

XUSD

# Stablecoin rails for real-world payments

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## About StraitsX

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

In Singapore, Xfers is the holder of a Major Payment Institution licence for e-money issuance services under the Payment Services Act 2019, while StraitsX USD Issuance Pte. Ltd. ("StraitsX USD") has received an approval from the Monetary Authority of Singapore ("MAS") as a Major Payment Institution licence holder for digital payment token service for the purpose of issuing XUSD and conducting incidental services to the issuance of XUSD, and has been acknowledged by the MAS to be compliant with the upcoming stablecoin regulatory framework. StraitsX Group manages the service of purchasing, transferring, selling, redeeming and swapping of single-currency pegged stablecoins ("SCS") via StraitsX USD, and StraitsX Payment Services Pte. Ltd. (collectively known as "StraitsX Platform").

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

### 1. The StraitsX initiative

StraitsX is the first stablecoin initiative with a focus on Southeast Asia. The initiative explores the migration of centralized ledgers, which document fund flows, onto distributed ledger technology (DLT), thus enabling a leap forward in speed, security, and transparency for settlements within the region. By adopting a DLT-enabled ledger for Southeast Asia, the StraitsX initiative allows participants to transact using digital assets, aka SCS, that are one-to-one pegged and which maintain a stable value relative to a unit of fiat currency. Each SCS can be redeemed for an equivalent amount of the currency to which it is pegged.

### **1.1. StraitsX Vision**

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

### **1.2. Emergence of DLT technology enabled SCS**

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

### **1.3. Use Cases**

XUSD currently in circulation are primarily used as a means of payment for other digital assets. Broad adoption of XUSD by the digital assets markets in Asia will enable StraitsX to explore other potential use cases at scale, including payments and remittances.

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

### **1.3.1. Digital Assets Settlement & Digital Asset Exchanges**

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

### **1.3.2. Payments & Micropayments using Decentralised Ledger Technology**

The advent and rapid promulgation of digital wallets and payments has revolutionised the fiat-based payments industry. However, interoperability amongst existing payment providers remains a major challenge due to the limits of the centralised ledger design brought about by walled garden business models. For instance, a Venmo user is unable to send funds to friends using other e-wallets such as WeChat or GrabPay. Another limitation of fiat-based digital systems commonly used today is the number of available decimals, using the cent as the smallest unit of account in most cases. This limitation prevents the effective settlements of transactions involving fractional amounts (i.e., amounts less than one cent) from taking place.

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

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

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

### **1.3.3. Faster and more cost-efficient remittances**

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

## **2. Characteristics**

### **2.1. Value-Stabilising Mechanism**

XUSD is one-to-one pegged to US Dollars with the underlying assets of XUSD ("Reserve Assets") held in cash, cash equivalents and/or US government or US public entity issued short-term bonds or notes. A holder of one XUSD will have legal claim to one US Dollar (USD 1) with StraitsX USD and StraitsX Payment Services Pte. Ltd. Internal reconciliation of the underlying assets against the

issued XUSD is done daily, with audits performed twice a month by a reputable independent third-party audit firm on the value of the underlying reserve assets. This approach ensures that regulatory requirements are met, that StraitsX USD holds a strong auditable reserve capability on traditional instruments backing assets and is the most robust method in terms of price stability.

## **2.2. Reserve Assets Management**

StraitsX USD adopts a prudent approach in its management of the Reserve Assets. It has an internal governance body that decides and sets the guidelines on the composition of the Reserve Assets. This helps to provide the assurance that the mark-to-market value of the Reserve Assets will be maintained at the level that is equal to at least 100% of the outstanding XUSD in circulation.

## **2.3. Segregation and Custody of Reserve Assets**

StraitsX USD shall always maintain the practice of depositing the Reserve Assets in custody account held on trust for the holder of the XUSD, which is separate from the assets of StraitsX USD. This custody account will be maintained in financial institution with any of the following licence:

- Banking licence under section 7 or 79 of the Banking Act 1970;
- Capital markets services licence to provide custodial services under section 82 of the Securities and Futures Act 2001; and/or
- Overseas-based permitted custodian that has a branch in Singapore licensed to provide custodial services under section 82 of the Securities and Futures Act 2001.

## **2.4. Redemption Mechanism of XUSD**

StraitsX Platform is always accessible to an onboarded user of StraitsX USD to request for a redemption of XUSD. Users are able to initiate a USD withdrawal

from his/her StraitsX USD account to his/her whitelisted beneficiary bank account.

### **3. Technology**

#### **3.1. Background**

XUSD is designed as a blockchain agnostic stablecoin which leverages on the existing technology available today.

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

To ensure the security and integrity of XUSD, StraitsX has implemented its smart contracts following the ERC-20 Token Standard. The smart contract has undergone a rigorous audit by Quantstamp, a leading blockchain security firm

#### **3.2. Supported blockchain protocols**

##### **3.2.1. Ethereum**

StraitsX has released an ERC-20 version of the [XUSD smart contract running on the Ethereum protocol](#). Ethereum is currently the most widely used, global, open-source platform for decentralised applications. By leveraging Ethereum, XUSD gains several advantages. As a widely

adopted standard, ERC-20 ensures XUSD can be easily traded, stored, and integrated with other DeFi applications built on Ethereum, fostering greater liquidity and usability for XUSD holders. Additionally, Ethereum's established network effect, with the largest network of users and developers in the blockchain space, allows XUSD to tap into this potential, reaching a wider audience and accelerating its adoption. Furthermore, by inheriting Ethereum's security measures, XUSD gains from the collective efforts of the Ethereum community to safeguard the network.

### **3.2.2. Future Supported Blockchains**

StraitsX recognizes the ever-evolving blockchain landscape and is committed to expanding XUSD's reach and utility. We are actively exploring integrations with other leading blockchain platforms like Polygon. These integrations hold the potential to unlock further benefits for XUSD users, including faster transaction speeds and lower fees, ultimately enhancing the overall usability and accessibility of the XUSD stablecoin.

## **4. Rights and Obligations**

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

### **4.1. Purchase & Transfer XUSD directly through the StraitsX Platform**

Customers will be able to purchase XUSD through the StraitsX platform that is powered by the StraitsX Group. StraitsX platform, being the distributor of XUSD,

will maintain its own reserves of XUSD tokens, and customers will be able to purchase XUSD instantaneously by transferring an equivalent amount of US Dollars to StraitsX platform's designated payment account, and will periodically top up its XUSD holdings to ensure the availability of XUSD for customer purchase.

#### **4.2. Sell XUSD directly through the StraitsX Platform**

Holders of XUSD will be able to sell their XUSD for US Dollars by sending their tokens to their designated redemption address on the StraitsX platform, followed by initiating a sell order for the desired USD amount. StraitsX Platform will ensure that it holds sufficient fiat float for the purposes of facilitating such buybacks.

#### **4.3. Redeem XUSD directly with StraitsX USD Issuance Pte. Ltd.**

Holders of XUSD will be able to redeem XUSD for US Dollars directly with StraitsX USD. To redeem directly with StraitsX USD, holders will first need to be subjected to StraitsX USD's onboarding and whitelisting process. Upon successful onboarding and whitelisting, holders will be able to redeem XUSD directly with StraitsX USD Issuance Pte. Ltd.

#### **4.4. Swap XUSD to other tokens through the StraitsX Platform**

Users will be able to swap between XUSD, XSGD, USDC, and USDT or any other tokens that are offered through the StraitsX Platform.

#### **4.5. Repossession Rights**

In order to ensure the integrity and security of the XUSD stablecoin, measures have been put in place to address the risk of fraud. In the event of fraudulent activities or misconduct, StraitsX reserves the right to take appropriate actions

to protect the interests of token holders and maintain the stability of the XUSD. This includes, among other things, suspension of accounts, initiating the repossession process, or redistribution of the XUSD, but these actions will only be taken where a directive has been provided by regulatory bodies to take action against fraudulent behavior.

## **5. Eligibility; Limitations**

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

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

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

## **6. Risks (for the use of XUSD)**

### **6.1. No guarantee of price stability**

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

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

### **6.2. Third-party platforms**

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

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

### **6.3. Restricted Addresses & Forfeited Assets**

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

### **6.4. Software protocols and operational challenges**

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

### **6.5. Claim on Assets**

StraitsX USD holds the equivalent value of one US Dollar (USD) in segregated accounts, on behalf of, and for the benefit of the holders of XUSD. StraitsX USD ensures that its own assets are kept separate from the aforementioned segregated accounts. Notwithstanding the above, a holder's ability to redeem one US Dollar (USD), less administrative fees and network fees (where applicable), is a condition of a legitimate redemption request. Legitimate redemption request is defined as the situation where the holder of XUSD can

meet StraitsX USD's onboarding requirements. Additionally, holders must possess XUSD for redemption, and must not be subjected to any regulatory, law enforcement, or any court judgment (whether existing or pending) which would restrict the holder's ability to make such a redemption. StraitsX USD reserves the right to impose a minimum redemption amount if the holder chooses to redeem XUSD via StraitsX USD. There is no minimum redemption amount if the holder chooses to redeem XUSD via StraitsX Payment Services Pte. Ltd. Please refer to Terms of Service for details on the administrative fees and minimum redemption amount.

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

#### **6.6. Legal treatment of XUSD transfers**

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

#### **6.7. On-chain transactions irreversible**

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

## **7. Risks (for the operations of XUSD)**

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

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

### **7.2. Technological Resilience**

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

### **7.3. Network Congestion**

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

#### **7.4. Custodial Practices**

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

## **8. The StraitsX Team and Organisation**

StraitsX is a leading player in the digital payments and blockchain space, with a strong legacy of innovation and commitment to regulatory compliance. Our corporate journey is characterized by a deep-rooted expertise in payments, a robust leadership team, and a collaborative approach with industry players and regulatory bodies to shape the future of digital finance.

### **8.1. A Legacy of Excellence**

StraitsX has been at the forefront of digital payments and blockchain technology for a decade. Founded first as Xfers in 2014 with a mission to build leading payment gateways, and issuing XSGD, the first Singapore Dollar-backed stablecoin in 2020, StraitsX operations have consistently and successfully navigated the evolving landscape of digital finance, striving to continually deliver innovative solutions that meet the changing needs of their customers. Over a decade, the company has since launched numerous products that have exceeded industry benchmarks, and established long-term partnerships with leading financial institutions, regulatory bodies, and technology providers. StraitsX's longevity in the

industry is a testament to its resilience, adaptability and commitment to excellence.

## **8.2. Expert Leadership**

The StraitsX leadership team comprises seasoned professionals with extensive domain expertise, having contributed to multiple public companies in building products and solutions that have helped to transform software development, super-app infrastructure, and fintech infrastructure. Each functional leader at StraitsX brings a wealth of knowledge and experience to their respective roles, ensuring that business strategies and operations are informed by industry best practices and cutting-edge insights. This depth of expertise across the product, engineering, and business strategy domains enables StraitsX to drive forward-thinking initiatives and maintains itself as a market leader.

## **8.3. Payments DNA**

At the core of StraitsX is a deep-seated understanding of the payments landscape in the region. This intrinsic payments DNA informs everything the StraitsX team does, from product development to customer engagement. A comprehensive grasp of the payments ecosystem allows StraitsX to forge strong partnerships with industry leaders such as Grab, Ant International, Amazon, and VISA in building more seamless, efficient, and secure payment solutions that cater to the diverse needs of users. Today, StraitsX also provides API solutions aimed at spearheading the growing development of integration between traditional and decentralised finance. StraitsX APIs allow customers (including many of the leading regulated exchanges in Singapore) to integrate with both native and

external networks to accept, swap, and send money seamlessly across Web2 and Web3 transactions, with current solutions also extending to include card issuance services.

#### **8.4. Regulatory and Compliance-First Approach**

StraitsX adopts a regulatory and compliance-first approach in all endeavors, understanding that achieving product market fit in the finance and payments industry requires a strong foundation of trust and adherence to regulatory standards. The StraitsX commitment to compliance ensures that products meet stringent requirements set by regulatory bodies; an approach instrumental in building and maintaining the trust of clients and stakeholders.

#### **8.5. Collaboration with Government Bodies**

In addition, StraitsX constantly embarks on efforts to closely collaborate with regulatory and government bodies, driving industry pilots to shape the future of digital finance. StraitsX has worked closely with entities such as the Monetary Authority of Singapore (MAS) to ensure that StraitsX solutions are aligned with regulatory frameworks. Notably, ongoing collaborations with MAS and other industry partners on Project Orchid in the development of stablecoin-wrapped Purpose Bound Money has underscored StraitsX's goal in bringing value-added payment use cases for stablecoins mainstream.

## **9. Conclusion**

XUSD marks a significant step towards a more inclusive and efficient financial landscape in Southeast Asia. By prioritizing stability, security, and user-friendliness, XUSD aims to

empower individuals and businesses with a reliable digital asset for payments, remittances, and participation in the burgeoning DeFi ecosystem. StraitsX remains dedicated to continuous innovation and collaboration with regulators to ensure XUSD remains at the forefront of this exciting technological revolution. We invite you to join us on this journey as we unlock the transformative potential of XUSD and redefine financial access for Southeast Asia.