



GATENET LITEPAPER



V1.0

31.03.21



Forward Looking Statements in this Litepaper

This GATENet Litepaper is a precursor to the forthcoming GATENet Whitepaper. In setting out our vision it contains and consists mostly of forward looking statements. Their outcome is not guaranteed. All forward looking statements address matters that involve significant risks and uncertainties and actual achievements may well differ materially from those indicated in this Litepaper. Forward looking statements in this Litepaper reflect current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to operations, results of operations, growth strategy and liquidity. These forward looking statements speak only as at the date of this Litepaper. Readers and GATE token holders should specifically consider that these are views only and that actual achievements may well differ from the forward looking statements in this Litepaper.

This is not a token sale, no subscriptions of any kind are being sought via this Litepaper. It is issued for information only and therefore and thereby no regulatory body has been asked to: (i) approve this Litepaper; or (ii) comment upon the accuracy or adequacy of this Litepaper.

Vision

GATENet¹ has a vision to build:

“on-chain financial market, settlement and registry solutions to reduce costs and increase efficiencies for issuers, investors and market participants everywhere.”

We foresee all settlement and registry activities will eventually be replaced by protocol technologies.

Our vision, and therefore our strategy, aims to address some of the excessive costs and crucial inefficiencies of today's financial markets infrastructure (FMI) that affect all products, all issuers, investors, and market participants everywhere.

Our Digital FMI is designed to lower costs, eradicate fails, lower the cost of capital and reduce risk, with on-chain financial market, settlement and registry solutions via blockchain infrastructure, leading to greater efficiency, global investor pools, interoperability and greater price discovery.

We will seek to collaborate and embrace DeFi innovation to advance financial markets for a wide scope of issuers and investors and act as a compliant gateway between CeFi (centralised finance) and DeFi (decentralized finance).

¹ GATENet is a GSX Group initiative



Collaboration

GATENet will collaborate with:

1. Securities exchanges²;
2. Registrars, custodians and CSDs; and
3. Protocol vendors³.

Collaboration with securities exchanges will achieve a value proposition organised around 3 pillars:

1. Competitive costs and fee structures;
2. Improved price formation and liquidity discovery; and
3. Exponentially enhanced risk mitigation.

Digital versus Traditional Finance

Part I - the Digital FMI

The T+2 settlement model for securities and the current legacy financial markets infrastructure (Current Legacy FMI) is outdated, complex and fragmented. The result is an expensive, inefficient, complex and disconnected market infrastructure leading to a high cost of capital and multiple points of failure.

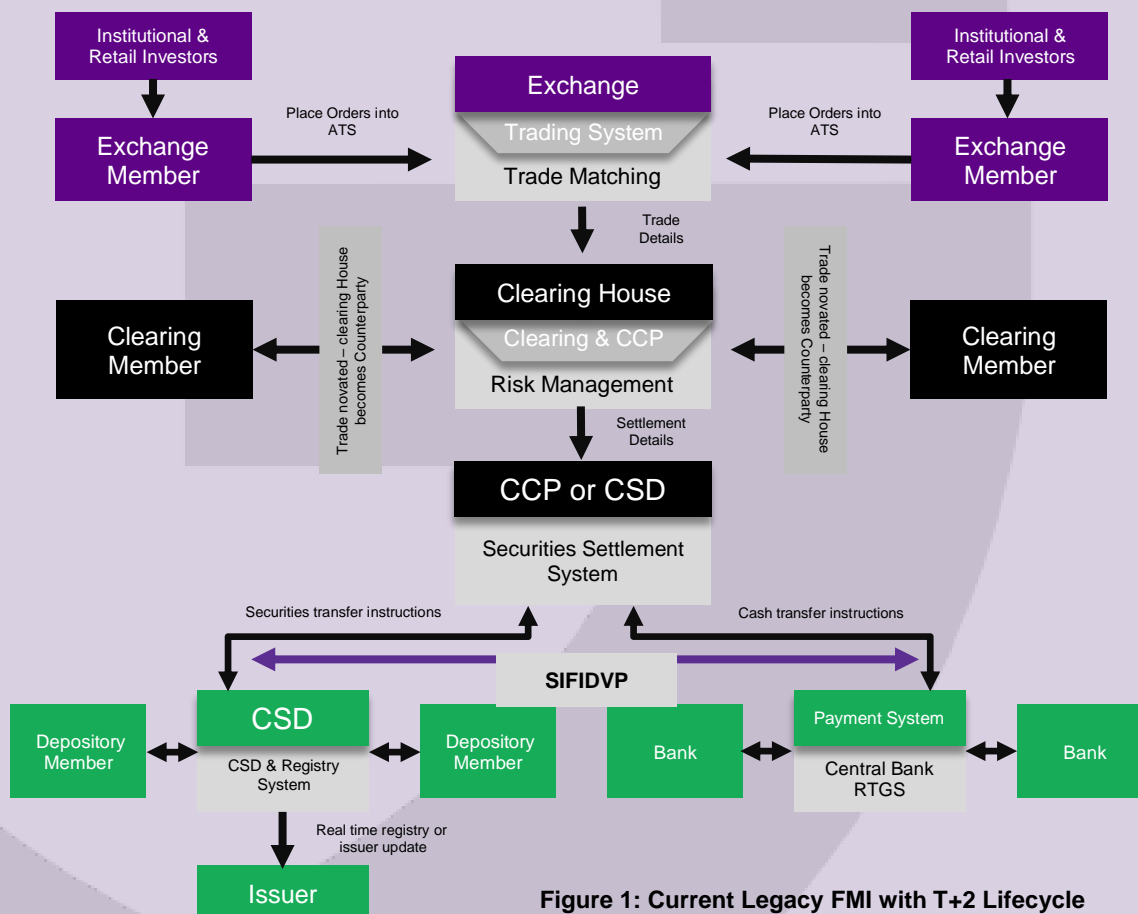


Figure 1: Current Legacy FMI with T+2 Lifecycle

² Including GSX exchanges

³ Including STACS Protocol



GATENet, via the provision of its solutions, is seeking to address the excessive costs and crucial inefficiencies of the Current Legacy FMI by creating the Digital FMI, including on-chain settlement and registry solutions, for issuers, investors and market participants, for financial market products such as equities, debt securities, funds, and currencies.

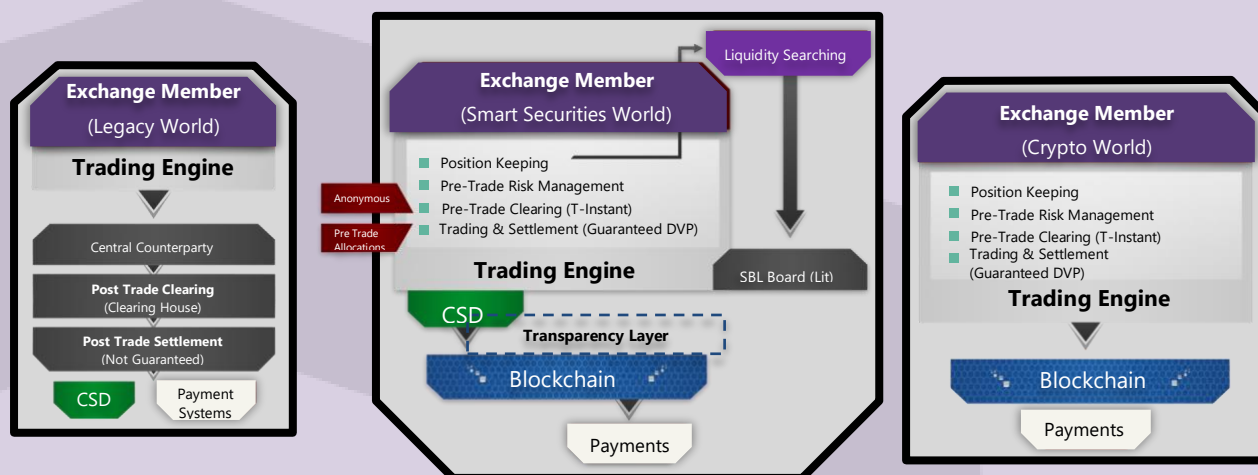


Figure 2: Digital FMI with T-Instant Solution

Our unique model of trading, settlement, depository and access infrastructure is designed to deliver ground-breaking improvements and cost savings to the financial markets landscape. Our Digital FMI T-Instant model is designed to **eliminate** failed trades (“when you trade you settle”), credit, counterparty and replacement cost risks; **unlock** capital currently deposited with CCPs (Central Counterparties); **open** pan-jurisdictional liquidity pools; **reconnect** investors and issuers; and **remove** the hidden unaccounted risks of intermediary insolvency.

Part II - DeFi

With the advent of DeFi and its respective innovation, the traditional world of financial markets is due to change. Current financial markets have high costs, multiple barriers to entry, and have low to no interoperability. While as yet largely legally untested, the nascent technology and development of DeFi has the potential to disintermediate traditional financial markets and institutions. The term DeFi describes projects that harness digital currencies and their underlying blockchain technology to enable peer-to-peer distribution of financial products and services, and the implications of this are profound.

The transformative potential of blockchain technology used by DeFi is far-reaching given that centralisation has to-date been a dominant driver of the development of the financial services industry. For example, shares that are traded on a centralised stock exchange have a centralisation of aggregate demand and supply, allowing for more efficient price discovery and market efficiency, this is no longer the case with the advent of DeFi using blockchain technology.

DeFi has the potential to be the dawn of a new era and create a seismic shift in the way financial markets operate, from centralised to decentralised. We will seek to partner and collaborate with DeFi innovators and embrace DeFi innovation to advance financial markets for a wide scope of issuers and investors. GATENet will seek to act as a compliance gateway between CeFi and DeFi.



GATENet

GATENet will:

- Collaborate to develop financial market infrastructure to deliver T-Instant settlement;
- Act as a compliance gateway between CeFI and DeFi;
- Set and charge fees for using GATENet's solutions, including settlement and registry fees;
- Convert fees received in fiat into GATE tokens;
- Set staking rewards;
- Set burn rates; and
- Adopt a governance framework enabling GATE token holders to make decisions.

GATE Token Utility

GATENet will use GATE tokens for:

1. GATENet fees
2. Staking
3. Burning
4. Governance

GATENet Fee Model

GATENet fees are payable to GATENet in fiat or GATE tokens. Fees will be set by GATENet, will vary over time, and will be published on gatenet.io.

All fees paid to GATENet will be split three ways between (1) stakers, (2) GATENet (in order for GATENet to maintain its services), and (3) burning. The split will be updated by GATENet from time to time and will be published on gatenet.io. Fees paid to GATENet in fiat will be used to purchase GATE tokens from the open market for staker awards and burning.

The split between stakers, GATENet and burning will be subject to the governance framework. An example of how the fees could be split is set out below:



Figure 3: Example split of GATENet fees



Staking

GATE tokens may be staked to earn staking rewards and participate in governance. Details will be provided on gatenet.io.

GATENet will transmit staking awards to stakers.

Use Cases

The following are a small selection of examples of how collaboration with securities exchanges can yield benefits using our financial market infrastructure solutions.

Example 1: *Debt Securities*

Currently debt securities generally trade OTC (into dark/closed markets) and settle on a T + 2 basis. GSX digital securities exchanges will offer two services; (1) tokenising **existing** debt securities, (2) issuing **new** debt securities in tokenised form.

Bringing debt securities on exchange for trading, not only streamlines processes for settlement and clearing (including harmonising settlement cross border), it also allows securities and cash settlement cycles to converge, offering investors all the benefits of reduced settlement risk, optimal use of their cash, and reductions in their credit line needs. Market participants benefit due to failed trades (currently 3% in debt markets) and counterparty risk disappearing whilst issuers benefit from access to greater investor pools and price discovery on multiple markets (as well as increasing efficiencies in areas such as corporate actions).

Example 2: *Equities*

Currently, equities settle T+2 and suffer settlement fail rates of around 6%; there is little pan-jurisdictional interoperability between exchanges and CSDs; brokers act as principal; and securities borrowing and lending (SBL) is inefficient. As we have seen with DeFi, the ability to borrow and lend assets has grown exponentially, yet the regulated securities markets are completely untapped.

GSX will seek to introduce an SBL board coupled with exchange traded TDRs (depository receipts of tokenised public securities), TSTs (Tokenised Swap Tokens) and CFDTs (Contract for Difference Tokens). CFDTs allow bilateral relationships between brokers and their clients, whereby brokers can extend liquidity from other markets, which would otherwise not be available by providing contractual liquidity between brokers and their clients. TSTs are a swap of a TDR for a CFDT. The holder is not an investor in the underlying issuer but gets the exposure to the securities' performance. The TST holder only receives/pay corporate actions in the form of cash (Tokenised Currency Receipts or TCRs). TSTs can be used to obtain a securities' performance and also as a hedging tool, within GSX or on positions in other markets, potentially within DeFi platforms. Prime brokers on GSX digital securities exchanges could offer leveraged versions of both CFDTs and TSTs.



Example 3: Private Markets

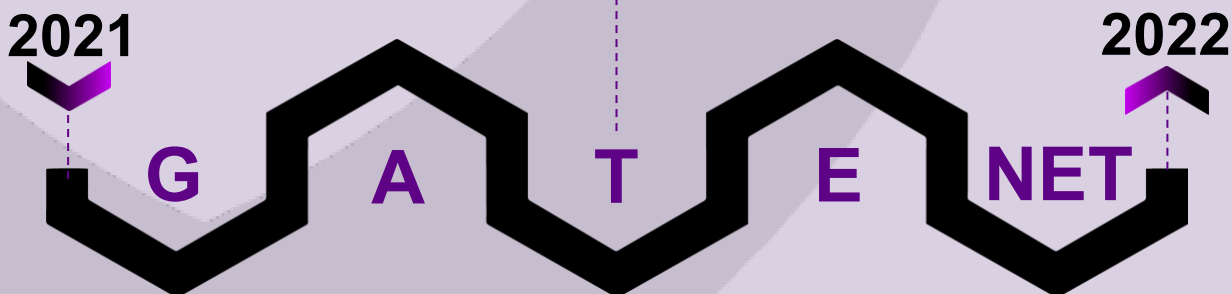
Given the costly barriers to public markets, IPOs have seen a sharp decline (70%⁴) over the last 20 years and private capital has exploded as a result. The growth rate of private markets versus public markets has doubled as has the total capital raised in private markets versus public markets. Although there is over US\$6.5 trillion in private assets under management, sellers are widely understood to accept a discount when selling illiquid private assets of as much as 20 – 30%. GSX will seek to provide a private market with the benefits of listed market ideologies and will seek to offer an efficient, low cost digital exchange and custody business model, creating increased value. The results (including shareholder registry, corporate documents) would be embedded immutably on the blockchain.

Example 4: Investomers

An “investomer” is someone who patronises a business in which he or she is also a shareholder. Market data indicates that investomers, by their action, generate greater brand recognition and loyalty among non-shareholder customers which contributes to profitability. In today’s world loyalty lasts as long as it takes to execute a double click or an algo operation. Furthermore, the acquisition cost per customer for businesses is very high. This is a big challenge for markets, intermediaries and issuers. Currently, businesses, be they airlines or supermarkets, reward their customers with loyalty schemes. Although these schemes primarily can only be used for internal offers, they are proven to influence consumer behaviour at a lower marginal cost of customer acquisition or retention. However, there is generally very little link between shareholders and the loyalty reward scheme, and yet statistics support the fact that shareholders tend to spend money with businesses in which they have an interest and customers may be more likely to invest in securities where they are rewarded by loyalty schemes! Subject to regulatory regimes, loyalty schemes may be offered via digital utility tokens. The digital utility tokens would digitise the customer and investor acquisition and on-going interaction process, potentially reducing the loss of either group, or allowing them to become dormant, while the reward scheme points could be redeemed for shares or be traded on exchange. Investomer desired outcome: the loyalty points holder becomes a shareholder as well as a customer.

Roadmap

- First GATENet partner exchange, GSX Labuan, to open
- GATE token to be listed on exchange
- GATE token loyalty rewards to commence
- GATENet governance framework to be published
- GATENet to engage protocol partners
- GATENet to implement stablecoin settlement solutions
- GATENet partner exchanges, in the US and elsewhere globally targeted to open
- CSD collaboration
- Ongoing on-chain settlement and registry solutions development



⁴ Source: CFA Institute

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