FLEX 2.0
WHITEPAPER

FLEXDAO, Smart BCH,
Decentralized Custody

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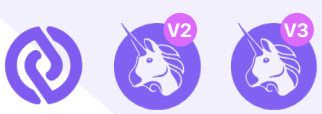
FLEX Coin available at:



SECTION I

Decentralised Custody = Open Access

Summary

Uniswap, Curve, Compound, AAVE and many others have facilitated billions of dollars of trading, borrowing and lending from people around the globe, including Americans, without any need for KYC, just a metamask or other ETH wallet login and you're in.

CoinFLEX is in the process of evolving itself technology-wise to be able to offer the same access to customers. Connect your crypto account, deposit funds into a smart contract not controlled by CoinFLEX or any single party and trade CEX-style perps, spot and futures in a DEX style custody and clearing setup. Even if you are American.

DeFi's Inherent *Advantage*

The power of DeFi is being able to trade out of your own wallet. Trading on venues where your counterparty risk is to an algorithm not a human. Trading without worrying that some human or manual process will interrupt your trading, borrowing or lending. These are the upsides of DeFi. Connect instantly and go.

The downsides are smart contract risk, an alternative to human counterparty risk, that has its pros/cons comparatively. Also the gas fees required for every single interaction and the slower speeds of a blockchain compared to a centralised database.

Problems with Centralised Exchanges (CEXes)

KYC Processes
That slow down signup processes and inhibit trading activities.

Counterparty Risk
The exchange can lose user funds.

Account Closure
US users can't access most relevant, large exchanges without worrying about account closure, frozen accounts and potentially losing (temporary or permanent) access to funds, related to US regulations.

Getting Hacked

Risky Investments
Investing customer's funds into risky financial products and/or yield farming Fractional reserve practices.

Bankruptcy
Going bankrupt from a series of strange fraudulent activities.

Organisations like FinCEN and FATF have focused on businesses that have "independent control" over users' funds. This is a logical place to focus as exchanges and other crypto businesses have had a history of losing customer funds.

All of these scenarios are made possible by exchange's having independent control over their user's funds.

Centralised Matching, Decentralised Clearing and Custody

CoinFLEX is in the final stages of building out a Decentralised Clearing and Custody setup where users can signup with Metamask or any ETH-address based crypto wallet and trade on CoinFLEX.com without any additional friction, providing access to our Spot, Perpetual Futures and Quarterly Futures contracts markets.

This includes users in jurisdictions such as the US which have historically been overlooked and underserved by the crypto derivatives industry.

The trading will still be orderbook based and still match on cloud servers controlled by CoinFLEX. The difference is that users' balances and withdrawals will no longer be something we monopolise.

Instead we will create a multisig network where all balancing-changing user actions are passed privately in an SGX enclave, to other parties who independently verify that every balance, liquidation, withdrawal, deposit, trade and margin change make sense.

Even better, they do this using Zero Knowledge Proofs, meaning - they know they are verifying the data accuracy while preserving the integrity and privacy of the user data. This is important as this user data contains positions and margin balances which could be used to calculate the user's exact liquidation prices and cause problems if the data is used improperly by one of the verifiers.

A third party will provide the Zero Knowledge margining verification technology and SGX enclave setup for the verifiers to use. Fireblocks provides the signing technology for the verifiers to sign the outgoing transactions, post verification.

End Result

Users and Regulators have peace of mind that we cannot steal or act improperly with user funds because we no longer hold user funds. CoinFLEX becomes a centralised orderbook and a decentralised clearing/custody network that grows (in participants) over time.

How are you *able to do this?*

First of all CoinFLEX is seeking to comply with all local laws and regulations wherever applicable to us. What we have done here is to change our structure to reduce user risks and the outcome of that structural change reduces our regulatory footprint. The following areas are relevant here as they pertain to portions of CoinFLEX's business:

Custody / MSB / VASP

FinCEN "MSB" and FATF "VASP" classifications are both given to businesses that hold custody of client funds. The terms "independent control", "hosted wallets" and "accepting and transmitting funds" are used to describe these businesses but there are ultimately pages of documentation and clarifying statements made by FinCEN regarding what the definition of an "MSB" is. The international organisation FATF, which provides recommendations to it's 39 member countries, has similar definitions to the US for what it terms a "VASP" (Virtual Asset Service Provider).

Note Tokens / Promissory Notes

Note tokens, flexUSD and noteUSD are all forms of promissory notes. Promissory notes are an established concept in law for several hundred years and during the 1800s were even considered to be money themselves, when merchants within guilds would use them for trade. The US, UK, Hong Kong, Singapore and many other markets have specific wording in their financial laws exempting promissory notes from being considered securities as long as the duration of the note is less than 9 months - which is the case for all of our note tokens.

Futures Trading / CFTC

Most jurisdictions acknowledge that an internationally incorporated (Seychelles in our case) business can facilitate financial activity without being regulated in every single country, by complying with the laws of its country of incorporation. The US governs based on residency, so any exchange that knowingly takes US residents as customers may be considered subject to the CFTC's regulations around futures and considered a "DCO".

However the CFTC makes a clear and important exemption to this requirement, in the case of physically delivered futures where the contracts result in "actual delivery" within 28 days. The most concise post on this can be found here.

The end result of this exemption is that CoinFLEX can offer futures trading to clients located in the US, without being required to be licensed as a DCO, as US-based users will be obligated to deliver contracts within 28 days or else will be forced to close out their positions. CoinFLEX is the only non-US exchange to offer physically delivered futures and lists both perpetuals and quarterly futures that are deliverable in a way that meets the CFTC's definition of "actual delivery".

Will CoinFLEX become a honey-pot for Money Launderers?

No. CoinFLEX will still continue to use blockchain analysis tools like chainalysis to detect if funds are coming from illicit actors. Our network of independent verifiers will have access to that data and will be able to validate the same data on their end, independently of us.

We will still submit SARs (suspicious activity reports) on funds that come in this way and freeze funds related to darknet markets. We will still IP block sanctioned countries such as Iran, North Korea, etc from being able to interact with CoinFLEX. We will still receive feedback and communications from regulators from time to time.

What if the regulators change policy regarding MSB's and VASP's?

Fortunately policy changes and regulatory actions are never rushed and regulators typically seek industry feedback prior to instituting changes. We welcome feedback and we keep abreast of changes in policy. Our aim is to avoid doing that which the regulators dislike and are most worried about: crypto businesses holding client funds. If this is not satisfactory we can always close off specific markets and restrict access, although this is not the preferred approach as crypto is about increasing access.

We ultimately seek to decentralise or distribute as much of the business as possible such that it becomes a community and network-led effort rather than a unilateral one. This is the only way crypto can grow to become money for the world and a financial ecosystem of products that everyone can use. Crypto must reduce friction for end-users, above all else.

SECTION II

Why smartBCH?

Abstract

smartBCH is the future of smart contracts

A 3 year journey is over and smartBCH is here. SmartBCH has gone to the heart of the most active and important type of usage in crypto today: DeFi and smart contracts.

SmartBCH stands on the shoulders of giants, namely BTC, BCH and ETH and goes further through fundamental advancements in technology, specifically taking advantage of hardware's inherent parallelism and the direction of hardware advancement. Simply put, we believe smartBCH is the single most important invention in cryptocurrency in recent years.

Enter smartBCH, the smart contract chain that takes all the benefits of ETH (all ETH apps can run on smartBCH) and marries them with the strength and power of BCH's dSHA256 computing network, the most powerful computer network in the world.

smartBCH comes from intellectual lineage around machine level hardware expertise and deconstructs the fundamental cost of each component of an ETH smart contract execution. Realising that the biggest scalability cost is in Ethereum's single threaded approach, which means computations happen one at a time. Instead smartBCH uses "parallel processing" enabling the nodes powering the network to take advantage of the biggest trend in computer hardware in recent years: more processing cores.

The second advantage is that smartBCH is fully based on Proof of Work, while retaining the speed advantages of a stake-based voting system. Simply put it uses PoS technology but allocates voting power based on a user's hashrate on the main BCH chain, such that large PoW miners will have the right to be large PoS block producers. This remains aligned with the democratic and "Kill your Kings" approach of PoW, while enabling a highly scalable system.

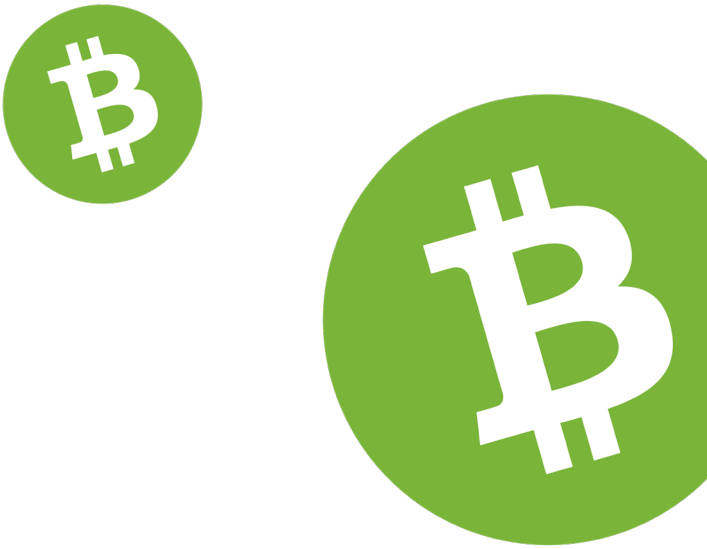
The end result is a blockchain that has vastly cheaper fees than ETH and BSC (cents or fractions of a cent), a 6 second block time and true decentralisation based on Proof of Work. The last point is important as many low-fee ETH substitutes (such as Solana and BSC) are highly centralised, with either all nodes running on the same set of cloud clusters or a node selection criteria that keeps existing POS nodes in control of the system.

Advantages of smartBCH

Proof of Work
Consensus Nodes get voting rights based on hashpower in BCH which uses the dSHA256 network (BTC/BCH), the most powerful and decentralised computer network in the world.

Scalability
Scalability step change going from Ethereum's single-threaded execution to multi-threaded execution and consensus, using "enforced-bundle parallelism in".

Compatibility
Compatibility with ETH. All applications and contracts written on Ethereum can work on smartBCH in order to preserve the wealth of code running decentralised apps on Ethereum.



Summary

- Vastly more scalable smart contract chain than Ethereum
- Secured by Proof of Work on the most powerful computer network on earth
- 100% compatible with all ETH DApps

SECTION III

Our thesis, AMM+, FLEXDAO, Marketing

Thesis
on the Space

When building CoinFLEX we focus on what is fundamentally true in the crypto universe, which will continue to be true in 1, 5, 10, 20 years from now. A few core observations are guiding CoinFLEX and our plans for building the future of crypto finance:

1. Passive capital wants the same kind of money-making strategies that active capital runs, and will accept less profit (or edge) on those strategies, even to the point of giving arbitrage opportunities for those active participants.

2. Any market that is filled with constant arbitrage and money-making opportunities will attract a huge number of the most active participants in the space.

3. More liquidity is always better than less liquidity. Tighter prices, lower funding rates and more capital efficiency is always better for the end-users. There is no "good enough" level of liquidity.

Passive vs Active Capital

Many crypto startups and builders see the world as "retail" and "professional". These startups see "Retail" as basically the people that constantly lose money on trades, whereas professionals are the genius high frequency traders operating full time in the markets who usually "rinse" the retail traders of their money. We think this perception is wrong.

We see the market as passive capital and active capital. Passive capital refers to players that are looking to set up a portfolio and not monitor it much, while they focus on other things (research, their day job, etc). Passive capital might be an individual investor or a billion dollar fund, but it refers to someone that's not algorithmically trading in the markets everyday. Active capital is a much more hands on approach, could be high frequency trading, market making or any kind of constantly changing and adapting strategy that's highly involved and hands on.

flexUSD is an example of this, where the basis trade (buying spot, selling perpetual futures in equal size to capture funding payments) is often a highly lucrative trade done by active capital. CoinFLEX tokenising that same trade into a redeemable stablecoin enables passive capital to participate in that trade. The result of that participation is that CoinFLEX has consistently had the cheapest funding rates out of any exchange in crypto for the last 6 months (since the launch of flexUSD).

AMM+ and many of the other products we plan to launch will be similar, in that they should enable passive participants to take part in trading strategies previously only available to active participants. The result should be the tightest spreads, deepest liquidity and plenty of arbitrage opportunities for active trading firms. When these products become large in asset size, the result should be the biggest and most vibrant exchange in crypto.

AMM+

CoinFLEX brings Automated Market Making into the world of orderbooks and futures.

Uniswap and other DeFi exchanges pioneered the concept of Automated Market Making (AMM) which enables passive capital to enter into the space of buying/selling assets and earning from the price differences and volatility of the markets.

CoinFLEX is taking this concept and applying it to the perpetual futures markets. Users can simply go to CoinFLEX, select the assets they wish to use, the range they wish to concentrate their liquidity on and deploy their capital into an AMM strategy. The end result is a democratisation of market making, enabling a vastly wider user base and capital pool to earn from the volatility of the markets and the takers on the exchange.

AMM+ Advantages over Uniswap

Derivatives
(Perpetual Futures) volumes are vastly higher than spot DEX volumes.

Leverage = Capital Efficiency
Both the AMM+ user and the trader on the other side can be leveraged.

Lower Taker Fees
(0.04% vs 0.30%) result in more chances to trade against the AMM.

Faster Order Books
Order books running on servers are 10,000x faster than Ethereum at matching trades.

Deposit Collateral in Any Asset
Deposit collateral in any asset that CoinFLEX has repo markets for and AMM an unrelated asset e.g. deposit DOT and be a AMM in the BTC/USD Perpetual swap.

FLEXDAO

Part of the evolution of FLEX is the creation of a DAO, we call this FLEXDAO. Naturally this will be on smartBCH. FLEXDAO will start out governing DEX.cash (smartBCH DEX for all assets) and Notes.Finance (DEX for lending products). Over time FLEXDAO will govern every product within the CoinFLEX ecosystem.

FLEXDAO Time Lock

Users will have a set of time preference options ranging from 2 weeks to 4 years, similar to Curve.Fi's DAO staking model. If you are staking any kind of LP token, the LP tokens will be freely withdrawable at any time - but the time-locked FLEX will be locked until the unlock date you have chosen. Users will get more voting tokens (veFLEX) the longer they commit to locking their FLEX for.

FLEXDAO Gauge

The purpose of token inflation is to reward a specific behaviour, such as staking BTC/USD Perp LP tokens on CoinFLEX or FLEX/USDC Uniswap tokens. These behaviours help the FLEX ecosystem grow and so should be rewarded with FLEX. How much FLEX? That question is subjective and is hard to predict in advance. Some behaviours may prove to be extremely valuable to CoinFLEX whereas others may prove to be less valuable. What is for sure is that they will be known over time and not day 1.

Therefore we have designed the FLEXDAO with a Gauge, similar to Curve DAO's gauge, that allows each LP token and staking action to be rewarded with a configurable % of the FLEX rewards (revenue/profit related FLEX rewards).

veFLEX balances will be what determine the percentage rewards in the gauge, so that if the FLEX community realises that a specific action is more/less valuable than expected, they can increase/decrease the gauge percentage over time.

FLEXDAO Governance Over Time

Historically CoinFLEX has been built using the "Cathedral Model" where between releases, internal product management discussions and roadmaps are relatively private. We will be migrating to the "Bazaar Model" where the aim is that all product management discussions and roadmaps are made public, exposing the community much more to our internal processes and connecting our team more directly to the general public at large. This will allow the FLEXDAO to more actively be involved in governance across the CoinFLEX ecosystem over time.

FLEX Coin
Tokenomics

MAX SUPPLY

100M

The maximum number of FLEX Coin that will ever exist.

TOTAL SUPPLY*

98,735,764

Max supply - the number of FLEX burned.
As of August 1st, 2021*

CIRCULATING SUPPLY*

98,735,764

The number of FLEX currently available in the market.
As of August 1st, 2021*

Changes to FLEX Coin Economics

CoinFLEX does not take changes to the FLEX economics lightly and we think these changes are in the best interests of FLEX Holders.

Right now we burn 20% of company profits in FLEX Coin. The downside to this is that during times where our expenses outweigh our revenue, as is often the case for growing startups, FLEX holders see no burns.

We are changing this model to now include 10% of our profits AND 10% of our revenue, ensuring FLEX holders consistently see burns taking place. On top of this we are also taking an additional 10% of our profits and revenue and paying it to the FLEXDAO. These funds will be used as staking rewards, ensuring there are long term incentives for users of the DAO.

New Model	Profits	Revenues
Bought & burned	10%	10%
Paid to FLEXDAO Stakers	10%	10%
Total	20%	20%

Old Model
20% of Profits Bought & Burned in FLEX.

For the latest numbers, visit our transparency page here

Marketing and Distribution

CoinFLEX's biggest problem has always been a lack of marketing. Since inception, we focused the majority of our resources on building revolutionary products that added value for our users and the CoinFLEX ecosystem.

Whilst we remain steadfast on the importance of product innovation and continually enhancing the trading experience, we are now determined to ramp up marketing efforts by devoting significant resources and attention required for impactful marketing. Our ultimate goal here is to increase awareness of CoinFLEX, which will expand the CoinFLEX community and network.

Mining Pools

Part of smartBCH's unfair advantage in the crypto world is being built on top of BCH's powerful Proof of Work network of dSHA256 miners. The BTC/BCH/BSV miners who are locked into this algorithm by nature of spending likely $100B+ collectively buying ASICs, chips that can only mine BTC/BCH/BSV. Mining pools today offer a relatively simple service for individual miners: plugin your machines to their pooling software and they will pay you your fair % of bitcoins mined, minus a fee. Once you earn the bitcoins, the relationship usually ends there and the mining pool no longer has any products to up-sell these miner clients on.

All of CoinFLEX's staking products (every LP token mentioned above) can easily be "Farming as a Service" products for these miners to offer to their clients. "Auto farm with the BTC profits" can become a service that mining pools offer. The unfair advantage here is that dSHA256 oriented miners and mining pools have a huge incentive for smartBCH to succeed: they earn 50% of all the fees on the smartBCH network and they are long the future market cap of all dSHA256 coins. So if smartBCH becomes the next ETH or BSC, they'll do extremely well. Plus on these "farm as a service" products, the miners will be likely to earn high yields and the pools can easily charge a high profit margin on the service, compared to the much lower margins on operating a pool.

3rd Party Integrations

One of the biggest benefits of decentralising custody and clearing is that any app that is an "Unhosted Wallet" will be able to build plugins that allow users to trade CoinFLEX perps directly out of the app. This means Bitcoin.com, Dharma, Metamask, Exodus, BRD, Trustwallet and many more will be able to build plug-and-play CoinFLEX futures trading functionality directly within their wallets. We are speaking to some of these companies and think this will be a significant distribution advantage over time. Similarly these 3rd parties can also build integrations to stake into our various LP tokens, effortlessly and without signup.

Smart Contracts Trading on CoinFLEX

We are moving into a world where Yearn Vaults are trading, staking, and LPing, all natively within DeFi. With KeeperDAO you have smart contracts borrowing via flash loans, to execute on-chain arbitrage opportunities. It is the natural extension of this new paradigm for smart contracts to be trading derivatives as well.

Yearn could create basis trading strategies as a vault. We could see Yearn vaults that perform tight, auto-adjusting Uniswap V3 LP strategies, that hedge delta exposures in the deliverable futures markets on CoinFLEX. All of this is impossible when derivatives trading is limited to humans-only. A whole world of opportunities opens up when smart contracts can tap into derivatives markets. CoinFLEX will start out as the only exchange where this is possible, so we should capture the entirety of these flows for some time.