

TrueUSD: A Tokenized Version of the US Dollar

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1. Introduction

Blockchains, or distributed ledgers, have quickly gained adoption as one of the most promising technologies to emerge in the last ten years. They bring the potential to maintain public and secure ledgers of all sorts of data ranging from supply chains to voting records. Many governments and Fortune 500 companies have started dedicated blockchain divisions to begin leveraging the technology.

One of the most exciting applications of this new technology is its ability to act as an alternative payment rail. Similar to SWIFT, but available globally, more secure, and much faster at settling transactions. Stablecoins are a type of digital tokens designed to be pegged to another asset, typically fiat currencies, and are increasingly used as settlement assets globally.

TUSD is one of the longest standing USD-pegged stablecoins with broad multi-chain usage and the only stablecoin with onchain daily attestation capability. TUSD maintains robust reserve backing for all tokens in public circulation, and adopts a high standard of transparency among the peers with a short attestation report release interval (on a daily basis). It engaged a leading international accounting firm for real-time reserves monitoring and daily attestation report update, and its proof of reserves is also available on ChainLink.

Transfers occur on supported public blockchains, and the settlement speed and costs are subject to network conditions and gas fees, which may vary over time and across networks. TUSD can be redeemed by eligible verified customers in accordance with applicable terms and KYC/AML screening requirements and operational controls.

The industry is still in the early stage of exploring the full potential of stablecoins and we are always seeking partners in this process of discovery.

2. What is a *Stablecoin*?

Vocabulary for this industry is still being developed and it is possible that in a few years, 'stablecoin' will no longer be what or how the industry describes assets like TUSD, but for 'stablecoin' has become common lexicon. In its simplest form, a 'stablecoin' is a digital asset, on a *blockchain*, that is designed to be pegged to another asset, typically fiat currencies.

Presently, there are 4 main ways to design a *stablecoin*:

- (1) Algorithmic (derives value from a separate token specific to the stablecoin)
- (2) Commodity Collateralized (derives value from a commodity, e.g., Gold)
- (3) Cryptocurrency Collateralized (derives value from other cryptocurrencies, e.g., ETH, BTC)
- (4) Fiat Collateralized (derives value from a fiat currency, e.g., USD, EUR)

TUSDs fall under the 4th category, fiat collateralized. This discussion will only focus on this type of stablecoin.

3. Vision for Stablecoins

Stablecoins are a foundational pillar for the blockchain-based financial system. A stablecoin, when properly implemented, can seamlessly bridge two different assets, and serve as a medium of exchange for a new ecosystem of financial contracts, applications, and businesses.

The industry is still in the early stage of discovering the value that stablecoins can unlock. Much like how someone in the 90s would have difficulty imagining internet applications like Google and Facebook, it is difficult for the public today to envision all future applications of stablecoins.

Presently, a few use cases have emerged for stablecoins:

(1) Trading - At present, the majority of cryptocurrency trading on exchanges is done using stablecoin pairings. For example, on major cryptocurrency exchanges, TUSD may be traded against various cryptoassets. Stablecoins are popular for trading assets as it feels similar to how you would price and trade a stock. For example, in the equities markets, stock prices are quoted in USD and typically are exchanged for cash or cash equivalents. Equities are not typically exchanged for each other, such as trading Tesla shares for Google shares. Prior to stablecoins, on cryptocurrency exchanges, you were only able to trade 1 crypto asset (e.g., Bitcoin) for other cryptoassets (e.g., Ethereum). This means that a trader is taking on double price risk. With stablecoins like TUSD, this price risk is mitigated.

(2) Moving Money - Stablecoins have proven to be transformational for moving money around the world. Users are now able to send millions (or billions) of dollars in a single transaction.

(3) A Trusted Store of Value - Individuals in some countries face high barriers to entry to opening a simple bank account. Through TUSD, individuals and businesses around the world can access the economic security of the U.S. dollar through the digital representation of fiat value on supported blockchains.

In addition to the use cases that have emerged, there are other use cases for stablecoins that will likely be bigger than what exists today. Some of the most exciting use cases include:

(1) Remittances - As the industry continues to develop tokenized fiat representations, stablecoins may support remittances and cross-border settlement use cases, subject to local legal and regulatory requirements.

(2) B2B and International Trade - Stablecoins may reduce frictions in B2B settlement, subject to counterparty acceptance, FX risk, off-ramp availability and compliance constraints.

4. Proof of Reserves

TUSD maintains robust reserve backing for all tokens in public circulation, and has engaged a leading international accounting firm for real-time reserves monitoring and daily attestation report update. It adopts a high standard of transparency among the peers with short attestation report release interval (on a daily basis). TUSD's proof of reserves is also available on ChainLink.

Audit report:

<https://tUSD.io/transparency>

Proof of reserve released by ChainLink:

<https://data.chain.link/feeds/ethereum/mainnet/tUSD-por>

5. Creation and Redemption

One of the most important aspects of a fiat-collateralized stablecoin is the ability to be able to purchase and redeem the digital token back into the underlying fiat currency consistently, and in an inexpensive manner. Minting and redemption by users are subject to appropriate eligibility requirements, KYC/AML screening and operational checks by TUSD and its Banking Partners (as defined below).

6. Stablecoin Code of Ethics

Stablecoins are a foundational pillar for the blockchain-based financial system. A stablecoin, when properly implemented, can serve as a medium of exchange for a new ecosystem of financial contracts, applications, and businesses.

But until recently, cryptocurrency markets have been hurt by a lack of trustworthy fiat-backed stablecoins. While there has been a surge of new stablecoin projects, there has not yet been an industry-wide dialogue about what it will take for a fiat-backed stablecoin to be trusted as an integral part of the industry's infrastructure.

Regulators are establishing clearer policies for digital assets, including stablecoins. In the meantime, fiat-backed stablecoin projects can take the initiative and hold themselves to a high standard of ethics. While specific approaches may vary, there are at least a few lessons from the past that stablecoins should not repeat.

In short, the core pillars of this code of ethics include:

- (1) Reserves backing - Every token is intended to be backed by reserve assets in accordance with the disclosed reserve framework and third-party attestation reports.
- (2) Stable - A stablecoin is designed to maintain a stable value relative to the relevant fiat currency. However, secondary market pricing may deviate from the fiat currency due to liquidity, market conditions, counterparty risk or other factors.
- (3) Redeemable - We are committed to processing legitimate redemptions from verified customers, subject to applicable laws, compliance controls and operational risk management.
- (4) Compliant - We seek to operate TUSD in alignment with applicable regulatory requirements and evolving supervisory expectations in relevant jurisdictions.

7. Risks

Please note the following risks in minting and using TUSD:

7.1 Not a Bank Account

The users' accounts for minting and redemption of TUSD (and any available assets held in such account) are not bank accounts or deposit accounts. TUSD tokens are not bank deposits, are not legal tender, and are not financial instruments, and TUSD services may not constitute regulated financial services or activities in some jurisdictions. No interest will be paid on any funds or other assets held in users' TUSD accounts and all TUSD assets are not insured by any third party or any government agency. TUSD may collect interest or investment returns on fiat deposits held in TUSD escrow accounts. All minting and redemptions are subject to applicable legal, regulatory, compliance and operational requirements.

7.2 Third Party Risks

We work with independent third-party financial institutions, intermediaries and/or fiduciaries ("Banking Partners") to provide cash management for the fiat deposits backing TUSD tokens. There may be a risk of loss to these funds arising from operational failure, insolvency, fraud, misconduct, cyber incidents or other adverse events affecting such Banking Partners.

Any USD balance held by the Banking Partners may include cash, cash equivalents and other investments that may generate yield to support TUSD's administrative, operational and related costs, fees and charges. Therefore, in addition to the risks noted above, there may be a risk of loss to these funds associated with the creditworthiness, solvency, or performance of the instruments in which such funds are invested, as well as other market and operational risks.

7.3 Theft and Loss

Any depository account maintained by independent third-party financial institutions, intermediaries or fiduciaries for the benefit of TUSD token holders may not be sufficient to cover all losses incurred by TUSD holders due to theft, fraud, or cyber incidents. Transactions in TUSD may be irreversible, and, accordingly, losses due to fraudulent, mistaken, unauthorized or accidental transactions may not be recoverable.

7.4 Market Value Risk

The market value of TUSD tokens may be derived from the continued willingness of market participants to exchange fiat currency or digital assets for TUSD tokens, and there is no guarantee that such willingness will be maintained, which may result in price volatility, de-pegging, reduced liquidity, or partial or total loss of market value of TUSD in secondary markets.

7.5 Redemption of TUSD

All TUSD tokens will be rounded down to the nearest amount of the lowest circulating denomination of the underlying fiat currency, upon redemption, and redemptions are subject to applicable eligibility requirements, compliance checks, operational processes, liquidity availability, and legal or regulatory constraints.

8. Why This Matters

We view stablecoins as a critical piece of infrastructure for the continued growth of the blockchain industry. Even larger than the role that tokenized currencies will have in growing the blockchain ecosystem, is the capability they have to improve the existing financial system. Tokenized fiat representations may enable material improvements in settlement efficiency, transparency and programmability, subject to user protection considerations and regulatory oversight. Costs of traditional cross-border transfer can be significant in certain corridors. Stablecoins reduce certain intermediated costs, but users may be exposed to certain risks (as explained above).

9. Conclusion

Since the launch of TUSD in 2018, stablecoins have become an important settlement asset in digital asset markets and blockchain applicables. We are committed to transparency, user protection and responsible operation of TUSD.