

S&P Global Ratings Launches Stablecoin Stability Assessment

NEW YORK, Dec. 12, 2023 /PRNewswire/ -- (S&P Global Ratings) -- S&P Global Ratings today announced the launch of its stablecoin stability assessment, which aims to evaluate a stablecoin's ability to maintain a stable value relative to a fiat currency. This is a significant advance in the firm's commitment to leveraging its robust analytical and risk assessment capabilities to support both traditional finance (TradFi) and the growing universe of crypto-native decentralized finance (DeFi) clients.

S&P Global Ratings applies its analytical approach to assess a stablecoin's stability on a scale of 1 (very strong) to 5 (weak):



- First, we assess asset quality risks, including credit, market value, and custody risks.
- Second, we analyze to what degree any overcollateralization requirements and liquidation mechanisms may mitigate these risks.
- We then consider five additional areas: governance, legal and regulatory framework, redeemability and liquidity, technology and third-party dependencies, and track record.

Eight Leading Stablecoins Have Assessments Ranging From Strong To Weak

Backed by our deep expertise in risk assessment, the launch includes public assessments of eight leading stablecoins: DAI, FDUSD, FRAX, GUSD, USDP, USDT, TUSD, and USDC. According to our analytical approach, for the eight stablecoins evaluated, our stablecoin stability assessments range from 2 (strong) to 5 (weak) in terms of a stablecoin's ability to maintain its peg to a fiat currency (see table below).

As indicated in our analytical approach, the quality of the assets backing the stablecoin is a critical driver of the final assessment. Weaknesses in other areas, including regulation and supervision, governance, transparency, liquidity and redeemability, and track record, contributed to those stablecoins with lower assessments.

Stablecoin	S&P Global Ratings' stablecoin stability assessment
Dai (DAI)	4 (constrained)
First Digital USD (FDUSD)	4 (constrained)
Frax (FRAX)	5 (weak)
Gemini dollar (GUSD)	2 (strong)
Pax Dollar (USDP)	2 (strong)
Tether (USDT)	4 (constrained)
TrueUSD (TUSD)	5 (weak)
USD Coin (USDC)	2 (strong)

Lapo Guadagnuolo, senior analyst at S&P Global Ratings, said "As we look to the future, we see stablecoins becoming further embedded into the fabric of financial markets, acting as an important bridge between digital and real-world assets. Nonetheless, it's important to acknowledge that stablecoins are not immune to factors such as asset quality, governance, and liquidity. Our evaluations consider a variety of elements that can cause them to depeg below or above their targeted value."

Visit our [dedicated stablecoin stability assessment website](#), including the eight assessments.

Stablecoins have emerged as a critical component in the digital asset ecosystem, with the emergence of crypto finance becoming increasingly significant in the functioning of financial markets. Stablecoins are cryptocurrencies designed to maintain a stable value, often pegged to a 1 to 1 relationship with a fiat currency. Because of their stability, stablecoins form a bridge between TradFi and DeFi capabilities by making it easier for businesses and individuals to conduct transactions and make investments. However, with this potential comes a need for robust stability assessments.

Chuck Mounts, Chief DeFi Officer, S&P Global Ratings, said "The launch of this new service underscores our commitment to staying at the forefront of digital asset market trends and providing our clients with the insights

they need to make informed decisions. In our extensive discussions with key market participants and stakeholders, they are as excited as we are that a firm with the rich history and standing of S&P Global is applying its expertise in this market."

The stablecoin stability assessment culminated from insights gathered through deep-dive interviews with key market participants in the TradFi and DeFi sectors. The consistent feedback was that the market has little transparency or insight into the inherent risks of the different stablecoins.

Live Webinar And Q&A

Please join S&P Global Ratings analysts for a live interactive webinar on Jan. 10, where we will discuss stablecoin stability assessment and take questions. Click here to register (or copy and paste the website address into your browser):

<https://event.on24.com/wcc/r/4427139/F1A5448C99B0CA40877CB79108FF55E9?partnerref=newsletter>

This report does not constitute a rating action.

About S&P Global Ratings

S&P Global Ratings, part of S&P Global Inc. (NYSE: SPGI), is the world's leading provider of independent credit risk research. We publish more than a million credit ratings on debt issued by sovereign, municipal, corporate and financial sector entities. With over 1,600 credit analysts in 27 countries, and more than 150 years' experience of assessing credit risk, we offer a unique combination of global coverage and local insight. Our research and opinions about relative credit risk provide market participants with information that helps to support the growth of transparent, liquid debt markets worldwide.

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