Payment Infrastructure for Digital Assets

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About StraitsX

StraitsX, a trading name under the StraitsX Group of Companies ("StraitsX Group") with its affiliated entity, Xfers Pte. Ltd. ("Xfers") is Southeast Asia's leading Fintech platform for digital business, enabling financial access within Southeast Asia.

In Singapore, Xfers is the holder of a Major Payment Institution license for e-money issuance services under the Payment Services Act 2019 and granted an exemption under the Payment Services (Exemption for Specified Period) Regulations 2019 to conduct digital payment token services.

In Indonesia, via Xfers, online businesses are connected to a range of payment methods, which include bank transfers, e-wallets, and offline channels such as agent banking networks and convenience stores.

Xfers and the StraitsX Group are backed by B Capital Group, Insignia Ventures Partners, Tiger Global Management LLC, Y-Combinator, Quest Ventures, Golden Gate Ventures amongst many other investors. StraitsX Group and Xfers work closely with regulators to ensure that all its products and services are fully compliant with the highest regulatory standards. For more information, visit: https://www.straitsx.com/.

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1. The StraitsX initiative

StraitsX is the first stablecoin initiative with a focus on Southeast Asia. The initiative explores the migration of centralized ledgers, which document fund flows, onto distributed ledger technology (DLT), thus enabling a leap forward in speed, security, and transparency for settlements within the region. By adopting a DLT-enabled ledger for Southeast Asia, the StraitsX initiative allows participants to transact using digital assets, aka SCS, that are

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one-to-one pegged and maintain a stable value relative to a unit of fiat currency. Each SCS can be redeemed for an equivalent amount of the currency to which it is pegged.

1.1. StraitsX Vision

StraitsX aims to simplify and enable exchange and settlement of payment via a digital asset that by nature has a stable value and hence is less susceptible to speculative bubbles brought about by other digital tokens (such as Bitcoin and other cryptocurrencies). This vision is driven by the progressive obsolescence of physical cash in favor of digital payments, alongside a stronger impetus, particularly in Singapore and the ASEAN region, for risk-free digital money.

1.2. Emergence of DLT technology enabled SCS

There have been active dialogues surrounding the potential of Central Bank Digital Currencies ("CBDCs"). At present, several foreign providers have begun issuing stablecoins pegged to various fiat currencies, for instance, the US Dollar, and the Euro. As of the end of January 2023, more than 91% of active SCS in circulation are USD-denominated and represent approximately $126 billion in cumulative value[1]. The growth of non-Singapore Dollars SCS issued by StraitsX would further empower Singapore residents to perform online transactions using different SCS. Notwithstanding that, StraitsX believes that having a US Dollar pegged SCS (i.e., XUSD), particularly one that is regulated by the Singapore authorities, will provide stability and illustrate its potential to enhance financial inclusivity, reduce transaction costs, and mitigate exposure to currency volatility.

1 https://www.coingecko.com/research/publications/stablecoins-statistics

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Use Cases

In an increasingly interconnected global economy, stablecoins play a pivotal role in facilitating cross-border transactions and providing a secure store of value. XUSD, as a US Dollar pegged stablecoin, offers a reliable bridge between ASEAN's financial ecosystem and the stability of the world's primary reserve currency.

1.2.1. Digital Assets Settlement & Digital Asset Exchanges

In most transactions involving digital assets, settlement involves fiat currencies in at least one leg of the transaction, either in the form of actual fiat or more predominantly in the form of SCS. As USD-denominated stablecoins are predominantly used to settle transactions in crypto markets, this puts ASEAN institutions at a disadvantage due to forex risk, conversion fees, and liquidity shortages. StraitsX believes that USD-denominated stablecoins generally do not offer adequate user protection measures to its ASEAN-based users. The underlying fiat assets for these tokens are generally stored in foreign banks and overseen by foreign institutions if any. This provides little to no assurances to the foreign-based holders on the ability to seek recourse in the event of a default.

1.2.2. Payments & Micropayments

The advent and rapid promulgation of digital wallets and payments has revolutionized the fiat-based payments industry. However, interoperability amongst existing payment providers remains a major challenge due to the

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limits of the centralized ledger designs brought about by walled garden business models. For instance, a Venmo user is unable to send funds to friends using other e-wallets such as WeChat or GrabPay. Another limitation of fiat-based digital systems commonly used today is the number of available decimals, using the cent as the smallest unit of account in most cases. This limitation prevents the effective settlements of transactions involving fractional amounts (i.e., amounts less than one cent) from taking place.

These challenges can potentially be addressed through the migration of centralised ledger onto Decentralised Ledger Technology (DLT).

To address the interoperability challenge, StraitsX has programmed XUSD to run on open-sourced protocols, thereby allowing interoperability amongst different systems.

To address the fractional amounts challenge, XUSD allows transactions up to six decimal places, thus allowing for micropayments, should the need arise.

1.2.3. Remittances

DLT-enabled stablecoins, such as XUSD, can also offer significant benefits to the remittance sector. Foreign exchange markets today are particularly inefficient, requiring longer transfer times, high transaction fees, and significant amounts of monies to be held as collateral. The use of stablecoins in the remittance markets aims to unlock the amounts traditionally required as collateral, provide almost instantaneous transfers, all whilst offering a

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more cost-effective alternative to the high cross-border transaction fees presently plaguing the industry.

2. Operations

2.1. Value-Stabilising Mechanism

XUSD is 1-1 pegged to US Dollars with the underlying assets of XUSD ("Reserve Assets") held either in cash or short tenor bonds/notes issued by the government or public entity of the United States of America, and a holder of one XUSD will have legal claim to one US Dollar (USD 1) with Xfers. Where the Reserve Assets are held in short-tenor bonds/notes, these bonds/notes have a maximum of three months residual maturity and are subject to daily mark-to-market valuation. Internal reconciliation of the underlying assets against the issued XUSD is done daily, with a monthly audit performed by a reputable independent third-party audit firm on the value of the underlying reserve assets. This approach ensures that XUSD holds a strong auditable reserve capability on traditional instruments backing assets and is the most robust method in terms of price stability.

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2.2. Segregation and Custody of Reserve Assets

Xfers shall always maintain the practice of depositing the Reserve Assets in a financial institution that is a bank and/or person that is licensed and regulated by The Monetary Authority of Singapore under the Banking Act or Securities and Futures Act 2001 to provide custodial services.

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3. Technology

3.1. Background

XUSD is designed as a blockchain-agnostic stablecoin that leverages the existing technology available today.

As different blockchains offer varying degrees of performance concerning areas such as decentralization, immutability, speed, scalability, governance, transparency, interoperability, adoption, or cost of use, it is paramount that Xfers only release its stablecoins on chains that meet its stringent requirements. Xfers reserves the right to retire smart contracts if some protocols do not perform as intended. If Xfers decides to retire any smart contracts, it will guarantee a 1:1 conversion to the holders of XUSD on its platforms.

3.2. Supported blockchain protocols

3.2.1. Ethereum

StraitsX has released an ERC-20 version of the XUSD smart contract running on the Ethereum protocol. Ethereum is currently the most widely used, global, open-source platform for decentralised applications. The release of the XUSD (ERC-20) token will improve XUSD's interoperability by enabling it to grow at scale within the most widely adopted smart contract open platform.

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4. Rights and Obligations

Purchasing, selling, redeeming, and transferring XUSD tokens will be available to users through different channels:

4.1. Purchase & Sell XUSD through Xfers OTC Desk

Customers will be able to acquire XUSD through the Xfers' OTC desk, powered by the Xfers. Serving as the primary issuer and distributor of XUSD, the Xfers will uphold dedicated reserves of XUSD tokens. Instantaneous XUSD purchases can be made as customers transfer an equivalent amount of fiat or stablecoin tokens to the Xfers' OTC desk's specified payment account. To ensure the continual availability of XUSD for customer transactions, the Xfers' OTC desk will periodically replenish its XUSD holdings.

4.2. Repossession Rights

To ensure the integrity and security of the XUSD stablecoin, measures have been put in place to address the risk of fraud. In the event of fraudulent activities or misconduct, Xfers reserves the right to take appropriate actions to protect the interests of token holders and maintain the stability of the XUSD. This includes, among other things, suspension of accounts, initiating the repossession process, or redistribution of the XUSD but these actions will only be taken where a directive has been provided by regulatory bodies to take action against fraudulent behavior.

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5. Eligibility; Limitations

Purchase, use and redemption of the XUSD is also available to holders that do not engage in restricted and prohibited activities. Restricted and prohibited activities are classified as activities that include, but are not limited to activities:

1. that violate any applicable law, statute, ordinance, or regulation;
2. intentionally trying to defraud Xfers' customers;
3. interaction with persons that are in a sanctions-related list maintained by international bodies;
4. interaction with persons that are located, resident in a country, territory or geographical region that is subject or target of any territory-wide sanctions;
5. interaction with digital wallet addresses that have indices of interactions with questionable and higher risk actors;
6. partake in any transaction involving the proceeds of illegal activity;
7. gambling activities including but not limited to sports betting, casino games, horse racing, dog racing, games that maybe classified as gambling;
8. money laundering or terrorist financing;
9. Ponzi scheme, pyramid scheme, or multi-level marketing programme; or
10. interaction with "Darknet" markets and any other service or website that acts as a marketplace for illegal goods.

Where the holders are engaged in restricted and prohibited activities, Xfers reserves the right to restrict or refuse to permit, minting, use, or redemptions.

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6. Risks (for the use of XUSD)

6.1. No guarantee of price stability

XUSD will always be pegged 1:1 with the US Dollar. When XUSD is redeemed directly via Xfers, it will be redeemed at a rate of one US Dollar (USD) per one XUSD, less any fees. For each of the XUSD that is issued by Xfers and remains in circulation, Xfers will maintain sufficient underlying Reserve Assets where the marked–to–market value will be at least equivalent to the issued XUSD.

Notwithstanding the above, Xfers does not guarantee that the value of 1 XUSD that is available for redemption on third-party platforms (such as cryptocurrency exchanges or decentralized protocols) is always equivalent to 1 US Dollar (USD). This would be the case given that the traded value of XUSD on such third-party platforms can fluctuate above or below one US Dollar. Xfers is not responsible for any losses or other issues associated with the fluctuation in the value of XUSD that is provided on such third-party platforms.

6.2. Third-party platforms

XUSD is based on public blockchain protocols which means that third parties can elect to support XUSD on their platforms without any authorisation or approval by Xfers or anyone else. Support for XUSD on a third-party platform does not suggest or imply any endorsement of the legitimacy, validity, stability and/or legality of such platforms by Xfers.

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Where XUSD is sent to an address, there is the risk that holders may lose access to the XUSD and any claim on that XUSD indefinitely or permanently. One such instance is if XUSD is sent to an incorrectly entered address.

6.3. Restricted Addresses & Forfeited Assets

Xfers reserves the right to “block " certain addresses. If such addresses are Xfers addresses, Xfers reserves the right to freeze any associated XUSD (temporarily or permanently) that it determines to be associated with illegal activities, in particular with sanctioned activities. If XUSD is sent or received to or from an address designated or associated with a sanctioned person, Xfers may freeze such XUSD and take steps to terminate the account. In some circumstances, where Xfers reports suspected illegal activity to applicable law enforcement agencies, Xfers in consultation with the applicable law enforcement agencies may be directed to revoke the XUSD holder’s rights associated with the XUSD including the ability to redeem XUSD for US Dollars.

6.4. Software protocols and operational challenges

There could be a risk of operational challenges, where Xfers may experience sophisticated cyber-attacks, unexpected surges in activity, or other operational or technical difficulties that may cause interruptions to Xfers’ services, resulting in operational delays (i.e., selling/redemption of XUSD).

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6.5. Claim on Assets

Xfers holds the equivalent value of one US Dollar (USD 1) on behalf of and for the benefit of the holders of XUSD. Notwithstanding the above, a holder's ability to redeem one US Dollar (USD 1), less administrative fees and network fees (where applicable), is a condition of a legitimate redemption request. A legitimate redemption request is defined as a situation where the holder of XUSD can meet Xfers' onboarding requirements. Additionally, holders must possess XUSD for redemption, and must not be subjected to any regulatory, law enforcement, or any court judgment (whether existing or pending) which would restrict the holder's ability to make such a redemption. Please refer to the Terms of Service for details on the administrative fees and minimum redemption amount.

Once the XUSD is sent to another address, it automatically transfers and assigns to the owner of that address the right to redeem XUSD for US Dollar so long as the holder successfully onboards with Xfers, and is not subjected to any regulatory, legal, or court restriction to do so.

6.6. Legal treatment of XUSD transfers

The regulatory status of XUSD and blockchain technology is unclear or unsettled in many jurisdictions outside Singapore. It is difficult to predict how or whether regulatory agencies may apply existing regulations with respect to XUSD, blockchain technology, and its applications.

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6.7. On-chain transactions irreversible

When XUSD is sent out of a holder's XUSD account to a third-party address, the transaction is completed on the public blockchain. This means that such a transaction is irreversible and XUSD cannot reverse or recall any transaction once initiated.

7. Risks (for the operations of XUSD)

7.1. Risks arising from the operations of the SCS and risks that may arise from the use of SCS.

Within the operations of XUSD, Xfers recognizes the potential challenges and uncertainties that could impact the seamless functioning of its ecosystem. These operational risks encompass various dimensions, ranging from technological considerations to organizational protocols. By acknowledging and addressing these risks, Xfers ensures a transparent and reliable stablecoin framework.

7.2. Technological Resilience

Xfers' commitment to utilizing robust blockchain technology is central to the stability of XUSD. However, Xfers acknowledges that technological vulnerabilities, such as smart contract exploits or network disruptions, could pose operational risks. Regular security audits, continuous system upgrades, and collaboration with technical experts are fundamental to mitigating these challenges.

7.3. Network Congestion

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As the popularity of XUSD grows, increased demand might lead to network congestion on the underlying blockchain. This could potentially result in transaction delays or increased fees. Xfers' strategy involves closely monitoring network activity, optimizing transaction processes, and exploring scalability solutions to ensure uninterrupted operations.

7.4. Custodial Practices

The custody of collateral assets backing XUSD is integral to its stability. To mitigate operational risks stemming from custodial challenges, Xfers enforces stringent standards in selecting custodians, conducting regular audits, and maintaining transparent collateralization ratios. This approach safeguards against potential mismanagement of assets.

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