

Stablecoin Safety Assessment

Coin	Tether Gold (XAUT)
Date	04-06-2023
Overall Grade	D

Factor Scores:

S. No	Factor	Score	Assessment
1	Stability	0.64	Unstable
2	Management	0.62	Moderate risk
3	Implementation	N/A	Not assessed
4	Decentralization	0.40	High risk (Not relevant to the grade)
5	Governance	0.21	High risk
6	Externals	N/A	Not assessed

Summary

- Tether Gold (XAUT) is a gold-backed stablecoin issued by TG Commodities, a subsidiary of Tether Holdings Limited.
- Each XAUT token represents ownership in 1 fine troy ounce of gold held at vaults in Switzerland.
- The Tether Group has a less than stellar reputation for its opaque operations and questionable practices. It has been the subject of intensive regulatory scrutiny and penal actions from the likes of the New York Attorney General and the CFTC for making false claims about the backing of USDT, another stablecoin issued by it.
- In our assessment, XAUT is only suitable for high-net-worth individuals and institutions who have registered accounts with Tether for availing redemptions.

Evaluation

1. Stability [Score 0.64]

1.1. Reserves [Score 0.80]

1.1.1. Collateralization % and Type of Collateral [Score 1.00]

As of March 31, 2023, XAUT is fully backed by 246,524.33 troy ounces of LBMA standard Good Delivery gold bars.

1.1.2. Storage of Assets [Score 0.70]

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

XAUT reserves are stored with a Switzerland-based custodian.

1.1.3. Asset Segregation [Score 0.00]

Tether explicitly warns users that Fiat, Digital Tokens or other property reflected in their Gold Token Wallet are not segregated assets held in the users' names or for their benefit but reflected only in the books and records of Tether Gold.

1.2. Market Feedback [Score 0.42]

1.2.1. Frequency of Deviation Below Peg [Score 0.00]

Number of Days where VWAP < Peg by 0.75% or more during the past 180 days = 26

1.2.2. Max Deviation Below Peg [Score 0.50]

Biggest daily VWAP deviation below peg: 1.5%

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

Daily volatility (%) over the past 180-day period: 0.44%

1.2.4. Downside Volatility in a Market Downturn [Score N/A]

Not relevant as gold-backed tokens are not actively used in crypto markets.

1.2.5. Liquidity Pool Imbalance [Score N/A]

Not relevant

1.3. Stability Mechanism

[Score 0.75]

1.3.1. Core Mechanism

[Score 1.00]

XAUT relies on market participants to arbitrage differences between the market price of XAUT and the spot price of 1 fine troy ounce of LBMA Good Delivery gold.

When XAUT trades away from the spot price of gold, any user who has a KYC'd account with TG Commodities (Tether) can mint or redeem XAUT for US Dollars and make an instant profit. This risk-less profit opportunity attracts more participants and eventually pushes the market price of XAUT towards the spot price of gold.

However, there is a minimum order size of 50 XAUT (approximately ~USD 100,000).

1.3.2. Primary Liquidity Access

[Score 0.50]

Any users who possess a KYC'd account with TG Commodities (Tether) can redeem XAUT for US Dollars or underlying gold bars in Switzerland.

There is a minimum order size of 50 XAUT (~USD 100K) irrespective of the mode of redemption.

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 in BVI but the primary operating entity (Tether Limited) is registered in Taipei City (China)

XUAT'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 0.5]

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 0.40]

4.1. 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.

TG Commodities Ltd is an unregulated entity based in the British Virgin Islands.

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 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.

Gold bars backing XAUT are believed to be held by a single custodian in Switzerland.

4.3. Type of Collateral

[Score 1.00]

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.

XAUT is backed by gold bars. Gold has proven itself as a haven asset over centuries

(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]

Asset-backed stablecoins such as XAUT 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 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 0.21]

5.1. Holder Protection

[Score 0.00]

XAUT's issuer, TG Commodities, is not a regulated entity. Holders of XAUT must solely rely on contractual protections, the enforcement of which can only be done through the courts of the British Virgin Islands.

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 global accounting firm, to provide quarterly assurance opinions on its reserves.

5.3. Financial Audits

[Score 0.00]

The Tether Group is yet to produce a full audit report of its financial statements.

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 Gold will make commercially reasonable efforts to process a verified customer request to redeem

Gold Tokens promptly. However, it may take several business days for any redemption to be completed. Tether Gold reserves the right to delay the redemption or purchase of Gold Tokens if the delay is necessitated by the illiquidity or unavailability or loss of any Gold Reserves backing the Gold Tokens or as otherwise required by Laws or demanded or lawfully requested by any Government.”

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