Liquidity DeFi
Litepaper

(Version 1.1)

Crypto Investment Outlook 2022

Trends

Here are the new trends — which we will call, “themes” — that we see in the crypto investment realm.

1. Inflation has been underestimated — rates are likely to rise much faster and higher than expected.
2. In Web 3.0,[1] the decentralized Internet of Value will grow exponentially as users take control.
3. Institutions are funding next-generation crypto assets via venture capital (VC) and private equity (PE).
4. Cryptocurrencies are likely to decouple from digital assets such as Defi, DAO's, NFT’s.
5. The Metaverse and gaming are predicted to be the next big wave.

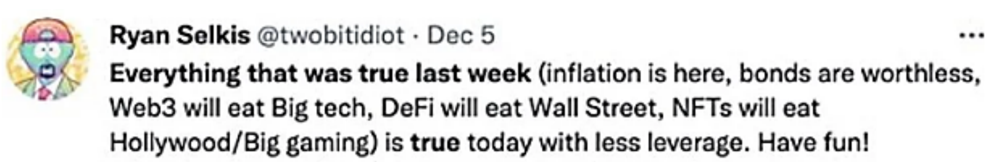
Introduction

In the year 2021 cryptocurrencies and digital assets (“crypto assets”) came into their own. We witnessed the spectacular rise of DeFi, smart contracts and NFT’s, as well as the approval and listing of the first Bitcoin (BTC) exchange traded fund (ETF). Also in 2021 came the recognition that digital currency and commerce are here to stay, even though they cannot be regulated in the traditional sense.[2] The year 2021 brought inflows of $30 billion via venture capital (VC) and private equity (PE) investment, and crypto assets emerged as a mainstream investable asset class.

As fund managers, we believe that the macro will always dominate the micro. As such, being on the safe side by practicing astute asset allocation is more important than trying to pick the next “unicorn.” Successful asset allocation combined with a prudent management of risk will always deliver superior risk-adjusted returns in the long run.

Looking ahead, we have identified Five Themes that we will believe will impact the crypto asset markets in 2022. We’re restating them in different phrasing for ease of understanding.

1. Inflation and increasing interest rates
2. Web 3.0 adoption
3. Institutional participation: Infrastructure allowing CeFi to trump DeFi
4. Bifurcation of cryptocurrencies from digital assets
5. Metaverse and gaming



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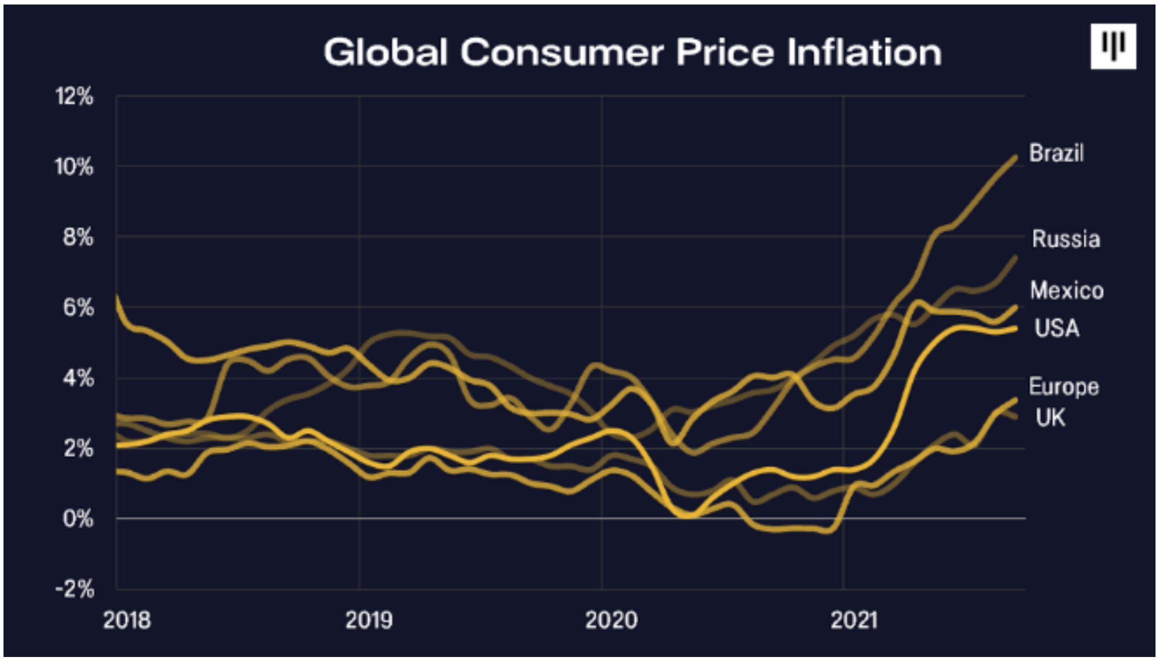
[1] Please refer to Glossary at end of this paper for definitions any unfamiliar terms or abbreviations.

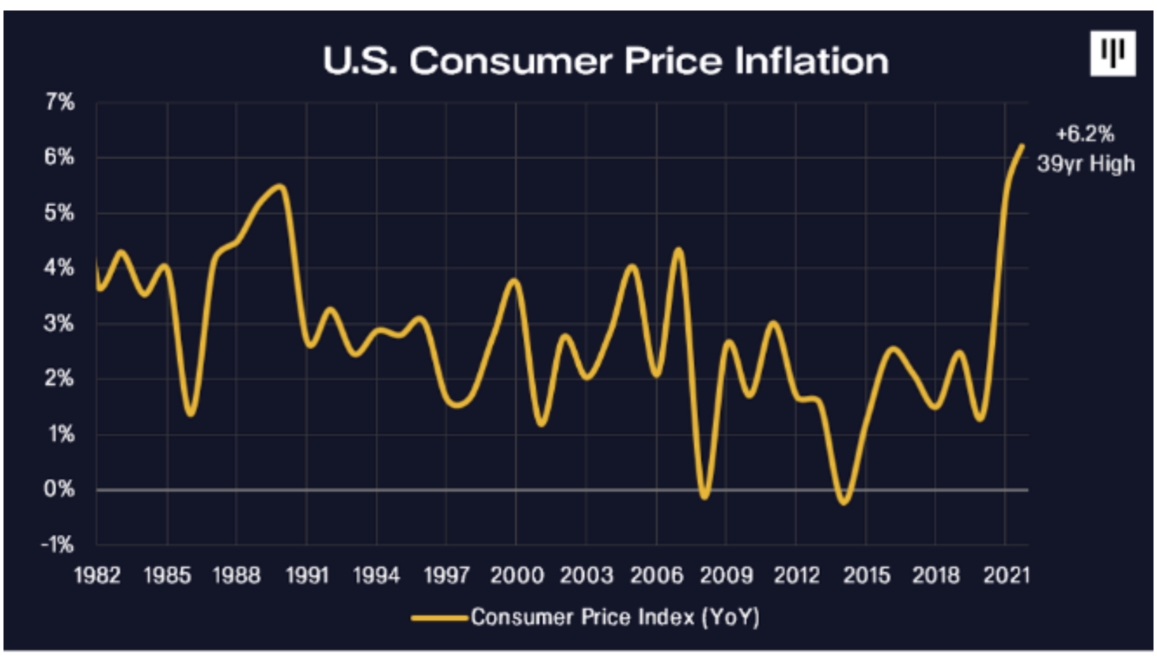
[2] With regard to regulatory environment, educational website *Investopedia* explains, “the [US] hasn’t yet developed a clear regulatory framework for the asset class. Securities and Exchange Commission (SEC) typically views cryptocurrency as a security, while Commodity Futures Trading Commission (CFTC) calls Bitcoin (BTCUSD) a commodity, and Treasury calls it a currency. Crypto exchanges in the United States fall under the regulatory scope of Bank Secrecy Act (BSA) and must register with Financial Crimes Enforcement Network (FinCEN)… the Internal Revenue Service (IRS) classifies cryptocurrencies as property for federal income tax purposes.” Source: https://www.investopedia.com/cryptocurrency-regulations-around-the-world-5202122

Here we will examine details of these themes.

1. Inflation is being vastly underestimated – rates are going to rise much faster and higher than expected, increasing volatility across all asset classes!

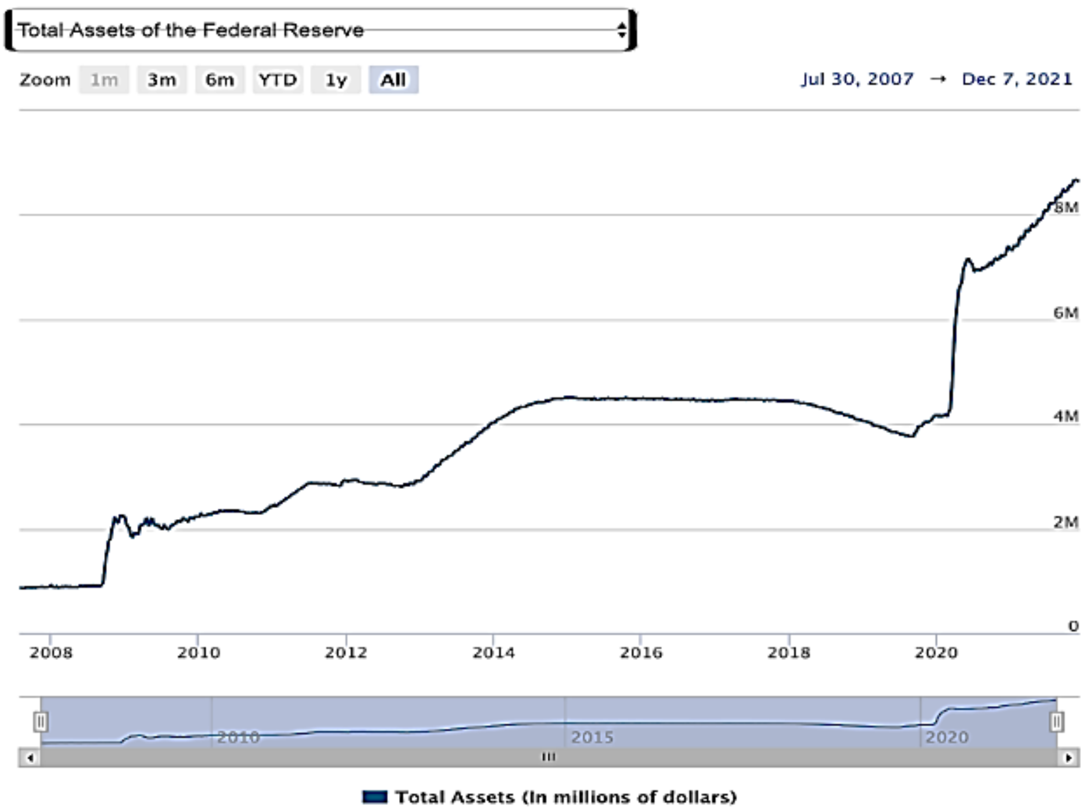
Inflation is hitting multi-decade highs across the globe, with Eurozone Consumer Price Inflation (CPI) at an 18-year high, and US CPI at a 40-year high as shown in the two graphs below.[3]





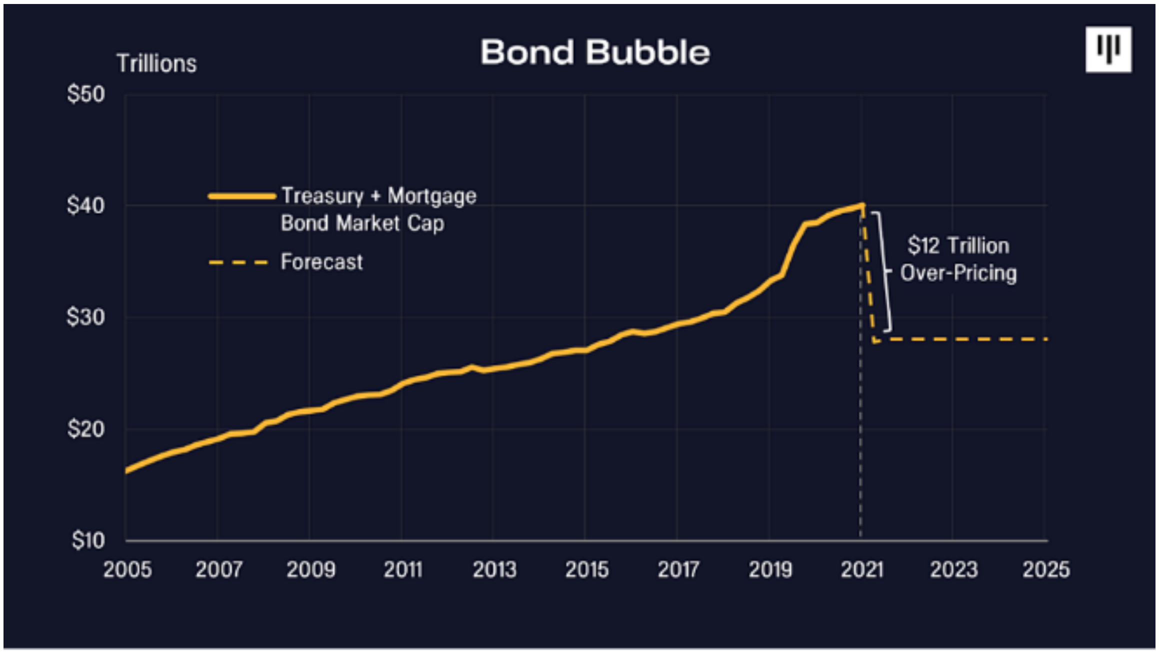
[3] Source: Pantera Blockchain Letter, December 2021

US Federal Reserve responded to the pandemic in March 2020 by introducing "unlimited quantitative easing." This effectively flooded the world with liquidity by pushing the Fed funding rate — and subsequently global interest rates that are set off the US 10-year treasury — to below zero. This was mostly done by manipulating the long bond yield as the Fed expanded its balance sheet by 100% in two years from $4 trillion in 2020 to $9 trillion in 2021, as shown in the following graph.[4]



This has created a $27 trillion bond bubble! At its core, this is inter-generational theft. It also ushers in the end of the fiat monetary system, as the largest monetary policy experiment in history – quantitative easing — begins to implode. This is unfolding rapidly as inflation takes hold, as it surely must when the velocity of money reverts to mean (remember the Equation of Exchange MxV=PxQ). As the markets begin to price in higher inflation, with Goldman Sachs expecting as many as 7 interest rate hikes in the next 2 years, we will see some sort of normalizations of the yield curve.[5]

[4] Source: https://www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm
[5] Source: https://www.zerohedge.com/markets/we-expect-sea-change-morgan-stanley-admits-it-was-wrong-now-sees-liftoff-2022-goldman-goes



The graph above[6] shows that if we normalize rates over the next few years, we could see a 30% drop in the valuation of bonds. Even a 10% drop could see a $4 trillion loss just in the USA alone. Counterintuitively, this could see a rotation out of risk assets into credit once yields kick up as the search for "safe" yield continues. The bond market will move ahead of these actual increases and re-rate accordingly.

This is both positive and negative for crypto assets. Initially, we could see an inflow into crypto assets as a hedge and alternative to fixed income, but then we could also see a lot of volatility as global markets re-rate corporate earnings expectations, discounted cash flows as well as multiples and valuations. This could result in a large correlated (coordinated?) correction globally, which will not leave crypto assets unscathed.

In our view, with equity markets at record levels and stretched multiples implying ex-growth earnings, bonds yielding negative real returns, and inflation gathering pace, crypto assets remain the top liquid bet on the institutional rotation to an inflation-resistant, store-of-value asset.

2. Web 3.0 — The internet of Value will grow exponentially as users take control of their content and monetize it without "rent takers" involvement.[7]

"Web3.0" is the user-owned internet that is basically the architecture for a decentralized internet where websites, apps, and online services are owned by their users, or as Chris Dixon calls it, *"the internet owned by the builders and users, orchestrated with tokens."* We believe this is one of the most powerful shifts in the internet status, as any user-owned economy will always outperform a monopolist-owned economy in the long run.

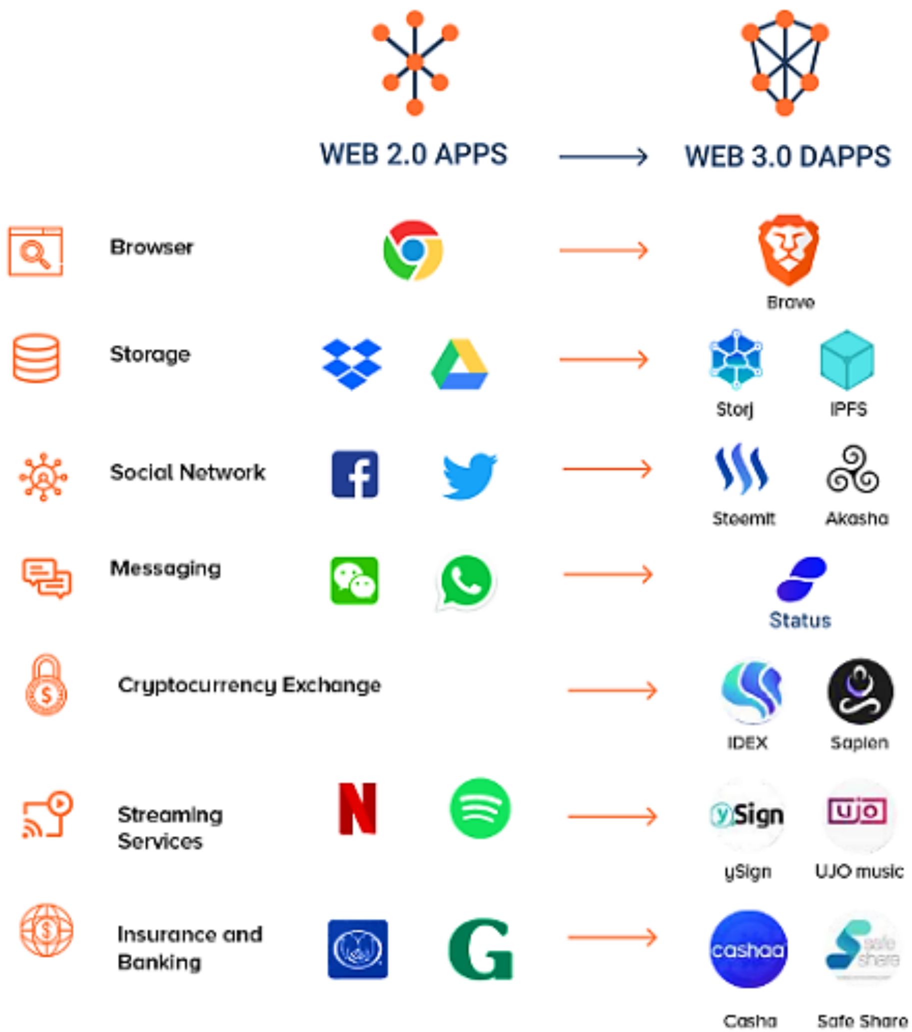
This transition is analogous to the shift from the forced labor of serfdom in Europe which gradually led to the exodus of workers to the "New World." Starting in the 1600s, Europeans, mostly of the so-called peasant class, were lured to America

[6] Source: Pantera Blockchain Letter, December 2021.
[7] Based on Messari's *Crypto Theses for 2022* report; Source: https://messari.io/crypto-theses-for-2022

by the prospect of religious freedom and proprietary land ownership. In similar fashion, we cyber users are moving from an internet built on “rented land” controlled by monopolistic overlords, to an infinite frontier of new, more egalitarian, possibilities.

This phenomenon is driven by a young generation who have high thresholds for risk, and are unable to afford the assets currently held by the old guard. These users are generally poor, smart, and hungry – a winning combination. Add in the massive growth in VC funding in the space, and we easily realize why the incumbent institutions are nervously scrambling to adapt to the coming new order.

The latest Messari report captures the current state of progress with these words:



“DeFi offers savers 5% vs. Wall Street’s 0.5%. Non-fungible tokens (“NFTs”) give creators monetization opportunities without Hollywood’s 50%+ rents. Open games and social graphs remove the 100% take rate from tech incumbents and eliminate de-platforming and censorships risks.”[8]

[8] Source: https://messari.io/pdf/messari-report-crypto-theses-for-2022.pdf

We firmly support this interpretation of the major economic indicators. It's about time analysts took a definite stand based on the unmistakable body of data. We feel comfortable to state unequivocally:

Our society is on the brink of the most transformative shift of the global economy in history.

3. The necessary institutions are in place, and they are funding the next generation of crypto-asset applications through VC and PE

Venture capital has piled into crypto assets in 2021 with an amazing $17 billion (bn) raised in Half-Year 1 (H1) of 2021 alone, and close to $10bn worth of deals done in the same period.[9] We expect close to $30bn in capital to have been deployed in 2021 across the entire spectrum. This is by far the most in any single year, and indeed surpasses the total amount raised in all previous years combined! The following graph[10] shows that growth of crypto assets follows the dramatic "hockey stick" configuration.

[9] Source: https://www.bloomberg.com/news/articles/2021-06-18/venture-capital-makes-a-record-17-billion-bet-on-crypto-world?sref=3REHEaVI
[10] Source: https://cryptofundresearch.com/chart/growth-crypto-assets-management/

We have been hearing for years that the “institutions are coming.” Well, they arrived in 2021. We now are seeing many large financial institutions mobilizing resources across dedicated research teams, trading strategies, internal funds and custody solutions. Supporting our observations, a recent study conducted by Fidelity Digital Assets found that seven in ten institutional investors expect to buy or invest in crypto assets in the near future.[11]

Innovation to replace the plumbing of institutional financial services is influenced by the increasing activity in cryptocurrencies, digital assets, blockchain and distributed ledger technology (DLT) infrastructure. This is leading the mass migration out of TradFi into CeFi, and the next wave of investment in the market is going to be large and sustained for the foreseeable future.

4. Segmentation of the market will now lead to cryptocurrencies decoupling from digital assets such as DeFi, Smart Contracts and NFT’s.

The arrival of real investors into the crypto asset space is creating a segmentation across liquidity, risk, and duration spectrums. The market was initially driven by short-term speculators, hedgers, and arbitrageurs who are now being underpinned with fundamental and thematic investment funds that have longer-term time horizons and are more “patient” money. These investors understand that the different crypto asset sectors have different value drivers. The market narrative has changed from “everything is a cryptocurrency” to “actually, there’s currencies, fat protocols, DeFi apps, distributed computing platforms, NFTs, work-to-earn markets...”[12]

We are witnessing hedge funds focusing on the newest, most liquid thematic, and then analyzing the tokens they invest in, rather than just trying to extract Alpha by trading Beta. Ari Paul, CIO of BlockTower Capital, wrote one of the most insightful threads on the recent decoupling of crypto asset markets:

> *“This is the cycle where crypto use cases unrelated to Bitcoin’s were finally validated and achieved meaningful adoption...In previous cycles it made little sense to be a sector specialist in crypto. Defi and NFTs were basically nonexistent 4 years ago. Most other “sectors” didn’t meaningfully exist as such. “Decentralized file storage”, “smart contract platforms”, “privacy” and other “sectors” by which crypto coins were often segmented were arbitrary and arguably nonsensical...Now, being a defi yield farmer or NFT speculator, is arguably a full-time job, and you need, or will soon need, a small team just to keep up with one of those segments.”*[13]

Going forward, we believe that professional fund managers will have a huge ongoing competitive advantage over retail investors. There are massive information asymmetries in protocol “reporting” standards, a steep technical learning curve, and limited risk management infrastructure which keep high barriers to crypto asset investing.

5. The Metaverse and Gaming

The metaverse, which is a combination of multiple elements of technology, including virtual reality, augmented reality and video where users "live" within a digital universe, has arrived. The COVID lockdowns accelerated us into a fully digital world, moving not just entertainment but also our work online. As our lives migrate from physical space to cyberspace — with online education, entertainment, work, and even socializing — digital status games and cyber-flexing are simply an inevitability.

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[11] Sources: https://www.forbes.com/sites/lawrencewintermeyer/2021/08/12/institutional-money-is-pouring-into-the-crypto-market-and-its-only-going-to-grow/?sh=5b4ce9191459; and https://www.fidelitydigitalassets.com/articles/digital-asset-survey-2021; and https://www.fidelitydigitalassets.com/bin-public/060_www_fidelity_com/documents/FDAS/2021-digital-asset-study.pdf

[12] Source: https://messari.io/pdf/messari-report-crypto-theses-for-2022.pdf page 11

[13] Source: https://twitter.com/AriDavidPaul/status/1436330902250999812. BlockTower Capital is a venture capital crypto investment firm.

However, we are convinced that gaming is actually the next big thing in the crypto asset space. In the past few months, we've discovered a neologism in crypto circles: GameFi. It denotes the amalgamation of blockchain gaming and DeFi principles to pass value incentives to the community rather than game studios and other centralized platforms — effectively Web3 for gamers.

The gaming assets provide full ownership via NFTs which can be traded and monetized. However, GameFi is not just about in-game NFTs and tokens. It expands beyond games to a metaverse, an online environment that incorporates many other features such as virtual stores, webinars, and online art galleries.

However, what we believe is the real game-changer for gaming is "Play-to-Earn", which brings digital identity, assets, and ownership into players' hands, as the gaming industry becomes decentralized.[14] This is predicted to lead to massive growth of the gaming industry, currently built on centralized systems of value.

Today, more than 3 billion people worldwide play video games, and a sophisticated infrastructure has developed to offer opportunities and wealth for top professional players. The very best of them are considered athletes: employed as salaried team members, sharing in prize money at tournaments, and commanding lucrative sponsorship agreements. Others monetize livestreams of themselves by playing games on viewership platforms like Twitch or YouTube Gaming.

Video games are now a $336 billion industry, according to BITKRAFT Ventures,[15] accounting for a wide variety of software, hardware, and intellectual property. As gaming has surpassed linear TV to become the world's largest media category, on-demand entertainment has advanced along with it.

Critically, nearly all game design is centralized, securing for developers and publishers the rights to every aspect of each gaming product. Billions of dollars are captured from sales of game content, digital items, and subscriptions — but players have few ways to share in that immense value aside from the hope of ranking among the highest-paid professionals.

This profit disparity between copyright owners and players is why play-to-earn games are revolutionary. A decentralized video game lets players truly earn and own digital assets which they can later sell outside of the game at their own discretion. Play-to-earn could bring digital identity, tangible assets, and ownership into players' hands for the first time, and overcome wealth inequality in at least one financial investment sector.

In fact, it seems that play-to-earn games are spearheading an even larger trend: the convergence of physical and digital worlds. And with that, the emergence of the legendary metaverse — which has been as much at the center of recent academic debates as it has been the stuff of rejuvenated corporate agendas, most prominently that of Meta (née Facebook).[16]

The metaverse may create a society in which a person's digital identity and assets are more meaningful than their physical counterparts. The metaverse heralds the moment in time in which cyber assets, experiences, and relationships supersede our physical surroundings.

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[14] Source: https://www.weforum.org/agenda/2021/11/what-play-to-earn-games-mean-for-the-economy-and-metaverse/
[15] Source: https://www.bitkraft.vc/gaming-industry-market-size/
[16] In October 2021, Facebook changed its name to Meta. The name change was announced at the Facebook Connect augmented and virtual reality conference. It was said the reason for the name change was to express the company's growth in fields beyond just social media.

Outlook Conclusion

Volatility in crypto assets is here to stay, for now at least. We see the likelihood of inflation causing interest rates to rise more than expected, along with a general reduction in investment liquidity. In the short term, this could cause a specific reduction in crypto liquidity as well. It could also result in continuing inflation and the further debasement of fiat currency. However, both inflation of fiat currency and lowered public confidence in fiat are good for crypto assets.

We will continue to see the bifurcation of the industry as investors realize that not everything is a cryptocurrency is liquid and transferable to other forms of value. Conventional investors will see real cash-generative business models appearing via NFT's and distributed computing platforms — especially now in the play-to-earn gaming space.

Web 3.0 is the new frontier market which continues to grow with the promise of decentralized platforms profiting and empowering individuals. This iteration in gaming is the next adaptation of Web 3.0. The adoption rate of 3.4 billion global gamers into the crypto asset has already proven to be much faster than that of any other demographic.

Many other exciting trends are developing which we lack the time and space to present in this outlook paper. Here is a summary of some other reasons for optimism, paraphrased from writings by Mitchell Dong, founder and CIO of Pythagoras Investments.[17]

- Continued consumer adoption is evidenced by retail activity with Robinhood, Paypal, Coinbase and other retail outlets where consumers can buy or sell Bitcoin. Robinhood disclosed that in the second quarter, trading fees from crypto amounted to 40% of their revenues. FTX and Crypto.com are making big waves by buying the naming rights to the Miami Heat and LA Lakers basketball arenas.
- Continued institutional adoption is evidenced by big financial houses like Goldman Sachs, JPM Chase, Citibank offering to their clients the ability to buy and sell crypto. Large insurance companies are investing in crypto, like Mass Mutual, NY Life and Liberty Mutual. University endowments such as Harvard, Stanford, Yale, Princeton, Brown are rumored to have invested in Bitcoin. Custodians such as Northern Trust, State Street and Standard & Chartered are said to be evaluating custodian services to crypto.
- Sovereign adoption of crypto is continuing; witness China's early rollout of its government-backed digital currency. Over 50 governments are considering digitalization of their local currency. Also witness El Salvador adopting Bitcoin as a national currency, with many other Latin American and African countries following this movement.
- Massive adoption of blockchain technology is taking place in every industry. As in the early days of the internet, executives are asking: what is your internet (blockchain) strategy?
- Mayors of major cities like New York and Miami are using crypto to fund municipal projects and saying that they will accept their salaries in Bitcoin.
- More and more crypto companies, particularly crypto mining companies, are going public. There are now over a dozen Bitcoin mining companies listed on NASDAQ, Toronto Stock Exchange, London Stock Exchange and Euronext.
- Major investors are switching gold allocations to Bitcoin. Stanley Druckenmiller is one big investor announcing this move.
- Bitcoin halving in 2024 is around the corner. In the past, the halving event has boosted Bitcoin prices, given limiting supplies.

We believe the adage that risk is commensurate with reward, and risk varies inversely with knowledge and experience. Many investors mistake volatility for risk. Volatility is not risk, volatility is opportunity. Risk is the possibility of permanent

[17] Source: http://mitchelldong.com/crypto-articles

capital loss. That happens when you are wrong, not when the market is volatile, which, once again, we see as an opportunity.

Portal Asset Management's Investment Strategy

Our core thesis is predicated on our firm belief that "everything is about to change" as digital assets become the fourth superclass of financial assets.[18] As the digital currency market matures, formalizes, and is regulated, it becomes an enticing new frontier for accredited investors to seek superior risk-adjusted returns that are uncorrelated with traditional equity and debt markets. These older markets are inefficient and represent substantial sources of Alpha for skilled investment managers.

To enter this uncharted space, our experienced Liquidity® team assumes an institutional-grade investment approach, combining both quantitative and qualitative investment analysis with prudent portfolio construction. We aim to consistently deliver positive performance with reduced volatility through uncorrelated strategies that achieve upside as the sector grows. Accordingly, we undertake to preserve capital in down markets via diversification across differing systematic trading strategies.

In general, our product family, *Liquidity Ecosystem*, our team, and even this outlook paper was created to adapt to what we see as a fundamental reorganization of the world economic order — which is happening right under our noses. World Economic Forum concluded at its summit that global society is undergoing a “Great Reset” and “Fourth Industrial Revolution.”[19] This coincides with United Nations’ release of its exceptionally progressive *Agenda 2030 for Sustainable Development*, subtitled, *Transforming Our World*.

Some resistance to such pronounced social change is always to be expected. But in the crypto world we are also seeing unexpected consequences, such as the backlash of Web 3.0. Also becoming apparent is the true meaning of decentralization: wealth creation taken back from the corporations and placed in the hands of the creative community. Looking at the big picture historically, it might be said that in the 18th century Industrial Revolution, people stopped creating value for themselves (food, clothing, housing, consumables) as corporations came to dominate the means of production.

In the next phase which is coming upon us, or to use Hegel’s term, the synthesis (or new thesis), the creation of value is being returned to people who carry computers in their pockets. What we never expected, of course, was that value would become so abstract as to be a concept we can understand, but never touch and hold: crypto assets in a human-created ecosystem.

We at Liquidity consider ourselves students of past and future economics, and are guided by the insights of the best thinkers in the crypto landscape, some of which are quoted in this Outlook paper. As we advance, we are also drawing from history in some ways, such as reviving the gold standard to ensure the stability of our currency. Liquidity aims to position itself in the vanguard of the new economic order, not as an early adopter, but as a rational, comprehensive system poised for stable transitional growth. Thank you for your attention to this paper.

END OF CRYPTO INVESTMENT OUTLOOK

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[18] The three traditional asset classes are: cash, bonds, and equities (stocks).
[19] https://www.weforum.org/great-reset/

Liquidity Decentralized Finance

Version 1.1

The purpose of this Litepaper, like all Litepaper, is to identify a problem, present information, and show how a solution is available. Accordingly, we begin with the problem.

Known Deficiencies in Crypto Investment Products

Seasoned investors in the crypto realm are all too well aware of the persistent drawbacks of such products, which include:

1. Low liquidity
2. Price volatility
3. No stability in value, as values are unsecured and float with market demand
4. Difficulty of broad acceptance, as newcomers jump on the bandwagon, so to speak, to create many competing, lower-quality products
5. Lack of coordinated government regulation, especially in the US, along with fears of money laundering and other fraud schemes, and
6. High risk, based on the foregoing risk factors.

Let us examine these phenomena one by one.

1. Low liquidity

Liquidity, of course, is how easily an asset can be converted to cash, usually expressed in US Dollars. An ongoing challenge in crypto assets is lack of true liquidity. Low liquidity has a number of causes, including price volatility, non-fungibility of certain assets, and high per-unit costs.20 We named our product class *Liquidity* to dramatize its solution to that problem. In coming pages, we offer technical explanations of how this is achieved.

2. Price volatility

All cryptocurrencies, even the best-known ones like Bitcoin, are notorious for their extreme price volatility. For example, News network CNBC reported that in May 2021, Bitcoin's price dropped precipitously by about 30% in just one day.[21] This volatility certainly has inhibited real estate investment with cryptocurrency. Real estate, of course, has a much longer sales cycle than securities. A real estate investor wants to buy a property for $1 million and have it still worth $1 million at closing in 60 days. They don't want value to fluctuate dramatically during that due diligence period.

Volatility in crypto markets is largely a function of lack of liquidity and no stability in value. Our *Liquidity Decentralized Finance Ecosystem* resolves these causative factors.

3. No stability in value

Of course, we know that centuries ago, civilizations developed paper money, which represented a value backed by gold, silver or jewels. In fact, some cultures made jewels into artworks to increase the value of the treasury. We also know

[20] On the day of writing this paper, one Bitcoin sells for nearly $50,000 US Dollars. That, of course, is why Bitcoin began marketing fractional shares.

[21] Source: https://www.cnbc.com/2021/05/19/bitcoin-btc-price-plunges-but-bottom-could-be-near-.html

that in 1933, the US finally detached the Dollar from the gold standard, moving to a fiat standard in which currency was backed by full faith and credit of the government under the Federal Reserve System of banking.[22]

Upon taking office in March 1933, US President Franklin D. Roosevelt departed from the gold standard. By the end of 1932, the gold standard had been abandoned as a global monetary system. Czechoslovakia, Belgium, France, the Netherlands and Switzerland abandoned the gold standard in the mid-1930s.

Liquidity LND is one of the few available stablecoins. It is collateralized to the US Dollar with US Dollars, but not controlled by any US central authority like Federal Reserve. This type of stability has proved very attractive to investors, and may be the reason you, as reader, are exploring this white paper.

4. Competition with lower-quality products

Opportunists have been flooding the market with new crypto products; at last count, in January 2022, more than 8,000 cryptocurrencies were being traded worldwide. Recognizing this, *Liquidity Ecosystem* is actively being distinguished as a unique and unprecedented product that stands out from the crowd. Along with strategic positioning, we have built in trading mechanisms for product functionality that lead to acceptance.

5. Uncoordinated government regulation

At this writing, crypto products are so new, and evolving so quickly, that regulation and oversight in the United States has been challenging. On the one hand, the government wants to discourage crimes such as fraud, money laundering, or terrorism support, yet it wants to encourage free commerce and technological innovation. At the time of this writing, regulation is not fully coordinated by entities such as US Securities & Exchange Commission, Internal Revenue Service, Financial Crimes Enforcement Network, Commodity Futures Trading Commission, et al.

In response, *Liquidity* has committed to enhanced compliance with all existing laws, rules, and standards, including tax code, Know Your Customer, and Anti-Money Laundering guidelines. That being said, we are not, until the regulatory structure is finally resolved, offering Liquidity products in the United States. This measure is entirely for the protection of our customers. We look forward to modifying this policy, ideally in the near future.

6. High risk

The foregoing drawbacks, as a group, contribute to a perception by some investors of high risk in the crypto market. This uneasiness is most understandable. The deficiencies inherent in existing crypto products — products which are actually becoming known as traditional — are being corrected in this first release of Liquidity. Although crypto coins and blockchain technology are barely more than a decade old, they are developing so rapidly that *Liquidity Ecosystem* is unveiling a new generation of product and technology. More functionality and digital assets shall be released as *Liquidity's* full suite of digital finance management tools and protocols roll-out in 2022 and beyond.

We do not just make these claims, but are transparent about our approach to resolving the persistent drawbacks of existing crypto exchange technology. In the coming pages of this white paper, we "look under the hood," so to speak, and explain how *Liquidity Ecosystem* functions.

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[22] Board of Governors of Federal Reserve System states on their website, "Federal Reserve notes have not been redeemable in gold since January 30, 1934, when the Congress amended Section 16 of the Federal Reserve Act to read: "The said [Federal Reserve] notes shall be obligations of the United States….They shall be redeemed **in lawful money** on demand at the [US] Treasury Department…or at any Federal Reserve bank." Source: https://www.federalreserve.gov/faqs/currency_12770.htm.

Introducing Liquidity® Decentralized Finance

This document introduces *Liquidity Decentralized Finance*® ("*Liquidity*"), an unprecedented digital asset ecosystem built entirely on our proprietary platform and blockchains with our custom protocols. *Liquidity* is a self-contained system which includes a family of products and technologies, such as an exclusive decentralized exchange, proprietary blockchain, secure mobile applications and tradable assets such as coins and credits. Liquidity removes barriers to entry and solves foundational problems endemic in so-called "decentralized" finance products to this point. This document offers details on how *Liquidity* operates, and the features it offers the worldwide investment community.

The *Liquidity* name reflects the system's solution to serious and persistent challenges in most blockchain token technologies. The majority of tokens currently traded are claimed to be decentralized and have value, but are only a digital copy of off-chain, centralized banking systems. The insurmountable weakness of these centralized banking systems is that they are based on valueless fiat currencies without reserves of precious metals (like gold, silver, etc.), or other collateral with intrinsic value.

Liquidity's LNX Digital Currency is Backed by Gold

Although the term "digital assets" can be applied to anything of value or utility stored in digital format, such as documents, graphics, or music, *Liquidity* assets are digital currencies backed by verifiable precious metal, which we have named "LNX." The purpose of this new system, Liquidity, is to streamline the issuance and exchange of liquid assets backed by tangible collateral. The first two coins are:

1. *Liquidity's* native digital currency, (LNX Coin or LNX), backed by gold reserves along with corresponding gold deposit certificates placed immutably on the blockchain, and
2. *Liquidity*'s US Dollar Stablecoin for frictionless trading (LND Coin or LND).

In addition to the LNX Coin, *Liquidity* has created a stablecoin backed by a reserve in US Dollars (USD), and other cash equivalent assets called *Liquidity Network Dollar* (LND). While the market price of LNX Coin may appreciate over time, LNX Dollar's USD fixed value offers a safe and stable haven for both traders and investors. LNX and LND will be exchangeable via *Liquidity Pay App* and also through the relevant trading market protocols in *Liquidity Exchange*. The LND Coin is a digital asset, like a cryptocurrency, which carries value pegged directly to the United States Dollar and can be traded, transferred or stored.

Liquidity's Future NFT Fluid Tokens

Another of *Liquidity's* platform benefits include closing a massive gap by securitizing non-fungible assets (known as "NFT's"), such as mining assets, valuable artwork, real estate, and more. This is accomplished by turning non-fungible assets into fungible Fluid tokens, an easily priced and widely accepted asset in *Liquidity Exchange*. The result is that a previously illiquid asset becomes fractionally tradable on any of the open trading exchange platforms that exist, including *Liquidity's Exchange*.

Liquidity's vision is to benefit registered users by decentralizing and democratizing investment in quality assets through securitization, tokenization and issuance. That is, increasing operational efficiency in fractional ownership and lowering the barrier of entry to investment to unlock liquidity in previously illiquid assets. *Liquidity'*s long-term goal is to lead the development of next-generation wealth management by expanding the possibilities of data-driven portfolio rebalancing and diversification through blockchain and tokenization on *Liquidity Exchange*.

Liquidity's Ecosystem

We created a new digital finance system, consisting of a group of components in the self-contained *Liquidity Ecosystem*:

- Liquidity Exchange easily accessed through *Liquidity Exchange App*
- *Liquidity Credits* used to purchase the LNX Coin and LND Dollar
- *Liquidity LNX Coin* (LNX)
- *Liquidity Dollar* (LND)
- *Liquidity Pay*, accessed through *Liquidity Pay App*
- Proprietary *Liquidity LNX Blockchain*
- Member utilities, such as Liquidity Wallet, Liquidity Vault, and *Liquidity Pay* App.

These assets are accessible to Members of *Liquidity Exchange*. A Member is simply a person or entity who registers, creates, and is verified for an account with Liquidity Exchange. The succeeding paragraphs will summarize *Liquidity's* digital assets and describe how Members participate in this unprecedented new financial system.

Liquidity Network Exchange

Central to *Liquidity Ecosystem* is Liquidity Exchange, where assets such as LNX Coins, LND Dollars and the Credits required to buy them are traded. By design, *Liquidity* operates within a proprietary infrastructure developed to provide advanced payment processing and trading desk solutions on its secure proprietary *Liquid LNX Blockchain*. The developers of *Liquidity Exchange* have achieved a platform which enables seamless trading and transacting of digital assets. For optimal convenience, Members will be able to access *Liquidity Exchange* through either the website or the dedicated mobile *Liquidity Exchange App*.
Members can:

- Convert - Exchange US Dollars into LNX Dollar (LND) credits at a rate of 1:1.
- Transact - Store, send, and receive LNX and other cryptocurrencies across our Ecosystem.
- Spend – Buy, spend, and trade LNX Coin (LNX) and in near future use LND to access international Merchants and Partners in the *Liquidity Ecosystem*.
- Send - Transfer LNX and LND to other Liquidity Exchange Members in seconds, at the most competitive speeds in the industry. *Liquidity Exchange* offers the benefits of instant processing, secure network encryption and low fees.

As the name establishes, *Liquidity Exchange* is intended to provide high levels of liquidity both for LNX Coins as well as Credits traded on platforms corresponding to other digital assets. More digital assets will be added as the protocols are put in place to collateralize other precious metals (i.e.- platinum, silver, etc.)

Liquidity LNX Coins and Coin Credits

Liquidity's LNX Coin (LNX) has been created to address key deficiencies we have detected in a vast majority of the existing coin offerings to date. LNX Coin operates, of course, within *Liquidity Exchange* infrastructure. We expect the convenience of advanced payment processing and advanced trading solutions to compel wider adoption of our new gold backed LNX Coin, which can only lead to increased benefits for Member users and investors.

For compliance with Know Your Customer ("KYC") and Anti-Money Laundering ("AML") oversight, operation of *Liquidity Exchange,* associated blockchain applications and our infrastructure will be through the use of "Credits." Credits correspond to a particular type of crypto asset, such as LNX Coins (LNX) or LNX Dollars (LND). Put simply, Members purchase Credits to purchase Coins. Credits serve as a type of interface for *Liquidity* assets. However, the value of LNX Credits is independent from the value of any other assets.

The first issuance of LNX Coin (the "Initial Issuance") and the sale of corresponding LNX Credits will be made available to only to certain Members invited to act as Private Placement Participants. Further issuances of LNX Coins (each a "Subsequent Issuance") and the sale of corresponding LNX Credits may be made available to Members generally, or to certain members of *Liquidity Exchange*, only in accord with the terms prescribed by *Liquidity Exchange* for each Subsequent Issuance and sale.

Subsequent LNX Coin Issuances

Liquidity LNX Coin (LNX) is, above all, a cryptocurrency constructed with the aim of providing a strong coin with intrinsic value from the gold reserves backing it, versatile trading solution based on low-cost fees, liquid and secure exchange platform on a proprietary blockchain. Liquidity is designed with a cogent monetary policy and road map for balanced growth. An alternative store of value that will increase due to the gold collateral reserves securitizing the coin.

Following completion of the Initial Issuance of LNX Coin, and as *Liquidity Ecosystem* expands, the Issuer may issue further LNX, and Liquidity Exchange may sell corresponding Credits to Members (or certain groups of Members). The capacity for issuance of further LNX and sale of corresponding LNX Credits is intended to expedite growth, as demand increases from customers and merchants. This will support our aim of achieving large-scale acceptance, while also enhancing the benefits to Members of LNX and corresponding LNX Credits through resulting increases in utility, value, and liquidity.

Unlike some competing cryptocurrencies which have no true precious metal reserves in collateral, intrinsic value, supply limit or defined monetary policy, LNX Coins will have an issuance cap. The purpose is to preserve market demand and support value appreciation of LNX and corresponding Credits. As *Liquidity Ecosystem* and Liquidity Exchange platform expand, and demand increases, the maximum number of gold Reserve LNX Coin which may be issued is capped at 9,999,999,999 (the "Issuance Cap"). There will be a maximum of four 4 issuances per annum and a maximum annual cap of five hundred million units, 500,000,000, (plus any unissued amounts from previous issuance year) permitted to be issued in any 12-month period.

Any future changes of the Issuance Cap will only be made where we believe it is necessary or desirable to achieve our Vision and Mission presented in this document. Any future determination regarding an increase or decrease in the Issuance Cap will be made for the protection and benefit of all Members, and only in consultation with independent expert advisors.

In the event of a Subsequent Issuance, the issue price at the time of each future issuance will be determined systematically, with the goal to preserve the values of LNX Coins already in circulation and corresponding Credits. Here are some guidelines for determining issue prices in future.

a) The issue price for each future issuance (the "Issue Price") will be calculated in US Dollars based on the weighted average price paid per LNX Credit in respect of all LNX Credit trades settled on Liquidity Exchange in the immediately preceding 30 days prior to the date on which an announcement of a further issuance of LNX is made (the "Weighted Average Price"). The US Dollar price of each trade used to calculate the Weighted Average Price will be calculated based on the spot price for exchange of the Credit type traded for the LNX Credits to LND

Credits on Liquidity Exchange at or around the time at which the relevant trade was executed with the value of each LND Credit being deemed to be 1 US Dollar.

b) Notwithstanding paragraph b) above, where the Issuer determines, in its sole and absolute discretion, that an Issue Price could not practicably be calculated in accord with the foregoing, or the Issue Price so calculated does not constitute a fair market price, the Issuer shall be entitled to make such adjustments in the calculation of the Issue Price as it deems necessary. The objective would be to achieve an Issue Price as close as possible to fair market price. In making such a determination, the Issuer may review all relevant data including, without limitation, any significant trade or series of trades where the price paid per LNX Credit was substantially different than the price paid in other trades used to calculate the Weighted Average Price.

Members should note that the value of LNX Credits is independent from the value of any other assets, including LNX Coins.

Proprietary Liquidity LNX Blockchain

Blockchain is an organizational method to ensure the integrity of transaction data and is the core component of cryptocurrencies. The technology is used to maintain an online ledger of all transactions that have been conducted, thereby providing a very secure data structure for the ledger that can be shared to reach consensus. A copy of the ledger is maintained by the entire network or computer of a single node. Each new block generated must be verified by each node before being confirmed, making forging transaction history records almost impossible. Furthermore, each blockchain network can have unique features and algorithms, and can be classified as a public, private, or consortium chain based on who has access to the network.

Unfortunately, the computational resources required to verify transactions on Ethereum (ETH) or Bitcoin (BTC) are quite extensive. The immutability comes with a cost. Public blockchain transaction times are sometimes slow, and fees have been known to spike and become excessive. Following the infrastructure upgrade of *Liquidity Pay App*, *Liquidity Ecosystem* will utilize a hybrid blockchain that combines the Ethereum and *Liquidity LNX Blockchain*.

This hybrid model enables low fee transactions for ecosystem Members. *Liquidity LNX Blockchain* is an advanced blockchain technology and enterprise focused version of Bitcoin. Using the *Liquidity LNX Blockchain*, which is a permissioned blockchain, the technology provides high-volume transactional capabilities with very low fees.

Liquidity LNX Blockchain is a distributed ledger protocol that has been developed to provide industries with a permissioned implementation that supports transaction and contract privacy. It is not an open source blockchain platform. It can:

- enable strong transaction privacy
- offer consensus algorithm choices
- flexibly define how to onboard entities and users to enter the network by using *Liquidity LNX Blockchain's* smart contract permission-based model
- enable high speed and high throughput processing of private transactions with a permissioned group of known participants
- allow any business to easily deploy *Liquidity LNX Blockchain* across different cloud environments with Google Cloud, and
- provide multiple *Liquidity LNX Blockchain* deployment configurations in one versatile, scalable platform.

Liquidity LNX Blockchain framework will power instant buy, sell and transfer requests using LNX Credits across *Liquidity Pay* Network. Inexpensive counterparty transfers of LNX Credits between *Liquidity Pay* accounts is achieved via a permissioned chain. The confidential consortium is encrypted with military grade cybersecurity protocols to ensure digital asset protection and safeguard Member privacy.

Liquidity Governance

Liquidity Protocol will feature several key governing attributes which co-exist to enable the decentralized nature of the Protocol. The key is the future *Liquidity Decentralized Autonomous Algorithm* (DAA) contained in *Liquidity DAA, Fluid DAA*, and the *Grants DAA*, As the ecosystem develops and more financial tools are created, additional AI's will be implemented by *Liquidity* to keep the system autonomous in nature. *Liquidity's* AI governance process will utilize key subcomponents called artifacts. *Liquidity Change Engine* will effectively govern proposed present, and future changes to the protocol based on these artifacts.

Unlike other platforms, *Liquidity Protocol* future functionality updates to governance will not rely on human governance to vote on monetary interventions. All protocol parameters are either preset and immutable or algorithmically controlled by the protocol itself — making human interventions redundant.

Technical Level Security

Liquidity Exchange takes every necessary precaution to keep Members' personal information and digital transactions safe and secure in addition to ensuring the safety and security of its crypto assets. *Liquidity Exchange* will employ high standards of cybersecurity, while assets are kept safe in a high-level secure environment and will introduce 3FA (3-Factor Authentication) for all Members and their operations in the future.

We are working with the world's leading technology partners to ensure the Intelligence Driven Authentication recognizes Members by combining deep learning insights derived across device, location, and behavioral data - with personalized and contextual customer journeys, which allows us to protect against Man-in-the-Middle attacks, Generic Padding Oracles and Remote OS Command Injection, and becoming the first crypto exchange to implement 3FA.

All *Liquidity Exchange* environments where data is created, stored and processed are protected with a minimum of AES 256 level encryption. The application components are hosted in private subnets and external communication is controlled through firewalls and whitelisting. Data in transit is protected by encryption. Hardened servers host the application software with only the necessary ports for internal communications enabled. Advanced registration and verification technologies, provided by world renowned partners, will also help prevent unauthorized access to our systems and services.

Ongoing accredited industry leading third party penetration testing for Liquidity Exchange provides constant stress testing. Liquidity Exchange's private wallet keys are never stored in software or in databases on the platform. Access to our wallet is governed by a multi-layer approach where no single entity has full access.

Liquidity Exchange takes a multi-layered approach to cybersecurity and has built in Security and Privacy by Design to ensure technical level security safeguards against advanced SQL injections, cross-site scripting, buffer overflow, denial of service (DoS Attack), and LDAP injections. Protections against Heart Bleed OpenSSL Vulnerability, HSTS header presence, and clickjacking attacks are part of the platform tools.

(3FA) 3 Factor Authentication is:

- FINGERPRINT: Something you ARE.
- Behavioral Authentication: Something you DO.
- PIN Code: Something you KNOW.

Liquidity Policies & System Level Security

Liquidity Exchange will conduct regular independent security audits and tests of the applications, IT infrastructure and related services. We allocate resources to training and awareness raising in respect of personal security, starting from the top with our executive management team, and continuing down to the rest of our employees. We have developed strong cybersecurity and incident response controls, policies and plans.

Our databases are encrypted with backups in place to ensure high availability. An anti-phishing system for the organization has also been implemented. API calls are wrapped with SSL encryption and cryptographically signed to prevent any phishing attacks. Secure cold and hot storage have been introduced for managing Liquidity Exchange assets. Anti-APT (Advanced Persistent Threats) solutions are harnessed to improve security frameworks. Third-party security audits for platform and wallet infrastructure are frequently administered, along with internal operational procedure audits by third-party consultants which provide another layer of protection.

Future Liquidity Functionality

Liquidity Yield Funds. First in Full Suite of Cryptocurrency-Focused Financial Products Designed for Institutional and Accredited Investors.

Liquidity Debt Finance Protocol

A future benefit of *Liquidity Ecosystem* is the Debt Finance Protocol, including the regulatory tools for originating decentralized loan facilities in Liquidity Network Exchange. A Member that wishes to leverage their LNX Coins, may issue a loan facility on pre-set terms. When this Debt Finance Protocol is used it will update the Cumulative Debt Delta Ratio. This measures the LNX staker's proportion of the debt pool at the time they last purchased LNX Coins, as well as the debt change caused by other stakers entering or leaving the system. The system uses this information to determine the individual debt of each staker at any time in the future, without having to actually record the changing debt of each individual staker.

Updating the Cumulative Debt Delta Ratio on the Debt Register allows the system to track every user's % of the debt. It calculates the % change the new debt introduces against the debt pool using the formula below and appends it to the Debt Register:

New Debt Minted (Total Existing Debt + New Debt)

The staker's last action is then recorded in the Debt Register within their issuance data and the relative index number at which this action happened. The detail recorded is the percentage of the debt pool they represent, which is calculated by this formula:

User debt percentage = (New Debt + Existing Debt) (Previous Debt Pool + New Debt)

The Debt Register holds the Cumulative Debt Delta Ratio, which is the product of the calculation above, and the relative *time (index) the debt was added, so that it can be used to calculate any user's % of the debt pool at any index in the future based on the % shift in the debt pool their last mint/burn caused.*

We recalculate the debt pool by summing the number of tokens in each Fluid coin contract multiplied by the current exchange rates, each time new debt is issued/burned:

totalDebtIssued = totalIssuedFluids

This enables the calculation of the current debt pool, and is included in the updated Cumulative Debt Delta Ratio so that we know at each Debt Register entry the size of the debt (in Fluid/s).

When a Borrower pays back their debt (i.e. by paying the Fluid coins they owe) to unlock their LNX collateral the system updates the Cumulative Debt Delta based on the % shift in the amount of debt to be burned against the total value of the system's debt after the reduction in debt.

This is the inverse calculation from when a user mints new debt:

user's new debt percentage = (existing debt - debt to be burned) (debt pool - debt to be burned)

This is the formula for calculating the updated Cumulative Debt Delta:

delta = debt to be burned (debt pool -debt to be burned)

If a staker burns all their debt, their issuance data in the Debt Register will be set to 0 and they will no longer be part of the debt pool.

Liquidity Digital Futures

We expect to launch the ability for traders to take digital futures on Liquidity Exchange in the near future (Q4 2022). Many aspects of this functionality are yet to be finalized, but it's expected it will use a self-balancing mechanism similar to the Uniswap auto market maker algorithm, where the total open interest of each position and therefore the risk to LNX holders is capped and borrow rates are adjusted based on the current open interest. The system will also encourage traders to balance the risk in the system by paying a percentage of the fees to traders who rebalance positions, though this feature will not be in the initial release. There are already a number of derivatives trading platforms for crypto assets, but they are all limited by counterparty Liquidity. The unique design of the Liquidity system means it may be able to capture market share in this area, similarly to how Binance captured market share by listing more crypto assets than most other centralized exchanges.

Liquidity Leveraged Trading

Leveraged trading drives a significant amount of volume on crypto exchanges, and while digital futures will compete directly with centralized futures platforms, there is a lot of value in supporting tokenized leverage. Leverage trading cryptos give you a straight substitute to the dollar-for-dollar investment. Leverage has the power to lift up your transaction size to the highest possible levels. The result is higher profits from a relatively small investment. Leverage enables you to mimic the effect of risking more capital, thereby delivering a host of benefits and advantages.

Initial Launch Schedule

Liquidity's initial launch of the LNX Coins and the roll-out of associated products, tools and services is intended to be phased as below:

Phase 01. **Liquidity Network Exchange Pre-Launch & Launch of Liquidity LNX Gold Coin (LNX/G), January 2022.**
Private Placement Participants may apply to open a Liquidity Exchange account and complete KYC/AML procedures. Following opening of an account, Private Placement Participants may top up their account by purchasing Liquidity's LNX Credits with $USD on a 1:1 ratio that are used to purchase LNX Gold Coin.

Phase 02. **Liquidity (LNX) Coin Sale of LNX Gold Coin & Creation of NFT Coins, Q2 2022.**
Registration period for Private Placement Participants continues and is expanded to institutional investors. Private Placement Participants may purchase LNX Credits up to their allocated limits.

Phase 03. **FULL Liquidity Network Exchange & Liquidity Pay App Launch, Q3 2022.**
Members may commence trading LND, LNX Gold Coins and other crypto asset credits through their account on Liquidity Exchange. Liquidity Exchange is open to the public for registration and trading. *Liquidity Pay App* will enable Members to start sending and receiving payments globally.

Phase 04. **Liquidity Exchange App Launch, Liquidity Merchant Pay and other Utilities Q4 2022.**
Members of *Liquidity Ecosystem* may download Liquidity Utilities. Liquidity Exchange is open to the public for registration and trading. Liquidity App to begin trading on the move, Merchant Pay opens.

Restrictions on Transfer and Compliance with Law

Following commencement of Phase 3 roll-out, Members will be able to make a request to exchange Credits to their Liquidity Exchange account for the corresponding crypto assets which, if approved by Liquidity Exchange, would then be transferred to Members' external wallet address.

Legal and regulatory developments and the approach of regulatory authorities create an existential threat to the longevity of different types of crypto assets and have, in the past, had a substantial negative impact on certain classes of existing crypto assets.

In some cases, changes in law or regulatory approach have resulted in sudden non viability of certain asset types in a given jurisdiction with significant negative consequences for holders. In other cases, the announcement of regulatory investigations has resulted in a rapid and substantial decline in value and utility and delisting of the asset from exchanges across the world.

We are committed to developing a secure, sustainable and stable offering which will stand the test of time. In order to achieve longevity of LNX Coin and value protection for Members, LNX Coin has been developed to include a time lock feature which will automatically restrict a transfer of LNX Coin from any external wallet address for a period of 366 days from the date it was transferred to such address, unless the relevant address has been verified by the Issuer, or a third party authorized by the Issuer and "whitelisted".

This feature is intended to prevent unauthorized use of customers' wallet funds, as well as avoiding an inadvertent breach of certain securities laws, pioneering a future proof approach to a dynamic and global regulatory environment.

In addition, it may be necessary from time to time, to implement restrictions within the LNX Coin smart contract with the aim of avoiding breaches of existing or new laws or regulations. We will always endeavor to use commercially reasonable efforts to provide prior notice of any upgrade of the smart contract and inform holders of LNX through official channels.

Closing Summary

As outlined in this paper, *Liquidity LNX Coin* offers a new kind of digital currency that goes beyond the store of wealth to provide security, utility and intrinsic value. As the native coin of *Liquidity Ecosystem*, LNX Coin holds the potential to be the next wave of cryptocurrency and a replacement for trillions of dollars of "vaporware" coins owned and traded today. LNX Coin is accessible, instant, borderless and secure. Its role in *Liquidity Ecosystem* opens opportunities that links a world of Merchants and customers, to present Members with the possibility to confidently invest, trade and live on cryptocurrency.

Liquidity Decentralized Finance is driven by our vision to break down the barriers to create an inclusive and secure crypto ecosystem that is investment grade. *Liquidity LNX Coin* is part of our seamless crypto landscape, built on state-of-the-art blockchain technology that empowers Members to control their wealth, data and destiny. Built for the future but available now. *Liquidity LNX Coin* provides a convenient, swift and secure solution for the cryptocurrency market.

***Liquidity Ecosystem* as a Solution**

At the start of this white paper, we identified several perennial problems with which crypto investors are most familiar. The objective in creating *Liquidity Ecosystem* was to address these problems head-on. To recap, common challenges in the crypto realm include:

1. Low liquidity
2. Price volatility
3. No stability in value, as values are unsecured and float with market demand
4. Difficulty of broad acceptance, as newcomers jump on the bandwagon, so to speak, to create many competing, lower-quality products
5. Lack of coordinated government regulation, especially in the US, along with fears of money laundering and other fraud schemes, and
6. High risk, based on the foregoing risk factors.

Let us examine *Liquidity Decentralized Finance Ecosystem's* approach to these phenomena one by one.

1. Low liquidity

Liquidity Decentralized Finance maintains a proprietary exchange where assets such as *Liquidity LNX Coins*, *Liquidity LND Dollars*, and *Liquidity LNX Credits*. The system also provides *Liquidity Pay App*, based on the logic that the more convenient and mobile trading becomes, the more trades will take place, thus increasing liquidity. However, the biggest contributor to liquidity of Liquidity assets is the well-defined and secured value of those assets. *Liquidity LNX Coin* is collateralized by physical gold, and *Liquidity LND Dollars* are soft-pegged to the US Dollar.

2. Price volatility

Volatility has consistently meant that cryptocurrencies are less reliable than traditional fiat currencies for exchanging goods and services, especially those with a long sales cycle, like real estate or some business-to-business services. This volatility has led investors, buyers and businesses to be apprehensive about relying on crypto for transactions.

Liquidity digital assets are designed for constraint of dramatic price volatility because of the link of those assets to TradFi value indicators like US Dollar and precious metal. Liquidity, therefore, belongs to the class of Stablecoin. Out of some 8,000 cryptocurrencies, only about 200 in the world are considered stablecoin, at the time of this writing.[23] Although Stablecoin is relatively new, investors have shown enthusiasm for it.

3. No stability in value, as values are unsecured and float with market demand

Unsecured crypto assets float in value with market demand, and thus lack value stability. One of the notable features of Liquidity assets is that they are secured and stable in value.

4. Difficulty of broad acceptance

First adopters of Liquidity will be sophisticated investors with experience in the crypto market, as well as considerable technical knowledge. These individuals can easily distinguish a quality product when they see one. Liquidity has built-in trading mechanisms for product functionality which should make Liquidity very attractive to its intended audience.

5. Uncoordinated government regulation

Because cryptocurrency is barely over a decade old, the regulatory landscape in the US is not entirely settled. Investors can feel confident that Liquidity is completely committed to enhanced compliance with all existing laws, rules, and standards in place at this time, including tax code, Know Your Customer, and Anti-Money Laundering guidelines. Because US regulatory policy is still developing, Liquidity will not be offering products in the United States at this time. This measure is entirely for the protection of our customers. Liquidity looks forward to working in the US and cooperating transparently with all US authorities as soon as it becomes clear and practicable.

6. High risk

The drawbacks of crypto assets in the last 10+ years, listed here, contribute to a recognition by some investors of high risk in the crypto market. Now that Liquidity has addressed each of those drawbacks, that perception of risk should ease, and be replaced by increased confidence.

In conclusion, *Liquidity Decentralized Finance* has already developed one of the most complex and useful protocols to date, built on its proprietary hybrid blockchain. But the potential for true collateral-backed digital assets is still largely untapped. Further improvements to our *Liquidity* protocol, as well as functional upgrades and new LNX Coins utilizing asset-backed reserve collateral will vastly increase the utility of the platform. We are seeking to bring all off-blockchain financial products to our on-chain *Liquidity Decentralized Finance Ecosystem.*

As this white paper demonstrates, *Liquidity Decentralized Finance Ecosystem,* has already taken a giant step ahead of the current generation of crypto products, and can only improve as acceptance grows, first among the cognoscenti, and then among investors who wisely follow the thought leaders. We stand behind *Liquidity Ecosystem* as a stable, secure, and distinguished new entry to the digital asset realm.

Thank you.

Liquidity DeFi

[23] Source: https://101blockchains.com/list-of-stablecoins/