What Are Tether's Reserves?

The assets behind the largest stablecoin — what the quarterly reports actually show, why they exist at all, and the difference between a reserve report and an audit.

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Tether's reserves are the assets the company holds against the USDT tokens in circulation — and because that circulation now exceeds the balance sheets of many national banks, the composition of those reserves is arguably the single most consequential disclosure in the crypto industry. If the backing is sound, an enormous share of global crypto trading rests on solid ground. If it is not, the consequences would reach every corner of the market. This report sets out what the company publishes, the history that produced those publications, and what the reports do and do not establish. It assumes familiarity with what a stablecoin is.

AT A GLANCE

BACKS	BULK OF RESERVES	ALSO HOLDS
The largest stablecoin in issue	**US Treasuries and equivalents**	**Gold, bitcoin, other investments**
PUBLISHED	NOT	REPORTS EXIST
Quarterly attestation	**A full financial audit**	**Partly due to a 2021 settlement**

01

What the reports show

Tether publishes a quarterly breakdown of its reserves by category. The dominant component, by a wide margin, is exposure to United States government debt — short-dated Treasury bills held directly, alongside overnight reverse repurchase agreements and money market funds that are themselves backed by government paper. Taken together this cluster accounts for roughly four-fifths of the total, and it is the reason the company is now counted among the larger holders of US government debt in the world, private or sovereign.

The remainder is where the interest lies. The company discloses holdings in gold and in bitcoin, each running to billions of dollars; a category of secured loans; and a bucket described as other investments, which has grown and has more recently been broken out to include public equity holdings. Precise proportions shift each quarter and should be read from the current report rather than from any article, including this one — but the shape has been stable for some time: a large, conservative, highly liquid core, and a smaller tail of assets that behave nothing like cash.

02

How it used to look

The present composition is a considerable improvement on the past, and the comparison is instructive. When Tether published its first reserve breakdown in 2021, the largest single category was commercial paper — short-term corporate debt — accounting for roughly half the total, and rising higher still by some measures shortly afterwards. Critically, the paper was unspecified: the disclosure did not identify the issuers, so outside observers could not assess its credit quality or its liquidity.

That drew sustained criticism, and Tether subsequently wound the position down to nothing over the following period, replacing it with Treasury exposure. This history matters for two reasons. It demonstrates that the company has responded to pressure by materially improving the quality of its backing, which is a genuine point in its favour. And it establishes that the composition is not fixed — reserves have changed substantially before and can change again, which is why the current report, rather than a general impression, is the only thing worth relying on.

03

Why the reports exist

The quarterly disclosures are not a voluntary transparency initiative that happened to arise. In February 2021 Tether and its affiliated exchange settled an investigation by the New York Attorney General, paying a financial penalty and agreeing, as part of that settlement, to publish regular breakdowns of its reserves. The Attorney General's office stated that there had been periods during 2017 and 2018 in which the token was not fully backed as represented.

Later the same year the Commodity Futures Trading Commission announced its own settlement, imposing a further penalty in connection with representations that the token was fully backed by US dollars at all times during an earlier period. These are matters of public record, and they are the direct origin of the reporting regime that exists today. Two conclusions follow, and both are worth holding at once. The historical representations were found to have been inaccurate, which is a legitimate reason for elevated scrutiny. And the disclosure practice that resulted has since given the market considerably more visibility than it previously had.

> *The reports answer one question well — what assets the company says it holds on a given day — and a different question not at all: whether the business as a whole is sound over time. Conflating the two is the most common error in reading them.*

04

Attestation is not audit

This distinction determines what the reports actually establish, and it is routinely misdescribed. An attestation is an engagement in which an accounting firm reports on specified information — here, the assets and liabilities as at a particular date — under agreed procedures. A full financial audit is a broader undertaking: it examines a company's financial statements across a period, tests internal controls, and issues an opinion on whether the accounts present a true and fair view.

Tether's reports are attestations, produced quarterly by an accounting firm. They provide a point-in-time confirmation of asset and liability figures and are meaningfully better than nothing — considerably better than what existed before 2021. What they do not provide is a continuous audited picture, verification of what happened between reporting dates, or an opinion on the business as a whole. The absence of a full audit from a major accounting firm has been the most persistent criticism of the company for years, and it remains unresolved. Note this is a limitation the company shares with much of the category rather than a unique failing, a point our comparison in USDT vs USDC develops.

05

The volatile slice

The gold, bitcoin, and equity positions deserve separate treatment, because they are the substantive difference between Tether's backing and that of a conventionally conservative issuer. These are assets whose prices move, held against a liability fixed at one dollar per token. If they fall sharply while redemptions rise, the value of the backing falls at exactly the moment it is most needed.

Two things moderate that concern without eliminating it. The volatile holdings are a minority of the total, so a severe decline in them would not by itself impair the backing of the whole. And Tether reports holding *excess* reserves — assets beyond the amount needed to cover tokens in issue — which function as a buffer intended to absorb exactly this kind of loss. The company has stated that its volatile positions are covered by that surplus rather than by token-holder backing. That is a coherent structure. The residual questions are whether the buffer is adequate under genuine stress, whether it would be measured accurately in the moment, and whether assets held for shareholder benefit and assets held for token holders can be cleanly separated when both sit on one balance sheet.

06

Where the profits go

An underappreciated feature of the business is its profitability. Holding a very large portfolio of interest-bearing government debt against non-interest-bearing liabilities generates substantial income, and Tether has reported annual profits running into the billions — figures that would place it among the more profitable financial firms in the world relative to its headcount.

Those earnings accrue to the company's shareholders, not to holders of USDT. This is not hidden and is not improper; it is simply the business model, and it is identical in structure to how a bank earns on deposits. But it clarifies the relationship: when you hold USDT you are lending the issuer a dollar, interest-free, and it earns the return. Two implications follow. Retained profits build the equity buffer that protects the peg, which benefits holders indirectly. And the arrangement explains why issuers compete so hard for scale, and why yield-bearing alternatives — which share some of that income with holders in exchange for additional risk — have emerged as a competitive response, a development covered in our note on stablecoin yield.

07

What would have to go wrong

Being precise about the failure modes is more useful than a general unease. The first is a *redemption run* outpacing liquidation: if holders sought to redeem faster than assets could be converted to cash, the peg would come under pressure even with fully adequate reserves — which is why the liquidity of the holdings matters more than their headline value, and why the Treasury-heavy composition is genuinely reassuring on this axis.

The second is a *valuation shock* to the volatile tail severe enough to exhaust the excess reserve buffer. The third is a *credit event* in the secured loans or other investments categories, which are the least transparent components and therefore the hardest for outsiders to assess. And the fourth is not financial at all: a *regulatory or banking* disruption that impairs the company's ability to process redemptions, which would break the arbitrage that holds the peg regardless of the reserves' quality — the mechanism explained in how stablecoins stay pegged. Notably, Tether has met redemptions through several severe market episodes, including the failure of major counterparties across the sector, which is meaningful evidence about the first of these.

08

How to read the next report

Five things are worth checking each quarter, and they take a few minutes. What proportion sits in direct Treasury exposure and cash equivalents, since that is the liquid core. Whether the volatile categories — gold, bitcoin, equities — have grown as a share of the total. What the secured loans and other investments buckets contain, and whether disclosure of them has improved or become vaguer. The size of the excess reserve buffer relative to the volatile holdings it is meant to cover. And whether the attestation has been upgraded toward a full audit, which would be the single most significant development the company could announce.

Hold the balanced view that the evidence supports. The reserves today are far more conservative than they were, the disclosure is far better than it was, and the token has honoured redemptions through real stress. It is also true that the historical representations were found to be inaccurate, that a full audit has not been produced, and that a portion of the backing consists of assets that can fall in value. Both sets of facts are true simultaneously, and anyone telling you only one half of that is selling something — which is why the current report, read directly, is worth more than any summary of it.

“It is the glory of God to conceal a thing: but the honour of kings is to search out a matter.”

PROVERBS 25:2

Methodology & Sources

This report describes an issuer's published disclosures as at the date of writing; it deliberately contains no reserve figures, percentages, profit amounts, or token supply totals, all of which change every quarter — read the company's current attestation report directly, which is the only authoritative source for its composition. Reserve categories described — direct US Treasury bills, overnight reverse repurchase agreements, money market funds, gold, bitcoin, secured loans, other investments, and a more recently disclosed public equity holding — reflect the categories appearing in the company's own recent reports; proportions stated only directionally. The historical account is drawn from the public record: in February 2021 Tether and Bitfinex settled with the New York Attorney General, paying a penalty and agreeing to publish periodic reserve breakdowns, with the Attorney General's office stating the token had not been fully backed at times during 2017 and 2018; in October 2021 the Commodity Futures Trading Commission announced a separate settlement concerning representations that the token was fully backed at all times during an earlier period; and the company's first published breakdown in 2021 showed a large allocation to unspecified commercial paper, subsequently wound down. These are settled matters of public record and are reported here as such, without further allegation. The distinction drawn between an attestation — a point-in-time report on specified information under agreed procedures — and a full financial audit is a general accounting distinction, not a claim of impropriety; the absence of a full audit is a documented and continuing criticism. Statements regarding excess reserves and the coverage of volatile holdings reflect the company's own representations. Nothing here is a recommendation regarding USDT, Tether, or any trade, and no allegation of current wrongdoing is made or implied.

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