

Stablecoin Stability Assessment

Gemini USD

Dec. 4, 2024

Summary

S&P Global Ratings continues to assess the ability of Gemini USD (GUSD) to maintain its peg to the U.S. dollar at 2 (strong).

Our asset assessment is 1 (very strong), given that GUSD is backed by what we consider as very low risk assets. GUSD reserves are held and maintained as either: cash deposits at a variety of highly rated U.S. banking institutions; U.S. treasury bills with maturities of three months or less; or money market funds. Since its inception in July 2018, GUSD has operated under the guidance of the New York State Department of Financial Services (NYDFS) as an issuer of U.S. dollar-backed stablecoins.

Our stablecoin stability assessment of 2 is one level below the asset assessment. This reflects the scarcity of liquidity on the secondary market and the current market capitalization of GUSD, which is relatively modest compared with the overall stablecoin market.

We could revise our stablecoin stability assessment to a stronger level if we observe greater adoption of the GUSD token (increased volumes or market capitalization). The use of riskier assets, such as depositing cash with low rated institutions, could lead us to worsen our assessment.

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For more on our approach and definition of price stability, see our [Analytical Approach: Stablecoin Stability Assessments](#) »

This report was not produced at the request of the stablecoin issuer or sponsor but with their input.

Asset assessment

1 Very strong
2 Strong
3 Adequate
4 Constrained
5 Weak

Adjustment

Negative (1)

Stablecoin stability assessment

2 Strong

Assessed on a scale of 1-5, where 1 is very strong and 5 is weak.

Asset assessment: 1 | Very strong

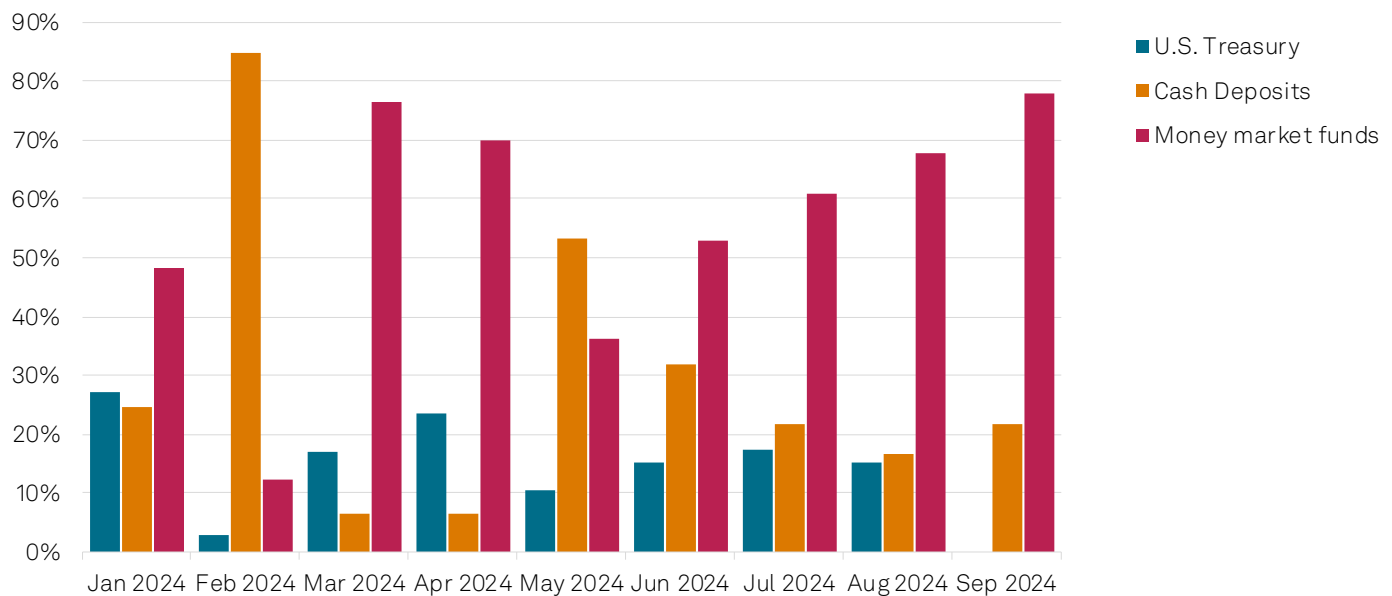
1 Very strong	2 Strong	3 Adequate	4 Constrained	5 Weak
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GUSD was created in 2018 and is a fully fiat collateralized stablecoin. It is issued by Gemini Trust Company LLC, which is headquartered in New York, U.S. Since it is under the supervision of the NYDFS, Gemini is required to comply with certain guidance as a stablecoin issuer. In line with this guidance, for each Gemini US\$ token issued, Gemini should have received a corresponding US\$ from customers and holds this as collateral as either: (i) cash deposits at a variety of banking institutions insured by the Federal Deposit Insurance Corp. (FDIC); (ii) money market funds; or (iii) U.S. Treasury bills with maturities of three months or less.

As per the latest attestation report as of Sept. 30, 2024, most of the assets are held in money market funds by BNY Mellon N.A. that are in turn exclusively invested in government securities, or repurchase agreements collateralized solely by government securities. As per the attestation reports, the collateral held in money market funds has remained steady in dollar terms. However, its contribution to the overall asset pool has increased substantially to on average of more than 60% of the overall reserve. In addition, as of Sept. 30, 2024, 21.8% of the reserve was held as collateral with banks rated 'AA-' by S&P Global Ratings and whose deposits are insured by the FDIC. This variation in the asset mix of the reserve does not change our asset assessment of 1 (very strong).

Exposure to currency or interest rate risks appears limited. As part of the NYDFS guidance, since the Gemini dollar reserves are held as cash deposits, money market funds, or U.S. Treasury bills with maturities of less than three months, exposure to interest rate risk is also limited, given the short-dated nature of these instruments.

GUSD reserves breakdown in 2024



Source: Gemini Trust Company LLC monthly attestations.

Adjustment: Negative

Neutral

Negative

Overall adjustment

Our stablecoin stability assessment of 2 is one level below the asset assessment, given the scarcity of liquidity on the secondary market and current market capitalization of GUSD, which is relatively modest compared with the overall stablecoin market. We acknowledge the benefit of NYDFS' regulatory framework since it sets clear guidance on the quality of the collateral as well as its segregation from the sponsor (Gemini).

Governance: Clear guidelines for asset management with appropriate transparency

- Since GUSD is under the supervision of the NYDFS, its underlying assets are disclosed publicly and, in line with the regulation, are in the form of U.S. Treasury bills, money market funds, and cash deposits at banking institutions insured by the FDIC.
- To protect users, GUSD is built with certain governance rules. The keys that approve high-risk actions such as printing or upgrading GUSD tokens are stored offline in Gemini's proprietary cold storage system. Also, high-risk actions require approval from at least two signatories. Even after approval, high-risk actions are locked for a minimum period of time before being executed. This provides a grace period to detect--and preemptively respond to--potential security incidents. Pending actions can be revoked, allowing for the nullification of erroneous or malicious actions before execution.
- The audit committee of Gemini's board of directors engaged an independent registered public accounting firm, BPM LLP, to regularly examine and attest to the underlying U.S. dollar balance, in accordance with the attestation standards established by the American Institute of Certified Public Accountants. An attestation is disclosed monthly on Gemini's website.

Regulatory framework: Comfort through the NYDFS regulation

Gemini operates under the supervision of the NYDFS for issuance of dollar-backed stablecoins and therefore must comply with the following rules:

- There must be proper segregation of GUSD's underlying assets from the assets of its sponsor, Gemini.
- There is a minimum requirement on the quality of the assets.
- Monthly attestations of GUSD reserves must be published by an independent certified public accountant licensed in the U.S. In the case of GUSD, this is BPM LLP.
- An independent certified public accountant licensed in the U.S. must provide an annual attestation report, confirming management's assertions on the effectiveness of the internal controls, structure, and procedures for compliance with the requirements of the monthly attestation.

Liquidity and redeemability: Direct primary redeemability but weak secondary market liquidity

- Under the GUSD user agreement, Gemini directly redeems GUSD 1 for US\$1 in one business day if the user has an account with know-your-customer (KYC) verification. This is within the guidance set by the NYDFS where the redemption should happen no more than two business days after receiving the redemption order.
- Although it has existed for several years, GUSD is not widely used in the crypto markets. It can be traded on the secondary market on some centralized exchanges including Coinbase but with relatively low liquidity. GUSD market capitalization has been decreasing consistently this year. This decrease could be explained partly by a community vote from MakerDAO that passed to remove GUSD from the DAI's peg stability module and reduce the exposure to zero. In addition, GUSD is only available on the Ethereum blockchain and other competing coins are generally available in a multichain version which may result in competitors having more use cases and more growth opportunities.
- Like other stablecoins, the availability of parties that can support payments 24 hours a day, and seven days a week remains limited and therefore GUSD redemption is constrained by the U.S. banking system's operating hours.

Technology and third-party dependencies: ERC20 token and audited smart contract

- GUSD has a fairly simple smart contract that covers main functionalities, creation, redemption, and transfer.
- GUSD is deployed on the Ethereum blockchain as an ERC-20 token.
- The smart contract was audited at inception in 2018 by Trail of Bits, which identified two high-, two medium-, four low-severity, and one informational issue. Gemini addressed the issues as they were discovered, and Trail of Bits confirmed that all discovered issues were resolved.
- The source code of the smart contract is open source. We are not aware of any bug bounty program that offers compensation for identifying and reporting vulnerabilities. Given the fact that all GUSD's reserves are managed off blockchain, there is less reliance on blockchain technology and therefore a major blockchain disruption is likely to have a limited impact on the stability of the coin.

Track record: Limited price volatility but a small player within the stablecoin market

- GUSD's market cap has been consistently declining after the community vote from MakerDAO to remove GUSD from the DAI's peg stability module and reduce this exposure to zero. In the last 12 months, GUSD has lost more than \$80 million in market cap (more than 50%). As of Nov. 13, 2024, GUSD's market cap was \$66.1 million on Etherscan. Despite being one of the first stablecoins issued, GUSD currently represents a relatively small proportion of the overall stablecoin market with around 0.04% of the total market capitalization.

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