

Stablecoin Stability Assessment

EURC

Jan. 17, 2025

Summary

S&P Global Ratings assesses EURC's ability to maintain its peg to the euro at 2 (strong). Issued by Circle Internet Financial Europe SAS (Circle France), EURC is redeemable for euros 1:1.

Our asset assessment is 1 (very strong). EURC is fully backed by low-risk assets, which are solely euro-denominated deposits. EURC's cash reserves are held in segregated accounts held by Circle France with regulated financial institutions. We understand that almost all these assets are held at a global systemically important bank rated 'AA-/A-1+'. On Jan. 9, 2025, the collateralization ratio exceeded 100%. Also, as a licensed electronic money provider subject to the European Markets in Crypto Assets Regulation (MiCA), Circle France must comply with further requirements for the composition of reserve assets and liquidity.

The stablecoin stability assessment of 2 (strong) includes a negative adjustment to reflect our view of EURC's small size and limited track record compared with other stablecoins. In our view, there is consistent disclosure on the amount of reserves, but additional details would enhance transparency. There are no publicly available audit reports on EURC's smart contracts. However, EURC uses the same smart contract as USDC, the more established fiat-collateralized stablecoin issued by Circle in 2018, and an audit report on that contract is available publicly. EURC also displays solid secondary market liquidity.

The stablecoin stability assessment could improve if EURC demonstrates a longer track record and broader reach along with the same credit quality of reserves. Enhanced transparency in reporting, including granular information on the creditworthiness of financial institutions where the reserves are kept, would support such a reassessment. Conversely, if Circle France relaxed its reserve asset policy to include reserve assets or banks with weaker creditworthiness, this could lead us to revise down our stablecoin stability assessment.

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

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Asset assessment

1 Very strong
2 Strong
3 Adequate
4 Constrained
5 Weak

Adjustment

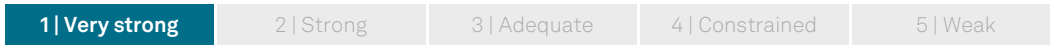
Negative (1)

Stablecoin stability assessment



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

Asset assessment: 1 | Very strong



EURC is a fully fiat-collateralized stablecoin pegged to the euro. It was first issued as EUROC by Circle Internet Financial, LLC (Circle LLC) in June 2022. From July 1, 2024, Circle France became the sole issuer of EURC. As of the same date, Circle France became the first global stablecoin issuer to achieve compliance with the EU's MiCA regulatory framework. For its operations in the EU, Circle's regulatory compliance includes a license as an electronic money institution from France's banking regulatory authority. Circle France also issues USDC, Circle's dollar-based e-money token within the European Economic Area (EEA).

EURC's electronic money tokens are backed by reserve assets consisting exclusively of euro cash deposits. These deposits are held in segregated accounts and are subject to monthly verification by established accounting firms, currently Deloitte. As of Jan. 9, 2025, the circulating supply of €85.9 million was fully backed by reserves in excess of that amount, according to the issuer's public disclosure. Neither the audit report nor EURC's white paper mention specific details about the permissible custodians. According to the issuer's white paper, reserve assets can also comprise other euro-denominated securities, but we note the fiat currency reserve has exclusively consisted of euro cash deposits since EURC's inception. It is also our understanding that the vast majority of these euro cash deposits are held with a global systemically important bank rated 'AA-/A-1+'.

There is no exposure to currency or interest rate risks. This is because 100% of the reserves are held as cash deposits in euro, the currency that EURC is redeemable for.

We anticipate that the reserve assets will be diversified across several custodians or instruments. This would result from introduction of guidelines of regulatory technical standards for stablecoins issued by the European Banking Authority (EBA), which we believe will complement the regulatory requirements for reserve asset adequacy under MiCA. The MiCA regulation already restricts the percentage of reserve assets that can be held in instruments other than deposits, with concentration limits applying to holdings of individual securities. In our view, these regulations and guidelines will influence the amount of counterparty credit risk that a stablecoin issuer can take on.

Adjustment: Negative



Overall adjustment

Our stablecoin stability assessment is one level below our asset assessment. This adjustment reflects our view of EURC's limited track record and small size compared with more established stablecoins. In addition, we note limited public disclosures on the creditworthiness of the custodians of EURC's reserve assets, as well as the lack of audit reports on EURC's smart contracts.

Governance: Good reporting standards with monthly third-party verification on reserve adequacy

- EURC benefits from a clear and transparent approach for the management of its underlying assets. As a MiCA-regulated entity, the issuer must also implement robust strategies and processes to monitor liquidity risks, complemented by additional requirements regarding reserve asset composition.
- The reserve assets are subject to monthly review and attestation by an independent auditor, published most recently in November 2024. The auditor reviews the assets of the company at the end of the month and on a random date during the month to ensure that there is no major deviation in the composition of the assets. Moreover, Circle publishes similar information about the composition of assets on its website at more frequent intervals.
- The monthly audit reports do not provide insight into how the reserve assets are distributed among financial institutions, which we see as a weakness.

Regulatory framework: Compliant with new EU regulation

- Circle France, the issuer, is authorized by the French regulator ACPR as an electronic money institution. As such, it is allowed to issue fiat-backed stablecoins.
- We understand that EURC complies the MiCA regulation in the EU. The enforceability of specific rules applicable to stablecoins started from June 30, 2024, and harmonized rules for crypto-asset service providers applies from Dec. 30, 2024. However, under MiCA, issuers have been subject to several requirements since June 30, 2024. These include:
 - Maintaining own funds (common equity tier 1 capital) equivalent to at least 2% of average reserve assets.
 - Holding at least 30% of reserve assets as local currency deposits with credit institutions.
 - Keeping the reserve in a legally separate account and ensuring operational segregation so that the issuer's creditors have no recourse to the stablecoin's reserve in the event of insolvency.
 - Allowing holders of EURC to redeem their tokens directly from the issuer at any time, without fees.

Liquidity and redeemability: Direct primary redeemability and comparably solid secondary market liquidity

- Holders of EURC can redeem their tokens at any time, at par value (EURC 1 for €1) either directly through the issuer or via a partnered exchange. As of December 2024, the exchange option is only available to EU residents. Both options are subject to know-your customer, counter-terrorist financing, anti-money laundering, and sanction rule verifications. According to the white paper, the process for a retail holder to redeem EURC tokens and receive fiat euro should not take more than five business days, unless discrepancies are identified during the redemption process.
- EURC can be traded on regulated secondary market exchanges operating in the European Economic Area, such as Coinbase, Bitvavo, Bitpanda, Kraken, or OKX, and with trading supported by dedicated liquidity providers. Furthermore, volumes are good, with intraday trading topping €61.5 million in December 2024, equivalent to about 70% of EURC's €87.5

million market capitalization on the same date. There were about 4,350 holders of EURC as of Dec. 31, 2024 and a market capitalization at €80.6 million.

Technology and third-party dependencies: Smart contract audits are not publicly available

- EURC is currently deployed on several blockchains, including the EVM (Ethereum Virtual Machine) compatible platforms of Ethereum, Base, and Avalanche, where it operates as an ERC-20 token, the technical standard for interchangeable tokens using these systems. In addition, EURC is deployed on two non-EVM compatible blockchains, Stellar and Solana.
- According to its white paper, Circle works with recognized auditing firms, such as Chain Security, Kudelski, and Halborn, to audit EURC smart contracts prior to a launch or upgrade. These audit reports are not publicly available. However, this is mitigated by Circle's use of the same smart contract for EURC as that for USDC, for which the audit reports are available publicly.
- EURC's smart contracts use open-source code, which facilitates independent verification of its functionality and security. Additionally, there is a bug bounty program to encourage the identification and reporting of vulnerabilities.

Track record: A small but expanding stablecoin

- As of Dec. 31, 2024, EURC's market capitalization stood at €80.6 million (\$83.9 million), according to data from CoinGecko representing a minor 0.05% of the overall stablecoin market.
- EURC has exhibited limited price volatility. Over the past 12 months, its daily closing price fell more than 1% below the peg on five occasions. The maximum intraday deviation from the peg is low and never exceeded 1.5%. In each instance, the price quickly returned to the peg by the following day. That said, EURC's price history is somewhat limited and the stablecoin is yet to establish a sufficiently long track record of maintaining the peg to the euro through significant market stress.

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