1. Collateralization % and Type of Collateral [Score 0.95]

EURT is fully backed by the reserves of the Tether Group. As of March 31, 2023, the reserves comprise cash and bank balances (1%), US Treasuries (66%), Money Market Funds (9%), Overnight & Term Reverse Repos (10%) and a combination of corporate bonds, investments, secured loans and commercial papers (13%).

1.1.2. Storage of Assets [Score 0.35]

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

Tether refuses to disclose the names of banks and custodians it partners with for custody of reserves. Based on information available in the public domain, we know that Bahamas-based Deltec Bank & Trust, Ansbacher (Bahamas) Limited and Capital Union Bank, and Taiwan-based Far East International Bank, are or have been banking partners of Tether.

1.1.3. Asset Segregation [Score 0.00]

Tether does not maintain segregated accounts for assets held on behalf of EURT holders. Tether's assets are distributed across several associated entities. These assets are not bankruptcy remote.

1.2. Market Feedback [Score 0.50]

1.2.1. Frequency of Deviation Below Peg [Score 0.25]

Number of Days where VWAP < Peg by 0.5% or more during the past 180 days = 16

1.2.2. Max Deviation Below Peg [Score 0.25]

Biggest daily VWAP deviation below peg: 1.78%

1.2.3. Volatility (% per day) [Score 0.75]

Daily volatility (%) over the past 180-day period: 0.37%

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

Average deviation below peg during the 5 worst-performing days for BTC (DoD price change) in a

180-day period: 0.06%

1.2.5. Liquidity Pool Imbalance

[Score N/A]

Not relevant as on-chain liquidity is immaterial.

1.3. Stability Mechanism

[Score 0.75]

1.3.1. Core Mechanism

[Score 1.00]

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

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

1.3.2. Primary Liquidity Access

[Score 0.50]

Only users who possess a KYC'd account with Tether can redeem EURT for US Dollars, subject to a minimum redemption value of \$100,000. This limits the redemption right largely to institutional users and high net worth individuals. By excluding most retail users from redemption and thus, fewer participants can engage in the stabilization process and users lose confidence during depegging events.

2. Management

[Score 0.62]

2.1. Restrictions

[Score 0.75]

2.1.1. Known Core Teams

[Score 1.00]

Tether's executive team consists of JL Van Der Velde (CEO + Founder, Bitfinex), Giancarlo Devasini (CFO + Founder, Bitfinex), Paolo Ardoino (CTO, Tether & Bitfinex), Claudia Lagorio (COO, Tether and Bitfinex) and Stuart Hoegner (General Counsel, Tether & Bitfinex).

2.1.2. Jurisdiction Score

[Score 0.50]

Our scores are derived from the World Justice Project's Rule of Law (RoL) Index – specifically the factors of 'Regulatory Enforcement' and 'Civil Justice'.

The Tether Group comprises several entities registered in the British Virgin Islands (BVI), Hong Kong or Taipei City, Taiwan (China). The holding company is located in BVI but the primary operating entity (Tether Limited) is registered in Taipei City (China)

EURT's score is based on China being the country of operation (the United States' FinCen recognizes Tether's place of business as Taipei City, China).

2.2. Track Record

2.2.1. Team's Background

[Score 0.50]

Information about the team is scarce. Two Financial Times reports pertaining to the CEO and CFO of Tether & Bitfinex shed some light on potential causes of concern. These are linked below. The accusations therein, while difficult to prove with certainty, combined with Tether's history of misrepresenting its financial position and its consequent lawsuit settlement with the Attorney General of the State of New York, show some patterns that give us sufficient reason to be cautious about general management attitude

Links:

1. [FT Report on CEO](#)
2. [FT Report on CFO](#)
3. [Tether settles with NYAG](#)

Note: Track Record is not scored by default for most coins being rated. Scoring is done only when there are justifiable causes for concern.

3. **Implementation**

[Score N/A]

Not assessed

4. **Decentralization**

[Score 0.30]

4.1. **Regulatory Oversight**

[Score 0.50]

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.

EURT's issuer, Tether, is registered with the US FinCEN as a money service business. As an entity registered in the British Virgin Islands (BVI) with primarily BVI-registered banking partners, EURT is less prone to censorship at the associate-level than other US-registered / regulated stablecoin issuers. However, Tether actively cooperates with US authorities for blacklisting users suspected of money-laundering or criminal activities.

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 some types of stablecoin users. Furthermore, regulatory

oversight can also be beneficial to some users as it entails more robust consumer protection mechanisms and increased transparency.

4.2. Custodian Risk

[Score 1.00]

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.

Tether is believed to hold its assets through Deltec Bank, Ansbacher (Bahamas) Limited, Capital Union Bank and Far East International Bank. The existence of other custodians, if any, is undisclosed.

4.3. 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.

EURT is fully backed by USD/Euro-denominated real-world assets which are subject to the monetary policies of various nations.

(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 some types of stablecoin users.

4.4. Decision Making & Voting Power

[Score 0.00]

Fiat-backed stablecoins such as EURT are run by private corporations. As such, the absence of decentralized decision making and voting power is a feature, not a bug.

4.5. User Blacklisting

[Score 0.00]

Tether can and has exercised its power to 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.

5. Governance

[Score 0.29]

5.1. Holder Protection

[Score 0.25]

For holders of fiat-backed stablecoins, the best form of protection is the issuer being regulated as a stablecoin issuer. The next best option is being regulated as a financial institution. Tether meets neither of these criteria. Tether and its management personnel have claimed that Tether is a regulated entity but this

claim arises from Tether's registration with FinCen as a 'money service business' (MSB).

As per FinCen, "The inclusion of a business on the MSB Registrant Search Web page is not a recommendation, certification of legitimacy, or endorsement of the business by any government agency".

In the event of Tether going bankrupt, EURT holders' assets are not bankruptcy-remote.

5.2. Periodic Reserves Attestations

[Score 0.75]

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 like 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 0.50]

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.

Tether has engaged BDO, a CPA firm, to provide quarterly assurance opinions on its reserves.

5.3. Financial Audits

[Score 0.00]

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. This is especially true in Tether's case since EURT and USDT reserves are commingled with Tether's corporate funds.

However, Tether is yet to produce a full audit report of its financial statements. Its reluctance to do so stands in stark contrast to other major fiat-backed stablecoins.

5.4. Redemption Policy

[Score 0.00]

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

According to Tether's Terms of Service:

"Tether reserves the right to delay the redemption or withdrawal of Tether Tokens if such delay is necessitated by the illiquidity or unavailability or loss of any Reserves held by Tether to back the Tether Tokens".

Apart from the statement above, Tether makes no reference to redemption timelines.