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Tether, Not Bitcoin, Likely the World's Most Used Cryptocurrency

- **Controversial stablecoin tops Bitcoin in dollar trading volume**
- **Opaque nature favored by traders raises regulator concerns**

By Olga Kharif

(Bloomberg) -- What's the world's most widely used cryptocurrency? If you think it's Bitcoin, which accounts for about 70% of all the digital-asset world's market value, you're probably wrong.

While concrete figures on trading volumes are hard to come by in this often murky corner of finance, data from CoinMarketCap.com show that the token with the highest daily and monthly trading volume is Tether, whose market capitalization is more than 30 times smaller. Tether's volume surpassed that of Bitcoin's for the first time in April and has consistently exceeded it since early August at about $21 billion per day, the data provider says.

With Tether's monthly trading volume about 18% higher than that of Bitcoin, it's arguably the most important coin in the crypto ecosystem. Tether's also one of the main reasons why regulators regard cryptocurrencies with a wary eye, and have put the breaks on crypto exchange-traded funds amid concern of market manipulation.

"If there is no Tether, we lose a massive amount of daily volume -- around $1 billion or more depending on the data source," said Lex Sokolin, global financial technology co-head at ConsenSys, which offers blockchain technology. "Some of the concerning potential patters of trading in the market may start to fall away."

Coins With Biggest Daily Trading Volumes

In billions of U.S. dollars

Tether	20,790,721,778
Bitcoin	17,279,220,906
Ethereum	7,725,511,214
Litecoin	2,548,778,107
Bitcoin Cash	1,917,335,827
EOS	1,767,251,156
XRP	1,353,675,702
Tron	705,376,875
Ethereum Classic	568,570,716
Paxos Standard	367,122,707

Source: CoinMarketCap.com
Values as of Sept. 27, 2019

Bloomberg

Tether is the world's most used stablecoin, a category of tokens that seek to avoid price fluctuations, often through pegs or reserves. It's also a pathway for most of the world's active traders into the crypto market. In countries like China, where crypto exchanges are banned, people can pay cash over the counter to get Tethers with few questions asked, according to Sokolin. From there, they can trade Tethers for Bitcoin and other cryptocurrencies, he said.

"For many people in Asia, they like the idea that it's this offshore, opaque thing out of reach of the U.S. government," said Jeremy Allaire, chief executive officer of Circle, which supports a rival stablecoin called USD Coin. "It's a feature, not a problem."

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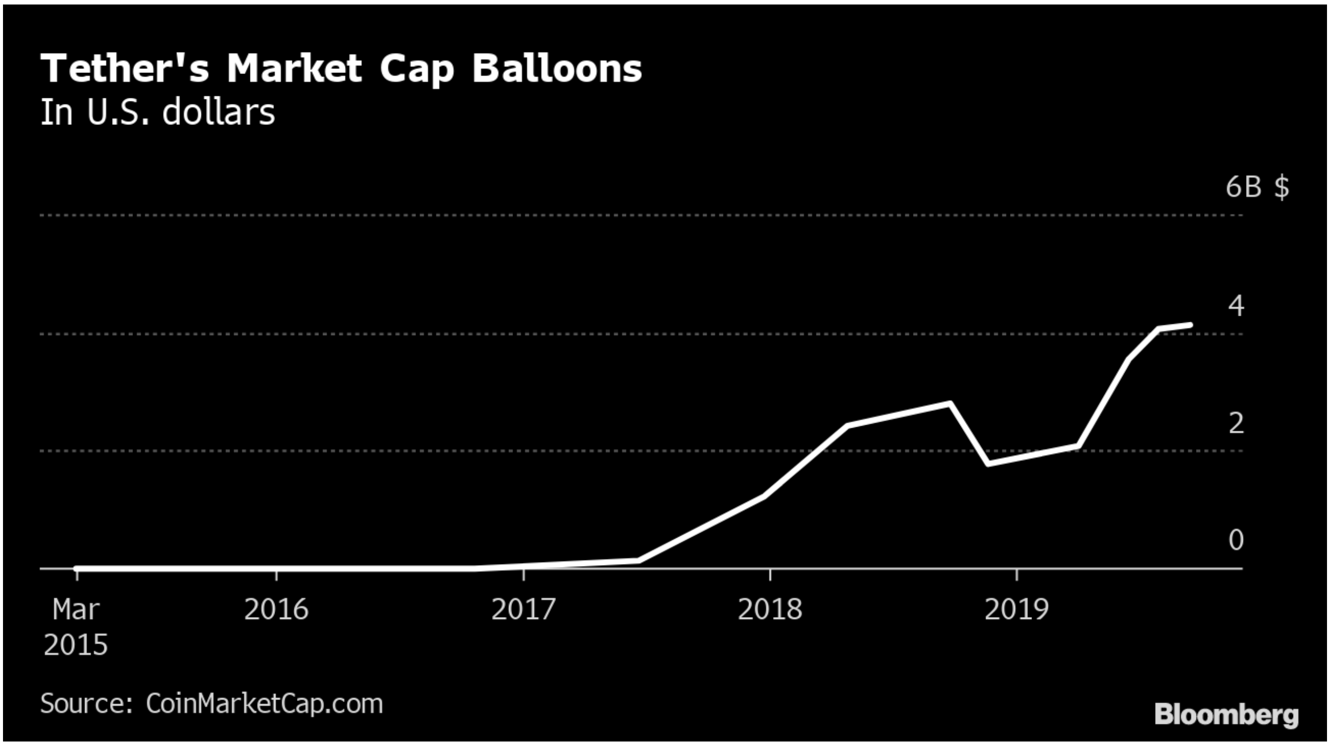
Tether, which is being sued by New York for allegedly commingling funds including reserves, says using a know-your-customer form and approval process is required to issue and redeem the coin.

Asian traders account for about 70% of all crypto trading volume, according to Allaire, and Tether was used in 40% and 80% of all transactions on two of the world's top exchanges, Binance and Huobi, respectively, Coin Metrics said earlier this year.

Many people don't even know they use Tether, said Thaddeus Dryja, a research scientist at the Massachusetts Institute of Technology. Because traditional financial institutions worry that they don't sniff out criminals and money launderers well enough, most crypto exchanges still don't have bank accounts and can't hold dollars on behalf of customers. So they use Tether as a substitute, Dryja said.

"I don't think people actually trust Tether -- I think people use Tether without realizing that they are using it, and instead think they have actual dollars in a bank account somewhere," Dryja said. Some exchanges mislabel their pages, to convey the impression that customers are holding dollars instead of Tethers, he said.



The way Tether is managed and governed makes it a black box. While Bitcoin belongs to no one, Tether is issued by a Hong Kong-based private company whose proprietors also own the Bitfinex crypto exchange. The exact mechanism by which Tether's supply is increased and decreased is unclear. Exactly how much of the supply is covered by fiat reserves is in question, too, as Tether is not independently audited. In April, Tether disclosed that 74% of the Tethers are covered by cash and short-term securities, while it previously said it had a 100% reserve.

The disclosure was a part of an ongoing investigation into Tether by the New York Attorney General, which accused the companies behind the coin of a coverup to hide the loss of $850 million of comingled client and corporate funds.

John Griffin, a finance professor at the University of Texas at Austin, said that half of Bitcoin's runup in 2017 was the result of market manipulation using Tether. Last year Bloomberg reported that the U.S. Justice Department is investigating Tether's role in this market manipulation.

Convenience Versus Risk

“Being controlled by centralized parties defeats the entire original purpose of blockchain and decentralized cryptocurrencies,” Griffin said. “By avoiding government powers, stablecoins place trust instead in the hands of big tech companies, who have mixed accountability. So while the idea is great in theory, in practice it is risky, open to abuse, and plagued by similar problems to traditional fiat currencies.”

On the other hand, because Tether is key to their growth, many crypto exchanges would likely be willing to bail it out if needed, said Dan Raykhman, who is developing a platform for issuing digital assets and used to be head of trading technologies for Galaxy Digital.

“There's this implicit support from all these exchanges to help Tether stay afloat,” he said.

While dozens of stablecoins have come out in the past year, many of them independently audited and regulated, Tether remains the favorite, by far.

“Tether has been around since 2014 -- ancient antecedents in crypto --and has retained its value,” said Aaron Brown, an investor and a writer for Bloomberg Opinion. “I don't say it's perfect, but its convenience outweighs its risk for many people.”

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