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Falcon Finance

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Executive Summary

Falcon Finance is a next-generation synthetic dollar protocol that delivers sustainable yields through basis spread, funding rate arbitrage, and advanced risk-adjusted yield generation strategies. Unlike traditional synthetic dollar protocols that rely on positive basis or funding rate arbitrage, Falcon Finance broadens the scope by integrating diversified institutional yield generation strategies. This approach can preserve the initial value of user deposits while delivering consistent, competitive yields even during challenging market conditions.

Based on transparency, security, and institutional-grade yield generation strategies, Falcon Finance sets a new benchmark for synthetic dollar protocols.

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1 Introduction

Traditional synthetic dollar protocols rely on limited yield strategies such as delta-neutral positive basis or funding rate arbitrage, which can struggle to maintain competitive yields in adverse crypto market conditions. Falcon Finance proposes a new paradigm: an overcollateralized synthetic dollar designed to deliver sustainable yields through diversified institutional-grade yield generation strategies that are resilient under varying market conditions.

This whitepaper outlines Falcon Finance's yield generation strategies, dual-token system–USDf and sUSDf–the mechanisms for minting and redeeming these tokens, and the comprehensive transparency and risk management framework designed to safeguard user assets.

2 Diversified Institutional Yield Generation Strategies

Falcon Finance employs a comprehensive, scalable, and sustainable approach to yield generation extending beyond positive delta-neutral basis spreads and funding rate arbitrage.

The first key differentiator in Falcon Finance's yield generation strategy lies in its ability to draw yield from a wide range of collaterals. From inception, the protocol accepts not only a variety of stablecoins (e.g., USDT, USDC, FDUSD) but also non-stablecoin digital assets, such as blue-chip tokens like BTC, ETH, and select altcoins. This breadth of collateral acceptance is a deliberate strategy, designed to capitalize on the distinct yield opportunities offered by assets beyond the blue-chip class. Altcoins can present higher yield potential in native staking farming platforms and funding rate variations.

To optimize the deployment of diverse collaterals, Falcon Finance employs a dynamic collateral selection framework with real-time asset liquidity and risk evaluations. Falcon Finance enforces strict limits on the acceptance of less liquid digital assets to mitigate potential exposure to liquidity risks, preserving the protocol's robustness and stability.

Falcon Finance expands its synthetic dollar strategy by integrating negative funding rate arbitrage, a method that capitalizes on perpetual futures trading below spot prices. Unlike positive funding rate arbitrage, negative funding rates incentivize long perpetual positions, enabling Falcon Finance to earn funding payments by holding a long perpetual futures position while selling the equivalent spot asset. This approach mirrors positive funding rate arbitrage. By systematically leveraging negative funding rates, Falcon Finance can generate yields in environments where traditional synthetic coins fail to generate competitive returns.

Another institutional yield generation strategy deployed by Falcon Finance is cross-exchange price arbitrage. Makarov and Schoar (2018) demonstrate that cryptocurrency market segmentation creates consistent arbitrage potential which can produce measurable profits. Falcon Finance utilizes this strategy, leveraging on its institutional trading infrastructures. This established infrastructure enables efficient execution of strategies such as CEX-to-CEX and DEX-to-CEX arbitrage, capitalizing not only on funding rate variations but also on price discrepancies.

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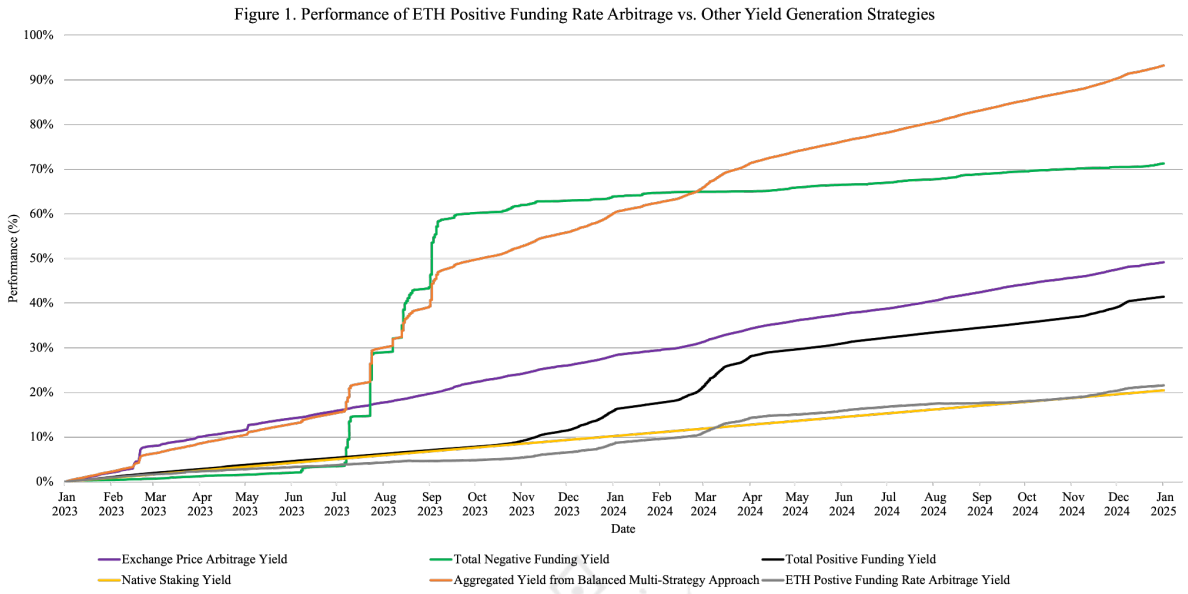


Figure 1: Source: Binance Perpetual and Spot Pairs (2023–2025), Falcon Finance. *This chart is presented for illustrative purposes only. Historical performance data is shown as a comparative reference and does not guarantee future results.*

Figure 1 demonstrates the comparative performance of strategies proposed by Falcon Finance, including exchange price arbitrage, funding rate arbitrage of a wide range of collaterals, and native staking-based returns. Notably, the aggregated yield from the balanced multi-strategy approach (dark orange line) outperforms ETH-positive funding rate arbitrage (gray line), showcasing the potential of Falcon Finance's diversified strategy.

The aggregated yield from the multi-strategy approach illustrates the potential performance of a balanced portfolio allocation, where 50% of capital is allocated to altcoins and 50% to stablecoins. The altcoin allocation primarily applies negative funding rate arbitrage, cross-exchange price arbitrage, and short-term staking, leveraging persistent inefficiencies driven by higher volatility and liquidity constraints. Conversely, the stablecoin allocation is structured around positive funding rate arbitrage and staking, ensuring stability in yield generation across different market regimes.

By moving beyond ETH-positive funding rate arbitrage, Falcon Finance demonstrates a strategic advantage in yield generation through expanded collateral use and other institutional-grade trading strategies. While historical performance trends may not guarantee future results, the data demonstrates the potential to systematically generate yield across changing market conditions.

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3 Dual-Token System with Overcollateralized USDf and Yield-Bearing sUSDf

Falcon Finance operates a dual-token system revolving around USDf and sUSDf.

3.1 The Overcollateralized Synthetic Dollars – USDf

USDf is an overcollateralized synthetic dollar minted when users deposit eligible assets, such as stablecoins or non-stablecoins, into the protocol. For all eligible stablecoin deposits[1], USDf will be minted at a 1:1 USD value ratio. For non-stablecoin deposits, including blue-chip assets such as BTC and ETH, an overcollateralized ratio[2] (OCR) is applied.

Formula for Overcollateralization Ratio

$$\text{Overcollateralization Ratio (OCR)} = \frac{\text{Initial Value of Collateral}}{\text{Amount of USDf minted}}, \text{where OCR} > 1$$

The implementation of OCR helps to mitigate the impact of market slippage and inefficiencies, ensuring that each USDf minted by all non-stablecoin deposits is fully backed by collateral of equal or greater value.

Users can reclaim the overcollateralization buffer based on the prevailing market conditions. If at the point of redemption, the market price is lower than or equal to the initial mark price of collateral, users can redeem the initial collateral deposited as the buffer. However, suppose the redemption market price of the collateral is greater than the initial mark price. Users will only be able to redeem an amount of the collateral equivalent to the value at the initial mark price.

Formula for Redeeming Collateral Buffer

$$\text{If Current Price} \geq \text{Initial Mark Price},$$
$$\text{Overcollateralized Buffer Redeemed} = \frac{\text{Initial Collateral Value}}{\text{Current Market Price}}$$

$$\text{If Current Price} < \text{Initial Mark Price},$$
$$\text{Overcollateralized Buffer Redeemed} = \text{Initial Collateral in units}$$

[1] Valuation of collateral will be directly tied to the market price and prevailing conditions of deposit time of processing. Users acknowledge that Falcon Finance does not guarantee the stability or value of any assets and accepts no liability for any discrepancies or losses arising from market volatility or external factors influencing asset prices.

[2] The overcollateralization ratios are dynamically calibrated based on the asset's inherent market volatility, liquidity profile, market slippage and historical price behavior. This risk-adjusted approach ensures the protocol's resilience against adverse price movements while optimizing capital efficiency for users.

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Example[3]

A user deposits 1,000 Coin A at a mark price of $1 with an overcollateralization ratio of 1:1.25. The protocol mints 800 USDf, while 200 Coin A is retained as the overcollateralization buffer to safeguard the protocol against market fluctuations.

If the Current Price $\leq$ Initial Mark Price ($1) = $0.90 $\leq$ $1,

$$\text{Overcollateralized Buffer Redeemed} = 200 \text{ Coin A}$$

The user redeems 800 USDf at a 1:1 ratio for eligible stablecoins. In addition, the user reclaims the entire 200 Coin A overcollateralization buffer, as the prevailing market price is equal to or lower than the initial mark price.

If the Current Price > Initial Mark Price ($1) = $1.20 > $1

$$\text{Collateral Redeemed} = \frac{\text{Initial Collateral Value}}{\text{Current Market Price}} = \frac{200 \text{ Coin A}}{\$1.20} = 166.67 \text{ Coin A}$$

The user redeems 800 USDf at a 1:1 ratio for eligible stablecoins. However, instead of reclaiming the full 200 Coin A, the user receives an amount equivalent to $200 worth of Coin A which is 166.67 of Coin A, calculated based on its prevailing market price at the time of redemption.

3.2 The Yield-Bearing Asset – sUSDf

Minted USDf can subsequently be staked to mint sUSDf, a yield-bearing asset. As the protocol generates yield through various institutional-grade strategies, the value of sUSDf increases relative to USDf over time. This growth reflects the accrued yield, which users can realize upon redemption.

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[3]Figures presented in examples are illustrative - as all prices are subjected to prevailing market conditions. Deposit and redemption calculations may differ marginally from the examples presented in this paper.

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4 Minting and Redemption Mechanism

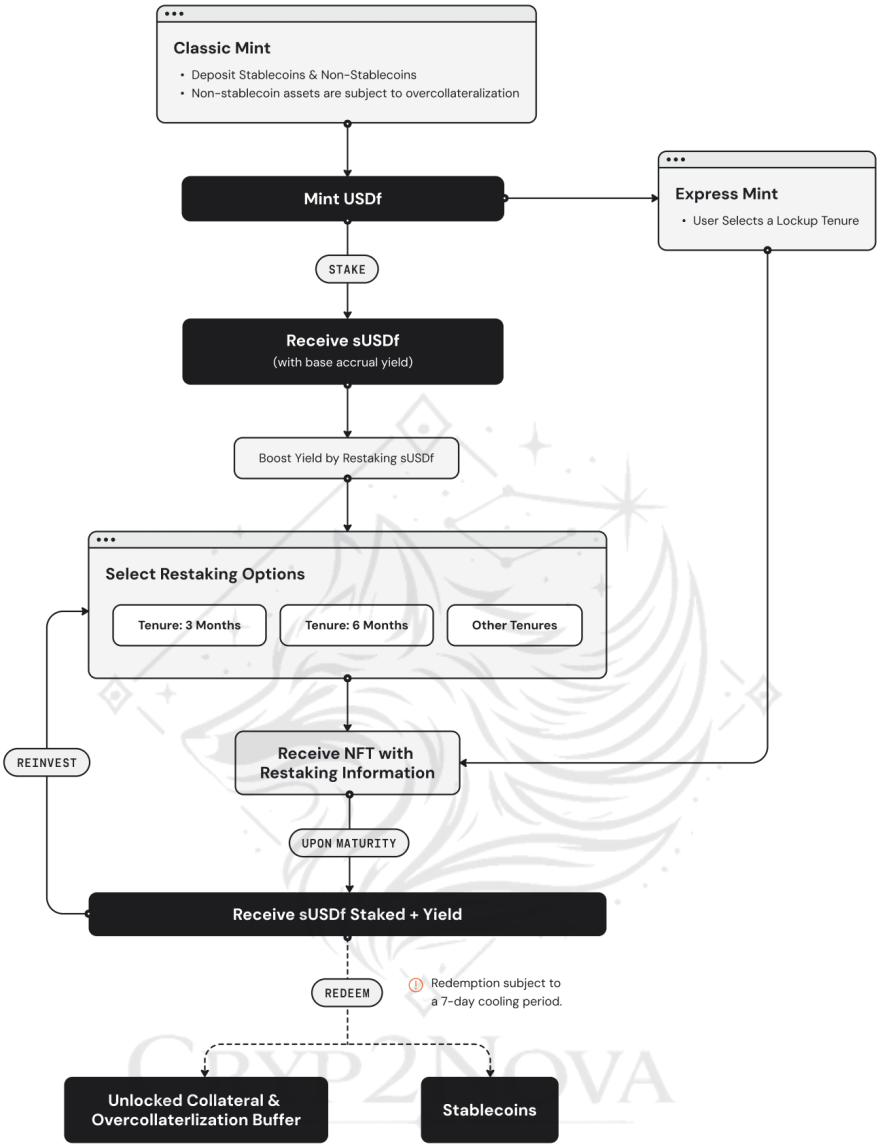


Figure 2: ***Falcon Finance Mint and Redemption Flowchart.*** *This flowchart offers a visual overview of the Classic Mint process. Refer to Section 4 for comprehensive details.*

4.1 Minting of USDf with Any Collateral

The minting process begins with users depositing eligible collateral into the Falcon Finance protocol. Accepted collateral include BTC, WBTC, ETH, USDT, USDC, FDUSD, and more. Upon successful deposit, users can mint USDf. USDf acts as an overcollateralized synthetic dollar token that can be used as a store of value, a medium of exchange, and a unit of account.

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4.2 Staking USDf to Mint sUSDf

Once USDf has been minted, users can stake it to receive sUSDf, the yield-bearing asset. Falcon Finance employs the ERC-4626 vault standard for yield distribution, which ensures a transparent and efficient mechanism. The amount of sUSDf received is calculated based on the current sUSDf-to-USDf value, which reflects the total supply of sUSDf relative to the total USDf staked and accumulated protocol yield in USDf.

Formulas for Minting sUSDf

$$\text{Current sUSDf to USDf Value} = \frac{\text{Total USDf Staked} + \text{Total Rewards}}{\text{Total sUSDf Supply}}$$

$$\text{sUSDf Minted} = \frac{\text{USDf Staked}}{\text{Current sUSDf to USDf Value}}$$

Example[4]

Suppose the total sUSDf supply is 100,000 sUSDf, initially minted by users staking 100,000 USDf. Falcon Finance has then generated and distributed 25,000 USDf in rewards. The current sUSDf-to-USDf value is calculated as follows:

$$\text{sUSDf-to-USDf Value} = \frac{100,000 + 25,000}{100,000} = 1.25 \text{ USDf for each sUSDf}$$

i.e., for each unit of sUSDf unstaked, 1.25 USDf will be received. If a user stakes 200 USDf now, the amount of sUSDf minted would be calculated as:

$$\text{sUSDf Minted} = \frac{200}{1.25} = 160 \text{ sUSDf}$$

The final amount of sUSDf minted based on 200 USDf would be 160 sUSDf.

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4.3 Yield Accrues to sUSDf Over Time

As sUSDf is held, the protocol distributes yield to the staking pool through institutional-grade yield strategies, including exchange arbitrage, funding rate spreads. These yields are transparently allocated, and their accrual increases the value of sUSDf relative to USDf.

Yield Distribution Formula on sUSDf

$$\text{Yield per User} = \frac{\text{USDf staked by User}}{\text{Total USDf Staked}} \times \text{Yield distributed}$$

[4]Figures presented in examples are illustrative - Falcon's on-chain contracts implement protections against share inflation attacks, loss-vs-investment attacks, and other industry-standard ERC-4626 improvements to protect user deposits. As a result, deposit and redemption calculations may differ marginally from the examples presented in this paper.

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4.4 Boost sUSDf yields by Restaking back into Falcon Finance

Users can restake sUSDf for a fixed lock-up period to earn boosted yields. Upon restaking the sUSDf with Falcon Finance, the system mints a unique ERC-721 NFT based on the amount of sUSDf and the lock-up period.

The available lock-up options include a 3-month lock-up, a 6-month lock-up, and other durations, with longer lock-up periods providing higher yields. The fixed period for redemption allows Falcon Finance to optimize for time-sensitive yield strategies, ensuring higher yields for users. Users who select Express mint will immediately mint an NFT of a fixed tenor after depositing eligible assets.

4.5 Redemption of User's Deposit as Initial Collateral or USDf

Upon maturity, users can redeem their NFT for sUSDf. All sUSDf can then be exchanged for its equivalent value in USDf. Non-stablecoin depositors are also entitled to reclaim their overcollateralization buffer, as Section 3.1 of this paper outlines.

Formula for USDf Redemption:

$$\text{USDf Redeemed} = \text{sUSDf Burned} \times \text{Current sUSDf to USDf Value}$$

$$\text{Non-stablecoin Redemption against sUSDf} = \frac{\text{Value of sUSDf}}{\text{Collateral Current Market Price}} + \text{Overcollateralized Buffer}$$

Stablecoin Depositors Redemption Example[5]

If the sUSDf-to-USDf value is 1:1.25 (1.25 USDf for each sUSDf) and a user burns 100 sUSDf, they would receive:

$$\text{USDf Redeemed} = 100 \times 1.25 = 125 \text{ USDf}$$

After obtaining USDf, users can redeem it for any other stablecoins (e.g., USDT, USDC, FDUSD) at a 1:1 ratio[6].

[5]Figures presented in examples are illustrative - Falcon's on-chain contracts implement protections against share inflation attacks, loss-vs-investment attacks, and other industry-standard ERC-4626 improvements to protect user deposits. As a result, deposit and redemption calculations may differ marginally from the examples presented in this paper.

[6]Ratio of stablecoin will be directly tied to the market price and prevailing conditions of deposit time of processing. Users acknowledge that Falcon Finance does not guarantee the stability or value of any assets and accepts no liability for any discrepancies or losses arising from market volatility or external factors influencing asset prices.

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Non-stablecoin Depositors Redemption Example[7]

Suppose the user wishes to redeem their sUSDf to their initial collateral of Coin A, at a time when the sUSDf-to-USDf value is 1.25 (i.e., 1.25 USDf per sUSDf). If the user burns 100 sUSDf, they would receive:

USDf value from Redemption:

$$\begin{aligned}&\text{Non-stablecoin Collateral Value available for Redemption}\\&= 100 \times 1.25 + \text{Overcollateralized Buffer}\\&= 125 \text{ USDf} + \text{Overcollateralized Buffer}\end{aligned}$$

Non-Stablecoin Collateral Redemption[8]:

Assuming the current market price of Coin A is $1.25,

$$\begin{aligned}&\text{Non-stablecoin Redemption against sUSDf}\\&= \frac{\$125}{\$1.25} + \text{Overcollateralized Buffer}\\&= 100 \text{ of Coin A} + \text{Overcollateralized Buffer}\end{aligned}$$

The user is eligible to redeem 100 Coin A and their overcollateralized buffer from their sUSDf.

5 Risk Management and Transparency on Collateral

Risk management is a cornerstone of Falcon Finance's commitment to users' asset protection. Falcon Finance employs a dual-layered approach combining automated systems and manual oversight to monitor and manage positions actively. The double monitoring layer ensures positions are carefully evaluated and adjusted in real-time to mitigate risk. During periods of heightened market volatility, Falcon Finance leverages the expertise of its advanced trading infrastructure to unwind risk strategically. This capability ensures the preservation of the user's assets while maintaining the stability and integrity of the collateral pool.

All users' collateral are safeguarded through a combination of off-exchange solutions with qualified custodians, Multi-Party Computation (MPC) and multi-signature schemes, and hardware-managed keys, ensuring that user assets remain secure and accessible at all times. By limiting on-exchange storage, the protocol ensures that user funds remain insulated from risks such as counterparty defaults or exchange failures.

[7]Figures presented in examples are illustrative - Falcon's on-chain contracts implement protections against share inflation attacks, loss-vs-investment attacks, and other industry-standard ERC-4626 improvements to protect user deposits. As a result, deposit and redemption calculations may differ marginally from the examples presented in this paper.

[8]Non-stablecoin collateral redemption will be directly tied to the market price and prevailing conditions of deposit time of processing. Users acknowledge that Falcon Finance does not guarantee the stability or value of any assets and accepts no liability for any discrepancies or losses arising from market volatility or external factors influencing asset prices.

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To uphold transparency, Falcon Finance provides users with access to comprehensive real-time information on the status of their assets and the overall health of the system. The dashboard includes Total Value Locked (TVL), the volume of sUSDf issued and staked, and the amount of USDf issued and staked.

In addition to real-time updates, the protocol offers weekly transparency into reserves, segmented by asset classes such as stablecoins, blue-chip tokens, altcoins, and other collateral types. Dashboards will provide detailed information on Annual Percentage Yield (APY) and yields distributed in sUSDf and USDf, giving users a clear understanding of the protocol's performance.

To further bolster transparency and trust, Falcon Finance undertakes rigorous quarterly audits conducted by independent third-party firms. The quarterly audits cover a detailed Proof of Reserve (POR) that consolidates on-chain and off-chain data, including aggregated metrics from decentralized exchanges (DEXs), centralized exchanges (CEXs), and wallets. Additionally, Falcon Finance commissions ISAE3000 assurance reports every quarter to verify compliance with industry standards. These reports focus on key aspects such as security, availability, processing integrity, confidentiality, and privacy, ensuring that the protocol operates at the highest standards of reliability and accountability.

All reports are published on Falcon Finance's website, enabling users to verify the integrity of the collateral backing their assets at any time.

6 Insurance Fund

Falcon Finance will maintain an on-chain, verifiable insurance fund to act as a safeguard for all protocol users. A portion of Falcon Finance's monthly profits will be allocated to the insurance fund, reinforcing its commitment to users' asset protection. This ensures the insurance fund grows in tandem with the protocol's adoption and Total Value Locked (TVL).

The insurance fund operates as a financial buffer, designed to mitigate rare periods of negative yields and function as the last resort bidder for USDf in open markets. In an unlikely scenario, Falcon Finance may augment reserves during periods of exceptional market stress to ensure the protocol's stability. This fund, consisting of reserves in stablecoins, serves multiple purposes, compensation for unforeseen risks, and mitigation of potential losses.

The insurance fund is held in a multi-signature address comprising of internal Falcon Finance members and external contributors.

7 Falcon Governance Token

The Falcon Governance Token (FF) is the native governance and utility token of the Falcon Finance protocol, designed to align stakeholder incentives, promote sustained engagement, and enable a decentralized decision-making framework. By embedding governance functionality directly within the token, Falcon Finance ensures that strategic, operational, and economic developments are determined through transparent and participatory processes. Holders of FF are granted on-chain governance rights, enabling them to propose, deliberate, and vote on matters of material significance to the protocol, including system upgrades, parameter adjustments, allocation of incentive budgets, the structuring of strategic liquidity campaigns, and the adoption of new financial products. This governance framework distributes decision-making authority across the community, mitigating the risks associated with centralization and ensuring that outcomes reflect the collective interest of participants.

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In addition to its governance function, FF operates as a core economic instrument within the Falcon Finance ecosystem. Token holders who stake FF are entitled to preferential economic terms, including improved capital efficiency when minting USDf, reduced haircut ratios, and lower swap fees. Staking also offers opportunities for yield enhancement, such as increased returns on USDf and sUSDf staking, thereby incentivizing longer-term participation. A defined portion of the total token supply is allocated for community incentive programmes, including seasonal airdrops and other rewards based on ecosystem engagement, with eligibility determined by specific on-chain activities such as minting, staking, and participation in DeFi integrations. Furthermore, holding FF provides privileged access to forthcoming protocol features, such as early enrolment in new delta-neutral yield vaults and advanced structured minting pathways that may not initially be available to the wider market.

Through this combination of governance rights and economic utility, FF plays an essential role in ensuring that the protocol's growth, resilience, and innovation remain closely aligned with the active involvement and long-term commitment of its community.

8 Tokenomics

The Falcon Finance native token, FF, is the foundational instrument of the ecosystem, designed to serve as both a utility and governance mechanism. Its role is to align incentives across all participants, from early adopters and community members to institutional partners and long-term investors. The total and maximum supply of FF is permanently fixed at 10,000,000,000 tokens, ensuring predictability and preventing uncontrolled inflation. At the Token Generation Event (TGE), the circulating supply will be approximately 2,340,000,000 tokens, representing just over 23.4% of the maximum supply. This carefully calibrated release balances the need for immediate liquidity with the imperative of safeguarding long-term value creation.

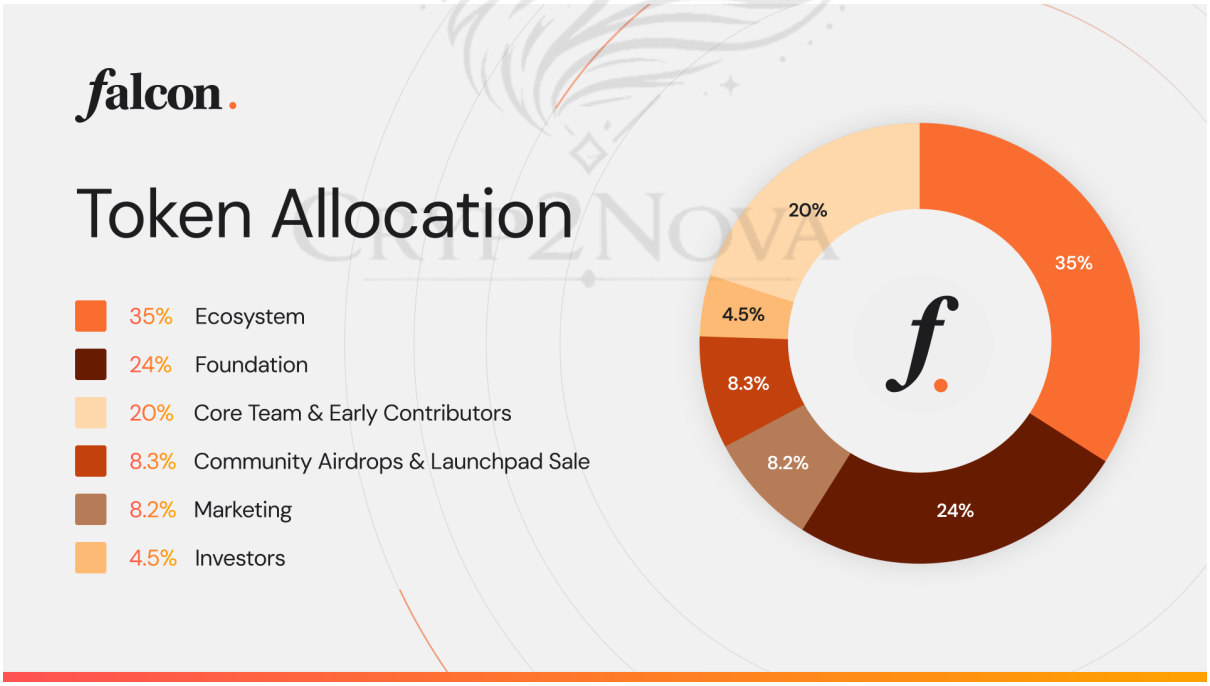


Figure 3: ***Falcon Finance, FF Token Allocation.*** *This chart provides a visual breakdown of FF distribution.*

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The allocation framework has been carefully structured to balance near-term accessibility with long-term development. The distribution of FF is as follows:

- **Ecosystem (35%):** This will be allocated to drive the long-term success of Falcon Finance, including future airdrops, the ecosystem growth fund, adoption of real-world assets (RWA), and cross-chain integrations that broaden accessibility.
- **Foundation (24%):** This is dedicated to strengthening the foundation's operations through liquidity provisioning, exchange partnerships, risk management initiatives, and independent audits that enhance trust and transparency.
- **Core team and early contributors (20%):** This is assigned to the founding team and core contributors who established Falcon Finance, subject to a 1-year cliff and 3-year vesting, ensuring sustained commitment to the protocol's development and long-term vision.
- **Community Airdrops & Launchpad Sale (8.3%):** This is reserved to reward early supporters and long-term users of Falcon Finance, including participation through the Falcon Miles Program, the Buidlpad community sale, and the Kaito Yap2Fly campaign, thereby reinforcing community engagement and loyalty.
- **Marketing (8.2%):** This will be allocated to sustained marketing efforts designed to amplify visibility, foster ecosystem adoption, and position Falcon Finance for long-term growth.
- **Investors (4.5%):** This is allocated to investors who have supported Falcon Finance since the early stages, distributed under a 1-year cliff followed by 3-years vesting to ensure durable alignment with the protocol's trajectory.

By combining immediate releases for market efficiency with extended vesting schedules for investors and ecosystem reserves, Falcon Finance achieves a careful equilibrium between short-term accessibility and structural longevity. It is intentionally structured to function as a cornerstone of governance, a driver of ecosystem incentives, and a vehicle for sustained participation across both decentralized and traditional financial domains.

9 Roadmap

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Falcon Finance remains committed to advancing its mission of establishing a secure, transparent, and globally accessible synthetic dollar ecosystem that bridges the worlds of decentralized and traditional finance. The following product roadmap outlines the key areas of development and strategic focus for 2025 and 2026. It reflects our vision to expand collateral diversity, strengthen institutional connectivity, and deliver real-world applications for USDf at a global scale.

In 2025, the emphasis will be placed on reinforcing Falcon's core infrastructure while enabling broader adoption across both DeFi and TradFi ecosystems. The expansion of global banking rails into LATAM, Turkey, MENA, Europe, and the US Dollar Currencies will establish critical fiat on- and off-ramp connectivity, ensuring greater accessibility to USDf across diverse geographies. Parallel to this effort, Falcon Finance will launch physical gold redemption in the United Arab Emirates, extending the protocol's scope into tangible, real-world collateralization and bridging digital assets with trusted traditional stores of value. Furthermore, the onboarding of major tokenization platforms will accelerate the integration of tokenized instruments such as T-bills, altcoins, and stablecoins. At the same time, enhanced interoperability with DeFi money markets and TradFi trading platforms will foster deeper liquidity channels for

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USDf. To support this expansion, Falcon Finance will continue to engage proactively with regulators and policymakers to secure the requisite legal clearances that enable compliant integration of real-world assets.

Building upon this foundation, 2026 will focus on extending Falcon's product stack into institutional-grade offerings and diversifying collateral frameworks to accommodate a broader spectrum of tokenized financial instruments. A dedicated Real- World Asset (RWA) tokenization engine will be developed to support corporate bonds, treasuries, and private credit, thus establishing Falcon as a platform capable of integrating sophisticated collateral classes. Physical gold redemption will be expanded to MENA and Hong Kong, reinforcing the protocol's commitment to offering global, tangible redemption utilities. In addition, strategic partnerships with TradFi institutions will be deepened, unlocking new avenues for liquidity and yield that complement existing DeFi integrations. These efforts will culminate in the introduction of securitized and institutional-grade USDf offerings, coupled with the development of USDf-centric investment funds designed to attract large-scale institutional participation.

Collectively, these initiatives chart a deliberate course toward Falcon Finance's long-term vision, to become the leading synthetic dollar protocol serving as a foundational bridge between digital and real-world economies. By aligning advanced trading strategies with a robust collateral framework and an expanding network of strategic partnerships, Falcon Finance is building an ecosystem designed for sustainable growth, global accessibility, and enduring value creation.

10 Conclusion

In conclusion, Falcon Finance redefines synthetic dollar protocols by integrating an overcollateralized synthetic dollar, diversified institutional yield strategies, and rigorous risk management. The overcollateralized framework enables the protocol to accept a wider range of non-stablecoin collateral while safeguarding the protocol's stability. This expanded collateral acceptance facilitates the deployment of advanced yield generation methodologies, including funding rate arbitrage, exchange arbitrage, and statistical arbitrage, ensuring consistent, competitive, and sustainable yields across changing market conditions.

With a foundation of transparency, security, and institutional-grade yields, Falcon Finance is the next-generation synthetic dollar for crypto.

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