

# PAYWARD LTD

## CRYPTO ASSET RISK DISCLOSURE

### USDS

#### Sky Dollar (USDS)

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#### Disclaimer

*Please note that this risk disclosure 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 Summary](#) for additional discussion of general risks associated with the assets made available in the 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 risk disclosure is based on publicly available information that may be inaccurate, incomplete, or change at any time.*

#### What is Sky Dollar and how does it work

USDS is a decentralised crypto-asset that seeks to maintain a 1:1 soft peg to the US dollar by locking other crypto-assets in smart contracts as collateral. Issued and managed by the Sky Protocol, a permissionless application on Ethereum and its Layer-2 networks, USDS sits at the centre of the wider Sky ecosystem.

Users obtain USDS by opening over-collateralised Collateralised Debt Positions (CDPs). Any ERC-20 asset approved by holders of the USDS governance token can serve as collateral. To account for price volatility, CDPs require collateral valued above the USDS minted; for example, depositing \$200 in ETH might allow a user to mint roughly \$100 USDS. If collateral value falls below preset thresholds, the position is liquidated to preserve solvency.

Peg stability is further reinforced through Peg Stability Modules that enable predictable 1:1 swaps between USDS and reserve stablecoins such as USDC or USDT, as well as through a direct 1:1 converter between legacy DAI and USDS. Holders may lend, trade or save USDS. When supplied to the Sky Savings Rate (SSR) module, an on-chain upgrade of the former Dai Savings Rate, deposits currently earn 4.75% APY, compounded in real time. USDS can also be staked in other protocol features to earn additional SKY rewards, while remaining fully self-custodied via non-custodial front-ends like 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 Rowe. 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. Christensen remains actively involved as the project's founder and leader.

#### 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.

## General Risks

Like all other digital assets, there are some general risks to investing in USDS. These include short history risk, volatility, and 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 Sky Dollar

### *Competition*

The Sky Protocol faces competition from other decentralised finance (DeFi) projects and stablecoins such as USDC, USDT, and DAI. USDS's value derives from its broader adoption in the market. If Sky Protocol fails to achieve sufficient adoption compared to these other options, this could negatively impact the value and stability of USDS.

### *Depegging Risk*

At any given point in time, the price of USDS may not accurately reflect the value of the U.S. dollar. This risk arises because the price of USDS is determined by supply and demand in the secondary market, rather than the actual value of USD. If demand for USDS exceeds the available supply, the price of USDS may increase, leading to a higher price relative to USD. Conversely, if there is a surplus of USDS tokens and insufficient demand, the price may decrease, causing USDS to be worth less than USD.

USDS should always be redeemable 1:1 with USD through its collateral mechanisms, but there is always a risk of a smart contract bug or collateral shortfall. A potential issue could have a negative impact on the value of USDS.

### *Risk of Asset Freezing*

Circle, the issuer of USDC, reserves the right to 'block' certain addresses and freeze associated USDC. Since USDC represents a portion of USDS's collateral, this could lead to USDS's depegging. Additionally, if USDS is deemed illegal in 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 that Kraken was permitted to make USDS available for trading to UK users, in compliance with UK law. This process generally consists of 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 UK, 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.](#)**

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