



| XCAP Lightpaper

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| The XCAP Value Proposition

XCAP is a platform that enables the creation of Earning Tokens: next generation instruments backed by real world assets. XCAP Earning Tokens solve real customer needs in real economies under today's current regulatory frameworks.

The XCAP Network combines a decade of regulatory IP development, and more than 5 years of innovation in tokenisation IP. It creates a secure and compliant platform for licensed FSPs around the world to package their real world asset portfolios as tokenised instruments called Earning Tokens. These instruments are then made available to retail and corporate customers on XCAP's permissioned closed loop Network. This network is made up of an EVM based public permissioned blockchain with integrated individual customer private key custody, wallet KYC, and permissioned token services. It also supports various interfaces to public blockchains like Ethereum and Cardano.

Earning Tokens will come in various configurations to serve different customer needs. The first Earning Token to launch on the XCAP Network focuses on delivering stable and secure earnings in global currency in the form of the USD Savings Coin (USD-SC).

In time the XCAP Network will be utilised by many asset managers, FSPs, banks and financial institutions to tokenise and distribute various assets.

Clients who purchase tokens on the network will have the best of both the traditional financial world, with its regulation, liquidity and security; and the new blockchain enabled decentralised financial ecosystem, with all its financial innovations including its individual sovereignty, self-custody, added liquidity, transparency, low cost and ease of access.

Issuers (asset owners) who utilise the network to tokenise and distribute assets will have increased access to a global customer base, a significantly cheaper distribution channel, direct customer interaction and multiple revenue streams from their customers: from asset management fees to lending revenues and transaction income.

| Addressing Customer Needs

The global push towards tokenisation of real-world-assets is driven by a set of converging forces. There is a significant change underway in customers' expectations of financial service products, led by an increased world-wide user literacy and adoption of digital assets and cryptocurrencies. At the same time, regulatory requirements are becoming clear, as international standard setting bodies like the FATF and BIS set out guidelines for digital assets, while major regulatory bodies are showing a growing consensus in the way that they frame their regulatory approach.

Crypto and the larger blockchain industry have given customers an accessible alternative to truly own their own assets, and to transact without intermediaries. The focused effort of some exceptional technological innovators is making this experience incrementally easier, simpler, and more user friendly month by month. This is resulting in remarkable advances in usability and utility that traditional financial services will have to compete with before long.

Regulatory clarity is giving financial service providers an opportunity to create a new breed of financial service products, offering previously inaccessible options to customers. This is finally bringing a choice to customers who have had no alternative to using extremely volatile crypto based services to meet their financial needs – like payments, savings, remittances, hedging local currency risk, and borrowing. This has exposed too many people to substantial capital and counterparty risks with often sadly calamitous consequences.

In simple terms, new safe and regulated alternatives can not only help existing financial services customers, but also reach the hundreds of millions of individuals globally who've already used crypto. The opportunity is there to support an even larger audience that have had to rely on 3rd parties to meet their financial needs using crypto services on their behalf.

| XCAP's First Earning Token: The US Dollar Savings Coin (USD-SC)

The first product to be launched on the XCAP Network is a USD Savings Coin (USD-SC).

In the current financial climate with emerging market currencies devaluing at a steady pace, there is a huge need for a means of saving in US Dollars that provides holders with protection against their local currency depreciation. These tools have in the past been reserved for those who can afford the high minimum investment thresholds and the advisory fees charged by traditional financial service providers.

To demonstrate the XCAP Network's capabilities and potential, the USD-SC offers clients an earning opportunity that is denominated in US dollars and is accessible to any retail, corporate or institutional customer without any restrictions on minimum purchase limits or fixed deposit terms.

Each USD-SC is individually and specifically linked to a real-world US Dollar instrument, that is held in a ring fenced special purpose vehicle at a regulated custodial and financial services provider. Launched on the network by RainFin and Prime Asset Management, it is backed by a Tier 1 Bank-issued US Dollar bank note. This structure empowers USD-SC participants to exchange their share of the underlying instrument for other assets or cash, while token holders can also redeem them for US Dollar denominated stablecoins (like USDC or USDT) immediately upon request.

Furthermore, the USD-SC serves various functions, such as collateral for a short-term local currency loan, tradeable instrument on XCAP's domestic peer-to-peer markets, a remittance product, or placement in XCAP's Token Escrow service. Users can utilise the Token Escrow service to issue Bearer Token claims on the Ethereum Mainnet, which can be freely traded on Crypto Exchanges, and employed in DeFi to enable further innovation.

The XCAP Network addresses the issues with current financial products by bringing our issuers' real world assets onto new world infrastructure. This brings the utility advantages pioneered by the crypto industry into the regulated finance space, to create something new and unique.

| The Features of XCAP

In creating XCAP, we address three core issues, illustrated by the USD-SC product:

1. XCAP enables access to local and global financial instruments that were previously unavailable to the target market;
2. XCAP uses these instruments as collateral so that holders can borrow at reasonable rates in their local currency to address unexpected financial needs;
3. The tokenisation of instruments enables them to be freely traded with registered counterparties, or remitted to friends and family;
4. The tokenised instrument can be exported to public networks like Ethereum, providing additional utility and enabling further free trade and innovation.

These benefits of XCAP are unpacked in more detail below, illustrated by USD-SC.

Providing broad access to financial instruments

Individuals all over the world, but particularly in Africa, are subject to macroeconomic uncertainty and the associated financial stress. A hedge against local currency is also attractive: the US Dollar is worth 91% more in South African Rands than it was 10 years ago. The same figure for the Kenyan Shilling is 47%, and for the Nigerian Naira 188%. US Dollar denominated instruments are therefore attractive, particularly when they generate a return.

At the same time, customers want to be in control of their investment, without being restricted by notice periods or accessibility. The structure of XCAP Earning Tokens allows access to global instruments and enables this control, providing the liquidity to trade instruments freely and peer to peer, without intermediaries.

The USD-SC illustrates these benefits, providing access to institutional US Dollar Bank Notes, which earn returns at 5% per annum in dollars, passed on directly to token holders. US notes and bonds like these are historically the lowest risk form of long term exposure that is available in these markets, and backed by Tier 1 financial institutions with access facilitated via a major South African bank. The licensed FSP behind USD-SC provides liquidity facilities that service on-demand redemption for token holders as part of the structuring of the SPV, meaning you can “get out” of USD-SC whenever you want to, without penalties.

Accessing on-demand liquidity through collateralised short-term loans

Conventional investment products tend to be illiquid, making it difficult and/or costly for investors to address short term cash flow needs. The forced liquidation of assets in the retail market ends up with many users never reinvesting after selling their investment. This takes them out of an earning economy entirely and contributes to the long term eroding of their financial wealth. Even for those who do re-invest, the inconvenience and friction involved in liquidating their assets to service short term demands is often a disincentive to commit funds in the first place.

XCAP is designed so that investors do not have to cash in their assets, irrespective of the reason for their short term need for funds. The system includes a short term loan facility that is collateralised by the user’s Earning Tokens. This provides a loan in local currency through a fully automated process. If the loan and interest are repaid, then the assets are untouched, but if the outstanding total exceeds a collateralisation threshold, then they are liquidated to pay off the loan. The remaining balance after liquidation is returned to the client in their local currency. The full automation of the process enables its provision at good rates with competitive initiation fees and no early settlement penalties.

The USD-SC instrument, like any XCAP Earning Token, can be used as collateral in this way, with loans and interest denominated in local currency.

Tokenisation enables trading and remittance of products

XCAP Earning Tokens are held by clients in a digital wallet. The token based nature of the product means that it is divisible into tiny increments, but also that it can be sent – in whole or in part – to other wallets. Clients can thus send assets to friends and family as a gift or remittance. The tokens are tradeable on a market, so holders can sell them for other marketplace assets, including local currency, at any time.

For USD-SC, this means just deciding what value to send (in US Dollars), and then entering the recipient's wallet address.

Enabling additional utility via public blockchains

Finally, XCAP Earning Tokens can be converted to a claim instrument that exists on the Ethereum (or other) blockchain as an ERC20 token. This makes it usable in DeFi applications as a dollar instrument whose value grows as the asset appreciates. This opens the door to new innovative uses that can be created by third parties for the token.

In this way, the USD-SC can be ported to Ethereum, where an US Dollar token is created that earn returns, and can be freely transacted in any appropriate crypto or DeFi application.

| Why is US Dollar Savings Coin the perfect illustration of XCAP's features?

Growing pace of tokenisation

As the infrastructure from the world of cryptocurrency, blockchains and digital assets becomes increasingly popular, we are seeing a growing trend of the tokenisation of “real world” assets. Tokenisation means representing those assets by blockchain native tokens in order to access the additional utility that tokenisation provides. This is exactly what we are doing with XCAP Earning Tokens.

The first real world asset that has been tokenised at scale is money, in the form of stablecoins. Stablecoins are crypto tokens that are pegged to a fiat currency, usually the US Dollar – these fulfil a real customer need. Around 80% of crypto transactions include a stablecoin, and as of mid-March 2023, the total stablecoin market cap is \$135 billion (per DefiLlama). Increasingly, stablecoins are being used for remittance, savings, and other retail applications, as well as their original use in crypto trading.

The present growth in crypto has taken place within a largely unregulated space and with poor user interfaces. The scale of this growth, with over 300 million crypto users worldwide, indicates the demand that exists for the features that the infrastructure can provide. Despite the challenges, there is an appreciation for the utility that comes with these assets.

USD-SC bringing utility

The US Dollar Savings Coin plays into these trends of utility and access, while also operating in a fully regulated manner. Its features illustrate the ability of tokenised assets to provide additional utility, thus allowing holders to fulfil several financial needs with the same asset. This product was selected as the launch token as it has the widest market appeal and will serve as a basis for future product innovation on the network. It is a widely held view that cash or cash like instruments should form a portion of all clients' investment portfolios, and this is therefore where XCAP is starting.

We anticipate that the broader crypto market will make use of USD-SC as a building block in the Ethereum ecosystem. The Crypto market as a whole needs a risk free base rate coin upon which to build products like futures, mortgages and loans. Without coins that inject real yield and earnings into the crypto ecosystem these products cannot be built at scale. The “DeFi” market approach of inflationary tokenomics will not achieve yield in the long term.

| XCAP Network's Creators, Partners, and Vision

XCAP is a partnership between the innovative peer to peer finance pioneers of the RainFin Group, and Keystore Group – a leading bank grade blockchain based finance application development platform, best known for pioneering the African Web3 industry through its subsidiary Block Markets Africa (BMA). RainFin's experience in peer to peer finance demonstrates their ability to create real value for customers with alternatives to bank products, while BMA is actively advising on and building regulated web3 financial services for many of Africa's largest central and commercial banks, stock exchanges and financial institutions.

USD-SC was created by XCAP's Co-Founding partner RainFin working closely with Absa and Prime Asset Managers to ensure regulatory compliant packaging of their USD Bank Note product. XCAP has attracted innovative market leading partners in the form of Omnea (previously Trustlink), Currency Assist, Yield Guru, and other firms pioneering new financial services. XCAP also delivers a uniquely attractive proposition to the other Tier 1 Institutions within the XCAP Founders' current client network who are exploring PoCs – including non-bank financial institutions like Sanlam.

Our vision for the future is one where financial services are built on decentralised infrastructure, enabling more control to be put in the hands of the customer, and removing intermediaries who add costs and subtract value. This is all done in a regulated environment; blockchains and tokenised assets are just the technology tools for delivering better products.

| How Do XCAP Earning Tokens Work?

XCAP's Earning Tokens are based on real world assets, owned by a special purpose vehicle (SPV). The XCAP product represents a claim on this SPV and is created as a token so that it is divisible and tradeable, and enables the extra functionality described above.

XCAP's Earning Token creation

A registered Financial Services Provider (FSP) creates a pass through special purpose vehicle that is set up exclusively to acquire the specified financial instrument. The SPV sells participation notes to investors, and these participation notes make it clear that the investor acquires the entire direct and complete economic interest in the asset from the SPV. The participation note clearly defines the underlying asset and the economic share the investor has acquired from the SPV.

The SPV concludes separate participation agreements ("Participation Agreement") with interested individuals ("Participants"), who may be either institutional investors, high-net worth individuals, or accredited investors in terms of which each participant purchases from the SPV an economic interest (i.e. economic benefit of the receipt of capital and interest) on an asset the SPV has acquired. This economic interest is expressed as a percentage of the total interest and capital received by the SPV in respect of the asset in question. There is no cession of the SPV's rights in terms of the asset to the Participant.

The participant only acquires from the SPV right to claim a share, equal to the percentages purchased, in the cash-flow proceeds received by the SPV from the Issuer of the Asset / ISIN. That is, if the Issuer of the ISIN defaults, no payment obligation arises on the part of the SPV. The funds which the SPV collects from the Issuer will be kept in a trust account before being distributed to the Participants.

This process enables the SPV to provide clean and exclusive ownership of the instrument to participants; the participation agreement gives the holder direct claim to their share of the specific assets of the SPV. The investment instrument is then held exclusively in favour of the SPV in a securities brokerage at a registered CSDP (central securities depository participant). This provides assurance of the instrument's security independent of the FSP.

The FSP mints Earning Tokens that provide rights to the participation notes in the SPV as per the Participation Agreement, making them fractional claims on the SPV's underlying asset. These tokens are then registered on the XCAP Network to the FSP's wallet, and it is possible to inspect the network to verify the number of tokens issued and what they link to. The FSP then has a full set of the Earning Tokens with the features of the underlying asset that it can sell to customers. These tokens are then branded and marketed by the FSP according to the specific customer need they are designed to solve, for example US Dollar Savings Coins: USD-SC.

Buying Earning Tokens directly from the FSP

To buy Earning Tokens, a customer needs first to go through a KYC process with the FSP. Customers can fund their XCAP Wallet with USD (or USD Stablecoin), which the FSP can assist with if the customer only has local currency. This is done by going through a compliant forex purchase process (in South Africa as an example accessing their Single Discretionary Allowance or "SDA" for buying foreign currency), or customers can proceed

directly to purchase Earning Tokens on their domestic peer to peer market using funds in their XCAP Wallet (denominated in their local currency, e.g. ZAR).

Funding your XCAP Wallet with USD

Using their SDA (in South Africa), the customer buys US dollars from a bank using their local currency, e.g. Rands. The bank transfers the dollars to the FSP on behalf of the customer who is then credited in the form of tokenised dollars, or xUSDC. The xUSDC is a version of the USDC stablecoin that has been bridged to the XCAP network. The xUSDC are issued by the FSP into a digital wallet also provided to the customer by the FSP. Users can view and control their assets from a dashboard on this digital wallet. This enables them to transact directly with the FSP, either buying or selling Earning Tokens for tokenised US dollars, xUSDC. Note that these transactions are not peer to peer; they are with the FSP direct.

Peer to peer transactions

As well as transacting with the FSP, token holders can trade peer to peer on the XCAP local market. Liquidity for Earning Tokens on the domestic market is offered by XCAP users who have purchased Earning Tokens directly from the issuer using their XCAP Wallet, and who want to trade them peer to peer with other XCAP users for local currency, e.g. ZAR. This enables anyone, including those without access to US dollars, to buy Earning Tokens.

Remitting Earning Tokens to other XCAP Users

Users can also send Earning Tokens to any other XCAP Network user, thus providing a remittance facility for the token. To receive and hold the tokens, the recipient must have an XCAP wallet, and so must have been KYC'd by a regulated financial institution, and opt-in to be KYC'd by the FSP that issued the Earning Token.

Collateralised borrowing on XCAP

One of the key features of the XCAP product is the ability to use savings as collateral for a short term loan. XCAP customers can borrow against their savings from lenders on the XCAP borrowing market. Because the market creates competition between lenders, and because the loan is collateralised, borrowing rates are expected to be good value. Loans are made, and interest payments are denominated in, local currency, e.g. ZAR. As described above, the collateral is automatically liquidated if the cover falls below a predefined level. The full automation of this and other aspects of the borrowing process is what makes it efficient and cost effective.

Exporting Earning Token claims as bearer tokens to Ethereum

Some users of the XCAP Network may choose to “export” the right to their Earning Tokens as Earning Token claim (or Bearer Tokens) to the Ethereum public network. This process transfers the Earning Token on the XCAP network to a pooled safe-keeping smart contract that is linked to a smart contract on the Ethereum network. The Ethereum smart contract can be called by the user’s wallet to issue a tokenised claim to the Earning Token that is held on the XCAP network, as a freely tradable ERC20 token on Ethereum.

These ERC20 tokens can then be sent to any Ethereum wallet, may be used in any number of ways on the network, e.g. in DeFi protocols or traded on decentralised, or centralised crypto exchanges. A new user can acquire the token on a crypto exchange (or DeFi) and then register as an XCAP user, completing the necessary KYC processes, and then deposit the token to their XCAP Custodied Wallet address on the Ethereum network. From there, they can “import” the right of the claim token by burning it from their wallet, and receiving the Earning Tokens on the XCAP network from the pooled safe-keeping smart contract.

The ERC20 token therefore has the same economic value as the Earning Token, as it acts as a claim-right to the associated instrument on the XCAP Network for users that have completed the necessary KYC processes. This in turn offers them a redemption right to the SPV's underlying asset, i.e. it is ultimately backed by real world asset reserves, e.g. US Dollar Bank Notes in the case of the USD-SC.

| The XCAP Issuer Value Proposition

The XCAP value proposition to customers is described above. The following is written from the perspective of XCAP issuers, and describes the value proposition for these institutions.

Why would your customers benefit from Earning Tokens?

An institution can make their own version of XCAP's Earning Tokens available to its customers and thus enable them to access the benefits described above. As described above, the ability to create instruments denominated in foreign currency such as US dollars, hedging against their local currency risks, is particularly attractive to customers. The additional ability to offer loans against portfolios made up of those instruments, and to use the tokens in other ways like remittance, and exporting claims to them for use in Ethereum, is another key feature. Thus the benefits of crypto assets can be provided to users, without the associated risks, in a regulated environment.

The loan product in particular is attractive for the low to middle income market. In this market, financial shocks can drive behaviour that is ultimately damaging to the customer, pushing them to liquidate savings, cash in investments, or cancel insurance policies. By providing a loan facility against savings, this problem is mitigated. Because this process is automated, and the loan is collateralised, the loan is also good value.

Providing savings products to the mass market is difficult because it is hard to give value to the sales channel, the customer and the investment product provider or investment manager. There is usually not enough margin to go around, and so savings products are unattractive for at least one of those three participants. In this case, the product is low in administration costs and can be offered efficiently, so the product is an attractive one.

Why would you as an issuer benefit from offering Earning Tokens?

There are a number of ways that issuers of XCAP Earning Tokens can generate income. The first of these is from a normal margin on facilitating a forex transaction for those users that wish to purchase instruments directly from issuers on the global market. In the initial purchase process, the customer needs to buy US dollars with local currency, and there can be a margin on this transaction for the forex dealer or bank. Secondly, when Earning Tokens like the USD-SC are redeemed, a small redemption fee can be applied to each transaction. Finally, providers of loan capital will make a margin on the interest they can charge in local currency loans when Earning Tokens are used as collateral.

Finally, and perhaps most excitingly, enterprises can package their own real world assets (like their own US dollar bond offerings) as instruments that can be taken up by their retail customers. This could apply to large corporates, banks or even central banks, and would enable these entities to create a self-contained economy, limiting expatriation of US dollars. XCAP could even be incorporated into corporate loyalty schemes to further generate mutual value for companies and their customers.

