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USDT0

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Summary

This legal brief explores the evolving regulatory landscape for Tether (USDT) and the USDT0 protocol, focusing on the anticipated delisting of USDT from European Union platforms and the legal distinctions between USDT and USDT0. In continuation of our previous legal update concerning Tether's relocation, this piece delves into the most recent developments affecting Tether's stablecoins.

Key Takeaways

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- The European Securities and Markets Authority (ESMA) issued a directive requiring Crypto-Asset Service Providers (CASPs) to cease offering non-MiCA-compliant stablecoins, including USDT.
- Because Tether has not sought MiCA authorization, EU-based CASPs may be compelled to delist USDT by January 2025, with a temporary sell-only phase until Q1 2025.
- In response to these regulatory challenges, USDT0 was introduced, a multi-chain protocol powered by the LayerZero Omnichain Fungible Token (OFT) standard. USDT0 facilitates seamless cross-chain transfers while maintaining parity with USDT on Ethereum mainnet. It operates under a distinct legal framework emphasizing non-custodial operations and compliance with applicable laws, serving as a complementary solution to address cross-chain functionality without directly issuing or redeeming stablecoins.
- On Arbitrum, the USDT contract (proxy) was upgraded to USDT0 at block300530396 (tx hash).
- Differences in the binding terms governing USDT and USDT0 underscore key legal distinctions:

Category

USDT (Tether)

USDT0 (Everdawn)

Jurisdiction / Governing Law

The British Virgin Islands (BVI) governs Tether International Limited (TIL); Tether Limited (TLTD) customers are subject to U.S. laws.

British Virgin Islands (BVI).

Dispute Resolution

TIL customers: Courts of the BVI. TLTD customers: Arbitration in San Diego, CA, under CPR Rules.

Arbitration under JAMS rules, primarily in the BVI.

Regulatory Compliance

Strict compliance with AML, CTF, OFAC, FinCEN, and global sanctions laws. KYC is mandatory for direct issuance/redemption.

No KYC is required; it operates as a non-custodial protocol but must comply with applicable laws and law enforcement requests.

Redemption Rights

Only verified customers can redeem USDT directly with Tether. Redemption may be delayed or denied based on liquidity, regulatory, or compliance concerns.

No formal redemption mechanism; USDT0 operates as a transfer layer for digital assets, not an issuer.

Stablecoin Backing

USDT is backed 1:1 by reserves, which may include cash, cash equivalents, short-term deposits, and other assets.

USDT0 is not backed by reserves; it is a protocol for transferring existing digital assets, including USDT.

Blacklisting

Tether can blacklist wallet addresses and freeze funds to comply with legal or regulatory requests.

No direct freezing or blacklisting mechanism due to non-custodial design.

Note: While public sources on Everdawn are limited, it can be assumed that it is a Tether-affiliated entity.

Expected Delisting of USDT from EU Exchanges

The European Securities and Markets Authority (ESMA) recently issued apublic statement titled "On the provision of certain crypto-asset services about non-MiCA compliant ARTs and EMTs,". This directive underscores ESMA's reliance on the European Commission's guidance, which clarifies that public offerings or trading of Asset-Referenced Tokens (ARTs) or E-Money Tokens (EMTs) are permissible only if the issuer is authorized under MiCA.

'offer to the public' means a communication to persons in any form, and by any means, presenting sufficient information on the terms of the offer and the crypto-assets to be offered so as to enable prospective holders to decide whether to purchase those crypto-assets;

Source: MiCA, Article 3

Additionally, operators of trading platforms that list ARTs or EMTs without a MiCA-authorized issuer are viewed as persons seeking admission to trading on their initiative under Articles 16(1) or 48(1) MiCA. Since Tether has not sought MiCA authorization, EU-based Crypto-Asset Service Providers (CASPs) listing USDT may be required to delist it by January 2025.

ESMA advances the analysis by defining "non-MiCA compliant ARTs and EMTs" as tokens that would otherwise qualify as ARTs or EMTs but whose issuers lack authorization in the EU. It further indicates that CASPs operating crypto-asset trading platforms are expected to cease making non-MiCA-compliant ARTs and EMTs available for trading. Corresponding restrictions apply to CASPs handling order reception and transmission, executing client orders, or facilitating any exchange of crypto-assets for funds or other crypto-assets.

The deadline for these restrictions is set for the end of January 2025, though ESMA permits CASPs to maintain restricted assets under a "sell only" framework until the close of the first quarter of 2025. This approach ensures that users in the EU can liquidate or convert their holdings.

In light of Tether's unconfirmed authorization status, de-listing requirements and related conditions may be enforced against USDT by CASPs operating in the EU at any point. Although ESMA leaves room for affected CASPs to consult their National Competent Authorities on a token's classification, it is unlikely that a local regulator would diverge from ESMA's position or find grounds to reclassify USDT in a way that circumvents the guidance.

Tether appears to have already taken measures to restrict certain account functions, such as sign-ups, onTether.to for those connecting from EU-based IP addresses.

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Source: https://tether.to, Date: January 29th, 2025

USDT0 Enters the Stage

While regulatory pressures mount for USDT, Tether has introduced USDT0, a protocol designed to facilitate multi-chain functionality while maintaining parity with USDT on Ethereum mainnet. Reviewing the USDT0 Terms reveals key distinctions from the Terms of Service for USDT.

Key Differences Between USDT and USDT0

Tether Limited serves as the contracting party for users ofTether.to who reside in the United States, have accounts deemed to be U.S.-based, or conduct transfers in fiat or digital assets via U.S. financial institutions. Tether International Limited serves all other Tether clients.

Everdawn Labs Limited administers the site usdt0.to, providing access to the USDT0 protocol built on the LayerZero messaging application. While public sources on Everdawn are limited, it can be assumed that it is a Tether-affiliated entity.

Under Tether's Terms of Service for USDT, British Virgin Islands law governs the relationship, and any arbitration for Tether Limited's customers must occur in California under the CPR Rules unless agreed otherwise. The laws of the British Virgin Islands likewise govern USDT0. Still, disputes over USDT0 will be resolved under JAMS arbitration rules, primarily in the British Virgin Islands, unless another location is mutually agreed upon.

Both Terms prohibit unlawful conduct, including money laundering and sanction violations. The USDT Terms explicitly ban VPNs or proxies to circumvent jurisdictional restrictions, whereas the USDT0 Terms highlight prohibited activities such as intellectual property infringement, cyberattacks, and fraud, with less focus on jurisdictional bypassing.

The USDT Terms require strict adherence to AML, CTF, and sanctions regulations, mandating detailed user certifications. Service may be denied to individuals in restricted jurisdictions, including the U.S. and Canada. In contrast, the USDT0 Terms merely reference compliance with applicable laws and sanctions without specifying KYC/AML requirements. Users are instead required to represent their compliance with relevant legal frameworks.

Everdawn notes that it is not registered with the Financial Crimes Enforcement Network (FinCEN) or any other regulator. Unlike the USDT Terms, which guarantee 100% backing of Tether tokens by traditional currency, cash equivalents, other assets, or receivables, the USDT0 Terms do not address backing arrangements.

Although the USDT0 Terms emphasize the protocol's non-custodial design, they do not explain the precise procedures for minting or redeeming USDT0 or assure any redemption rights for USDT0 holders. However, The USDT Terms stipulate that minting or redemption is reserved for verified customers with contractual rights to initiate these processes. Tether may delay withdrawals or complete redemptions with securities or other assets in its reserves.

Tether explicitly retains authority to freeze or seize user funds in cases involving violations of its Terms, legal obligations to comply with official mandates, or unlawful activities such as money laundering or terrorism financing. It may freeze accounts or transactions linked to funds under investigation. The USDT0 Terms do not expressly describe blacklisting or freezing capacities.

Operational Structure of USDT0

A fuller understanding of the legal framework underlying the USDT0 Terms emerges upon examining the operational structure of the protocol.

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Source: USDT0 Docs, Date: January 29th, 2025

USDT0 operates through a layered architecture that ensures cross-chain interoperability:

1. Ethereum Mainnet: The OAdapterUpgradeable

contract interfaces with the USDT contract to lock USDT before issuing an equivalent amount of USDT0 on a destination chain.

1. Destination Chains: The OUpgradeable

contract collaborates with TetherTokenOFTExtension

to handle minting and burning associated with cross-chain transfers.

1. Parity Maintenance: USDT on Ethereum retains seniority. Users must bridge USDT0 back to Ethereum mainnet for redemption under the USDT Terms, which limit this privilege to verified customers.

Although USDT0 (Everdawn) emphasizes its non-custodial design, certain components—such as the TetherTokenOFTExtension

on INK Chain—include blacklisting functionality:

- addToBlockedList(address _user)
- removeFromBlockedList(address _user)
- destroyBlockedFunds(address _blockedUser)

Broader Implications

The regulatory landscape for stablecoins is rapidly evolving, with significant implications for Tether (USDT) and its newly introduced USDT0 protocol. Our review indicates that the USDT0 Terms mainly govern protocol operations on the chains where USDT is replicated yet do not circumvent Tether's principal obligations or users' rights under the core USDT Terms. Because the multi-chain minting and redemption process ultimately relies on USDT on the mainnet, the binding Tether Terms still govern whenever a verified user asserts rights concerning USDT.