

PRIMER

Stablecoins & institutions

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Crypto assets with stability

Stablecoins offer a digital payment mechanism with faster and less costly settlement than analog fiat transactions.

Stable crypto assets

What are stablecoins?

Developed to counter the volatility of crypto markets, stablecoins often provide a digital analog to fiat currencies and are backed by assets including USD, Bitcoin, and gold.



Stable crypto value

A stablecoin is a digital asset that is designed to have a stable value with reference to a reserve asset in an attempt to provide price stability



Efficient transactions

Certain stablecoins, those that are sometimes called “payment stablecoins,” can transform fiat currency into a digital form of equivalent value, which can then be used more efficiently



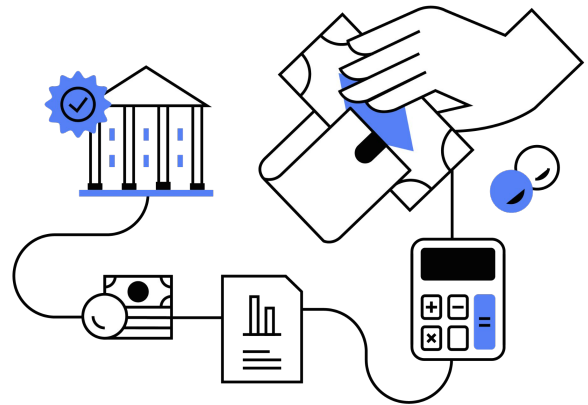
Backed by assets

Stablecoins are commonly pegged to fiat currencies or backed by other assets such as Bitcoin (BTC) or traditional commodities like gold



Built on smart contracts

Made possible by blockchain-based smart contracts, stablecoins often serve as a technical wrapper to the underlying fiat currency allowing it to travel on digital rails



Underlying assets

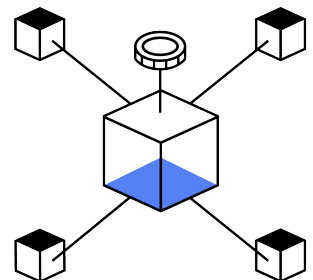
What are the different types of stablecoins?

There are three primary types of stablecoins that aim to provide price stability:

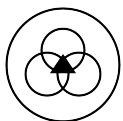
- 1. Fiat and traditional commodity-backed:**
Backed by a fiat currency like USD or commodity like gold via a 1-1 peg that is referenced off-chain with auditable custodied reserves, e.g., USDC
- 2. Crypto-backed:**
Backed by a crypto-asset via an on-chain peg that is executed by smart contracts, e.g., DAI
- 3. Algorithmic-backed:**
Non-collateralized, algorithm-backed stablecoins attempt to maintain stability through algorithmic supply expansion and contraction, e.g., UST

Of the three types, fiat and traditional commodity-backed stablecoins are the most secure, often with 1-1 backing that can be proven through regular and transparent audits. Crypto-backed and algorithmic stability-seeking tokens present risk. In particular, some algorithmic stablecoins have not maintained their pegs and have failed.

There is proposed U.S. legislation that would require stablecoins to (1) be fully backed by U.S. dollars and cash equivalents, (2) custodied in authorized banks, (3) subject to regular assessments of reserves, and (4) issued by non-banks and banks.

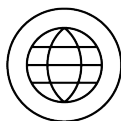


How institutions use stablecoins



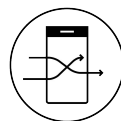
Price stability

Provide holders and traders with price stability within the crypto asset market



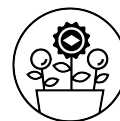
Global payments

Deliver a mechanism for crypto-based payments for global financial transactions



Avoiding fiat conversion

Enable traders to move in-and-out of cryptocurrencies without converting to fiat currency



Earn rewards

Receive rewards on stablecoin balances held at a given custodian

Transaction efficiency

What are the unique benefits for institutions?

Stable crypto assets can offer lower-cost, real-time, and safe payment options.

Fast settlements

Used to facilitate fast and streamlined peer-to-peer and cross-border payment processing by eliminating third-parties from transactions

Merchant settlement

Integration with other banks is not required when settling between merchants with stablecoins, and transaction fee payments to other institutions is eliminated

Less costly transactions

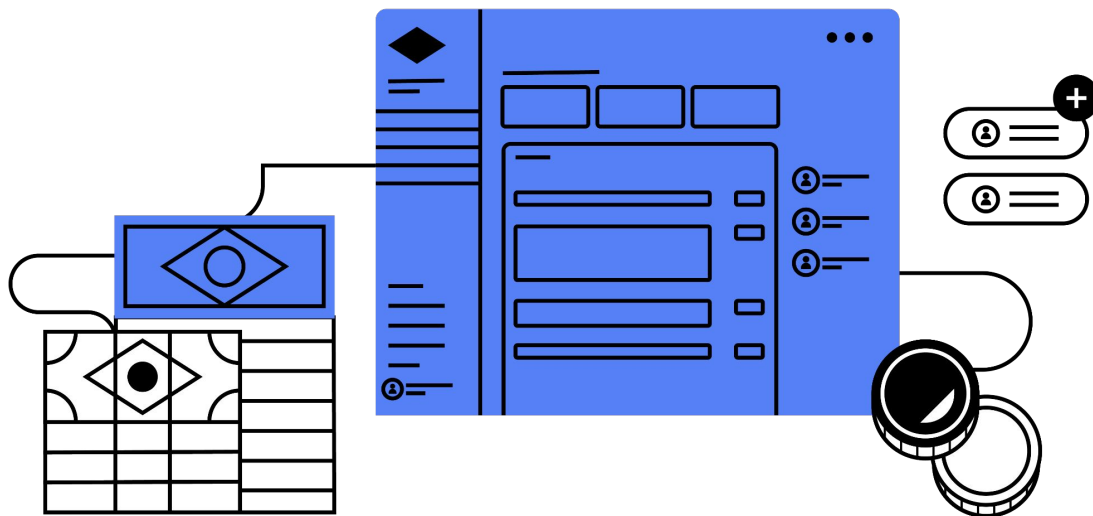
Payments are sent without need for banking wires and remittance infrastructure

Easy conversion

Stablecoins can support the ability to freely convert value to USD

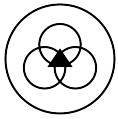
Global USD access

Used in regions where there is a lack of infrastructure or a volatile local currency



Stablecoins present differing viewpoints

What do institutions need to know before custodying stablecoins?



Backed 1:1

Stablecoins should be backed 1:1 with high-quality liquid assets held in transparent reserves to prevent so-called "run risk"



Not investments

Stablecoins are payment and settlement technology, and a mechanism to get USD into the digital asset ecosystem; they are not an appreciable asset to buy low and sell high



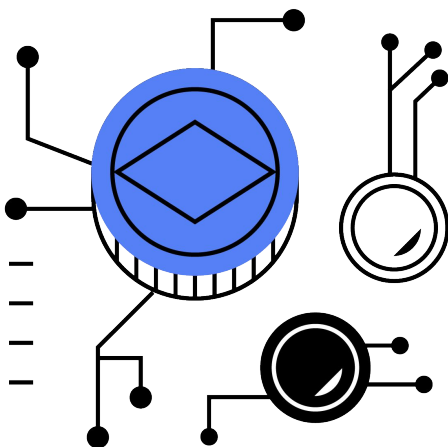
AML/KYC

AML and KYC should be conducted at both on-and-off ramps for stablecoins



Tech-issued

Stablecoin issuers should be technology and/or security companies, not banks; reserves should be held in a bank, subject to disclosure requirements



Stability

Stablecoins backed by USD promote national security and financial stability



USD as reserve

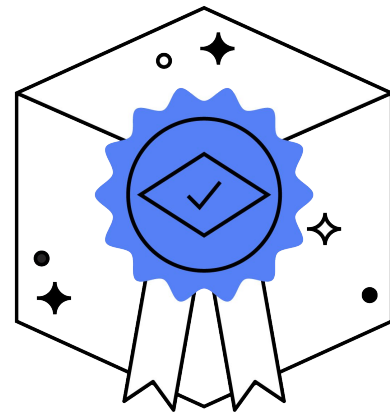
Use of USD as a reserve maintains its prominence as the world's reserve currency and allows the U.S. to have ultra-jurisdictional influence over global financial systems

Why secure custody matters

Why is a federally chartered trust bank the right partner to custody stablecoins?

Stablecoins custodied at federally chartered banks are subject to a high degree of oversight, similar to traditional financial assets like electronic stock certificates and precious metals at traditional banks.

Ensure that the custodian of your stablecoins checks all of the following boxes:



- ☐ A federally chartered trust bank and unequivocal qualified custodian
- ☐ Executes compliance procedures in accordance with the Bank Secrecy Act (BSA)
- ☐ Adheres to capital adequacy requirements Ensures an institution's assets are secured in separate client accounts
- ☐ Protects institutions from cyber security threats, keeping client assets safe at all times
- ☐ Delivers auditable accounting of assets
- ☐ Keeps assets bankruptcy remote and not part of debtor estate in bankruptcy proceedings

About Anchorage Digital

Anchorage Digital is a global crypto platform that enables institutions to participate in digital assets through custody, staking, trading, governance, settlement, and the industry's leading security infrastructure. Home to Anchorage Digital Bank N.A., the first federally chartered crypto bank in the U.S., Anchorage Digital also serves institutions through Anchorage Digital Singapore, which is licensed by the Monetary Authority of Singapore; Anchorage Digital New York, which holds a BitLicense from the New York Department of Financial Services; and self-custody wallet Porto by Anchorage Digital. The company is funded by leading institutions including Andreessen Horowitz, GIC, Goldman Sachs, KKR, and Visa, with its Series D valuation over \$3 billion. Founded in 2017 in San Francisco, California, Anchorage Digital has offices in New York, New York; Porto, Portugal; Singapore; and Sioux Falls, South Dakota. Learn more at anchorage.com, on Twitter @Anchorage and on LinkedIn.

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