

# WHAT ARE STABLECOINS AND HOW DO THEY WORK?

## What are stablecoins?

Stablecoins are a type of cryptocurrency that are pegged to a reserve asset - meaning fiat currencies like the US dollar or assets like gold that are physical and controlled by policymakers.

The aim of a stablecoin is to offer price stability. One of the main problems with standard cryptocurrency is the volatility of the prices. Bitcoin can suddenly crash and grow over the course of a short period of time, which is unpredictable and impractical.

Stablecoins try to solve this by backing against those reserve assets. For example, if a stablecoin pegged to the US dollar has 100,000 coins in circulation, there should be 100,000 USD in a reserve.

This means that the stablecoins provide the usual benefits of virtual currencies, while also maintaining a consistent value.

Although fiat currencies can be volatile in rare situations, the benefit is that the policymakers can control the supply and demand to keep the price stable. Standard cryptocurrencies don't have this luxury.

## What are the different types of stablecoins?

There are three different types of stablecoin backed by different things.

### Fiat



Every fiat-collateralized stablecoin has a fiat reserve, where every coin is secured by with an equivalent value by a central custodian. Dollar is the most popular, but the reserve could also be something like gold or oil. The theory is that you can directly switch between your stablecoin and the fiat currency.

### Crypto



Crypto-collateralized stablecoins are secured by virtual currencies. Of course, standard cryptocurrency is volatile, so this is usually overcome by employing overcollateralization. This means that a larger number of cryptocurrency tokens are held than there are stablecoins, which helps control any sudden swings.

### Non-collateralized 0101%

Non-collateralized stablecoins don't have a reserve. Smart contracts can be used to automatically increase or decrease token supply as the market demands it, like a fiat currency would do when it prints more notes.

## Are stable coins risk free?

As with any currency, let alone cryptocurrency, stablecoins are not risk free. While the theory is that you should be able to trade your stablecoin for the underlying asset, it depends on how safe and liquid that asset actually is. If the stablecoin provider goes bankrupt, you may not see that money again.

It also depends on whether the stablecoin truly is backed 1:1. Tether is an example of one stablecoin that has been under fire over whether it actually has enough reserves to back its coin. After an uproar, it had to amend its website to clarify that it's also backed by loans.



It's important to look for a stablecoin that has its reserves independently verified, since that increases its trustworthiness, though it's still not guaranteed.

### Tether (USDT)



**Blockchain:** Omni, Ethereum, TRON  
**Market cap:** \$4.65b  
**Backed:** USD and loans  
**Company:** Tether Ltd.  
**Traded on:** Bitfinex, BW, Kraken, BTSE, Binance

### USD Coin (USDC)



**Blockchain:** Ethereum  
**Market cap:** \$450.8m  
**Backed:** USD  
**Company:** Circle and Coinbase  
**Traded on:** Binance, Kraken, Float SV

### Paxos Standard (PAX)



**Blockchain:** Ethereum  
**Market cap:** \$218.54m  
**Backed:** USD  
**Company:** Paxos  
**Traded on:** BW, ZBG, Binance, BigONE

### TrueUSD (TUSD)



**Blockchain:** Ethereum  
**Market cap:** \$141.14m  
**Backed:** USD  
**Company:** TrustToken  
**Traded on:** BW, ZBG, Binance, Bittrex, Bitsdaq

### Multi-collateral DAI (DAI)



**Blockchain:** Ethereum  
**Market cap:** \$104.62m  
**Backed:** Ethereum, Basic Attention Token  
**Company:** MakerDAO  
**Traded on:** Coinbase, Kraken, Bitfinex

### STASIS EURO (EURS)



**Blockchain:** Ethereum  
**Market cap:** \$35.61m  
**Backed:** Euro  
**Company:** STASIS  
**Traded on:** HitBTC, TokensNet, Bitfinex, DSX

### Single Collateral DAI (SAI)



**Blockchain:** Ethereum  
**Market cap:** \$25.49m  
**Backed:** USD  
**Company:** MakerDAO  
**Traded on:** EXMO, OKEx

### Binance USD (BUSD)



**Blockchain:** Ethereum  
**Market cap:** \$20.25m  
**Backed:** USD  
**Company:** Paxos, Binance  
**Traded on:** Binance, Eterbase

### USDK (USDK)



**Blockchain:** Ethereum  
**Market cap:** \$28.68m  
**Backed:** USD  
**Company:** OKLink  
**Traded on:** OKCoin, Bitfinex

### CryptoFranc (XCHF)



**Blockchain:** Ethereum  
**Market cap:** \$10.24m  
**Backed:** Swiss Franc  
**Company:** Bitcoin Suisse AG  
**Traded on:** Bitfinex, Idex, Uniswap