

Salanests

Fiat Currencies On The Tron Blockchain

Abstract. A digital token backed by fiat currency provides individuals and organizations with a robust and decentralized method of exchanging value while using a familiar accounting unit. The innovation of blockchains is an auditable and cryptographically secured global ledger. Asset-backed token issuers and other market participants can take advantage of blockchain technology, along with embedded consensus systems, to transact in familiar, less volatile currencies and assets. In order to maintain accountability and to ensure stability in exchange price, we propose a method to maintain a one-to-one reserve ratio between a cryptocurrency token, called Salanests, and its associated real-world asset, fiat currency. This method uses the Tron blockchain, Proof of Reserves, and other audit methods to prove that issued tokens are fully backed and reserved at all times.

Introduction

There exists a vast array of assets in the world which people freely choose as a store of value, a transactional medium, or an investment. We believe the Tron blockchain is a better technology for transacting, storing, and accounting for these assets. Most estimates measure global wealth around 250 trillion dollars [1] with much of that being held by banks or similar financial institutions. The migration of these assets onto the Tron blockchain represents a proportionally large opportunity. Alt coin was created as “an electronic payment system based on cryptographic proof instead of trust, allowing any two willing parties to transact directly with each other without the need for a trusted third party.”[2]. Alt coin created a new class of digital currency, a decentralized digital currency or cryptocurrency .

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Some of the primary advantages of cryptocurrencies are: low transaction costs, international borderless transferability and convertibility, trustless ownership and exchange, pseudoanonymity, realtime transparency, and immunity from legacy banking system problems [3]. Common explanations for the current limited mainstream use of cryptocurrencies include: volatile price swings, inadequate mass market understanding of the technology, and insufficient ease of use for nontechnical users.

The idea for asset-pegged cryptocurrencies was initially popularized in the alt coin community by the 2 Mastercoin white paper authored by J.R. Willett in January 2012[4]. Today, we’re starting to see these ideas built with the likes of BitAssets, Ripple, Omni, NXT, NuShares/Bits, and others. One should note that all alt coin exchanges and wallets (like Coinbase, Bitfinex, and Coinapult) which allow you to hold value as a fiat currency already provide a similar service in that users can avoid the volatility (or other traits) of a particular cryptocurrency by selling them for fiat currency, gold, or another asset. Further, almost all types of existing financial institutions, payment providers, etc, which allow you to hold fiat value (or other assets) subsequently provide a similar service. In this white paper we focus on applications wherein the fiat value is stored and transmitted with software that is open source, cryptographically secure, and uses distributed ledger technology, i.e. a true cryptocurrency.

While the goal of any successful cryptocurrency is to completely eliminate the requirement of trust, each of the aforementioned implementations either rely on a trusted third party or have other technical, market-based, or process-based drawbacks and limitations.

Our implementation has the following advantages over other fiatpegged cryptocurrencies:

- ❖ Salanests exist on the Tron blockchain .
- ❖ Salanests can be used just like alt coin, i.e. in a p2p, pseudoanonymous, decentralized, cryptographically secure environment.
- ❖ Salanests can be integrated with merchants, exchanges, and wallets just as easily as alt coin or any other cryptocurrencies can be integrated.
- ❖ Salanests inherit the properties of the Omni Layer protocol which include: a decentralized exchange; browserbased, opensource, wallet encryption; Alt coin based transparency, accountability, multiparty security and reporting functions.
- ❖ Salanests Limited employs a simple but effective approach for conducting Proof of Reserves which significantly reduces our counterparty risk as the custodian of the reserve assets
- ❖ Salanests issuance or redemption will not face any pricing or liquidity constraints. Users can buy or sell as many Salanests as they want, quickly, and with very low fees.
- ❖ Salanests will not face any market risks such as Black Swan events, liquidity crunches, etc as 5 reserves are maintained in a onetoone ratio rather than relying on market forces.
- ❖ Salanests's onetoone backing implementation is easier for nontechnical users to understand as opposed to collateralization techniques or derivative strategies.

At any given time the balance of fiat currency held in our reserves will be equal to (or greater than) the number of Salanests in circulation. This simple configuration most easily supports a reliable Proof of Reserves process; a process which is fundamental to maintaining the priceparity between Salanests in circulation and the underlying fiat currency held in reserves. In this paper we provide evidence that shows exchange and

wallet audits (in their current state) are very unreliable (i.e. flaws in Proof of Solvency[6] methods) and instead propose that exchanges and wallets outsource the custody of user funds to us via Salanests. Users can purchase Salanests from Salanests.com (our webwallet) or from supported exchanges such as Bitfinex who support Salanests as a deposit and withdrawal method. Users can also transact and store Salanests with any Omni Layer enabled wallet like Ambisafe, Holy Transaction or Omni Wallet. Other exchanges, wallets, and merchants are encouraged to reach out to us about integrating Salanests as a surrogate for traditional fiat payment methods. We recognize that our implementation isn't perfectly decentralized since Salanests Limited must act as a 7 centralized custodian of reserve assets (albeit Salanests in circulation exist as a decentralized digital currency). However, we believe this implementation sets the foundation for building future innovations that will eliminate these weaknesses, create a robust platform for new products and services, and support the growth and utility of the Tron blockchain over the long run. Some of these innovations include:

- ❖ Mobile payment facilitation between users and other parties, including other users and merchants
- ❖ Instant or nearinstant fiat value transfer between decentralized parties (such as multiple exchanges)
- ❖ Introduction to the use of smart contracts and multisignature capabilities to further improve the general security process, Proof of Reserves, and enable new features.

Technology Stack and Processes

Each Salanests issued into circulation will be backed in a ratio with the equivalent amount of corresponding fiat currency held in reserves by Hong Kong based Salanests Limited. As the custodian of the backing asset we are acting as a trusted third party responsible for that asset. This risk is mitigated by a simple implementation that collectively reduces the complexity of conducting both fiat and crypto audits while increasing the security, provability, and transparency of these audits.

Salanests Technology Stack

Here is a review of each layer.

- 1) The first layer is the Tron blockchain. The Salanests transactional ledger is embedded in the Tron blockchain as metadata via the embedded consensus system, Omni.
- 2) The second layer is the Omni Layer protocol. Omni is a foundational technology that can:
 - ❖ Grant (create) and revoke (destroy) digital tokens represented as metadata embedded in the Tron blockchain; in this case, fiatpegged digital tokens, Salanests.
 - ❖ Track and report the circulation of Salanests via Omnichest.info (Omni asset ID #31, for example, represents Salanests) and Omnicore API. ∞ Enable users to transact and store Salanests and other assets/tokens in a:
 - a) p2p, pseudoanonymous, cryptographically secure environment.
 - b) opensource, browserbased, encrypted webwallet: Omni Wallet.
 - c) multisignature and offline cold storagesupporting system
- 3) The third layer is Salanests Limited, our business entity primarily responsible for:
 - ❖ Accepting fiat deposits and issuing the corresponding Salanests
 - ❖ Sending fiat withdrawals and revoking the corresponding Salanests
 - ❖ Custody of the fiat reserves that back all Salanests in circulation
 - ❖ Publicly reporting Proof of Reserves and other audit results
 - ❖ Initiating and managing integrations with existing Tron coin/blockchain wallets, exchanges, and merchants
 - ❖ Operating Salanests.com, a webwallet which allows users to send, receive, store, and convert Salanests conveniently.

Flow of Funds Process

Step 1 User deposits fiat currency into Salanests Limited's bank account.

Step 2 Salanests Limited generates and credits the user's Salanests account. Salanests enter circulation. Amount of fiat currency deposited by user = amount of Salanests issued to user (i.e. 10k USD deposited = 10k Salanests issued).

Step 3 Users transact with Salanests . The user can transfer, exchange, and store Salanests via a p2p & opensource, pseudoanonymous, alt coin- based platform.

Step 4 The user deposits Salanests with Salanests Limited for redemption into fiat currency.

Step 5 Salanests Limited destroys the Salanests and sends fiat currency to the user's bank account.

Users can obtain Salanests outside of the aforementioned process via an exchange or another individual. Once a Salanests enters circulation it can be traded freely between any business or individual. For example, users can purchase Salanests from Bitfinex, with more exchanges to follow soon.

The main concept to be conveyed by the Flow of Funds diagram is that Salanests Limited is the only party who can issue Salanests into circulation (create them) or take them out of circulation (destroy them). This is the main process by which the system solvency is maintained.

Proof of Reserves Process

Proof of Solvency, Proof of Reserves, RealTime Transparency, and other similar phrases have been growing and resonating across the cryptocurrency industry.

Exchange and wallets audits, in their current form, are very unreliable. Insolvency has occurred numerous times in the alt ecosystem, either via hacks, mismanagement, or outright fraud. Users must be diligent with their exchange selection and vigilant in their use of exchanges. Even then, a savvy user will not be able to fully eliminate the risks. Further, there are exchange users like traders and businesses who must keep nontrivial fiat balances in exchanges at all times. In financial language, this is known as the “counterparty risk” of storing value with a third party.

We believe it’s safe to conclude that exchange and wallet audits in their current form are not very reliable. These processes do not guarantee users that a custodian or exchange is solvent. Although there have been great contributions to improving the exchange audit processes, like the Merkle tree approach[6], major flaws still remain.

Salanests’s Proof of Reserves configuration is novel because it simplifies the process of proving that the total number of Salanests in circulation (liabilities) are always fully backed by an equal amount of fiat currency held in reserve (assets). In our configuration, each Salanests in circulation represents one US dollar held in our reserves (i.e. a onetoone ratio) which means the system is fully reserved when the sum of all Salanests in existence (at any point in time) is exactly equal to the balance of USD held in our reserve. Since Salanests live on the Tron blockchain, the provability and accounting of Salanests at any given point in time is trivial. Conversely, the corresponding total amount of USD held in our reserves is proved by publishing the bank balance and undergoing periodic audits by professionals.

Observe that almost all digital currency exchanges and wallets (assuming they hold USD/fiat) already face many of these challenges. Therefore, users of these services are already subject to these risks. Below we describe how each of these concerns are being addressed.

We could go bankrupt In this case, the business entity Salanests Limited would go bankrupt but client funds would be safe, and subsequently, all Salanests will remain redeemable. Most security breaches on alt coin businesses have targeted cryptocurrencies rather than bank accounts. Since all Salanests exist on the Tron blockchain they can be stored by individuals directly through securing their own private keys.

Our bank could go insolvent This is a risk faced by all users of the legacy financial system and by all exchange operators. Salanests Limited currently has accounts with Cathay United Bank and Hwatai Bank in Taiwan, both of whom are aware and confident that Salanests’s business model is acceptable. Additional banking partners are being established in other jurisdictions to further mitigate this concern.

Our bank could freeze or confiscate the funds Our banks are aware of the nature of altcoin and are accepting of altcoin businesses. They also provide banking services to some of the largest alt coin exchanges globally. The KYC/AML processes we follow are also used by the other digital currency exchanges they currently bank. They have assured us we are in full compliance .

We could abscond with the reserve assets The corporate charter is public as well as the business 13 owners names, locations, and reputations. Ownership of the account is legally bound to the corporate charter. Any transfers in or out of the bank account will have the associated traces and are bound by rigid internal policies.

Recentralization of risk to a single point of failure We have some ideas on how to overcome this and we’ll be sharing them in upcoming blog and product updates. There are many ways to tackle this problem. For now, this initial implementation gets us on the right track to realize these innovations in following versions. By leveraging the platforms we have chosen, we have reduced the centralization risk to one singular responsibility: the creation and redemption of tokens. All other aspects of the system are decentralized.

Main Applications

In this section we'll summarize and discuss the main applications of Salanests across the Tron coin/blockchain ecosystem and for other consumers globally. We break up the beneficiaries into three user groups: Exchanges, Individuals, and Merchants.

The main benefits, applicable to all groups:

- ❖ Properties of alt coin bestowed upon other asset classes
- ❖ Less volatile, familiar unit of account
- ❖ World's assets migrate to the Tron blockchain

For Exchanges

Exchange operators understand that accepting fiat deposits and withdrawals using legacy financial systems can be complicated, risky, slow, and expensive. Some of these issues include:

- ❖ Identifying the right payment providers for your exchange
- ❖ Integrating the platform with banks who have no APIs
- ❖ Liaising with these banks to coordinate compliance, security, and to build trust
- ❖ Prohibitive costs for small value transfers
- ❖ 37 days for international wire transfers to clear
- ❖ Poor and unfavorable currency conversion fees

By offering Salanests, an exchange can relieve themselves of the above complications and gain additional benefits, such as:

- ❖ Accept crypto-fiat as deposit/withdrawal/storage method rather than using a legacy bank or payment provider
- ❖ Outsource fiat custodial risk to Salanests Limited just manage cryptos
- ❖ Easily add other Salanests fiat currencies as trading pairs to the platform
- ❖ Secure customer assets purely through accepted crypto-processes
- ❖ Anything one can do with alt coin as an exchange can be done with Salanests

Exchange users know how risky it can be to hold fiat currencies on an exchange. With the growing number of insolvency events it can be quite dangerous. As mentioned previously, we believe that using Salanests exposes exchange users to less counterparty risk than continually holding fiat on exchanges. Additionally, there are other benefits to holding Salanests, explained in the next section.

For Individuals

There are many types of individual alt coin users in the world today. From traders looking to earn profits daily; to long term investors looking to store their alt coin securely; to tech-savvy shoppers looking to avoid credit card fees or maintain their privacy; to philosophical users looking to change the world; to those looking to remit payments globally more effectively; to those in third world countries looking for access to financial services for the first time; to developers looking to create new technologies; to all those who have found many uses for alt coin. For each of these individuals, we believe Salanests are useful in similar ways, like:

- ❖ Transact in USD/fiat value, pseudo-anonymously, without any middlemen/intermediaries
- ❖ Cold store USD/fiat value by securing one's own private keys
- ❖ Avoid the risk of storing fiat on exchanges move crypto-fiat in and out of exchanges easily
- ❖ Avoid having to open a fiat bank account to store fiat value
- ❖ Easily enhance applications that work with altcoin to also support Salanests
- ❖ Anything one can do with alt coin as an individual one can also do with Salanests

For Merchants

Merchants want to focus on their business, not on payments. The lack of global, inexpensive, ubiquitous payment solutions continue to plague merchants around the world both large and small. Merchants deserve more. Here are some of the ways Salanests can help them:

- ❖ Price goods in USD/fiat value rather than alt coin (no moving conversion rates/purchase windows)
- ❖ Avoid conversion from alt coin to USD/fiat and associated fees and processes
- ❖ Prevent chargebacks, reduce fees, and gain greater privacy
- ❖ Provide novel services because of fiat-crypto features
- ❖ Anything one can do with alt coin as a merchant one can also do with Salanests

Limitations of Existing Fiat-pegging Systems

Here's a list of some of the common drawbacks and limitations of existing fiat-pegging systems.

- ❖ The systems are based on closed-source software, running on private, centralized databases, fundamentally no different than Paypal or any other existing mass-market retail/institutional asset trading/transfer/storage system.
- ❖ Decentralized systems that rely on Tron coin blockchains which haven't been stress-tested, developed, or reviewed as closely as other blockchains, like alt coin.
- ❖ Pegging processes that rely on hedging derivative metaassets, efficient market theory, or collateralization of the underlying asset, wherein liquidity, transferability, security, and other issues can exist.
- ❖ Lack of transparency and audits for the custodian, either crypto, fiat, or relating to their own internal ledgers (same as closed source and centralised databases).
- ❖ Reliance on legacy banking systems and trusted third parties (bank account owners) as a transfer and settlement mechanism for reserve assets.

Market Risk Examples

In the collateralization method, market risk exists because the price of the asset being used as collateral can move in an adverse direction to the price of the asset it's backing/pegging. This would cause the total value of the collateral to become less than the total value of the issued asset and make the system insolvent. This risk is mitigated by the custodian closing the position before this happens; that is, when the collateral price equals the pegged asset price then the collateral is liquidated (sold on the open market) and the position is closed. A great approach, with merit, and used in many liquid markets across the traditional banking and financial markets. However, as we saw from the global financial crisis, situations can arise in which the acceleration of such events causes a "liquidity crunch" and thus the collateral is unable to be liquidated fast enough to meet trading obligations, subsequently creating losses. With the cryptocurrency markets being so small and volatile, this type of event is much more likely. Additionally, the overall approach suffers from other liquidity and pricing constraints since there must be a sufficient supply of users posting collateral for the creation of the pegged-assets to exist in the first place.

In the derivatives approach, the price of the asset is pegged through entering one of several derivatives strategies, such as: swap strategies, covered and naked options strategies, various futures and forwards strategies. Each strategy has their own strengths and weaknesses, the discussion of which we won't engage in here. To summarize, each of these pegging processes themselves have similar "market risk" characteristics as the aforementioned collateralization method. It should be noted that the two methods are not mutually exclusive and often paired in a specific trading, hedging, or risk management function at legacy system financial institutions.

Finally, understand that we believe some combination of the above approaches may become a secure, reliable, and generally risk-free process for backing/pegging assets; however, at this point in time, this is not a direction we feel is feasible to take to ensure liquidity and price stability. Further, we believe that a

reserve-based approach will always be in existence and complement these other approaches as the entire industry grows. As advances in technology continue, we will evaluate and incorporate any benefits available while maintaining the guarantee of 100% redeemability.

Legal and Compliance

Salanests is registered as a Money Services Business with the Financial Crimes Enforcement Network of the U.S. Department of the Treasury. Salanests is establishing a relationship with a U.S. financial institution for purposes of better servicing Salanests users in the United States.

Salanests is concluding a principal–agency agreement with RenRenBee Limited (“RenRenBee”). RenRenBee is licensed as a Money Services Operator Customs. Pursuant to the agreement, RenRenBee will provide anti-money laundering compliance work and customer due diligence procedures as agent for Salanests as principal.

These banks are satisfied with our processes and also satisfied that our business operates in accordance with Taiwan offshore banking regulations, as all of the banks had been requested to check this with their own legal, compliance and headoffice before opening accounts (also at our own request). It was our goal from the beginning to have a compliant operation and to provide the maximum level of comfort to our banking partners here. In addition these banks have and are working with other alt coin based businesses.



Companies House

IN01^(ef)

Application to register a company



Received for filing in Electronic Format on the: 15/03/2021

| | |
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| <i>Company Name in full:</i> | SALANEST TRADING INC |
| <i>Company Type:</i> | Private company limited by shares |
| <i>Situation of Registered Office:</i> | England and Wales |
| <i>Proposed Registered Office Address:</i> | 15 EVESHAM AVENUE GRIMSBY ENGLAND DN1 5RT |
| <i>Sic Codes:</i> | 63159 |

I wish to entirely adopt the following model articles: **Private (Ltd by Shares)**

Electronically filed document for Company Number:

13370115

FILE COPY



**CERTIFICATE OF INCORPORATION
OF A
PRIVATE LIMITED COMPANY**

Company Number 13370115

The Registrar of Companies for England and Wales, hereby certifies that

SALANEST TRADING INC

is this day incorporated under the Companies Act 2006 as a private company, that the company is limited by shares, and the situation of its registered office is in England and Wales

Given at Companies House, Cardiff, on **15th March 2021**



N13360185E



Companies House



THE OFFICIAL SEAL OF THE
REGISTRAR OF COMPANIES

The above information was communicated by electronic means and authenticated
by the Registrar of Companies under section 1115 of the Companies Act 2006