

particula

# Rating Report

April 2024



## Rating Summary

### Rationale

Particula assigns a **BB** rating to the issuance of \$OUSG token by Ondo Finance as of April 24, 2024. Since March 27, 2024 the \$OUSG token primarily reflects participation in BlackRock's newly introduced USD Institutional Digital Liquidity Fund (\$BUIDL).

The rating considers the strong market presence of the issuer, the solid technical infrastructure, the ongoing technical security assessment of the token as well as the quality of the underlying asset favorably. However, the rating views token holder rights of \$OUSG, low level of investor protection, limited reporting practices around financial stability, business continuity and risks related to \$OUSG price development as challenges of this issuance.

### Company Overview

<b>Name</b>	Ondo Finance	
<b>Year of Incorporation</b>	2021	
<b>City/Country</b>	New York, USA	
<b>Company Stage</b>	Early Stage	
<b>No. of Employees</b>	11-50	
<b>Funding Stage</b>	Series A (Led by Founders' Fund, Pantera Capital & Coinbase Ventures)	
<b>Licenses &amp; Permits</b>	No Licenses or Permits	
<b>Token Name &amp; Symbol</b>	Ondo Short-Term US Government Treasuries Token (\$OUSG)	
<b>Market Cap (April 24, 2024)</b>	\$95,861,942.25 (\$OUSG)	
<b>Available Networks</b>	Ethereum, Polygon & Solana	

### Recent Developments

On March 27, 2024, Ondo Finance revealed its investment of \$95 million into the BlackRock USD Institutional Digital Liquidity (\$BUIDL) fund, constituting 38% of its total value<sup>1</sup>. The announcement also outlined plans for the future implementation of instant investment and redemption services, available 24/7/365. Moreover, Ondo Finance disclosed the upcoming launch of a new product, \$rOUSG, with a fixed \$1.00 per share mint/redeem price and daily yield distribution through token rebasement<sup>2</sup>.

<sup>1</sup> Ondo Finance announces changes in underlying asset

<https://www.coindesk.com/markets/2024/03/27/ondo-finance-to-move-95m-to-blackrocks-tokenized-fund-for-instant-settlements-for-its-t-bill-token>

<sup>2</sup> Ondo finance announces 24/7/365 redemption and rOUSG

<https://blog.ondo.finance/introducing-instant-24-7-365-subscriptions-and-redemptions-shifting-ousg-funds-into-blackrocks-buidl/>

## Key Strengths

### Strong Market Presence

Ondo demonstrates a strong market presence as an issuer of institutional-grade financial instruments. Its significant position and influence in the financial sector is reflected by its widespread recognition across communication channels, substantial customer base, and the track record of offering unique financial products and services<sup>3</sup>. The integration with Flux Finance, which allows \$OUSG token to be used as collateral for lending, expands the token's utility and potentially increases its attractiveness to investors. Additionally, Ondo's strategic partnerships and investors are evidence of its credibility among a wide range of market participants<sup>4</sup>.

### Robust Technical Infrastructure and Continuous Token Security Measures

The rating factors in the strong technical framework of Ondo and the low level of technical risks associated with the \$OUSG token. Third party providers conduct comprehensive smart contract audits quarterly to review the token's code for potential vulnerabilities<sup>5</sup>. Additionally, the bug bounty program implemented by Ondo invites external security experts to identify and report security risks within the smart contract design and implementation<sup>6</sup>. These security measures ensure a proactive approach to address potential security threats. It should be highlighted that all feedback from recent smart contract audits and bug bounty programs have been resolved carefully.

### High-Quality Underlying Asset and Low Custodial Risk

\$OUSG token first reflected participation in the iShares Short Treasury Bond ETF (SHV), exposed to short-term U.S. Treasuries, from February 15, 2023 to March 26, 2024<sup>7</sup>. Since March 27, 2024, it reflects participation in BlackRock's newly introduced USD Institutional Digital Liquidity Fund (\$BUIDL). The Fund allocates 100% of its total assets to investments in Cash, U.S. Treasury bills, notes and other obligations issued or backed by the U.S. Treasury<sup>8</sup>. It's notable that the token price exhibited minimal variation despite the change in the underlying asset. Particula's rating further reflects a relatively optimistic outlook about the custodial risk associated with \$OUSG token and its respective underlying asset given its centralized custodial arrangements with reputable institutions like Coinbase, Clear Street and BNY Mellon<sup>9</sup>.

<sup>3</sup>The significance and influence of Ondo is also captured by Bloomberg in their article at

<https://www.bloomberg.com/news/articles/2023-04-13/crypto-defi-startup-ondo-launches-token-backed-by-money-market-funds>

<sup>4</sup>Ondo has established strategic partnerships with regulated service providers such as NAV Consulting, Ankura Trust Company, StoneX, Coinbase, Quantstamp, immunefi, BlackRock, PIMCO etc. and was funded by Founder's Fund, Coinbase and Pantera Capital as displayed on its official website (<https://ondo.finance/>)

<sup>5</sup>Ondo has successfully completed audits from third party auditors like Zokyo and Code4arena which can be found in its documentation at <https://docs.ondo.finance/audits>

<sup>6</sup> Further details on the bug bounty program, refer <https://immunefi.com/bounty/ondofinance/>

<sup>7</sup> Key facts related to BlackRock's iShares Short Treasury Bond (SHV) can be found at

<https://www.ishares.com/us/products/239466/ishares-short-treasury-bond-etf>

<sup>8</sup> Key publicly available information about BlackRock's USD Institutional Digital Liquidity Fund (BUIDL) can be found at

<https://securitize.io/learn/press/blackrock-launches-first-tokenized-fund-buidl-on-the-ethereum-network>

<sup>9</sup> Coinbase Prime provides secure digital asset custody. Clear Street provided custody for the ETF, while BNY Mellon is the custodian for BlackRock's BUIDL fund. For more information on Coinbase, Clear Street and BNY Mellon's custody services and terms of use, please refer to their official websites (<https://www.coinbase.com/prime/custody>, <https://clearstreet.io/regulatory> & <https://www.bnymellon.com/us/en/solutions/securities-services/custody-services.html>)

### Inherent Risks of 'No Claim Token'

The token classification system employed by Particula's rating methodology identifies \$OUSG token as a 'No Claim Token'<sup>10</sup>. This means the investors have no absolute rights against the token beyond ownership of the token. The absence of such claims increases counterparty risks raising a red flag to the rating assessment.

### Investor Exposure to Potential Legal Liabilities and Challenges

The issuer's operational model, acting as the technology provider and platform owner, lacks oversight over transactions or compliance, thus shifting the responsibility for adhering to laws and regulations directly on investors<sup>11</sup>. Notably, the issuer is not registered or licensed by regulatory authorities, further amplifying the legal risks faced by investors<sup>12</sup>. The issuer's disclaimer regarding fiduciary duties also imply investors are solely responsible for any legal consequences further elevating their exposure to legal risk<sup>13</sup>.

### Unsatisfactory Reporting Practices

The rating considers the reporting practices of the issuer. Despite publication of daily attestation reports<sup>14</sup> for the \$OUSG token by its third-party fund administrator, the lack of financial statements - not mandated by national regulation - diminishes transparency and constrains financial analysis.

### Lack of Clarity Surrounding Business Continuity and Disaster Recovery

The operational resilience of the issuer is compromised by the uncertainty around business continuity and disaster recovery plans. The rating considers the issuer's capacity to modify, suspend, or disable services without prior notice to the users, for any reason, in its sole discretion<sup>15</sup>, while also taking into account the absence of clearly defined and documented plans regarding the issuer's ability to maintain critical operational functions, manage potential disruptions and potential irretrievable data loss for the clients.

### Risks Related to \$OUSG Price Development

The price development of the \$OUSG token seems to be largely independent from its underlying assets such as BlackRock's iShares Short Treasury Bond (SHV)<sup>16</sup> or USD Institutional Digital Liquidity Fund (\$BUIDL)<sup>17</sup>. Notably, significant market events have had little impact on the token's price, suggesting the presence of a stabilization mechanism. The rating recognizes risks arising from valuation errors of such a mechanism. Moreover, the introduction of \$rOUSG, a reverse wrapped rebasing token variant of \$OUSG by Ondo, may pose risks related to negative rebasing scenarios, leading to instabilities in the token's price<sup>18</sup>.

<sup>10</sup> The Particula Digital Asset Classification System (PDACS) can be found at <https://particula.io/particula-digital-asset-classification-system-pdacs/>

<sup>11</sup> Investors assume liability for legal compliance with respect to all applicable legal frameworks worldwide as stated in Section 12 in Terms of Service at <https://docs.ondo.finance/legal/terms-of-service>

<sup>12</sup> Ondo is not regulated or licensed by any financial authority as stated in Section 12 in Terms of Service at <https://docs.ondo.finance/legal/terms-of-service>

<sup>13</sup> Disclaimer regarding fiduciary duties can be found at <https://docs.ondo.finance/legal/terms-of-service>

<sup>14</sup> Daily fund updates of OUSG can be found at <https://www.dropbox.com/sh/81aevv8ufzghd9p/AABY45MxZCE-Pdml1btO7Umia?dl=0>

<sup>15</sup> Terms of Service related to modification, suspension & termination can be found in Section 7 at <https://docs.ondo.finance/legal/terms-of-service>

<sup>16</sup> Key facts related to BlackRock's iShares Short Treasury Bond (SHV) can be found at <https://www.ishares.com/us/products/239466/ishares-short-treasury-bond-etf>

<sup>17</sup> Key publicly available information about BlackRock's USD Institutional Digital Liquidity Fund (BUIDL) can be found at <https://securitize.io/learn/press/blackrock-launches-first-tokenized-fund-buidl-on-the-ethereum-network>

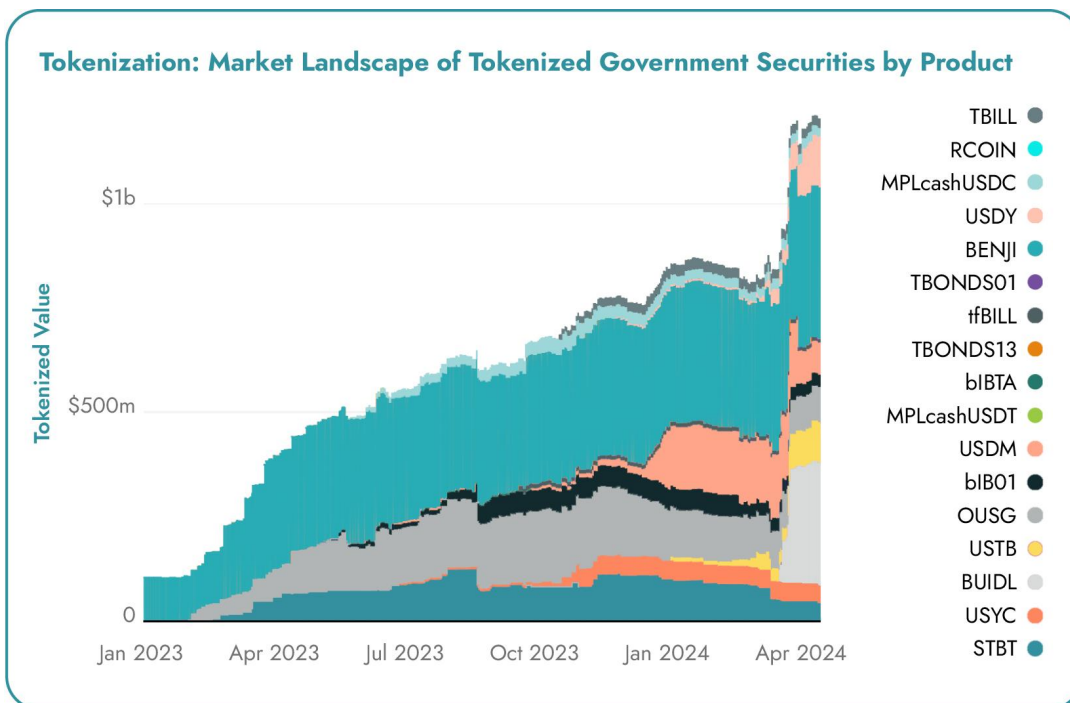
<sup>18</sup> The audit report by code4rena can be found at <https://code4rena.com/audits/2024-03-ondo-finance>

## Detailed Rating Analysis - Issuer

### Low Issuer Risk Supported by Market Position & Experienced Management Team

Ondo Finance was founded by former Goldman Sachs employees Nathan Allman and Pinku Surana, introducing Ondo Vaults in August 2021 and later expanded to offering Ondo Funds and Flux Finance<sup>19</sup>. Currently, Ondo Finance specializes in the creation and management of institutional-grade financial products including the interest-bearing stablecoin Ondo US Dollar Yield Token (\$USDY) and tokenized Short-Term US Government Treasuries (\$OUSG). Plans for a tokenized money market fund, Ondo US Money Markets (\$OMMF), were recently withdrawn<sup>20</sup>.

As of April 24, 2024, Ondo commands a substantial 15% market share in the tokenized government securities market, which has a TVL of \$1.2 billion. Ondo Finance remains in a prominent position of the market with leading asset management firms like Franklin Templeton and BlackRock<sup>21</sup>.



Ondo Finance has two active fund products, \$USDY and \$OUSG, comprising low-risk assets like U.S. Treasury bonds and money market funds, aiming to ensure stable interest earnings and scalability within the market. Concurrently, competitors like Superstate (\$USTB), Matrixdock (\$STBT), and Hashnote (\$USYC), along with traditional finance institutions such as Franklin Templeton (\$BENJI) and BlackRock (\$BUIDL), have entered the market<sup>22</sup>.





<sup>19</sup>Ondo announces its services <https://blog.ondo.finance/introducing-ondo-finance/>

<sup>20</sup>The products of Ondo are available on their website <https://ondo.finance/>

<sup>21</sup>The analysis by 21.Co on Tokenized Government Securities can be found at (<https://dune.com/21co/tokenization-government-securities>)

<sup>22</sup>The analysis by 21.Co on Tokenized Government Securities can be found at (<https://dune.com/21co/tokenization-government-securities>)

**Presented below is a comparative analysis of Ondo Finance and its market counterparts:**

Issuer	 Ondo	 FRANKLIN TEMPLETON	 BlackRock	 Superstate
Year of Incorporation	2021	1947	1988	2023
Investor Profile	Retail & Institutional	Retail & Institutional	Retail & Institutional	Retail & Institutional
Investor Geography	Global (U.S & Non-U.S Investors) <sup>23</sup>	U.S. Investors (With Limited Exceptions) <sup>24</sup>	Global (U.S & Non-U.S Investors)	Only Qualified U.S Investors
Legal Structure	Regular Corporation	Regular Corporation	Regular Corporation	Regular Corporation
Regulatory Compliance	KYC/AML Procedures Required	KYC/AML Procedures Required	KYC/AML Procedures Required	KYC/AML Procedures Required
	No Licenses or Permits	Securities Act & Investment Company Act <sup>25</sup>	Securities Act & Investment Company Act <sup>26</sup>	No Licenses or Permits <sup>27</sup>
Regulatory Body	U.S. Securities and Exchange Commission	U.S. Securities and Exchange Commission	U.S. Securities and Exchange Commission	U.S. Securities and Exchange Commission <sup>28</sup>
Proof of Reserve	✓	✓	✗	✗
Smart Contract Audits	✓	✗	✗	✗

**\*\*Disclaimer:** The above comparative analysis was conducted solely based on publicly available information.

<sup>23</sup> Except in non-sanctioned countries like Cuba, Iran, North or South Korea and Syria

<sup>24</sup> The fund is not registered for sale in any Canadian province/territory or EU/EEA country and cannot be offered to residents of these regions.

<sup>25</sup> The Fund intends to be a "Government money market fund," as such term is defined in or interpreted under Rule 2a-7 under the Investment Company Act (<https://www.sec.gov/Archives/edgar/data/1786958/000113743919000429/ftn1a092019.htm>)

<sup>26</sup> The fund operates under U.S. regulatory guidelines, specifically Rule 506(c) under the Securities Act of 1933 and Section 3(c)(7) of the Investment Company Act, which permits it to issue shares without registering them with the SEC as long as it only sells to accredited investors and meets certain other conditions ([https://www.sec.gov/Archives/edgar/data/2013810/000201439024000001/xslFormDX01/primary\\_doc.xml](https://www.sec.gov/Archives/edgar/data/2013810/000201439024000001/xslFormDX01/primary_doc.xml))

<sup>27</sup> Superstate claims that it is currently exempt from registration with the U.S. Securities and Exchange Commission ("SEC") in reliance on the private fund adviser exemption under the Investment Advisers Act of 1940 ("Advisers Act") as seen on <https://superstate.co/usfb>

<sup>28</sup> Despite the claim on its website, Superstate was exempt from registration with the U.S. Securities and Exchange Commission ("SEC") until April 3, 2024, in reliance on the private fund adviser exemption under the Investment Advisers Act of 1940 ("Advisers Act"). On April 4, 2024 the firm filed a final report and are no longer an Exempt Reporting Adviser with the SEC / jurisdiction(s). The corresponding license is not available at the time of writing (<https://adviserinfo.sec.gov/firm/summary/327562>)

Looking ahead, analysts project a tokenized asset market, with estimates reaching \$20 trillion by 2030<sup>29</sup>. In anticipation of this growth, Ondo remains poised for further expansion and market dominance with its new product offerings.

Recently, Ondo strengthened its position in the tokenized securities market with a significant investment of \$95 million in the BlackRock USD Institutional Digital Liquidity Fund (\$BUIDL)<sup>30</sup>. This strategic move aims to offer instant investment and redemption services, independent of traditional securities settlement procedures, benefiting both BlackRock and Ondo Finance.

Ondo also adapted to market dynamics with its new offering, Ondo Global Markets (Ondo GM), which is set to offer on-chain investors access to traditional securities and associated exchange liquidity<sup>31</sup>. It will function as a platform housing a broker-dealer with accounts at traditional trading, clearing, and settlement venues. In addition to accepting client orders via API and web app, Ondo GM will facilitate orders through smart contract calls and token transfers, with client authorization granted via blockchain tokens. However, the impact of these initiatives remain to be observed.

**Furthermore, Ondo is overseen and operated by a seasoned management team:**



**Nathan Allman**  
Founder & CEO

Nathan, a Brown University alumnus with bachelor's degrees in Economics and Biology, dedicated two years to Goldman Sachs' Digital Assets team and contributed to GS Accelerate, an innovation driven program. Additionally, his career includes private credit investing experience gained at Prospect Capital Management.



**Justin Schmidt**  
President & COO

Justin, holding a master's degree in Engineering from the Massachusetts Institute of Technology, formerly led the Digital Assets division at Goldman Sachs and was the Head of Strategy at Talos. He also held positions as Vice President at Merrill Lynch and at WorldQuant LLC, enriching his profile with experience in finance.



**Brendan Florez**  
MD of Strategic Operations

Brendan earned his bachelor's degree in Electrical Engineering and Neuroscience from Princeton University. His professional journey includes serving as Senior Relationship Manager at Bridgewater Associates, as well as founding and leading Base Capital as CEO. He was also the President & COO of Polyera.



<sup>29</sup>. An article based on the report "Beyond the Hype of Real World Assets" by Outlier Ventures expects the tokenized asset market to grow to \$20 Tr. by 2030 (<https://outlierventures.io/article/tokenization-of-rwas-beyond-the-hype/>)

<sup>30</sup>. Ondo Finance announces changes in underlying asset

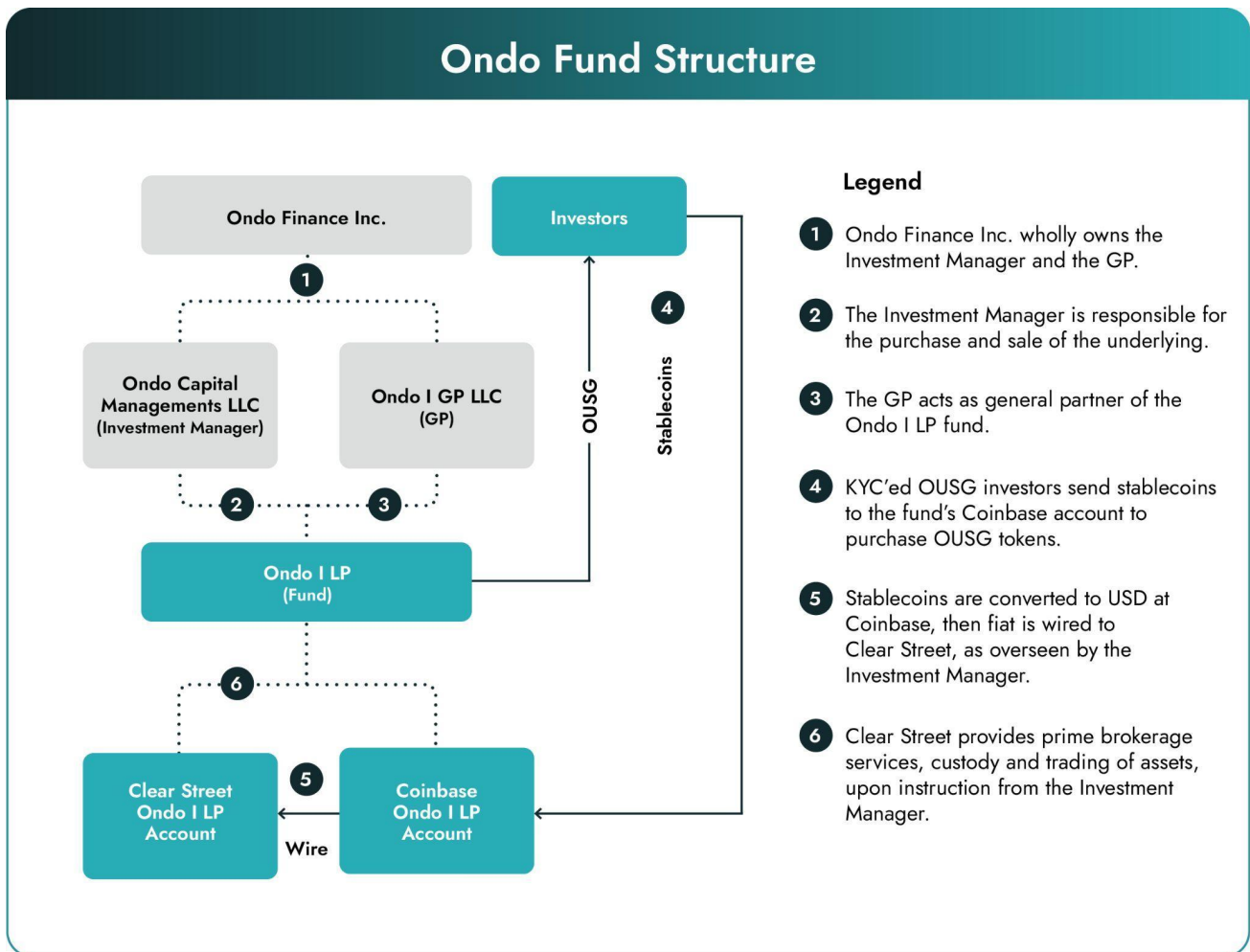
<https://www.coindesk.com/markets/2024/03/27/ondo-finance-to-move-95m-to-blackrocks-tokenized-fund-for-instant-settlements-for-its-t-bill-token>

<sup>31</sup>. Ondo announces Ondo Global Markets <https://blog.ondo.finance/introducing-ondo-global-markets/>

## Decentralized Fund Model Enhanced by Strategic Partnership Arrangements

Ondo Finance operates under a standard fund structure<sup>32</sup>, featuring a limited and general partner alongside third-party service providers like qualified custodians, a fund administrator, and a financial auditor. The organizational hierarchy includes Ondo Finance Inc. as the parent company and primary technology provider, Ondo I GP as the general partner, Ondo Capital Management LLC as the investment manager, and Ondo I LP as the Delaware limited partnership, responsible for receiving investor capital contributions and managing assets.

Ondo Finance engages a range of third-party service providers for fund management and administration<sup>33</sup>. Clear Street serves as the securities brokerage and qualified custodian, handling off-chain assets and trade orders. NAV Consulting Inc. provides third-party administration services, including daily net asset value calculations. Coinbase Prime facilitates stablecoin custody, conversion, and fund wiring, as directed by the investment manager.



Source: Extracted from Ondo's Post on <https://www.comp.xyz/>

<sup>32</sup> Ondo fund structure is described in detail here <https://docs.ondo.finance/qualified-access-products/ousg/how-it-works>

<sup>33</sup> The third-party service providers of Ondo Finance is given here <https://docs.ondo.finance/qualified-access-products/ousg/how-it-works>



Ondo's strategic partnerships involve prominent entities spanning various sectors crucial to its operations. Noteworthy among these are Morgan Stanley, First Citizens Bank, and StoneX, actively engaged in U.S bank demand deposits for \$USDY<sup>34</sup>. Additionally, Ankura Trust plays a pivotal role as the verification agent and collateral Agent to \$USDY, ensuring compliance with regulatory mandates<sup>35</sup>. Ondo also collaborates closely with technical partners such as Aptos Foundation, Immunefi, and Quantstamp, highlighting the entity's commitment to robust operational infrastructure and risk management practices<sup>36</sup>. Moreover, Ondo is backed by reputed investors such as Founders' Fund, Pantera Capital and Coinbase Ventures indicating strong support for its continued growth<sup>37</sup>.

## Exposure to Regulatory Risks & Legal Risks Associated with Issuer

Ondo Finance Inc. is a Delaware based company, operating within the Other Technology Industry<sup>38</sup> and providing digital asset services through the use of decentralized protocols. Ondo's operational structure exposes investors to several specific risks.

### 1. Regulatory & Legal Risks

Ondo Finance Inc. is not registered or licensed by major regulatory authorities such as the US Commodity Futures Trading Commission (CFTC), the Securities and Exchange Commission (SEC), or the British Virgin Islands (BVI) Financial Services Commission<sup>39</sup>. Furthermore, Ondo's terms of service require investors to comply with all relevant laws governing the use of \$OUSG or \$USDY tokens, such as the Commodity Exchange Act and CFTC regulations, federal securities laws and SEC regulations and any applicable foreign legal frameworks<sup>40</sup>. The lack of regulatory oversight and clarity could heighten risks for investors, given the unenforced standard safeguards, necessitating enhanced individual legal due diligence, especially for foreign investors.

### 2. Risks from Multi-Jurisdictional Legal Dispute Strategy

Ondo uses registrations in the British Virgin Islands and the Cayman Islands, strategically leveraging the legal frameworks of these jurisdictions. General disputes fall under the jurisdiction of British Virgin Islands law<sup>41</sup>, while contractual disputes are subject to the 2012 Special Arbitration Law in Cayman Islands<sup>42</sup>. This approach may present complexities and potentially limit investors' options for legal recourse.

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<sup>34</sup>. Ondo describes partners of \$USDY here <https://docs.ondo.finance/general-access-products/usdy/faq/trust-and-transparency>

<sup>35</sup>. Ondo describes partners of \$USDY here <https://docs.ondo.finance/general-access-products/usdy/faq/trust-and-transparency>

<sup>36</sup>. Technology partners of Ondo are found on the homepage of Ondo at <https://ondo.finance/>

<sup>37</sup>. Ondo highlights venture partners in the home page at <https://ondo.finance/>

<sup>38</sup>. Form D available for Ondo Finance Inc. on SEC at [https://www.sec.gov/Archives/edgar/data/1949480/000194948022000001/xslFormDX01/primary\\_doc.xml](https://www.sec.gov/Archives/edgar/data/1949480/000194948022000001/xslFormDX01/primary_doc.xml)

<sup>39</sup>. Ondo is not regulated or licensed by any financial authority as stated in Section 12 in Terms of Service at <https://docs.ondo.finance/legal/terms-of-service>

<sup>40</sup>. Investors assume liability for legal compliance with respect to all applicable legal frameworks worldwide as stated in Section 12 in Terms of Service at <https://docs.ondo.finance/legal/terms-of-service>

<sup>41</sup>. Ondo uses regulatory framework of British Virgin Islands for general disputes as shown in section 15 in Terms of Service at <https://docs.ondo.finance/legal/terms-of-service>

<sup>42</sup>. Ondo uses the regulatory framework of Cayman Islands for contractual disputes as shown in Section 14 in Terms of Service at <https://docs.ondo.finance/legal/terms-of-service>

### 3. Limitation of Liability & Financial Exposure

Ondo limits its liability for damages related to its services to the lesser of \$50 or the total fees paid by the investor in the preceding twelve months, with exceptions for gross negligence or intentional misconduct<sup>43</sup>. This limitation restricts the potential for recovery in the event of significant losses, exposing investors to financial risks from platform failures and other legal disputes.

### 4. Operational, Governance & Continuity Risks

Ondo's terms of service permit the company to modify, suspend, or terminate services at its discretion without prior notice, which may pose risks to operational continuity for investors<sup>44</sup>. This level of control can result in unexpected disruptions or terminations in service, exposing investors to operational and financial risks. According to the terms of service, Ondo provides its site and services without guarantees of quality, security, reliability, or uninterrupted service<sup>45</sup>.

Therefore investors may face data loss or corruption as well as service disruptions due to various factors such as cyberattacks, software failures, viruses, third-party protocol changes, and internet outages, while Ondo disclaims liability for any loss or damage resulting from these issues. This may affect the investors' access to their data and funds.

Additionally, the lack of transparency regarding Ondo's financial standing, along with the absence of comprehensive documentation concerning disaster recovery and risk management protocols, indicates a significant level of operational and governance risk. This raises concerns regarding Ondo's ability to effectively manage operational disruptions and adhere to governance standards, thereby heightening the overall risk profile associated with Ondo.

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<sup>43</sup> Ondo limits liability as an issuer as shown in Section 13 in Terms of Service at <https://docs.ondo.finance/legal/terms-of-service>

<sup>44</sup> Ondo limits liability as an issuer as shown in Section 13 in Terms of Service at <https://docs.ondo.finance/legal/terms-of-service>

<sup>45</sup> Disclaimer regarding potential data loss can be found in Section 12 in Terms of Service at <https://docs.ondo.finance/legal/terms-of-service>

## Detailed Rating Analysis - \$OUSG Token

### Delivers an Innovative & Robust Financial Product

According to the Particula Digital Asset Classification System (PDACS), the \$OUSG token falls under the category of a fund token in the digital asset space and offers investors exposure to U.S. Treasuries<sup>46</sup>. As an ERC-20 token, \$OUSG benefits from the established infrastructure and compatibility within the Ethereum ecosystem, enhancing its accessibility and interoperability across both Polygon and Solana as well.

Notably, \$OUSG token holders do not possess legal claims, denoting that their ownership of the token does not entail rights to the underlying assets held by the fund<sup>47</sup>. This feature distinguishes \$OUSG as a means for investors to gain exposure to U.S. Treasuries without direct ownership and flexibility in their investment strategies. However, it should be acknowledged that this structure exposes investors to counterparty risk. If Ondo becomes insolvent or ceases operations, investors would have no claim on the underlying assets, potentially diminishing the value of their investment and limiting avenues for legal recourse.

On April 24, 2024, the total value of all \$OUSG tokens in circulation (market capitalization) was recorded at \$95,861,942.25. The following illustration considers data from all networks where the \$OUSG token is traded, with the average price per token being \$105.95.



Network	Supply	Market Cap	# Holders
Ethereum <sup>48</sup>	703,279.43	\$74,512,455.71	44
Polygon <sup>49</sup>	106,236.50	\$11,255,757.18	1
Solana <sup>50</sup>	95,268.80	\$10,093,729.36	1
<b>Total</b>	<b>904,784.73</b>	<b>\$95,861,942.25</b>	<b>46</b>

<sup>46</sup>The Particula Digital Asset Classification System (PDACS) can be found at <https://particula.io/particula-digital-asset-classification-system-pdacs/>

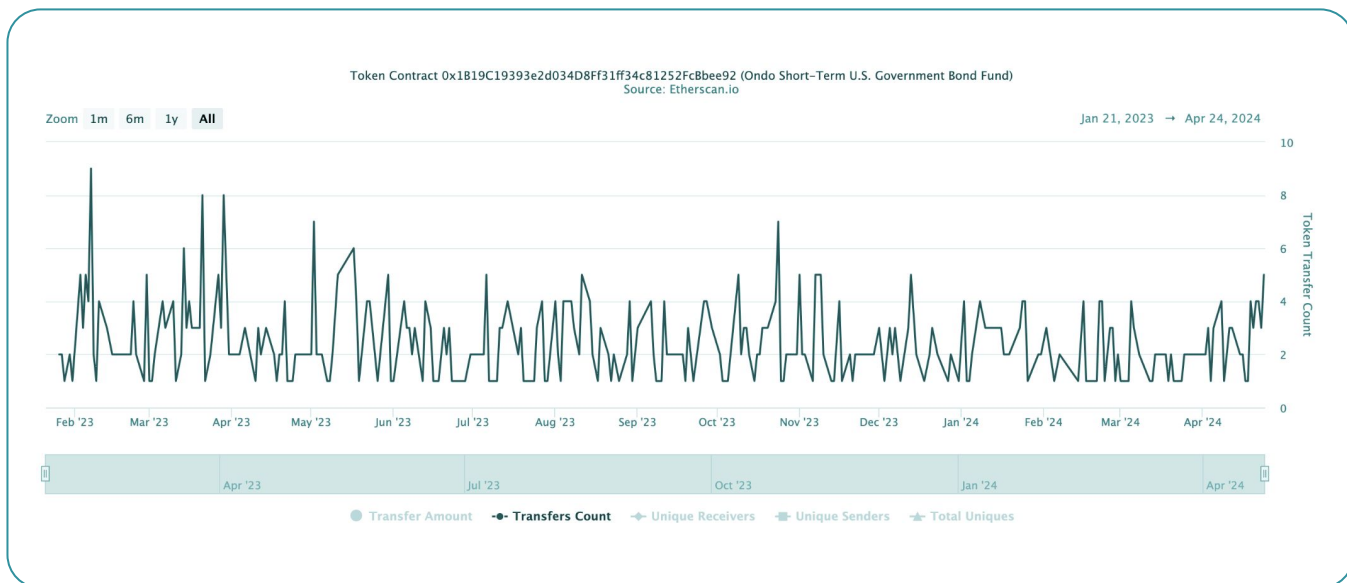
<sup>47</sup>Particula rating framework is available upon request and assessment is based upon Ondo' Terms of Service found at <https://docs.ondo.finance/legal/terms-of-service>

<sup>48</sup>As available at <https://etherscan.io/token/0x1B19C19393e2d034D8Ff31ff34c81252FcBbee92>

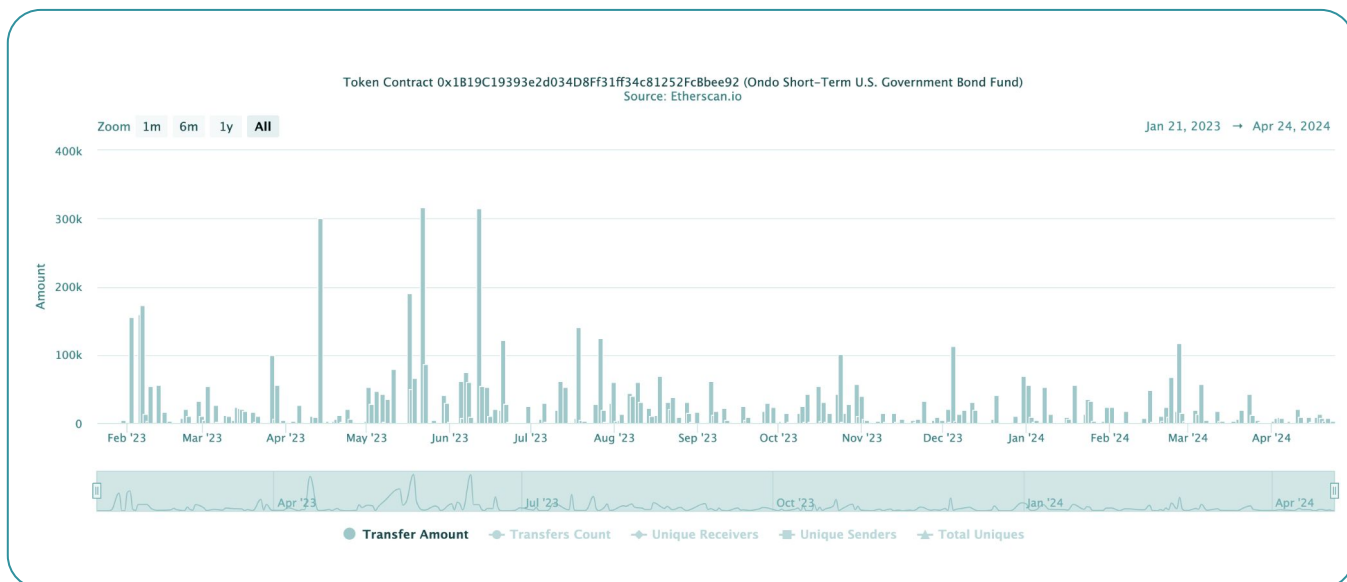
<sup>49</sup>As available at <https://polygonscan.com/token/0xbA11C5effA33c4D6F8f593CFA394241CfE925811>

<sup>50</sup>As available at <https://solscan.io/token/i7u4r16TcsjTqg1kAG8opmVZyVnAKBwLKu6ZPMwzxNc>

As seen above, the market activity is concentrated on Ethereum. A further examination of the activity on Ethereum reveals that transfer count is relatively constant in the low and mid-single digits, while the amount of transfers shows a decreasing trajectory<sup>51</sup>.



Source: The Transfers Count of \$OUSG on Ethereum as seen on <https://etherscan.io/>



Source: The Transfer Amount of \$OUSG on Ethereum as seen on <https://etherscan.io/>

<sup>51</sup>. The analytics of Ethereum smart contract can be found here <https://etherscan.io/token/0x1b19c19393e2d034d8ff31f34c81252fcbbee92#tokenAnalytics>

The comparative analysis given below evaluates \$OUSG token against its peers:

Token	\$OUSG	\$BENJI	\$BUIDL	\$USTB
Issuer	Ondo Finance	Franklin Templeton	BlackRock	Superstate
Underlying Asset	BUIDL Fund <sup>52</sup> , BlackRock's FedFund, Bank Deposits & \$USDC	Franklin OnChain U.S. Government Money Fund	BlackRock's USD Institutional Digital Liquidity Fund	Superstate Short Duration U.S. Government Securities Fund
Networks	Ethereum, Polygon & Solana	Polygon & Stellar	Ethereum	Ethereum
Circulating Supply <sup>53</sup> (April 24)	904,784.73	384,270,775.00	304,614,383.00	9,232,678.00
No. of Holding Addresses <sup>54</sup> (April 24)	46	N/A <sup>55</sup>	11	14
Assets Under Management <sup>56</sup> (April 24)	\$95,861,942.25	\$384,270,775.00	\$304,614,383.00	\$9,232,678.00
Min. Investment	\$100,000.00 <sup>57</sup>	\$20.00	\$100,000.00 <sup>58</sup>	\$100,000.00
Fees	0.35% <sup>59</sup>	0.20% <sup>60</sup>	N/A <sup>61</sup>	0% <sup>62</sup>
Custody Options	Self, Third Party & Institutional-Grade	N/A <sup>55</sup>	Third Party & Institutional-Grade	Self, Third Party & Institutional-Grade

\*\* Disclaimer: The above comparative analysis was conducted solely based on publicly available information

<sup>52</sup> BlackRock's USD Institutional Digital Liquidity Fund

<sup>53</sup> Extracted from the analytics dashboard of 21.Co <https://dune.com/21co/tokenization-government-securities>

<sup>54</sup> Extracted from the analytics dashboard of 21.Co <https://dune.com/21co/tokenization-government-securities>

<sup>55</sup> BENJI token is made available via the app. Information on integrated custody solutions is not disclosed

<sup>56</sup> Extracted from the analytics dashboard of 21.Co <https://dune.com/21co/tokenization-government-securities>

<sup>57</sup> For instant transactions the minimum amount for investment and redemption has been reduced to \$10,000.00 as found on <https://docs.ondo.finance/qualified-access-products/ousg/investing>

<sup>58</sup> Contrary to reports suggesting a \$5 Mn requirement, the SEC filing specifies a \$100,000.00 minimum investment for external investors ([https://www.sec.gov/Archives/edgar/data/2013810/000201439024000001/xslFormDX01/primary\\_doc.xml](https://www.sec.gov/Archives/edgar/data/2013810/000201439024000001/xslFormDX01/primary_doc.xml))

<sup>59</sup> Fees consist of 0% Ondo management fees till Jan 2025, up to 0.15% fund expenses, 0.20% BlackRock Fund expenses and additional fees may apply for instant minting and redemption <https://docs.ondo.finance/qualified-access-products/ousg/fees-and-taxes>

<sup>60</sup> Net fees consist of 0.15% management fees and 0.05% operational fees. More details about fees related to FOBXX and BENJI can be found at <https://www.franklintempleton.com/investments/options/money-market-funds/products/29386/SINGLCLASS/franklin-on-chain-u-s-government-money-fund/FOBXX>

<sup>61</sup> Fees are not in publicly available information

<sup>62</sup> No fees until the fund reaches \$200.00 Mn AUM as seen on <https://superstate.co/ustb>

## Enhanced Utility Driven by Integration with [Flux Finance](#)<sup>63</sup>.

The integration of \$OUSG token with Flux Finance enhances the utility of the token by facilitating access to a decentralized lending protocol governed by the Ondo DAO.

Flux Finance operates as a lending platform, enabling users to supply stablecoins and earn interest or borrow stablecoins by collateralizing assets. Within this ecosystem, \$OUSG functions as the exclusive collateral asset accepted on the platform.

This integration allows \$OUSG token holders to utilize their tokens as collateral to borrow other assets, unlocking liquidity without needing to sell their \$OUSG holdings. Additionally, \$OUSG holders can earn yield on their holdings by supplying them to the lending protocol, thereby contributing to the platform's liquidity pool and earning interest in return, with the average rate for \$USDC lending being 1.68%.

Transaction Type	Amount of Tokens <sup>64</sup>	No. of Unique Addresses <sup>65</sup>
Deposit into Flux	800,359	18
Withdrawal from Flux	684,004	11

The interaction of \$OUSG token holders with Flux Finance underscores its utility within the ecosystem. Nonetheless, it is noteworthy that a significant portion, approximately 85%, of the tokens have been withdrawn.

### Exposure to Arbitrage Risk & Sudden Price Fluctuations

Since its inception, the price movement of the \$OUSG token has shown little to no correlation with its underlying assets, including BlackRock's iShares Short Treasury Bond (SHV)<sup>66</sup>, USD Institutional Digital Liquidity Fund (\$BUIDL)<sup>67</sup>, or BlackRock's FedFund (TFDXX)<sup>68</sup>, bank deposits and \$USDC, which mainly comprise cash equivalents and treasury bills.

For instance on March 26, 2024, the price of \$OUSG was recorded at \$105.56<sup>69</sup> while the BlackRock's iShares Short Treasury ETF (SHV) was priced at \$110.46<sup>70</sup>. Similarly, on March 27, 2024, despite a strategic reallocation of the underlying assets from SHV to \$BUIDL, recorded at \$1.00<sup>71</sup>, the price of \$OUSG demonstrated remarkable stability, closing marginally lower at \$105.54. The token's resilience to changes in its underlying asset composition suggests a disconnection between the respective inherent values.

<sup>63</sup> <https://fluxfinance.com/>

<sup>64</sup> Extracted from the analytics dashboard at <https://dune.com/lindyhan/ondo-usdy-ousg>

<sup>65</sup> Extracted from the analytics dashboard at <https://dune.com/lindyhan/ondo-usdy-ousg>

<sup>66</sup> Key facts related to BlackRock's iShares Short Treasury Bond (SHV) can be found at

<https://www.ishares.com/us/products/239466/ishares-short-treasury-bond-etf>

<sup>67</sup> Key publicly available information about BlackRock's USD Institutional Digital Liquidity Fund (BUIDL) can be found at

<https://securitize.io/learn/press/blackrock-launches-first-tokenized-fund-buidl-on-the-ethereum-network>

<sup>68</sup> Key facts related to BlackRock's FedFund (TFDXX) can be found at <https://www.blackrock.com/cash/en-us/products/282628/blf-fedfund>

<sup>69</sup> The price movement of \$OUSG can be found at <https://www.coingecko.com/en/coins/ousg>

<sup>70</sup> The price movement of BlackRock's iShares Short Treasury Bond (SHV) can be found at

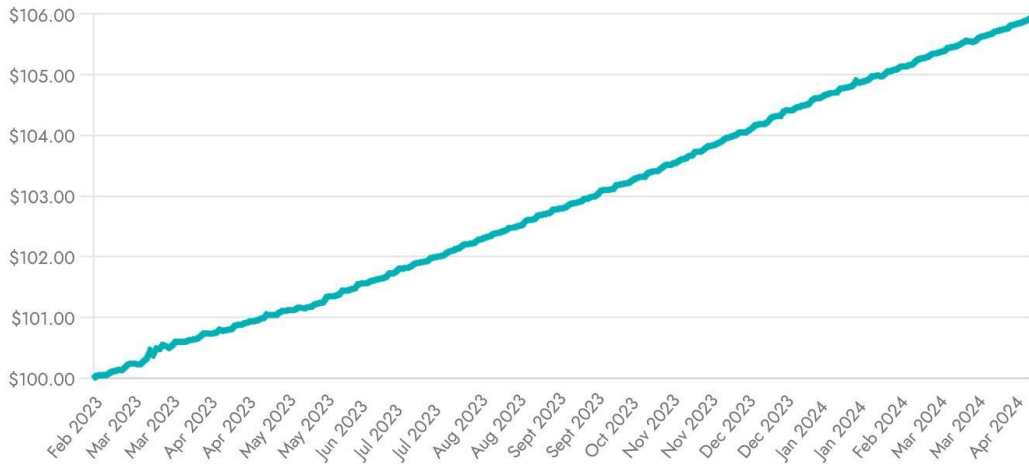
<https://www.ishares.com/us/products/239466/ishares-short-treasury-bond-etf>

<sup>71</sup> Based on publicly available information about BlackRock's USD Institutional Digital Liquidity Fund (BUIDL) which can be found at

<https://securitize.io/learn/press/blackrock-launches-first-tokenized-fund-buidl-on-the-ethereum-network>

## Price Development

**\$105.94** +\$0.02 today



Source: Price Movement of \$OUSG from <https://ondo.finance/ousg>

### 1. Correlation Between \$OUSG Token Price & Underlying Asset Prices

It may not be reasonable to draw conclusions about the token's price development based solely on the underlying price. It's notable that the token's price has experienced a nominal 6% growth over 15 months (from February, 2023 - April, 2024), implying a relatively stable price trend. The token's price consistently increases by 1 to 2 cents daily, due to its accumulating product structure. Notably, the price behavior has remained unaffected by macroeconomic and political conditions as well as significant market occurrences such as the launch of the \$BUIDL fund or the Bitcoin halving. This observation could indicate the existence of an additional price stabilization mechanism.

### 2. Concerns Regarding the Price Determination Mechanism of the \$OUSG Token

The price of \$OUSG is obtained from an oracle which is heavily constrained to ensure stability<sup>72</sup>. These constraints may lead to discrepancies between the underlying asset price and the actual \$OUSG portfolio composition posing a concern for price accuracy. In the event of extreme fluctuations in asset prices, \$OUSG Oracle's ability to report prices accurately may be affected, potentially leading to valuation errors.

<sup>72</sup> The audit report by code4rena can be found at <https://code4rena.com/audits/2024-03-ondo-finance>

### 3. Possibility of a “Negative Rebasing” Scenario Involving \$rOUSG

With the introduction of \$rOUSG, a “reverse wrapped” rebasing token variant of the \$OUSG token, Ondo is enhancing the utility and functionality of \$OUSG. This variant promises a stable value proposition by maintaining a fixed price (\$1.00), while generating additional \$rOUSG tokens through a rebasing mechanism as a daily interest pay out. However, concerns arise regarding the lack of safeguards against a “negative rebasing” scenario, where significant decreases in the \$OUSG price may cause token price instabilities.

#### Access Limited by KYC/AML Implications

Investment access to \$OUSG is contingent upon compliance with Know Your Customer (KYC) and Anti-Money Laundering (AML) regulations, necessitating adherence to specific eligibility criteria. In order to invest in \$OUSG, investors must meet the requirements of both an accredited investor and a qualified purchaser<sup>73</sup>.

##### 1. Accredited Investor Criteria<sup>74</sup>

- **Individual investors must satisfy at least one of the following conditions:**
  - Exceeding a net worth threshold of \$1,000,000.00 or demonstrating individual income surpassing \$200,000.00 annually for the past two years.
  - Holding recognized professional certifications or designations.
  - Meeting the criteria of a “knowledgeable employee”<sup>75</sup> within the Fund.
  - Holding positions as directors, executive officers or general partners within the issuer.
- **Institutional investors are subject to specific criteria defined by regulatory standards.**

##### 2. Qualified Purchaser Criteria<sup>76</sup>

- **Investors are required to fulfill at least one of the following criteria:**
  - Demonstrating significant investment assets as individuals or entities.
  - Meeting the definition of qualified institutional buyers according to regulatory guidelines.
  - Fulfilling designated beneficiary or trustee requirements with appropriate qualifications.
- **Additional considerations apply to the acquisition of interests from qualified purchasers.**

Investors must not be situated, organized or residents of certain restricted jurisdictions, including Cuba, Iran, North Korea, Syria and South Korea<sup>77</sup>.

Moreover, the minimum investment threshold of \$100,000.00 acts as a barrier to entry for non-instant transactions, potentially limiting the audience and resulting in a concentrated spread across token holders.

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<sup>73</sup>. More details about eligibility requirements for \$OUSG can be found at <https://docs.ondo.finance/qualified-access-products/ousg/eligibility-&-onboarding>

<sup>74</sup>. More details about SEC accredited investor criteria can be found at <https://www.sec.gov/education/capitalraising/building-blocks/accredited-investor>

<sup>75</sup>. The definition of “Knowledgeable Employee” can be found at <https://www.sec.gov/divisions/investment/noaction/2014/managed-funds-association-020614.htm>

<sup>76</sup>. More details about qualified purchaser under Investment Company Act of 1940 can be found at <https://www.govinfo.gov/content/pkg/COMPS-1879/pdf/COMPS-1879.pdf>

<sup>77</sup>. Eligibility criteria of Ondo Finance can be found at <https://docs.ondo.finance/qualified-access-products/eligibility>



## Strong Technical Framework & Comprehensive Smart Contract Audits

The \$OUSG token benefits from the strong technical framework provided by Ondo's technology arm. Regular smart contract audits conducted by third-party providers quarterly ensure comprehensive reviews of the token's code, minimizing the risk of vulnerabilities. Furthermore, the implementation of a bug bounty program encourages external security experts to identify and report potential risks within the smart contract design, ensuring a proactive approach to addressing security threats<sup>78</sup>. Notably, all threats and improvements from recent audits and bug bounty programs have been addressed.

However, there are concerns regarding system overload and centralization<sup>79</sup>. There is a risk that approved investors could overwhelm the transaction system, potentially disrupting operations. Moreover, the system's reliance on a few key management functions raises centralization concerns, particularly if those in control do not act in the best interests of all users. Operational inefficiencies may also occur when funds are left idle in the system, impacting the overall efficiency of investments.

Additionally the integration of smart contracts with third-party token contracts may introduce complexities, as exemplified by the engagement between OUSGInstantManager, \$rOUSG, and \$OUSG tokens<sup>80</sup>. While this integration contributes to improved utility and functionality of financial tokens, it also introduces several associated risks.

- **Code Integrity Related Risks:** Relying on previously audited code structures and assuming third-party contract functionalities without verified audits may raise concerns about code integrity.
- **Liquidity & Redemption Risks:** Managing instant mints and redemptions of \$OUSG and \$rOUSG involves complex interactions with \$USDC and \$BUIDL tokens. Dependency on third-party liquidity provisions and the need to maintain adequate reserves introduce operational complexities and the risk of delayed or failed redemptions.
- **External Oracle & Price Feed Risks:** The accuracy of token valuations, particularly in wrapping and unwrapping between \$OUSG and \$rOUSG, as well as determination of minting and redemption values, relies heavily on external oracles for price feeds. Manipulation or errors in these feeds could lead to incorrect token valuations, contributing to financial risks.

Furthermore there are indications of compliance and administrative risks associated with the smart contract. Specifically, within the OUSGInstantManager.sol smart contract, various administrative roles hold considerable influence over operational security and compliance, introducing potential risks that warrant attention.

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<sup>78</sup>. For further details on the bug bounty program, refer <https://immunefi.com/bounty/ondofinance/>

<sup>79</sup>. The audit report by code4rena can be found at <https://code4rena.com/audits/2024-03-ondo-finance>

<sup>80</sup>. The audit report by code4rena can be found at <https://code4rena.com/audits/2024-03-ondo-finance>

The Default Admin Role, for instance, exercises extensive administrative authority, including the ability to modify critical functions such as setting the oracle and adjusting fee receivers. These changes may lead to manipulation of critical contract decisions or misallocation of funds. Similarly, the Configurer Role manages operational settings impacting day-to-day contract operations, while the Pauser Role possesses the authority to freeze mints or redemptions, posing compliance and operational risks if not executed transparently and fairly.

While each administrative role may intend to enhance efficiency, they carry inherent risks that may require careful consideration. These risks include compliance risk, where changes made by administrative roles may potentially violate regulatory standards, leading to legal challenges or sanctions, asset lockouts, where adjustments to financial thresholds could prevent users from accessing their funds, and lack of oversight, where the powers vested in these roles may be susceptible to misuse, affecting stakeholders adversely.

## Detailed Rating Analysis - Underlying Asset

### Primarily Reflects Participation in \$BUIDL Fund<sup>81</sup>

Initially, the \$OUSG token reflected participation in BlackRock's iShares Short Treasury Bond ETF (SHV), which boasted nearly \$19 billion in assets under management<sup>82</sup>. This ETF primarily invested in short-term U.S. Treasuries, maintaining a median credit rating of AA.

On March 27, 2024, Ondo moved \$95 million worth of assets to BlackRock's recently launched USD Institutional Digital Liquidity Fund (\$BUIDL) while the remaining assets were allocated across BlackRock's FedFund (TFDXX), bank deposits, and \$USDC for liquidity management purposes<sup>83</sup>.

Upon BlackRock's announcement of its first tokenized fund, Ondo made the strategic decision to transition its assets to this new offering. However, comprehensive details regarding BlackRock's newly introduced USD Institutional Digital Liquidity Fund (\$BUIDL) remain limited.

Snapshot of \$BUIDL Fund	
<b>Inception</b>	March 20, 2024
<b>Domicile</b>	British Virgin Islands
<b>Assets Under Management (April 24, 2024)</b>	\$ 304,614,383.00
<b>NAV</b>	\$ 1.00
<b>Fund Manager &amp; Sponsor</b>	BlackRock
<b>Fund Administrator &amp; Custodian</b>	BNY Mellon
<b>Fund Transfer Agent</b>	Securitize Markets LLC
<b>Fund Placement Agent</b>	Securitize Markets LLC
<b>Fund Auditor</b>	Price Waterhouse Cooper Int. Ltd.
<b>Wallet Solutions Provider</b>	BitGo, Fireblocks, Anchorage Digital

Source: Details of BUIDL Fund from <https://securitize.io/>

The investment objective of the BlackRock USD Institutional Digital Liquidity Fund is to pursue current income while prioritizing the preservation of liquidity and principal stability. The fund allocates 100% of its total assets to investments in highly liquid instruments, including cash, U.S. Treasury bills, notes, and other obligations issued or backed by the U.S. Treasury, along with repurchase agreements collateralized by such assets or cash reserves. Investment activities of the fund will primarily focus on acquiring U.S. Treasury bills, notes, or similar short-term obligations maturing within three months from the settlement date of the purchase.

<sup>81</sup> BlackRock's USD Institutional Digital Liquidity Fund

<sup>82</sup> Key facts related to BlackRock's iShares Short Treasury Bond (SHV) can be found at <https://www.ishares.com/us/products/239466/ishares-short-treasury-bond-etf>

<sup>83</sup> Underlying assets are named in the product page at <https://ondo.finance/ousg>

These investments may be made in both primary and secondary markets and may include variable and floating-rate instruments.

Concurrently, BlackRock's FedFund (TFDXX) is a money market fund that focuses on high liquidity and steady returns<sup>84</sup>. It invests primarily in low-risk assets like cash and short-term government securities, aiming for a dollar-weighted average maturity of 60 days or less. Despite not being directly linked to the federal funds rate, it offers competitive yields, with a 7-day SEC yield of 5.18% as of April 24, 2024.

Fundamentally, an investment in \$OUSG mirrors an investment in \$BUIDL, accompanied by additional counterparty risks, technical risks and additional costs. However, especially with the introduction of \$rOUSG, Ondo offers qualified purchasers the opportunity to access \$BUIDL with smaller investment amounts, starting at \$10,000.00 for instant minting and redemption.

## Rating Sensitivities

**Transparency** The scoring may be subject to change based on transparency of the issuer and the token. This includes incorporation of clearer disclosures, improvements in reporting standards, and increased visibility with documentation of business processes that would in turn increase the openness and accessibility of information surrounding digital assets.

**Regulatory Landscape** Regulatory Framework around digital assets such as compliance standards or legal frameworks are constantly evolving. It can significantly influence the risk profile and market perception of digital assets.

Authorities such as Switzerland's FINMA, Singapore's MAS, and Abu Dhabi's ADGM are notably proactive, prioritizing investor protection in their approaches. Conversely, the US Securities and Exchange Commission (SEC) and the UK Financial Conduct Authority (FCA) adopt a more cautious stance, opting to apply existing securities laws to regulate asset tokenization activities<sup>85</sup>.

In the USA, multiple regulatory entities monitor digital assets<sup>86</sup>. The Securities Exchange Commission ("SEC") holds authority over digital assets categorized as securities, including security token offerings ("STOs"). The Commodities Futures Trading Commission ("CFTC") oversees digital assets classified as commodities.

<sup>84</sup>. Key facts related to BlackRock's FedFund (TFDXX) can be found at <https://www.blackrock.com/cash/en-us/products/282628/blf-fedfund>

<sup>85</sup>. Regulatory frameworks in different jurisdictions are highlighted in the following article at <https://www.antiersolutions.com/the-global-regulatory-landscape-for-asset-tokenization/>

<sup>86</sup>. More details about the regulatory framework of the USA can be found at <https://www.antiersolutions.com/decoding-the-legal-landscape-asset-tokenization-regulations-in-the-us/>

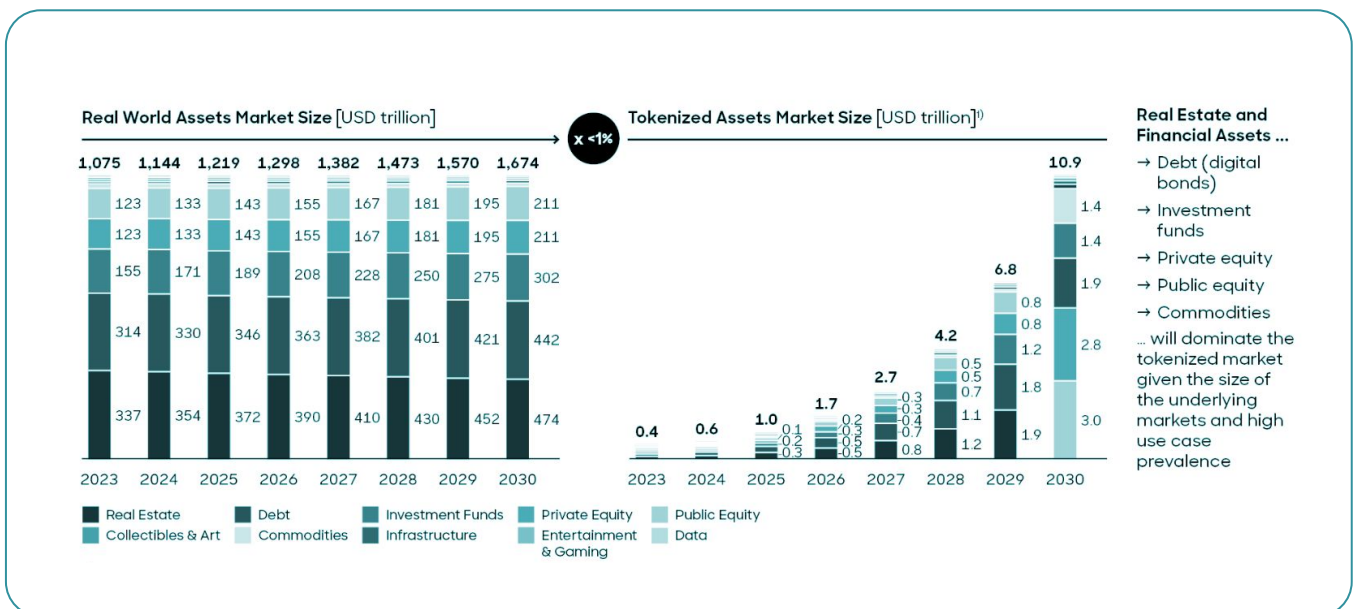
Additionally, the Financial Crimes Enforcement Network (“FinCEN”) plays a pivotal role in upholding Anti-Money Laundering (“AML”) and Know Your Customer (“KYC”) regulations for both digital assets and the exchanges facilitating them.

Regulating digital assets in the U.S. depends on whether they’re considered securities or commodities, usually determined by the Howey Test. However, there’s still a lack of clarity in the regulations, with ongoing debates and legal battles shaping the landscape. Additionally, lawmakers are working on creating comprehensive regulatory frameworks for digital assets. Bills like the Lummis-Gillibrand and Stabenow Bills aim to clarify regulatory jurisdiction and enhance investor protection. Regulatory changes may lead to revised assessments of US-based entities, enhancing the clarity of offerings and, consequently, the rights and obligations of investors.

## Market Sentiment & Maturity

Any shifts in market sentiment and changes in the maturity profile of the tokenized financial products market may affect the rating.

In 2023 & 2024, the tokenization market has demonstrated significant growth and maturation, driven by favorable macroeconomic conditions and heightened investor interest<sup>87</sup>.



Source: Extracted from Roland Berger’s Report on “The Tokenization of Real World Assets”

<sup>87</sup> The report by Roland Berger on the tokenization of real world assets is available at <https://www.rolandberger.com/en/Insights/Publications/Tokenization-of-real-world-assets-unlocking-a-new-era-of-ownership-trading.html>

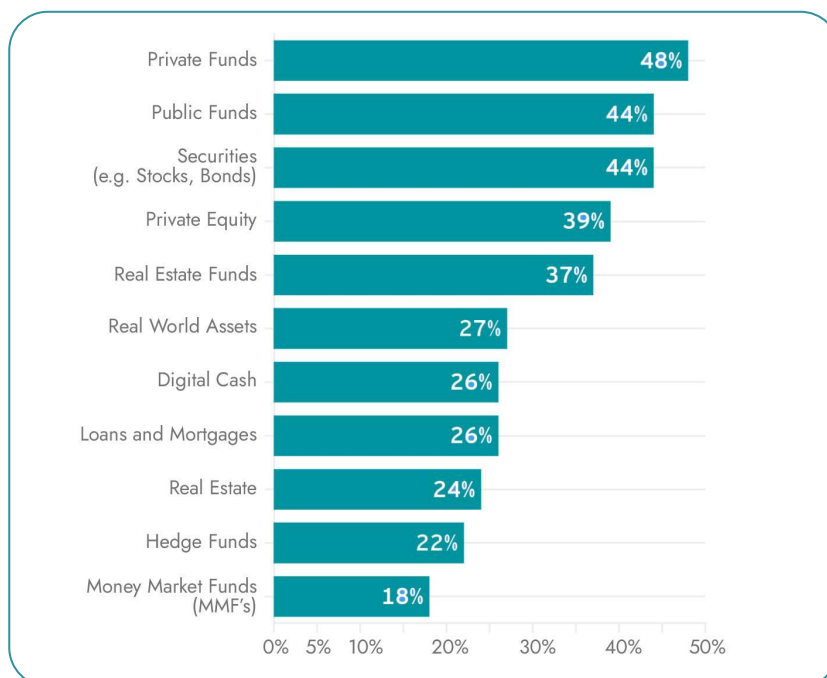
Recent market data indicates that the tokenization of Real World Assets (RWAs) has emerged as a highly profitable segment within the crypto space, surpassing even lucrative narratives like AI<sup>88</sup>. In Q1 2024, RWAs achieved substantial returns of 285.6%, positioning it as the second most profitable crypto narrative during the period.

Rank	Crypto Narrative	Average Returns
1	Memecoin	1312.58%
2	RWA	285.61%
3	AI	221.95%
4	DeFi	98.86%
5	DePIN	81.00%
6	Layer 1	69.95%
7	GameFi	64.35%
6	Layer 2	39.47%

Source: Extracted from CoinGecko Article on Top Crypto Narratives of Q1 2024

This strong performance underscores the growing acceptance and recognition of tokenized assets as viable investment instruments, reflecting a maturing market environment.

EY conducted a survey among 256 institutional investors to find 57% of respondents indicated an interest in investing in tokenized assets, particularly tokenized private funds, securities (e.g. bonds and stocks) and public funds<sup>89</sup>. Among these institutions, hedge funds are most likely to invest initially. Additionally, there is considerable interest in the tokenization of public funds, private funds and real estate funds among those exploring investments in tokenized assets.



Source: Extracted from EY Survey titled "Institutional Investor Outlook on Digital Assets"

<sup>88</sup>. Top crypto narratives of Q1 2024 by CoinGecko is available at [https://www.coingecko.com/research/publications/most-profitable-crypto-narratives?utm\\_source=newsletter&utm\\_campaign=Data%2BVisualization&utm\\_medium=email](https://www.coingecko.com/research/publications/most-profitable-crypto-narratives?utm_source=newsletter&utm_campaign=Data%2BVisualization&utm_medium=email)

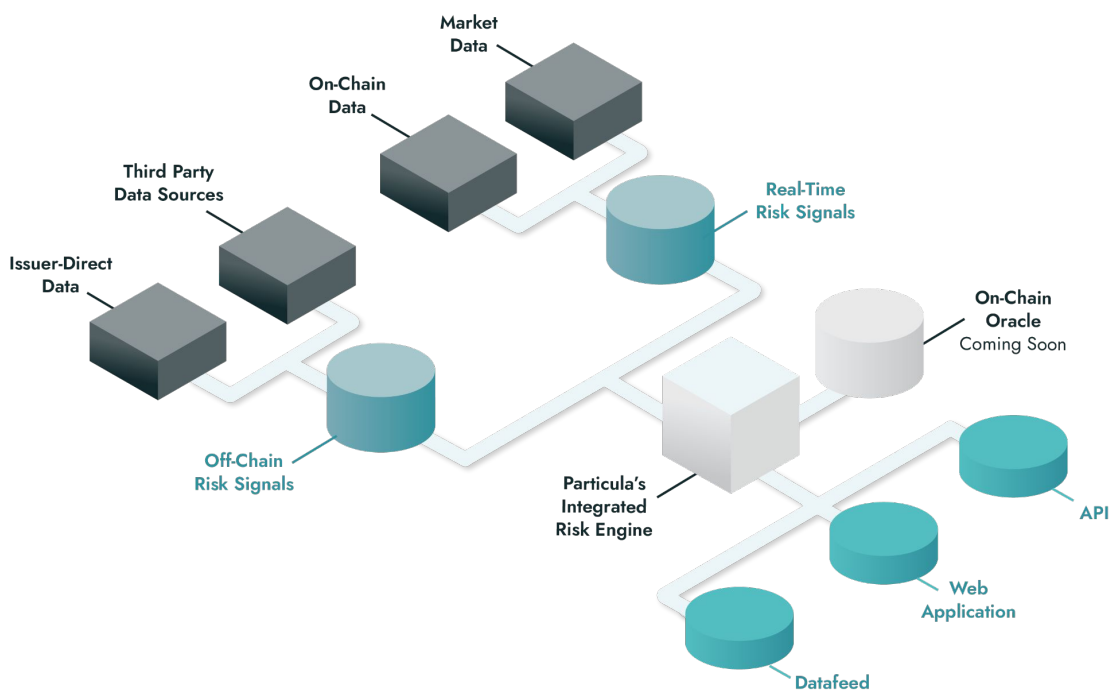
<sup>89</sup>. Article written on EY survey can be found at [https://www.ey.com/en\\_us/insights/financial-services/how-institutions-are-investing-in-digital-assets](https://www.ey.com/en_us/insights/financial-services/how-institutions-are-investing-in-digital-assets)

## Analytical Approach

Particula's digital asset risk rating methodology employs a comprehensive analytical approach that combines traditional asset evaluation principles with advanced technology. This methodology diligently assesses each issuance on the categories compliance, economic viability, technological resilience, ESG performance and operational security, offering investors a deep understanding of risks and opportunities on issuer, token and underlying asset.

Particula's principles acknowledge the difference between digital assets and analog assets and integrate direct data from issuers, conduct thorough security checks and incorporate real-time blockchain data as well as market trends to provide timely and accurate assessments for navigating the landscape of digital assets. A complete overview of our analytical approach and the rating methodology is available on request.

Grade	Rating	Definitions
<b>Investment Grade</b>	AAA	Highest Quality, Minimal Risk
	AA	Very High Quality, Low Risk
	A	High Quality, Low-Medium Risk
	BBB	Good Quality, Medium Risk
<b>Speculative Grade</b>	BB	Speculative, High Risk
	B	Highly Speculative, Very High Risk
	CCC	Substantial Risk
	CC	Very High Risk, Approaching Exposure
	C	High Risk, In Exposure or Likely to be Exposed
	D	Full Exposure



## Disclaimers

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