

"Tether: Fiat currencies on the Bitcoin blockchain".

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Abstract

Tether is a crypto-token, pegged to and backed by fiat currency. Tethers are redeemable for the underlying fiat currency pursuant to Tether Limited's terms of service. The Tether platform is a decentralized protocol, built on top of the Bitcoin blockchain, that enables the issuance, transfer, and redemption of Tethers.

1. Introduction

This paper describes the Tether platform. Tethers are a new digital asset. The Tether platform allows for the creation of crypto-tokens, called 'tethers,' that are pegged to real-world fiat currencies. Initially, there will be three types of tethers: USTether (US+), EuroTether (EU+), and YenTether (JP+). Every one US+ is backed by one US dollar held in our reserves. Similarly, every one EU+ and JP+ is backed by one Euro and one Yen, respectively. Tethers exist on the Bitcoin blockchain and can be transferred just like bitcoins. The Tether platform is a protocol for issuing and redeeming Tethers. It is built on top of the Bitcoin blockchain and uses the Omni Layer protocol.

2. The Tether System

The Tether system has the following components:

- **Bitcoin Blockchain:** Tethers exist as digital tokens built using the Omni Layer protocol on top of Bitcoin.
- **Omni Layer:** A protocol that enables the creation and trading of smart properties and user currencies.
- **Tether.to:** A web wallet and service operated by Tether Limited that facilitates the conversion of fiat currency into Tethers and vice versa.
- **Proof of Reserves:** Tether Limited publishes a real-time proof of reserves, allowing anyone to publicly audit the matching between Tethers in circulation and the underlying fiat currency held in reserve.

3. How It Works: The Flow of Funds

The process is straightforward:

- **Step 1:** User deposits fiat currency (e.g., USD) into Tether Limited's bank account.
- **Step 2:** Tether Limited creates a corresponding amount of Tether tokens (e.g., USDT).
- **Step 3:** The user receives the USDT in their wallet. These Tethers are now in circulation.
- **Step 4:** The user can transact with Tethers—send, receive, and store them on any Omni Layer-enabled wallet.
- **Step 5:** The user deposits Tethers back with Tether Limited for redemption into fiat currency.

- **Step 6:** Tether Limited destroys the redeemed Tethers and sends the corresponding fiat currency to the user's bank account.

4. Proof of Reserves

The Tether system is fully backed, meaning our reserves are equal to or greater than the number of Tethers in circulation. This is validated through our Proof of Reserves system. The total number of Tethers in circulation can be checked on the Bitcoin blockchain via the Omni explorer. The corresponding total amount of fiat currency held in our reserves is proved by publishing the bank balance and undergoing periodic audits by professionals.

5. Conclusion

Tether unites the benefits of digital currency and the relative stability of fiat currency. It offers a way to transact with fiat values on a blockchain, removing the volatility risk associated with cryptocurrencies like Bitcoin. By using the Bitcoin blockchain, Tether is secure, transparent, and decentralized.
