

# Questionnaire - Vault

## 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?**

ERC20 token on the Ethereum blockchain.

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

USDVault is fully backed by LBMA-grade gold bullion stored in Swiss vaults as well as a hedging position to maintain price stability relative to USD. All the funds backing the tokens are managed by licensed third party fiduciaries, meaning that the Vault team has no access to the funds or assets backing USDVault tokens. In this way, the USDVault token is backed by gold and maintains a 1:1 peg to the US Dollar.

The token is redeemable for either gold or fiat through our fiduciary partners.

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

Our token allows individuals and investors to maintain stability to the USD with a centralized store of non-fiat backing (LBMA grade gold bullion) that is securely stored outside of the traditional banking ecosystem.

We anticipate this serving multiple use cases.

1. Onramp / offramp between cryptocurrency and fiat – entering and exiting cryptomarkets from fiat
2. Portfolio diversification – balancing riskier cryptocurrency positions with a portion of the portfolio held in USDVault
3. Parking funds – ability to temporarily exit volatile markets for a stable position in USDVault

This model is highly scalable with minimal counterparty risk, and offers a reliable alternative to fiat-backed models.

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

Stability, simply, refers to price stability relative to a meaningful unit of account. We see regional fiat currency as the most meaningful unit of account for traditional investors, and plan to start with the US dollar because it is, worldwide, the most commonly used. To our perspective, ‘stability’ relative to the price of another asset is less useful for investors, because it effectively gives price exposure to the price of another asset. This is a valid product, but serves a different use case than offering ‘price stability’ on blockchain.

When some people refer to ‘stability’ we see that they imply more broadly to ‘the ability to mitigate risk in the market.’ To us, this is an incorrect use of the term. Stability refers principally to the ability to limit exposure to price volatility. A ‘stable’ token can still be highly risky if there are other risk factors the investor is exposed to. As such, we see that not all stablecoins are created equal for the purposes of risk mitigation.

**v. What is your revenue model?**

Vault, the company behind USDVault, will generate revenue in the following ways:

1. Transaction fees
2. Issuance fees
3. Redemption fees
4. Holding/vaulting fees.

Most of these fees will be waived initially until our custom blockchain is fully developed and operational.

**b. Launch & marketing**

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

We see confidence in the stability of our token will come principally from the customers’ ability to purchase and redeem their USDVault token for the fixed US Dollar value of the token (either in gold or fiat) directly through Vault / its fiduciary partners. This ability to purchase and redeem for a fixed price allows the market to test and maintain the peg.

Additionally, stability is ensured through Vault’s fiduciary and legal structure. Via the Vault Platform, the team at Vault has created a unique legal fiduciary structure that facilitates a fully compliant process that gives token holders a legal claim to the underlying assets held by the fiduciaries in the secure vaults in Switzerland.

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

The confidence is built into the operational model. The fact that we work with credible, legally accountable licensed counterparties who will hold all assets backing the tokens under a regulated legal structure means that token purchasers can have confidence in our stability model from day 1 of operations. Furthermore,

attestations from reputable partners will be issued early upon launch. Lastly, as stated previously, issuance and redemption at a fixed price of \$1 USD per token allows token holders to confirm the peg.

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

Vault will initially offer USDVault tokens directly on our website, allowing early users to purchase and redeem tokens in the first stage of launch. Vault will subsequently make tokens available on major exchanges to allow trading between USDVault tokens and other tokens.

**c. Economics**

**i. What is your coin stable with respect to?**

USDVault will be stable relative to the US Dollar. Future stablecoins will have different fiat pegs.

**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 decentralized tokens which need to have extensive algorithms to artificially maintain a peg, our token is fully backed by LBMA grade gold and is fully redeemable through Vault for the dollar equivalent worth of fiat currency or gold. As such, our peg is maintained by the very fact that we issue and redeem our token for \$1. On exchanges, this peg would be maintained by a combination of buy and sell walls as well as by the actions of token purchasers engaging in arbitrage were the price to deviate from the \$1 price for which the token could be purchased or redeemed from Vault and its fiduciaries. Vault will also engage in these market making activities to facilitate maintenance of the peg.

As such, the tokens are fully resistant to upwards and downwards price pressure.

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

Our peg will always be maintained because we allow for full redemption at the price at which the token is issued. As such, any deviation will be addressed by buy/sell walls and market making activities that we execute on exchanges.

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

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

Given that our token is fully redeemable at \$1 and is issued at \$1, the peg of USDVault will always be maintained simply by the fact that anyone can buy and sell directly from Vault / its fiduciaries for the stated price. As such, any deviation in price on the marketplace will immediately be addressed by the market itself taking advantage of the arbitrage opportunity offered to them.

Unlike decentralized stablecoins that require complicated algorithms and can break under extreme redemption and issuance scenarios, there is no additional mechanism required for USDVault to maintain the peg since all issuance is done through the company.

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

Our token does not rely upon extensive algorithmic models to maintain price stability. As such, it does not need to engage in quantitative easing, tightening, or subscribe to an associated monetary theoretical framework to run these models. We see this as a more scalable and secure model.

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

Tokens are created upon receipt of wire transfer of funds to Vault's fiduciary partners and burned upon redemption. Our master wallets are pre-seeded periodically with tokens, and extreme demand will result in new tokens being minted as needed. Vault is not creating or burning tokens based on supply in the market.

**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?**

Unlike algorithmic coins which need to maintain capital reserves to allow for easing and tightening, asset backed tokens such as USDVault do not have the same underlying capital requirements. For every dollar that comes into our system, we buy an equivalent amount of gold plus gold hedge to ensure that our token is fully backed and redeemable at all times.

**viii. An eventuality plan in case of a “black swan” event.<sup>1,2</sup> The 1% case will happen eventually.**

Because our token is always fully backed by gold and a gold hedge, the model can tolerate extreme issuance and redemption requests with no impact to our operations or token value. As such, our model functions via token holders having a direct and legal claim to the underlying assets.

In the unlikely event of Vault company failure, our legal structure enables token holders to have a direct legal claim on the gold that is being held by our fiduciary partners. We have legal opinions in multiple jurisdictions that state that our tokens are equivalent to a deposit receipt or principal protected note (definitions vary by jurisdiction) and therefore the tokens entitle the token holder to redeem USDVault for the equivalent amount of gold or fiat directly through our fiduciary partner.

**d. Tech**

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

Beyond the on-chain transactions, the events and transactions happening off-chain are also recorded on-chain providing transparency and immutability.

**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?**

Being on the Ethereum network, the transaction throughput is limited to that of Ethereum's. Vault is also exploring other networks and solutions for better transaction 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)**

Our protocol does not make any trade offs. Being fully backed by and redeemable for gold, supply / demand issues do not pose a risk as it pertains to breaking the peg. At the same time, the USDVault token purchasing and redemption process is fully KYC and AML compliant. Therefore, anyone purchasing or redeeming directly with Vault would have to go thru KYC and AML validation.

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

Being an asset backed stablecoin, there are centralized components to the Vault Platform. Firstly, each token is fully backed by gold in a Swiss vault. We have chosen this jurisdiction because of the quality of storage facilities available, and the country's well-earned reputation for protecting the rights of international investors. Additionally, our legal / fiduciary component is designed to leverage licensed 3<sup>rd</sup> party fiduciaries, which gives token purchasers – specifically institutional clients – full confidence in their ability to pursue legal recourse against a designated agent in the event of loss.

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<sup>1</sup> [https://en.wikipedia.org/wiki/Black\\_swan\\_theory](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?**

This is not applicable to our offering.

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

Stepping back, each token represents a claim on a dollar's worth of the underlying assets held by the fiduciary – specifically the gold bullion and the hedge. Regardless of whether how the token was purchased/acquired, a token owner can redeem a USDVault token for a dollar's worth of gold or fiat after passing the required KYC and AML checks.

Under this model, no sensitive information will be stored on the Blockchain. Typical transaction data (issuance, redemption, and transfers) on Ethereum is on-chain and is open to the public. This transaction data includes the 'from' address, 'to' address, and the 'value' of the transfer. On-chain events are also recorded on the network and are open to public.

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

Extensive code reviews, testing, and security audit of smart contract will performed in-house as well as by external, independent 3rd party.

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

This is not applicable.

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

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

Vault's offering has on-chain components and off-chain components that interact with traditional institutions. These systems are automated.

- e. **Regulation**

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

Vault has legal opinions from leading securities law firms stating that our stablecoin is compliant to the relevant regulatory framework in relevant jurisdictions.

We see the regulatory environment as uncertain both within and outside of the US markets. This being the case, we perceive asset backed stablecoins like USDVault which have secured legal opinions regarding status of their tokens to be favorably positioned regulatorily, specifically as compared to decentralized stablecoin alternatives that have not taken such proactive measures.

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

The market would be enhanced by clear-cut definitions of what constitutes a security when it comes to stablecoins. This would mature the ecosystem.

As an individual token, USDVault has taken the measures possible to ensure we are operating properly with regards to jurisdictional regulation, but clear definitions are – on the whole – lacking from the industry.

- 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)**

Algorithmic tokens require testing to ensure the stability of their peg under adverse scenarios. Tokens that are asset backed and fully redeemable by the very nature of their redemption don't require the elaborate testing of their stability models because redemption and issuance ensure the peg.