Sanctions, freezing and the technical reality of the promise

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Every major fiat-backed stablecoin contract contains functions that let the issuer freeze or destroy tokens at specified addresses. Tether and Circle have used these functions thousands of times at the request of law enforcement and sanctions authorities. The functions exist because the issuer's redemption promise is subject to its AML and sanctions obligations, and an issuer that could not refuse redemption to a sanctioned party could not operate legally anywhere.

For the practitioner this means two things. First, a stablecoin is seizable. A Swiss prosecutor or a Singapore court can obtain an order requiring the issuer to freeze tokens at an address, and the issuer will comply even though the holder's key is unaffected. Part H, Chapter III and Part N, Chapter III describe the procedure. Second, a stablecoin holder bears the risk that her tokens will be frozen because of conduct by a prior holder, because screening operates on addresses and transaction history without regard to the current holder's innocence. A treasury that holds stablecoins should screen inbound transfers before accepting them, as Part F, Chapter VII and Part L, Chapter VI explain, and should hold with a custodian whose terms address what happens if the issuer freezes the custodian's omnibus address.

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