

PAYWARD LTD

CRYPTO ASSET RISK DISCLOSURE

Sky Dollar (USDS)

Last updated on September 12, 2024

Disclaimer

Please note that this Crypto Asset Statement is not exhaustive of all risks associated with trading USDS. Investors should perform their own assessment to determine the appropriate level of risk for their personal circumstances. Be sure to do your own research and due diligence while taking into account your own financial situation and risk tolerance. Please review the Risk Statement for additional discussion of general risks associated with the Crypto Contracts and Crypto Assets made available through the Canadian Platform. These materials are for general information purposes only and are not investment advice or a recommendation or solicitation to buy, sell or hold any crypto asset or to engage in any specific trading strategy. The information contained in this Crypto Asset Statement is based on publicly available information that may be inaccurate, incomplete, or change at any time.

What is USDS?

USDS is a decentralised crypto asset that seeks to maintain a 1:1 peg to the US Dollar by locking other crypto assets in smart contracts as collateral. This means that unlike other asset-backed cryptocurrencies, which may be issued by for-profit companies, USDS is issued and managed by the Sky Protocol, a decentralized application running on top of the Ethereum blockchain. USDS is central to the wider Sky protocol ecosystem. Users can lend money in the form of USDS, using Ethereum or ERC-20 assets approved by the DAO as collateral. The token will be used as the deferred payment method to settle debts within the wider Sky Protocol, earning rewards via the USDS Savings Rate (DSR), the automated token-accumulation mechanism of the decentralised Sky protocol that takes into account the effect of accumulated USDS compounded in real time, and other uses. USDS will be exchangeable on a 1:1 basis with DAI, as part of the MakerDAO/DAI rebrand to Sky Money.

Who is behind the project?

Rune Christensen is a Danish entrepreneur who founded MakerDAO, a decentralised autonomous organisation, in 2014, alongside co-founders Nikolai Mushegian and Kenny Browe. In December 2017 MakerDAO launched DAI, an Ethereum-based token pegged to the US Dollar. USDS is replacing DAI as part of a wider rebrand from MakerDAO to Sky Money. Christensen remains as CEO today.

How does it work?

Users create USDS by locking up their collateral in smart contracts called Collateralized Debt Positions (CDP). To account for the volatility in the crypto collateral, USDS CDPs are over-collateralized, meaning that the deposit amount required is typically higher than the value of USDS. In order to recover the deposited assets and/or avoid a liquidation of the deposited assets, the user has to return the USDS and pay a fee to the Sky Protocol.

For example, if a user deposits \$200 in ETH, they'll receive less in USDS to account for the potential decrease in the value of ETH. Let's assume the user receives \$100 of USDS collateralized by \$200 worth of ETH. As a result, if ETH depreciates by 25%, the \$100 in USDS would still be safely collateralized by \$150 in USDS. However, In the event a user's deposit of ETH is worth less than a certain collateral value the user's deposit will be liquidated and sold on the market to keep USDS properly collateralized.

The USDS token system also accepts any ERC-20 asset that has been approved by holders of their governance token (\$SKY) as collateral.

Tokenomics of USDS

USDS has a circulating supply that can increase or decrease based on demand. Since it seeks to maintain a 1:1 peg, the supply & demand economics are such that the total supply is uncapped - in any given day millions of dollars can either be traded for USDS or from USDS back into USD. Since USDS is a rebrand of DAI, DAI holders will be able to redeem USDS at a 1:1 ratio from 18 September.

General Risks

Like all other digital assets, there are some general risks to investing in USDS. These include short history risk, volatility risk, liquidity risk, demand risk, forking risk, code defects, cryptography risk, regulatory risk, concentration risk, electronic trading risk and cyber security risk. For more information on general risks associated with smart contracts and digital assets, see Kraken's Risk Statement.

Risks specific to USDS

Competition

The Sky Protocol is aiming for a share of the decentralised finance (DeFi) market among other projects like Aave and Lido. Each offers unique features, fostering competition within the space. Sky's value derives from its broader adoption and community-driven initiatives. If Sky fails to achieve sufficient adoption or engagement compared to other options in the market, this could negatively impact the value of USDS.

Depegging Risk

Assets designed to keep a stable price don't always behave as intended. Some stablecoin projects have had prolonged periods of severe depeggings and some have completely collapsed due to a variety of technical and market factors. In relation to USDS:

- USDS is not like other stablecoins such as USDC, which attempt to maintain a stable value by holding an equivalent value of U.S. dollar denominated assets in reserve. USDS is an algorithmic stablecoin, which means that USDS attempts to maintain a stable value by using an algorithm that locks in a variety of crypto assets in smart contracts as collateral, and adjusts this portfolio dynamically. The USDS algorithm could suffer a failure, bug, exploit or other issue which may lead to a failure in their ability to allow tokens to be redeemed for any underlying collateral, which could cause USDS to de-peg.
- The value of USDS depends on the value of its collateral assets, which may include other crypto assets. If the value of these collateral assets falls sharply, or the ratio of collateral assets to USDS in circulation falls below a certain threshold, this could lead to a depegging event.
- USDC represents a significant portion of USDS's collateral. As of October 2024, ~21%. Circle, the issuer of USDC, is able to freeze USDC which means it's possible that a significant portion of USDS's collateral gets frozen. This would likely lead to a depeg. Circle's USDC is backed by US Treasuries and cash that are held at US banks. The collapse of any of these US banks, as has happened with SVB in March 2023, could lead to USDC's depegging which would likely result in USDS's depegging.

Risk of Asset Freezing

Skybase International, the entity behind Sky Dollar, reserves the right to 'block' certain USDS addresses, and, if such addresses are Skybase International custodied addresses, freeze associated USDS. If USDS is deemed illegal by certain jurisdictions, the associated USDS tokens could be frozen resulting in the owner of the wallet not being able to transfer USDS.

Due Diligence

Prior to listing on the Kraken platform, Kraken performed due diligence on USDS and determined it was permitted to make USDS available for trading to UK users. Our analysis generally includes, but is not limited to, reviewing publicly available information on the following:

- The creation, governance, usage and design of USDS, including the source code, security and roadmap for growth in the developer community and, if available, the background of the developer(s) that created USDS;
- The supply, demand, maturity, utility and liquidity of USDS;

- Material technical risks associated with USDS, including any code defects, security breaches and other threats concerning USDS and its supporting blockchain (such as the susceptibility to hacking and impact of forking), or the practices and protocols that apply to them; and
- Legal and regulatory risks associated with USDS, including (i) any pending, potential, or prior civil, regulatory, criminal, or enforcement action relating to the issuance, distribution, or use of USDS, and (ii) consideration of statements made by any regulators or securities regulatory authorities in the CA, other regulators of the International Organization of Securities Commissions, or the regulator with the most significant connection to USDS about whether USDS, or generally about whether the type of crypto asset, is a security and/or derivative.

Don't invest unless you're prepared to lose all the money you invest. This is a high-risk investment and you should not expect to be protected if something goes wrong. [Take 2 mins to learn more.](#)

Payward Ltd (trading as Kraken) is registered as a cryptoasset firm with the Financial Conduct Authority (FRN: 928768) registered office at 6th Floor, One London Wall, London, EC2Y 5EB. Cryptoasset services offered by Payward Ltd are unregulated and not covered by the Financial Services Compensation Scheme as well as the FCA's consumer protection regulations. Note the value of cryptoassets can go down as well as up, gains may be subject to Capital Gains Tax and there may be extra charges when paying via credit card from your provider.