S&P Global
Ratings

Stablecoin Stability Assessment

USDC

Dec. 19, 2024

Summary

S&P Global Ratings assesses the ability of USDC to maintain its peg to the U.S. dollar at 2 (strong). USDC is issued by Circle Internet Financial LLC (Circle).

Our asset assessment is 1 (very strong). USDC benefits from full backing by low-risk assets, primarily short-dated securities, and deposits with banks. These are held mainly at SEC-registered Circle Reserve Fund (CRF) at BlackRock. As of Oct. 31, 2024, the fair value of assets held in reserves was $34.73 billion, with $34.67 billion USDC in circulation. Additionally, BlackRock manages CRF's cash held at Bank of New York Mellon. Based on the October report there is roughly $4 billion of cash held outside BlackRock management at regulated financial institutions and identified as highly rated Global Systemically Important Banks (GSIBs). The audited report shows 23% of assets held in treasuries, 63% in repurchase agreements, and 14% in cash on Oct. 31, 2024. Overall, 12% of assets are made of cash held outside the CRF at the same date. We understand that this is mainly for liquidity management purposes.

The stablecoin stability assessment is 2 (strong) to reflect our view of insufficient precedent on whether assets would be protected in the event of bankruptcy of Circle. This is although Circle reports that USDC's underlying reserves are segregated from its other assets. Circle is registered with the Financial Crimes Enforcement Network, a department of the U.S. Treasury. USDC is regulated as a form of stored value or prepaid access under laws governing money transmission in various U.S. states and territories. We no longer view a price instability as a weakness given the strong performance for over 12 months.

The stablecoin stability assessment could improve if there is increased certainty regarding the segregation and bankruptcy remoteness of the reserve assets and assets remain very strong. If cash or other holdings are held in banks we view as less creditworthy, this could lead to a weaker asset assessment.

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

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

Asset assessment	Adjustment	Stablecoin stability assessment
1 | Very strong	Negative (1)	**2** Strong
2 | Strong		
3 | Adequate		
4 | Constrained		
5 | Weak		

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

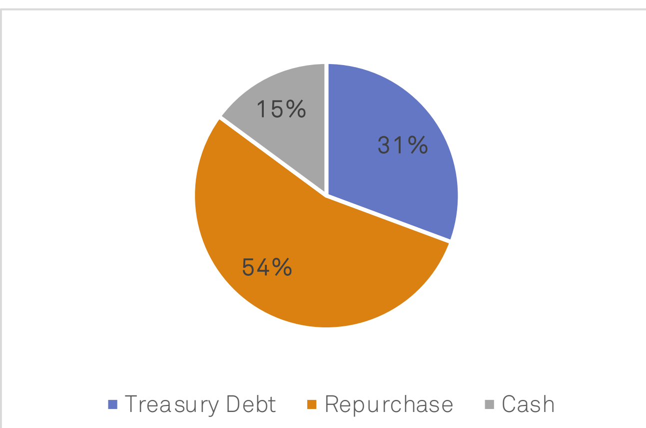
Asset assessment: 1 | Very strong

1 | Very strong	2 | Strong	3 | Adequate	4 | Constrained	5 | Weak

USDC is a fully fiat-collateralized stablecoin first issued in September 2018 by Circle. Circle will be moving its headquarters to New York city in 2025. Based on the Oct. 31, 2024, report, reserves amounted to $34.73 billion for a circulating USDC supply of $34.67 billion. The audited report shows 23% of assets held in treasuries, 63% in repurchase agreements, and 14% in cash. The CRF, which holds the majority of reserves, is updated more frequently. Data reported by BlackRock as of Dec. 9, 2024, show that of the $34 billion invested at the CRF, U.S. Treasury overnight repo agreements represented 54% and short-dated U.S. Treasury debt 44%. The additional $4 billion held outside the CRF is held at regulated financial institutions and identified as highly rated GSIBs to facilitate the USDC issuance and redemptions. This represents roughly 12% of overall assets. Circle no longer indicates which banks hold the cash outside the CRF. In 2023, Circle indicated that close to 80% was held with Bank of New York Mellon. However, we understand that this is done primarily for liquidity management purpose. Moreover, Circle's publicly stated investment intent highlights the use of GSIBs. Therefore, we view these reserves overall as very strong. If the amount of cash held outside the CRF continues to increase, it could affect our asset assessment particularly if, for example, the cash as a percentage of overall investments becomes concentrated in weaker banks. USDC provides monthly attestation reserve reports reviewed by Deloitte & Touche LLP.

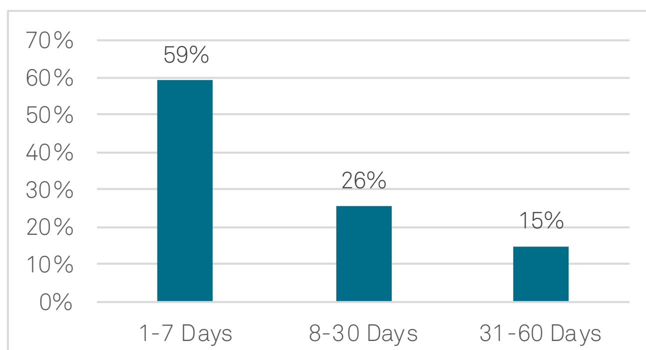
The nature of the reserve assets implies minimal exposure to additional risks. Reserves held in the CRF have a weighted average maturity of 13 days as of Dec. 9, 2024. Deposits with banks are typically on demand and held for liquidity management purposes. All the assets are denominated in the reference currency of USDC.

Reserve report, Oct. 31, 2024



Source: S&P Global Ratings. Blackrock CRF, Circle monthly attestation.

Circle Reserve Fund (days maturity allocation), Dec. 9, 2024



Source: S&P Global Ratings. Blackrock CRF.

Adjustment: Negative

Neutral **Negative**

Overall adjustment

Our stablecoin stability assessment is one level below our asset assessment. This adjustment incorporates our view of a lack of certainty regarding the bankruptcy remoteness of the collateral assets from Circle more broadly

Governance: Good and timely reporting

- USDC benefits from a clear and transparent approach for the management of its underlying assets. We understand that Circle is committed to maintaining the same quality of assets to preserve the peg stability. Circle holds its cash with the CRF and in GSIBs.
- In order to be compliant with the EU's Markets in Crypto-Assets Regulation (MiCA), Circle must hold sufficient reserves in a French bank and the amount needs to be sufficient to cover its users with Circle Mint accounts (i.e. can transact directly with Circle). The reserve report combines all cash holdings and does not distinguish the holdings' location.
- The assets are subject to monthly attestation and monthly review by an independent auditor. The most recently published attestation was in October 2024. The auditor reviews the assets of the company at the end of the period and at 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 with a higher update frequency. As of Dec. 9, 2024, the most recent information available on Circle's website was dated Oct. 31, 2024. BlackRock provides daily information on the CRF.

Regulatory framework: MiCA compliant

- Circle is a registered money services business with the Financial Crimes Enforcement Network, a department of the U.S. Treasury. USDC is regulated as a form of stored value or prepaid access under laws governing money transmission in the various U.S. states and territories. These terms apply only to USDC issued by Circle. Additionally, Circle is regulated as an Electronic Money Institution (EMI) by the U.K. Financial Conduct Authority.
- Circle was granted an EMI license by France's Autorité de Contrôle Prudentiel et de Résolution (ACPR), part of the Banque de France and is fully MiCA compliant as of June 30, 2024. Circle France will mint USDC. As part of MiCA compliance, reserves backing USDC minted in France must have 60% of reserves in bank accounts.
- Circle notes that USDC reserves are segregated and shielded from Circle creditors in the event of a Circle bankruptcy and that this protection is afforded under the state money transmission law (section 651 of the New York Banking Law) and applicable federal bankruptcy laws. However, at this time there is insufficient precedent or certainty that these reserves would be considered separate from the rest of Circle's business and operations or that, in a case of bankruptcy, these assets would be protected and excluded from the bankruptcy proceedings. Circle intends to move its headquarters to New York. This does not change where the company is registered, which remains in Delaware. Having its headquarters in New York will not change any of the regulatory oversight for USDC in the U.S.

- Circle is subject to an annual examination that covers its financial conditions, internal controls and auditing, legal and regulatory compliance, management, systems, and technology.

Liquidity and redeemability: Strong secondary market liquidity

- Redemption of USDC directly with Circle is tiered. Only Circle partners or Type A users (crypto exchange, financial institutions, etc.) can request direct redemption of USDC from Circle. These partners are subject to know-your-customer (KYC) requirements. Individual users, or Type B, cannot request direct redemption from Circle. They must go through secondary channels or Circle's partner Coinbase to exchange USDC to USD 1 to 1. The two companies have aligned economic incentives and visions on the use of USDC as a stablecoin. Coinbase is regulated by New York State Department of Financial Services, which we believe highlights its commitment as an exchange.
- Secondary market liquidity for USDC is strong, with significant liquidity on several centralized and decentralized exchanges.
- Like other stablecoins, the availability of parties that can support payments 24 hours a day seven days a week remains limited and therefore USDC redemption is constrained by the U.S. banking system's operating hours.

Technology and third-party dependencies: Audited smart contract and wide presence on blockchains

- At its inception, USDC was launched on the Ethereum blockchain as an ERC-20 token. Currently, USDC is available on 16 blockchains, although the majority of USDC supply is on Ethereum.
- The smart contract of USDC was audited by Callisto Network in May 2024, which did not find any major issue.
- Circle launched a Cross-Chain Transfer Protocol (CCTP), which is a permissionless utility on the blockchain that enables USDC to transfer across blockchains through native burning (removal of tokens) and minting. The smart contract related to CCTP was audited by Chainsecurity, which did not find any major shortcoming.
- In March 2022, Circle launched a vulnerability disclosure program on HackerOne to harness the ethical hacker community to reduce cyber risk.
- Given that all USDC's reserves are managed off the chain, a major technology disruption is likely to have a limited impact on the stability of the coin.

Track record: Stronger

The peg and secondary market prices of USDC have been stable for more than a year. After its secondary market depeg in March 2023, the market capitalization of USDC declined, reaching about $24.5 billion on Dec. 11, 2023, compared with more than $50 billion around midyear 2022. While not returning to its peak, USDC has grown, reaching $40.22 billion as of Dec. 5, 2024.