

Questionnaire - Stronghold

Questionnaire

Note: you can decline to answer certain questions (like marketing / go to market) which may be trade secrets and we will put in "declined to answer due to current trade secret".

a. General

i. **Which blockchain / DLT are you building on top of?**

Stronghold USD was launched on the Stellar network, an open-source protocol for value exchange. The company may choose to expand to additional networks.

ii. **How does the stablecoin work?**

Stronghold USD is the first venture-backed USD anchor on Stellar's network. As an anchor, Stronghold accepts deposits, processes withdrawals, and initiates transactions for customers who transact via our user-facing platform.

Customers who wish to send USD deposit dollars in a Stronghold account that are then transferred to Nevada-based Prime Trust, a state-chartered trust company and SEC

Qualified Custodian, via wire transfer or ACH.

Via our OTC brokerage, customers may exchange dollars for Lumens (XLM) — Stellar’s native currency — and any other asset on Stellar. To redeem Stronghold USD, customers can make withdrawal requests via wire transfer or ACH through our user interface. Developers may initiate redemptions through Stronghold’s platform APIs, which allow seamless integration for use cases that leverage blockchain-based settlements.

Because we offer stable tokens that are easily and quickly converted — along with a developer-friendly API — we describe Stronghold as “the on-and-off-ramp to the Stellar network.”

iii. What is the purpose of your coin? What does it aim to achieve, and which problems does it solve?

A stable and liquid payments and savings vehicle, Stronghold USD allows token holders and businesses to move dollars globally with near-instant settlement via the Stellar network, an open-source protocol for value exchange.

IBM and Stronghold are collaborating to explore uses for Stronghold USD, a one-to-one asset-backed U.S. dollar token on distributed ledger technologies which integrates with the IBM Blockchain Platform. For the first time, institutions can use one platform to instantly accept and settle payments in USD and easily access foreign exchanges via a lightning-fast global network

iv. When we say something is stable what do you think it means? And when it comes to monetary policy specifically?

For Stronghold, stable simply means one-to-one. For example, and as mentioned, Stronghold USD is a one-to-one asset-backed U.S. dollar token on distributed ledger technologies. As a result, it’s as stable as the American dollar, which is the world’s most widely-held currency. Stronghold isn’t creating “new” currencies.

v. What is your revenue model?

Declined to answer due to current trade secret.

b. Launch & marketing

i. What does the market need to be confident in the stability of your token?

That it remains redeemable at face value to the USD dollar.

ii. How are you bootstrapping to that level of confidence?

Declined to answer due to current trade secret.

iii. What are your go-to-market strategies?

Decline to answer due to current trade secret.

c. Economics

i. What is your coin stable with respect to?

Some fixed-value tokens use advanced stability algorithms to ensure that their coin is always pegged to the U.S. dollar by creating and destroying coins as necessary. Our coin doesn’t sync with the dollar — Stronghold USD is the dollar. Fully backed by Nevada-based [Prime Trust](#), a state-chartered trust company and SEC Qualified Custodian, our assets and accounts are 100% backed by cash deposits that are properly managed and audited.

ii. How much volatility can this peg withstand? Is that the same for upwards and downwards pressure? How wide is the band of behavior it can support?

Unlike many cryptocurrencies, Stronghold USD is a one-to-one asset-backed U.S. dollar token on distributed ledger technologies. As a result, it’s as stable as the American dollar, which is the world’s most widely-held currency.

Additionally, we've partnered with Prime Trust to ensure flexibility and security for our digital assets and have launched a market maker program to boost liquidity on our platform.

iii. How easy is it to analyze the band of behavior from which it can recover?

N/A

iv. How expensive is it to maintain the peg/stability mechanism?

N/A

1. How transparently can traders observe the true market conditions?

Market conditions are transparent since we're built on Stellar, which is an open network, and because Stronghold USD is the U.S. dollar.

v. Which monetary theory (theoretical) assumptions do you think are not true and how does your protocol account for that?

N/A

vi. Does your stablecoin supply scale in response to demand? If so, how?

No.

vii. Who provides the capital to maintain exchange rate peg? How are they compensated / Why do you think they would continue to lock up capital, given other investment opps?

Full reserves are held, i.e. the asset is fully capitalized. The capital is not 'locked up' from the depositor's POV - they receive the full use of the same amount inside the network, despite the reserve being held in a custodial account.

viii. An eventuality plan in case of a "black swan" event.^{1,2} The 1% case will happen eventually.

N/A in our case

d. Tech

i. Are any novel consensus mechanisms used, over and above the underlying blockchain?

No

ii. What transaction throughput can the blockchain currently handle and how does it plan to scale? Do its plans coincide with your plans for your estimated demand?

Stellar is rated for 1000s of transactions per second, which is sufficient for a payment network, but not trade. To supplement, Stronghold will run a centralized execution venue to execute trades, settling the results back to the Stellar network. Additionally, Stronghold will make use of alternate blockchains in parallel to expand the token's reach and throughput.

iii. What tradeoffs does your protocol make and why did you make those tradeoffs? (supply/demand, temporarily peg breaking) (censorship resistance) (privacy tradeoffs) (accuracy of present market data and ease of manipulation of the data feed protocol uses (responsiveness of market and ease of manipulation)

Decline to answer due to current trade secret.

iv. Are there any centralized components of your system? Would any of these be easy for govts to shut down?

Stronghold USD, in its current iteration, relies on a secure traditional banking system.

¹ https://en.wikipedia.org/wiki/Black_swan_theory

- v. **Does your protocol require information outside the blockchain such as a feed of price data? If so, how does this oracle work? Who manages it, what are the incentives for managing it, and what happens if the data they provide has a glitch?**

No

- vi. **Which participants can see which transactions? What is the data and metadata available, and to whom? How does this impact privacy?**

Transactions can occur on multiple blockchains, some of which may be private and therefore privacy is maintained. Transactions occurring on public blockchains will have their amounts public, but identity information of the sender and recipient are not made available.

- vii. **Are you doing anything with formal verification? Smart contracts used?**

All liabilities are recorded directly on the Stellar ledger, which we will have 3rd party audited against the reserves held in a custodial account.

- viii. **What is the rebase period? (Length of time between currency adjustments.)**

N/A

- ix. **Can we make this automated?**

- 1. **Do we use a smart contract, or network rules of the blockchain operators?**

N/A

e. Regulation

- i. **What are your perceptions of local and global regulation in supporting stable coin, asset backed token economies?**

Stable tokens are a new frontier for traditional financial and regulators. To comply with laws in several countries, Stronghold has anti-money laundering (AML) and know your customer (KYC) guidelines in place to verify each customer's identity before they can use our platform.

- ii. **What could be done to improve regulation in terms of speed, quality, value for your company?**

It's hyper-critical that companies in this space invest time and resources into working with regulators. Maintaining communication and education are key to progress for Stronghold and other industry players. Real-world implementations [like Stronghold USD's work with IBM](#) will help establish credibility and confidence for consumers and businesses seeking to use digital currencies.

f. Testing

- i. **What kind of simulations have you done and what have they helped you learn? (simulating broad array of market conditions)**

- 1. **Mental models for simulations**
- 2. **Econometric models**
- 3. **Agent-based Modelling / Computer simulations**
- 4. **Other (Please describe)**