

USDC FAQ
13 March 2023

TLDR:

De-pegging of USDC causes market turbulence;

21Shares is closely monitoring market situation. No investor action required; all 21Shares ETPs are open for trading on the exchanges on which they are listed.

Detailed information can be found on page 3.

- USD Coin (“USDC”) is issued by Circle Internet Financial, LLC (“Circle”) and is currently the world’s second-largest stablecoin with a market cap of approximately \$40 billion. Circle is regulated as a money transmitter in several U.S. states, holds a Virtual Currency License in New York, and has regulatory status in certain other jurisdictions. As a fully-collateralized stablecoin, Circle reports that every digital dollar of USDC is 100% backed by cash and U.S. treasuries — and redeemable 1:1 for U.S. dollars. Reserves are held in custody and managed by leading U.S. financial institutions, including BlackRock and BNY Mellon.
- On Friday 10 March, 2023, USDC de-pegged from USD - it began to trade for less than \$1.00.
- A catalyst for the de-pegging was an announcement by Circle that approximately \$3.3 billion (8%) of reserves backing USDC were held at Silicon Valley Bank (Nasdaq: SIVB), a bank known for its customer base of tech start-ups and venture capitalist firms.
- Coinbase subsequently [announced](#) on 10 March, 2023 that it was temporarily suspending USDC:USD conversions over the weekend.
- Silicon Valley Bank was taken over by US banking regulators on 10 March, 2023 due to insolvency concerns.



- This news caused markets to discount the price of USDC, which fell as low as \$0.87 over the weekend. As of Sunday 12 March, 2023, USDC had recovered to \$0.99 - a modest discount to par value - but uncertainty remains and the situation is fluid.
- Separately, on Sunday 12 March 2023, US banking regulators [announced](#) the closure of Signature Bank and the appointment of the FDIC as receiver, including noting that “[a]ll depositors of this institution will be made whole.”
 - The US government indicated that it will guarantee all deposits at Signature Bank
 - Circle confirmed that they have no collateral holdings at Signature
- Relatedly, Circle’s CEO Jeremy Allaire [announced](#) that, with the closure of Signature Bank, Circle will not be able to process minting and redemption through SigNet, but rather, will be relying on settlements through BNY Mellon.
- 21Shares is closely monitoring the situation and will provide regular updates via the 21Shares website. Additional detail is available in the FAQs below. Please contact sales@21.co with any specific questions.



1. Which 21Shares ETPs have USDC exposure?

21Shares ETPs with USDC exposure

Ticker	Name	Valor	ISIN	AUM	USDC Exposure in Collateral Held
SBTC	21Shares Short Bitcoin ETP	51406505	CH0514065058	\$11,900,045	*100%
SHETH	21Shares Short Ethereum ETP	121054888	CH1210548884	\$376,307	*100%

*SBTC/SHETH employ a physical short in order to create the -1x leverage. The ETP borrows and sells the target short in order to execute on the strategy. As a result, the ETP holds USDC from creations + USDC proceeds from the sell of the borrowed assets (200% exposure to USDC) and carries 100% liability on the value of the short target.

2. How are the above ETPs exposed to USDC?

- SBTC and SHETH are collateralised by USDC to replicate the performance (-1x daily return) of Bitcoin and Ethereum.
- No other 21Shares ETPs have exposure to USDC.

3. What protections do 21Shares ETPs provide?

- 21Shares ETPs are 100% physically-collateralized, backed by the underlying assets.
- ETP collateral is held in cold storage at all times by best-in-class institutional custodians.
- Despite extraordinary market turbulence over the past year, all of the 21Shares ETPs have continued to perform exactly as intended, providing investors with secure and easy access to crypto assets.



4. What happened to USDC?

- On Friday 10 March, 2023, Silicon Valley Bank (Nasdaq: SIVB), was taken over by the US Federal Deposit Insurance Corporation (FDIC).
- On Saturday 11 March, 2023, Circle, the issuer of USDC, confirmed holding \$3.3 billion at the Silicon Valley Bank, representing approximately 8% of total reserves backing USDC.
 - This news caused markets to rapidly discount USDC, which dropped as low as \$0.87 cents over the weekend.
- On Saturday 11 March, 2023 Circle published a statement providing more transparency to the USDC community including that they would “stand behind USDC and cover any shortfall using corporate resources, involving external capital if necessary.” Circle reported in that statement that USDC was collateralized 77% (\$32.4 billion) with US Treasury Bills (with a three month or less maturation period), and 23% (\$9.7 billion) with cash held at a variety of institutions, of which Silicon Valley Bank was one.
- There is significant uncertainty as to the course of events when banks (and markets) open for business on Monday 13 March, 2023. On Sunday, 12 March 2023, US banking regulators announced that they will be taking actions relating to Silicon Valley Bank, including announcing that “[d]epositors will have access to all of their money starting Monday, March 13.” This appears to mean that both FDIC insured and uninsured deposits will be accessible on Monday, March 13.

5. How is 21Shares addressing the risks related to USDC?

- 21Shares recognizes that this is a fast-moving situation and is monitoring closely, in conjunction with its partners.



6. Is 21.co (the parent company of 21Shares) impacted in any way?

- 21.co has no corporate exposure to either Silvergate Bank or Silicon Valley Bank and has no material exposure to Signature Bank.
- 21.co maintains banking relationships with a number of US and non-US banking partners and continues to operate normally.
- 21.co does not currently hold USDC. 21.co's only exposure to USDC is indirect through some of the 21Shares ETPs it has issued, as discussed above.

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