

## The Stablecoin Landscape

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The Basics...

## What is a stablecoin?

An asset created with the goal of maintaining a stable price

 Often, but not always, pegged to the price of another asset - such as a fiat currency\*

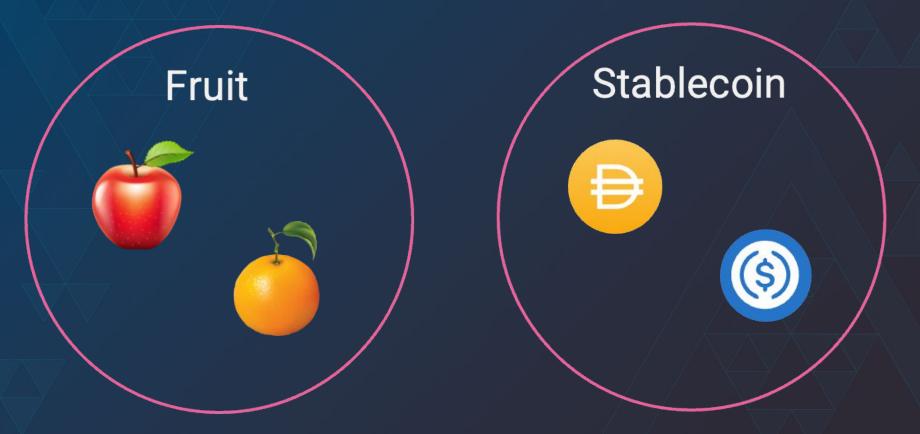
\*often assumed to be pegged to the US Dollar

## How does a stablecoin work?

• It Depends....

 Many different asset types have the goal of maintaining a stable price, but function entirely differently

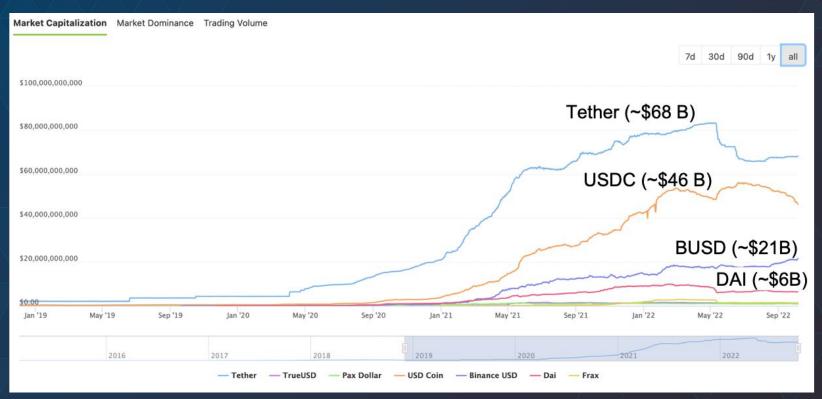
## You can't compare apples and oranges





The Current Landscape

## Stablecoins by Market Cap





## Centralized, One-to-One Backed Stablecoins

## Centralized, One-to-One Backed Stablecoins

Examples: USDT, USDC, BUSD, TUSD

Each minted token is backed by one USD (or equivalent)
 and held in the minting institution's reserves.\*

\*not all of stablecoins do this.

# Centralized, One-to-One Backed Stablecoins Risks

Major trust assumptions in the institution managing the reserve

#### Ecosystem improvements:

- Reserve Audits
- Chainlink Proof of Reserve

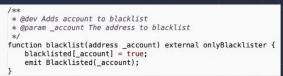
#### REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

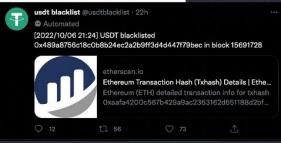
Board of Directors and Management Circle Internet Financial, LLC

We have examined management of Circle Internet Financial, LLC's assertion that the following information (hereafter, the "Reserve Information") in the accompanying USDC Reserve Report as of August 31, 2022 at 11:59 PM Pacific Time ("Report Date") is fairly stated, based on the criteria set forth in the USDC Reserve Report.

- USD Coin ("USDC") in Circulation = 52,258,056,105 USDC
- US Dollars held in custody accounts = \$52,430,816,552

Controlling entities have the ability to black list addresses and freeze pools







Decentralized, Overcollateralized Stablecoins

## Decentralized, Overcollateralized Stablecoins

• Examples: DAI, MIM

Each minted token is backed by crypto collateral of greater or equal value

Collateral is supplied to a smart contract

 The protocol is managed by a DAO and cannot be unduly "broken" or otherwise manipulated by a single entity

# Decentralized, Overcollateralized Stablecoins Risks

- Stability Mechanisms
- Collateral Asset Risks
- Flash Crash Conditions
- Pool Configuration and Risk Management
- Smart Contract Risk



Other Types of Stablecoins

## Other Types of Stablecoins

#### Frax

Partially backed by collateral and partially stabilized algorithmically

Minted by providing a percentage of the value being minted as collateral and burning the rest of the value in FXS, an ecosystem token

#### Rai

Reflexer is a platform where anyone can use their crypto collateral to mint stablecoins

Some stablecoins are not pegged to anything, but like the dollar, are considered stable

Reflexer uses the 'redemption rate' to adjust the 'redemption price' of an asset



GHO

### GHO: An Introduction

 An Aave protocol-native decentralized, overcollateralized stablecoin pegged to the US Dollar

 If approved by the DAO, GHO will fit into the existing Aave protocol as a new asset

- Although the implementation is different, at a high level, borrowing GHO
   will work similarly to other assets in the protocol:
  - 1. Supply Collateral
  - 2. Borrow GHO
  - 3. Repay GHO Debt

GHO is an asset within the Aave market, but it is different from other assets.

 GHO is minted by the smart contracts on demand when a user initiates a borrow

 The oracle price is fixed to one US Dollar

 Interest rates are defined by Aave Governance

 Repaid interest is re-directed to the DAO rather than suppliers Differentiating Factors

 Discounts are available to borrowers staking AAVE in the Safety Module

Multi-Collateral Positions

Earn interest on your collateral

## GHO Risk Mitigations

#### Collateral Asset Risk

 Assets allowed as collateral are determined by the DAO and are influenced by Gauntlet, who provides world-class risk management services to the DAO

#### Flash Crash Conditions

 This is part of the Aave protocol, which has proven resilient through severe volatility in the past. Conservative LTVs, effective liquidations, and a community of liquidators help mitigate this risk.

#### **Protocol Configuration**

 Managed by the Aave DAO, incentivized for long-term success and adoption of GHO

## GHO Risk Mitigations (cont)

#### Smart Contract Risk

- Responsible Development Practices
- Internal and External Code Reviews
- Formal Verification

#### Stability Mechanism

- Locked Oracle Pricing
- Governance Set Interest Rates

## Getting GHO'ing

#### When GHO?

 GHO has received initial approval from the Aave DAO and is dependent on additional governance decisions for deployment

#### GHO's Future

- Opportunity for GHO to have widespread usage on L2s
  - V3 Portals, Additional Minting Markets
- Additional 'facilitators' for GHO
  - Flexible infrastructure to allow other entities to mint GHO
- Emphasize use cases for both a crypto native and mainstream audience

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### Here's the timeline.

Event 1 Event 2 Event 3

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## Thank you!

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