



## Cryptocurrency Review

### Tether (USDT)



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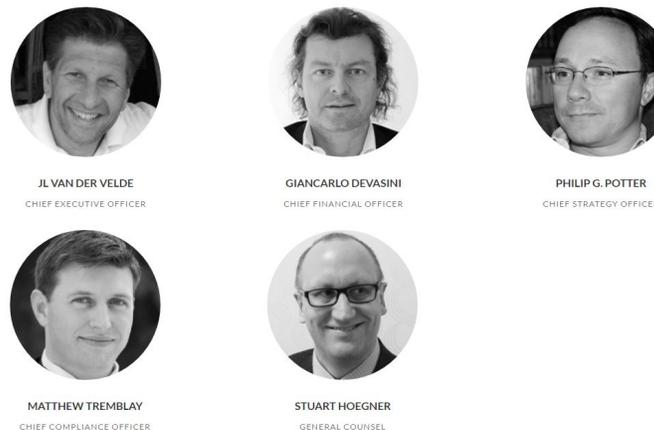
## INTRODUCTION

[Tether](#) was created as a rebrand of the cryptocurrency Realcoin.<sup>1</sup> Realcoin was founded by Brock Pierce in 2014 and [rebranded](#) as Tether in November of the same year. Back then, the official [website](#) of Tether had Reeve Collins and Craig Sellars as the founders of the project, alongside with Brock Pierce, Stuart Hoegner and Philip G. Potter as advisors (Fig. 1).



Figure 1. Tether team in 2014. [Source](#).

Nowadays, Tether [website](#) shows Hoegner and Potter as part of the core team, while the other names and roles were replaced. It is [not clear](#) what happened since **no announcements were made**, but it seems that Tether was bought by the new directors Giancarlo Devasini and JL van Der Velde (Fig. 2). Note that all team members of Tether are also part of the [senior team of Bitifinex](#).



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<sup>1</sup> There is a lot of conflicting news and missing information about Tether. No official announcements were made on Tether's launch and rebranding.

Figure 2. Tether team in 2018. [Source](#).

## HOW IT WORKS

Tether is a cryptocurrency that represents real currencies in a blockchain market. It was created and designed to be used as a fiat-pegged cryptocurrency. According to their [whitepaper](#), the [Tether](#) tokens (USDT and EURT) are **digital tokens backed by fiat currencies** (currently USD and EUR, but support for Japanese Yen (JPY) may be implemented soon). This article mainly discusses the USDT token, but the working mechanisms are almost the same for both USDT and EURT tokens.

Tether is aiming to provide a decentralized method of exchanging value, making use of blockchain technology and a cryptographically secured global ledger. The idea is to enable businesses to easily send and receive fiat-backed tokens on blockchains without the need to convert the money (cryptocurrency) back and forth into fiat, which would possibly imply a variety of issues and limitations (i.e. compliance and legal issues, as well as Know-Your-Customer and anti-money-laundering policies). For that reason, many exchanges decided to price their coins in USDT and to hold their customers' funds in the form of Tether tokens.

Tether is a cryptocurrency of its own and, supposedly, each unit of Tether token (1 USDT) represents one dollar (1 USD), since the USDT tokens are pegged to the fiat reserves of the issuing company. In other words, **for each Tether (USDT) issued**, the company (Tether Limited) has **one corresponding US dollar** in their bank accounts. Similarly, for each euro Tether (EURT) issued, the Tether company is supposed to hold one corresponding EUR - at least that's how it should be.

*“At any given time the balance of fiat currency held in our reserves will be equal to (or greater than) the number of tethers in circulation.”* - Tether [whitepaper](#), p.4.

Initially, USDT tokens were issued on the Bitcoin blockchain through the so-called [Omni Layer](#) protocol (the Tether transactional ledger was embedded in the Bitcoin blockchain). However, in June 2017, Omni foundation [announced](#) that Tether was migrating to the Litecoin blockchain.

You can use the [Omni Explorer](#) to check Tether transactions and other activities of its transactional ledger. The Omni Explorer also gives you a real-time report of the number of Tether tokens that have been issued at a given point in time. Currently, a total of 2,250,000,000 USDT tokens were authorized to be issued.

The Tether whitepaper represents the life cycle of Tether tokens in five steps:

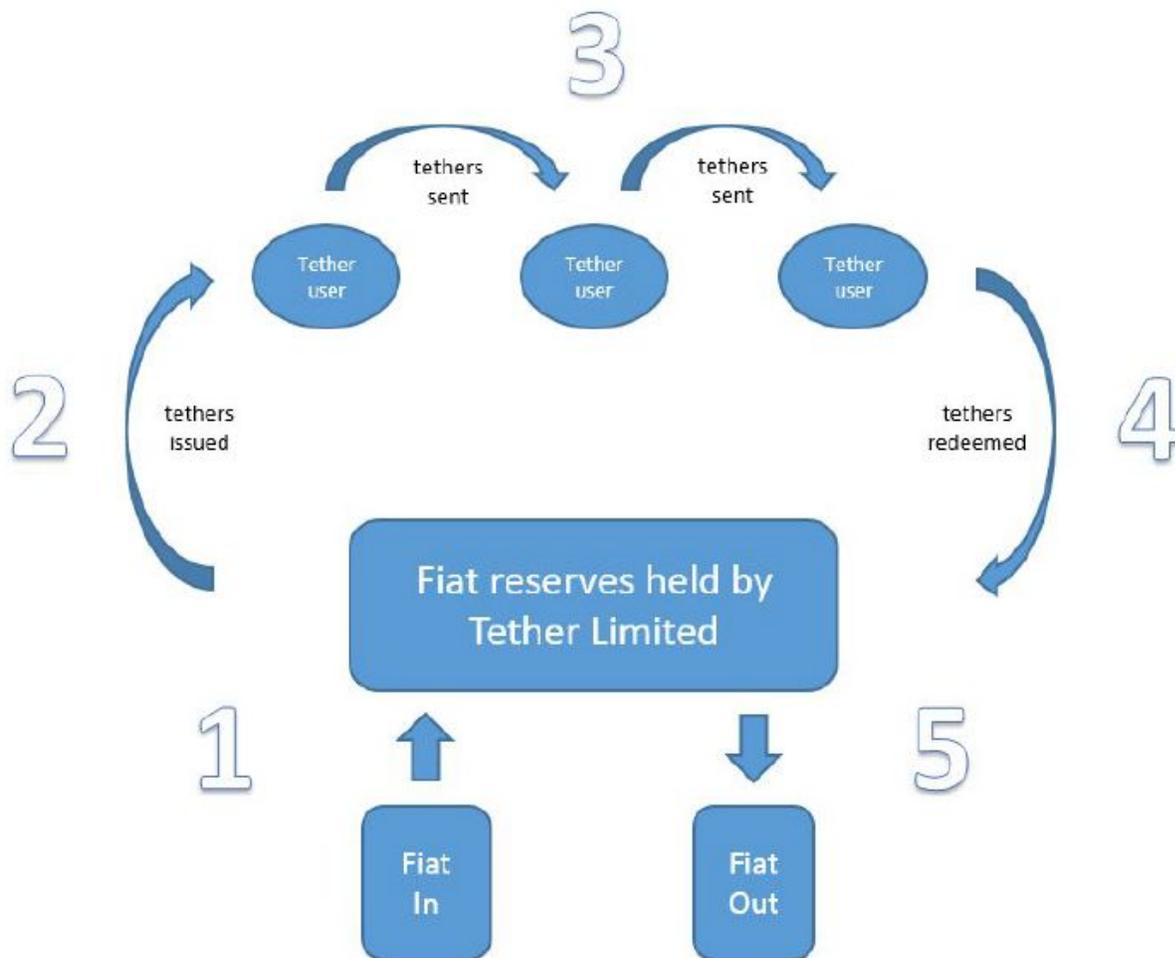


Figure 3. The life cycle of Tether tokens. [Source](#).

1. User deposits US dollar (or other fiat currency) into Tether Limited's bank account;
2. Tether Limited generates USDT and credits the corresponding user account (Tethers enter circulation). The USD deposited amount is always equal to the amount of USDT tokens issued.
3. Users transact with Tethers (transfer, exchange, store, etc.).
4. User deposits USDT with Tether Limited for redemption into fiat currency.
5. Tether Limited **destroys** the USDT and sends fiat currency to the user's bank account.

Tether may be considered a stable alternative to Bitcoin's volatility and wide price swing, as it can be useful as a hedge during volatile periods. Although the ideas behinds Tether and its fiat-backed tokens are reasonable, there have been considerable issues and concerns involving Tether company.

## CONCERNS

Despite claiming on their [frontpage](#) that all USDT tokens are 100% backed by fiat currency, Their Terms of Service presents lots of conflicting information. If we look at Tether's [website](#) back in December, 2017, we will find the following statements:

*“Once you have Tethers, you can trade them, keep them, or use them to pay persons that will accept your Tethers. However, **Tethers are not money and are not monetary instruments. They are also not stored value or currency. There is no contractual right or other right or legal claim against us to redeem or exchange your Tethers for money. We do not guarantee any right of redemption or exchange of Tethers by us for money. There is no guarantee against losses when you buy, trade, sell, or redeem Tethers.**”* - Tether Terms of Service (December, 2017)

After receiving lots of criticism, they recently [updated](#) their Terms of Service. However, the message is essentially the same, since Tether [reserves the right](#) to refuse redemption. It seems that most users that tried to redeem USDT with Tether Limited were unsuccessful.

In April 2017, both [Tether](#) and [Bitfinex](#) lost their Taiwanese banking partners, as well as Wells Fargo support on wired transfers:

*“Since April 18, 2017, all incoming international wires to Tether have been blocked and refused by our Taiwanese banks. As such, we do not expect the supply of tethers to increase substantially until these constraints have been lifted.”* - Tether’s [announcement](#), 2017.

Later that month, Bitfinex and Tether [filed a lawsuit](#) against Wells Fargo “in response to the bank’s termination of wire transfer services”. The lawsuit was later dropped without any explanation.

Despite claiming that no more tokens (USDT) were expected to be issued (until their banking problems were solved), the amount of Tethers on circulation (as well as the total market capitalization) raised more than 2600% since the announcement (**from 60 million in April, 2017 to 1.6 billion tokens in January, 2018**).



Figure 4. Tether (USDT) on [CoinMarketCap](#).

On [November](#), 2017, Bitfinex was found with a new bank account in a tiny Polish Bank called *Bank Spółdzielczy w Skierniewicach* (Fig. 5). Still, more than 600 million USDT tokens were issued during their unbanked period (from April to November). It is not clear if the corresponding value (in dollar) really exists. Even if this huge amount of USDT were bought, many question who would invest that much money directly into Tether, especially during these turbulent periods. Many believe that Tether became untethered.



Figure 5. Bank Spółdzielczy w Skierniewicach. [Source](#).

*“There are growing suspicions that tether is not backed by one US dollar for each tether. These suspicions are increasing as the number of tethers in circulation has vastly increased with no new audits published.”* - [Digital Journal](#).

On May, 2017, Bitfinex [announced](#) that they were undergoing a “comprehensive balance sheet audit” by Friedman LLP. Four months later, Friedman LLP issued a [memorandum](#) to the Tether Limited management, according to which Tether had about \$442 million in reserves as of September 15, 2017. However, the memorandum was dubious and far from being a full truthful audit. Apparently, Friedman LLP will not be performing an audit after all, since Tether [confirmed](#) that they are not working together anymore.

On December 6, Bitfinex and Tether [got subpoenaed](#) by the US Commodity Futures Trading Commission (CFTC), not only due to their [inability to complete a full audit](#) of their

holdings, but also because of the lack of transparency and information about the creation, issuance and use of Tether tokens.

## FINAL CONSIDERATIONS

The idea behind the Tether project is actually very useful and interesting. Creating a stable cryptocurrency, supposedly pegged with fiat, allow traders and investors to use it as a hedge during wild volatile markets (without the need to convert their crypto investments into fiat, which would potentially cause a lot of issues and expenses). However, the history of Tether (and Bitfinex) is considerably dubious and shady.

There are many red flags being raised in regards to their potentially fraudulent system and the [lack of trustful audits](#). It seems that Tether and Bitfinex are speaking out of two sides at the same time, claiming that all USDT tokens are 100% backed by fiat currency, while stating in their Terms of Service that there is no contractual right that guarantees USDT value and that they reserve the right to refuse any USDT token redemption. Tether is fully backed yet provide no promise to redeem. This then raises a lot of [unanswered questions](#).

In case USDT tokens are not backed by fiat currency as they should, we could **suggest** that the price of Bitcoin and other USD-paired cryptocurrencies are potentially highly inflated, since fresh issued Tether tokens may be used to buy more Bitcoins (even if they have no real money backing them). Apparently, the [strange story of Tether](#) is far from being solved. We do not recommend it as a safe haven at the moment. Cashing out into fiat or Bitcoin/Ethereum is definitely a safer, though more expensive, alternative.

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Thank you for reading.

Written by [Trauzk](#) (Associate Researcher), edited by [Sam & Sneh](#). Feedbacks appreciated.

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