

2021

An in-depth research on

Reserve Protocol

By

House of Chimera



HOUSE OF CHIMERA

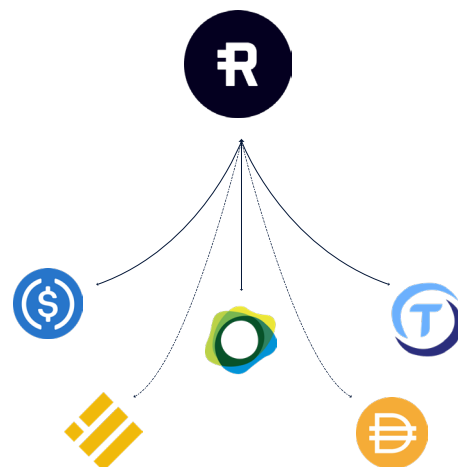


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EXECUTIVE SUMMARY

What is Reserve Protocol?

Reserve Protocol aims to build an independent and decentralized full payment service that serves a borderless, frictionless, inflation-resistant store of wealth. The Reserve Protocol utilizes a dual token mechanism: Reserve Right (RSR) utility and governance token, and Reserve (RSV) stablecoin backed by a basket of assets as collateral.



Reserve Right Token (RSR)

The Reserve Right token has two main functions within the Reserve Protocol ecosystem: Governance and Utility. RSR holders will have the cryptographic right to purchase excess Reserve stablecoins (RSV) that accumulate in the Reserve smart contract from any appreciation of underlying collateral assets, and later by a revenue mechanism that backs RSV.

Reserve (RSV)

The Reserve token is a frictionless and borderless stablecoin, without any governmental influences, thereby minimizing governmental corruption. The collateralization of the RSV token currently consists of three collateral assets: TrueUSD (TUSD), USD Coin (USDC), and Paxos Standard (PAX)

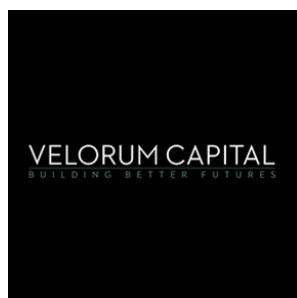
Strategic partners

Reserve Protocol is backed by top angel investors from Silicon Valley and progressive cryptocurrency pioneers. The project is currently backed by PayPal co-founder Peter Thiel, Coinbase ventures, Y-combinator president Sam Altman, Jack Selby founding team member of PayPal, and more

Strategic Partners of Reserve Protocol



DISTRIBUTED GLOBAL



Team

The Reserve Protocol team currently consists of 57 members with an impressive and diverse background. The team has working experience at Alphabet, Cisco, Tesla, IBM, OpenAI, and Hashgraph. The diversified background of the team has several positive implications on creativity and innovation, decision making, and employee engagement. The Reserve Protocol is being supported by 5 advisors

Team

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Co-founder, and CEO

- 10+ years experience in leading businesses
- Co-founder of Paradigm Academy, Metamed, and RIAbiz

Matt Elder
Co-Founder, and CFO

- Previously, a software engineer at Google and Quixey
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- Former hedge fund founder, Kapital Trading
- Former trader for Balyasny Asset Management

Upside & Downside potential

Upside potential



PRODUCT

- Reserve Protocol is an innovative and disruptive financial product
- Good product-market fit
- Backed by top angel investors from Silicon Valley and progressive cryptocurrency pioneers



GROWTH

- Incredible ecosystem growth over last 18 months, significantly outperforming Bitcoin
- A healthy amount of network usage, outperforming direct competitors
- Steady growth on social media, following the trend of competitors
- Reserve payment app is growing rapidly in users and support by merchants



MARKET OPPORTUNITY

- Reserve (RSV) contributes to a solution to imminent economic issues in Latin America, such as lack of an accessible stable currency, high transaction costs, the exceptionally high rate of unbanked citizens
- Reserve Protocol is targeting the youth of Latin America, which makes up for more than 35% of the population distribution

Downside potential



COMPETITION AND RISKS

- Reserve Protocol is operating in one of the most competitive markets within the industry
- Reserve Protocol is pegging Reserve to purchasing power in the future, however, this is a complex matter
- The Reserve App is currently centralized, defeating the purpose of decentralization of monetary policy
- Reserve Protocol currently does not have a saving interest rate like competitors as MakerDAO

INTRODUCTION

What is Reserve Protocol?

Reserve Protocol aims to build an independent and decentralized full payment service that serves a borderless, frictionless, inflation-resistant store of wealth. The Reserve Protocol utilizes a dual token mechanism: Reserve Right (RSR) utility and governance token, and Reserve (RSV) stablecoin backed by a basket of assets as collateral.

The platform is currently running on the Ethereum network. However, shortly Reserve Protocol will launch its mainnet and the objective is to achieve total interoperability of Reserve tokens across all major smart contract platforms. The release of the mainnet allows RSR users to arbitrage, the launch of the mainnet is expected in 2021, however, it depends on the uptrend of RSV to minimize the impact of the mainnet unlock.

Reserve Protocol has planned three phases to decentralize the network over time. These three phases are the following:

- The Centralized phase – The Reserve is backed by a handful of collateral tokens, each of which is tokenized US dollars such as USD Coin, TrueUSD, and Paxos Standard.
- The Decentralized phase – The reserve is collateralized by a changing basket of assets in a decentralized way, however, it is still stabilized in price to the US Dollar.
- The Independent Phase – The Reserve is no longer pegged to the US Dollar, to stabilize purchasing power regardless of potential fluctuations in the value of the US Dollar.

The Reserve protocol utilizes a payment application, the Reserve app, to make a full-service financial ecosystem available to users. The Reserve app allows users to send, save and pay in a frictionless and borderless manner. The app is currently in the beta-phase and available in Venezuela, Colombia, Argentina, and Panama. The implications and concept of the app will be highlighted in the 'Growth section' of this research.

Ecosystem Overview

General Overview

Project Name:	Reserve Rights
Ticker:	RSR
Circulating supply:	13,159,999,000
Max Supply:	100,000,000,000
Supply ratio (Max/Circulating):	13,2%

Financial Statistics

Current price:	\$0.0704
ICO Price:	\$0.0011
ROI (in USD):	6400%
Market Cap:	\$925,713,717
Fully diluted Market cap:	\$7,007,879,232

Reserve Right Token (RSR)

The Reserve Right token has two main functions within the Reserve Protocol ecosystem: Governance and Utility. RSR holders will have the cryptographic right to purchase excess Reserve stablecoins (RSV) that accumulate in the Reserve smart contract from any appreciation of underlying collateral assets, and later by a revenue mechanism that backs RSV. The governance approach is still being defined by the Reserve Protocol team, considering an ordinary token voting approach has several negative implications on the Reserve Protocol ecosystem. The ideal governance mechanism should depend on a resource that is costly to acquire and hard to trade, to ensure a normal distribution of voting power.

Reserve (RSV)

The Reserve token is a frictionless and borderless stablecoin, without any governmental influences, thereby minimizing governmental corruption. The collateralization of the RSV token currently consists of three collateral assets: TrueUSD (TUSD), USD Coin (USDC), and Paxos Standard (PAX) shown in figure 1. The RSV token will have different collateralization assets depending on the network phase, as highlighted earlier. Eventually, the RSV token will be pegged to purchasing power to ensure stabilization of real purchasing power. The peg to real purchasing power stabilizes the value of a currency expressed in terms of the number of goods and services that one unit of money can buy.

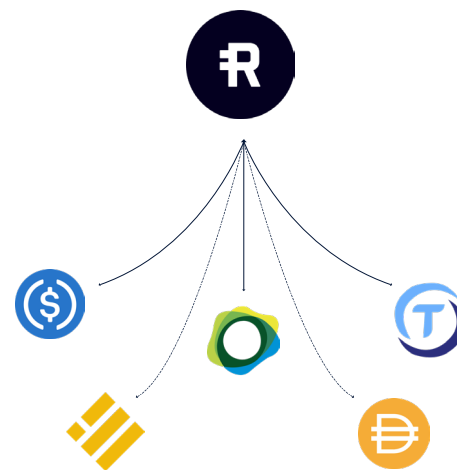


Figure 1 Reserve collateralization concept

How does Reserve Protocol work?

The dual-token mechanism of Reserve Protocol is utilized to maintain the collateralization and stabilize the price of RSV. The Reserve vault is the main-processor of the Reserve protocol. Since the Reserve Vault is a smart contract that stores, calculates, and triggers transactions. Besides that, the Reserve vault holds RSR, (excess) RSV, and tokenized assets as collateral of RSV. The stabilization- and collateralization mechanisms are being highlighted in the upcoming chapters.

The Protocol is considering a revenue mechanism for the Reserve Vault. The following revenue mechanisms are considered:

- The first mechanism is 'Off-chain yield on collateral'. In a positive interest rate environment, the USD that is pegged to the stablecoin yields a certain % of interest, and therefore the amount of USD appreciates.
- The second mechanism is 'Collateral appreciation relative to RSV'. This mechanism relies on the appreciation of a collateral basket of assets, if this appreciates the backing appreciates and therefore revenue is made.
- The third mechanism is 'Transaction fees'. This mechanism relies on RSV users paying a small percentage of transaction fees.
- The last mechanism is 'On-chain overcollateralized lending'. The collateral assets could be lent out to borrowers with overcollateralized positions with potential volatile positions such as Ethereum or Bitcoin. The loans yield interest and therefore revenue is made.

Stabilization Mechanism

The stability of the Reserve stablecoin is crucial, considering the coin is pegged to the US Dollar. Reserve Protocol stabilizes the peg by manipulating the circulating supply of RSV.

Whenever the value of RSV exceeds the 1\$, any excess RSV tokens in the Reserve Vault will be sold to RSR holders. In case there are no excess RSV tokens, the Protocol will mint new RSV tokens. RSR holders are incentivized to purchase these newly minted or excess RSV tokens and sell them immediately on the open market. By increasing the circulating supply of RSV, the demand is reduced and therefore the price. If the value of RSV goes below 1\$, RSR holders will be incentivized to buy the RSV tokens and redeem them with the Reserve smart contract for 1\$ worth of collateral tokens.

Collateralization mechanism

Whenever the Reserve vault has accumulated excess RSV, as a result of an appreciation of the collateral assets and in the future by a revenue mechanism, RSR holders can purchase these RSV tokens with their RSR as part of stabilizing the price of RSV, which maintains the vault's ratio of assets and reduces the supply of RSR i.e. the deflationary tokenomics mechanism. In case the Reserve Vault ratio goes below the 1:1 ratio, the protocol will sell newly minted RSR for tokenized assets, thereby replenishing the collateralization for RSV.

Furthermore, in case the Reserve Vault falls to less than the proposed 1:1 collateralization rate by the depreciation of the collateral assets and there is no demand to purchase new RSR tokens, then the protocol will widen the price bands of RSV. This means that the redeemable price and purchasing cost of the Reserve token is temporarily not equal. The expanding price band of RSV eliminates the possibility of a bank run and makes a speculative attack infeasible considering the costs and risks involved to perform such a malicious act.

Tokenomics

Reserve Right token (RSR) has deflationary tokenomics, i.e. the supply of RSR decreases over time. The project has a theoretical maximum supply of 100,000,000 tokens, approximately 13.160.000 tokens are currently in circulation, shown in figure 2. The circulating supply of RSR depends on the price and collateralization ratio of RSV.

The deflationary mechanism of RSR is linked with the network activity of RSV and will be launched when the mainnet is released. The excess RSV tokens, that accumulate in the Reserve smart contract from any appreciation of underlying collateral assets and later by a revenue mechanism, are being used to stabilize the price of RSV, as highlighted in the previous chapters. The mechanism allows RSR holders to arbitrage, and these RSR tokens are being burned. The Reserve team estimates that approximately 2-5% of the USD value of the RSV in circulation will be burned in RSR each year. The Reserve Right Protocol mints new RSR tokens if the collateralization rate of the RSV token goes below 1:1.

The Protocol utilizes a slow wallet to release another 53.250.000 RSR tokens, these tokens are locked by a smart contract which has a hardcoded 4-week delay after each withdrawal order. The slow wallet is controlled by the core team of RSR and the fund will be used for the adoption of RSR and the tokens will be used to participate in arbitrage. The remaining tokens are vested tokens and will be progressively unlocked during 6 months, starting on the mainnet launch.

Reserve Rights Token (RSR) tokenomics

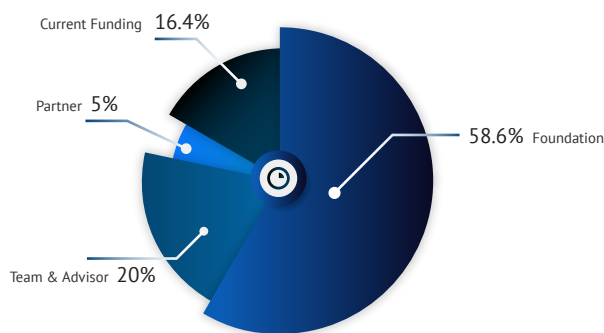


Figure 2 Reserve Rights (RSR) tokenomics

Strategic partners

Reserve Protocol is backed by top angel investors from Silicon Valley and progressive cryptocurrency pioneers. The project is currently backed by PayPal co-founder Peter Thiel, Coinbase ventures, Y-combinator president Sam Altman, Jack Selby founding team member of PayPal, and more, shown in figure 3. The importance of strategic partners is crucial, considering strategic partners can be the gateway to new industries and thrive companies to excel by sharing knowledge and experience. Reserve Protocol creates value by the adoption of beneficial partners. Therefore, Reserve Protocol has significant partnerships with several exceptional partners such as 7Mobile Africa. The partnership allows Reserve Protocol to accelerate adoption, considering 7Mobile Africa will preload the Reserve digital payment app on one-million 7Milion devices over the next four years.

Strategic Partners of Reserve Protocol



Figure 3 Strategic Partners of Reserve Protocol

Team

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Figure 4 Team and advisors of Reserve Protocol

GROWTH OVERVIEW

Growth of Reserve Protocol

The blockchain industry is steadily innovating and adapting to market developments. The most attractive industry within the blockchain industry is arguably the Decentralized Finance (DeFi) industry. Considering the DeFi industry has seen significant growth in interest by users and developers. Reserve Protocol is active within the DeFi industry.

The growth of Reserve Right will be highlighted in three sections:

- Statistical Analysis
- Social Media Analysis
- Development Analysis

Daily Price RSR vs BTC

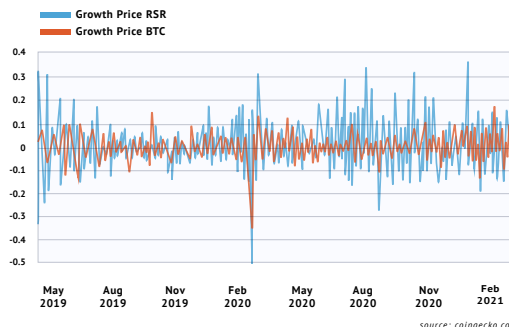


Figure 5 Daily price RSR vs BTC

Statistical Analysis

The objective of the statistical analysis section is to uncover trends and patterns. The collected growth data of Reserve Right will be analyzed with the following indicators and ratios:

- Spot volume and -price
- Active addresses ratio (AA Ratio)
- Network Value to Transactions (NVT)
- Network Activity of RSV

The growth will be benchmarked against competitors and Bitcoin, to put the growth in perspective and to control for industry value creation.

Spot volume and price analysis

The average daily spot price of RSR, in USD, increased by 0.8%, shown in figure 5. While the average daily spot price of BTC increased by 0.3% in the same period. This implies that RSR is outperforming bitcoin, the benchmark, in terms of the increase of the spot value. The volatility of RSR is much higher than the volatility of BTC, this is expected considering the market cap of RSR is significantly lower, therefore relative movements are easier.

The volume graph, shown in figure 6, is signaling a similar pattern. The average daily volume of RSR increased by 5,6%, while the daily volume of Bitcoin increased by 2,7%.

The reasons for the significant overperformance of RSR could vary, however, Reserve right is a relatively new project with a promising narrative. The team is focusing on developing their protocol while having a significant impact on several regions on a global scale. The current development of Reserve Right will be highlighted in the ‘Development analysis’ chapter.

Daily Volume RSR vs BTC

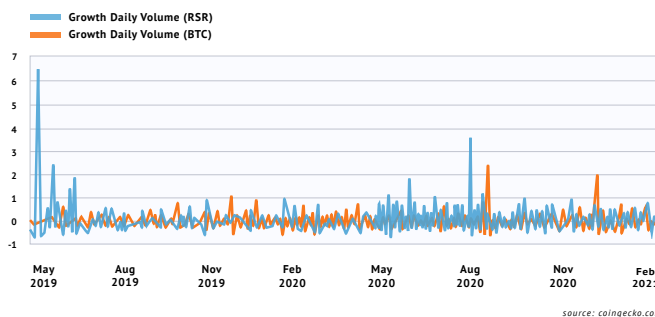


Figure 6 Daily Volume RSR vs BTC

Active addresses ratio (AA Ratio)

The AA ratio is essentially a ratio that shows the daily activity of a blockchain project proportional to the total possible activity.

The AA ratio is calculated as follows:

$$AA\ Ratio = \frac{(Daily\ Active\ Addresses)}{(Total\ Addresses)}$$

The number of daily active unique addresses of a cryptocurrency project highlights the amount of activity within a blockchain. To add to that, the value of a blockchain project is proportional to network activity. The AA ratio will be benchmarked to Ethereum and direct competitors of Reserve Right. Reserve Protocol is currently in the introduction phase of the product cycle, shown in figure 7 in the appendix. The introduction phase has certain characteristics, shown in figure 8. The product still has relatively low usage, however, it is growing rapidly. The amount of competitors is rising, but it is still moderate in comparison with the traditional finance industry. The Protocol is still defining a revenue mechanism as highlighted earlier in this research, hence potential financial losses are possible.

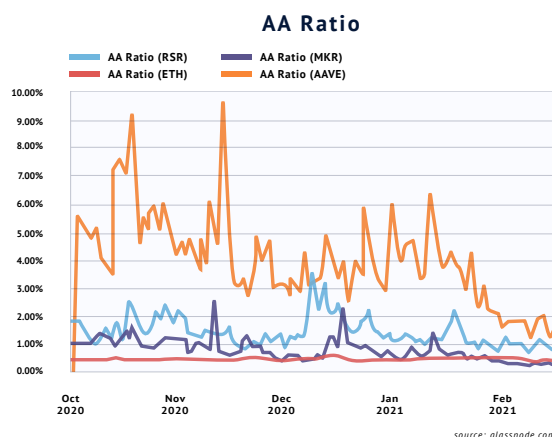


Figure 7 AA Ratio RSR and competitors

The AA Ratio of Reserve right is on a daily average of 1.47%, which implies that daily 1.47% of addresses are active of the total addresses. The Ethereum and Maker average AA ratio is significantly lower respectively: 0.48% and 0.83%. The AA ratio of AAVE is significantly higher with 3.6%. Considering that Reserve Right is significantly smaller than Ethereum and Maker, it is impressive that it has a significantly higher AA ratio, specifically if we consider that Reserve Right is still in the introduction phase.

The main reason for the active usage of Reserve Right is hard to determine, considering there are quite a few influential variables. However, it is impressive and it displays the rapid growth of Reserve Protocol.

Network value to transactions (NVT) Ratio

The NVT ratio essentially highlights if an asset is over- or undervalued. If the NVT is high, in comparison with the normal trend, then it signals that the value of the network is higher than the value being transacted on the network suggesting the network is either overvalued or growing abnormally.

The NVT ratio is calculated as follows:

$$NVT\ Ratio = \frac{(Total\ Network\ Value)}{(Daily\ USD\ Volume)}$$

The NVT Ratio is solely useful if sufficient historical data is available to construct a trend line to benchmark. The daily USD volume variable is a proxy variable for the network usage, and market capitalization is being used as a proxy variable for Total Network Value.

The NVT of Reserve Right is 2.35, which means that the total network value is 2.35 bigger than the daily USD volume, shown in figure 9. The network is currently slightly above the trendline, however, this to be expected. The reason is that the network is growing rapidly, hence, it is expected that the NVT is slightly above the trendline. The NVT-ratio line of RSR does fade out and stabilize after August of 2020, there could be two reasons for that either Total Network Value decreased or the Daily USD volume increase assuming ceteris paribus. This assumption that network usage is growing is proved by figure 10 in the appendix, considering the growth of daily volume is on average 5.6%, while the market cap increase is on average 0,8%.

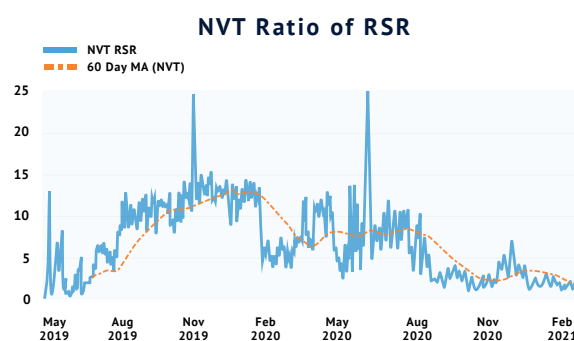


Figure 8 NVT ratio of RSR

Network Activity of RSV

The network activity of RSV has a direct impact on the supply of RSR, considering that a burn mechanism will be implemented. Therefore, the more network activity of RSV the more RSR tokens will get burned. The volume of RSV will be used to analyze the RSV network activity.

The network activity is increasing within 6 months, shown in figure 11, considering the significant increases in RSV volume. This implies that the usage of RSV is growing, and that is logical considering the latest developments of the Reserve payment app. This is further highlighted in the 'Development Analysis' of this chapter.

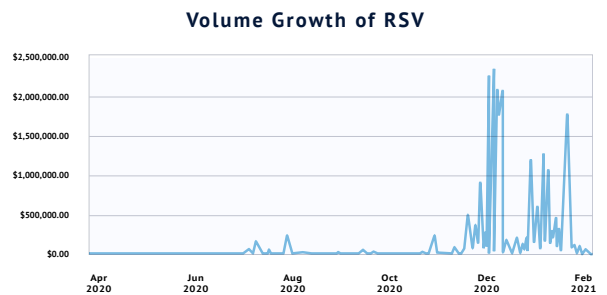


Figure 11 Volume Growth of RSV

Social Media Analysis

The function of social media for blockchain projects is mainly to inform and reach users and investors. Therefore, expanding their reach and exposure on social media could be beneficial for the value and usage of a blockchain project. The usage of blockchain projects, in most cases, has a direct correlation with the total amount of transaction fees. Furthermore, the number of transaction fees can attract developers to develop projects on a specific blockchain, considering it is a proxy variable of the usage of a blockchain network. In summary, the position of social media is getting more prominent within blockchain projects, therefore, blockchain projects can use social media to attract new users and investors.

In this section the following social media numbers will be analyzed:

- Twitter followers growth
- Telegram subscribers growth

The numbers will be benchmarked against direct competitors, to compare and analyze the growth of Reserve Protocol.

Twitter followers Growth

The Twitter community of Reserve Right grew by 22% in the last 3 months. In comparison with the other competitors that on average had a 37% growth in the same period is RSR slacking behind. However, RSR is currently using two Twitter accounts. One of them is mainly being used for the global audience and the other one, Hola Reserve, is targeting the LATAM region. Therefore, the growth of RSR is most likely closer to 37% than is being projected in figure 12.

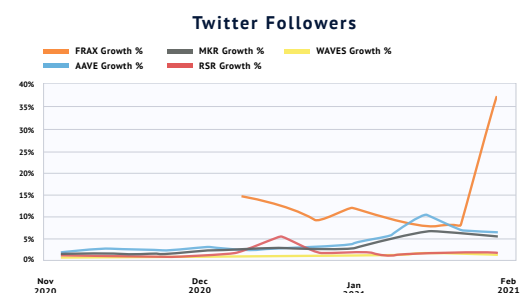


Figure 12 Twitter followers growth of RSR and competitors

Telegram subscribers growth

The Telegram community of Reserve Right grew by 30% in the last 3 months, shown in figure 13. Unfortunately, Telegram data is not as accessible as Twitter data. Hence, the only benchmark for Telegram growth is Maker (MKR). The number of Telegram subscribers of Maker grew by 60% in the same period. However, comparing these two projects is biased considering MKR has a significantly lower following on Telegram, therefore, it is easier for MKR to grow in a relative sense.

The overall social media growth of Reserve Protocol is slightly underperforming in comparison with the competitors. The reason might be that Reserve Protocol is focusing on the South-American region, and Twitter is mainly being used by the US and Europe. The Telegram subscribers data is hard to compare, considering the pool of projects that can be used as a benchmark is small. However, the growth on Telegram of subscribers of Reserve Protocol is significant considering their current following on Telegram.

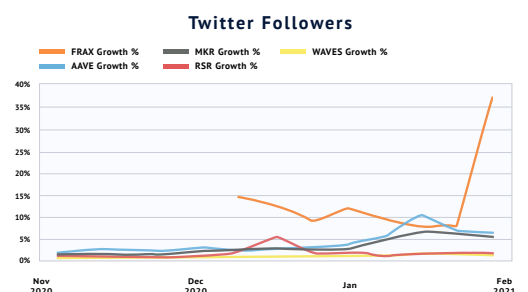


Figure 13 Telegram subscribers growth of RSV and Maker

Development Analysis

The development of a blockchain project is important, considering the growth in development implies improvements of the project and if a blockchain project is still being worked on. The blockchain industry is an advancing market, hence, a constant flow of improvements is significant to compete and stay ahead of competitors.

In this section the following numbers will be analyzed:

- Public GitHub repository
- Major releases analysis

Public GitHub repository

The public GitHub repository of a blockchain project can give insights about the amount of development by the developers. However, not every blockchain project is working with a public GitHub repository considering not every project is open source or has the desire to share parts of their code. Unfortunately, Reserve Right does not have an active public GitHub repository. Therefore, an analysis is counterproductive.

Major releases analysis

Reserve Right had several major releases in 2019 and 2020, however, the most important releases were the launch of the decentralized Reserve stablecoin (RSV) and the payment app in 2019. The RSV token allows users, as highlighted before, to pay with a frictionless, borderless, and inflated-resistant currency. The roadmap of 2021 of Reserve Protocol, shown in **figure 14**, is impressive and has significant improvements to the Reserve App.

Reserve Protocol Roadmap 2021

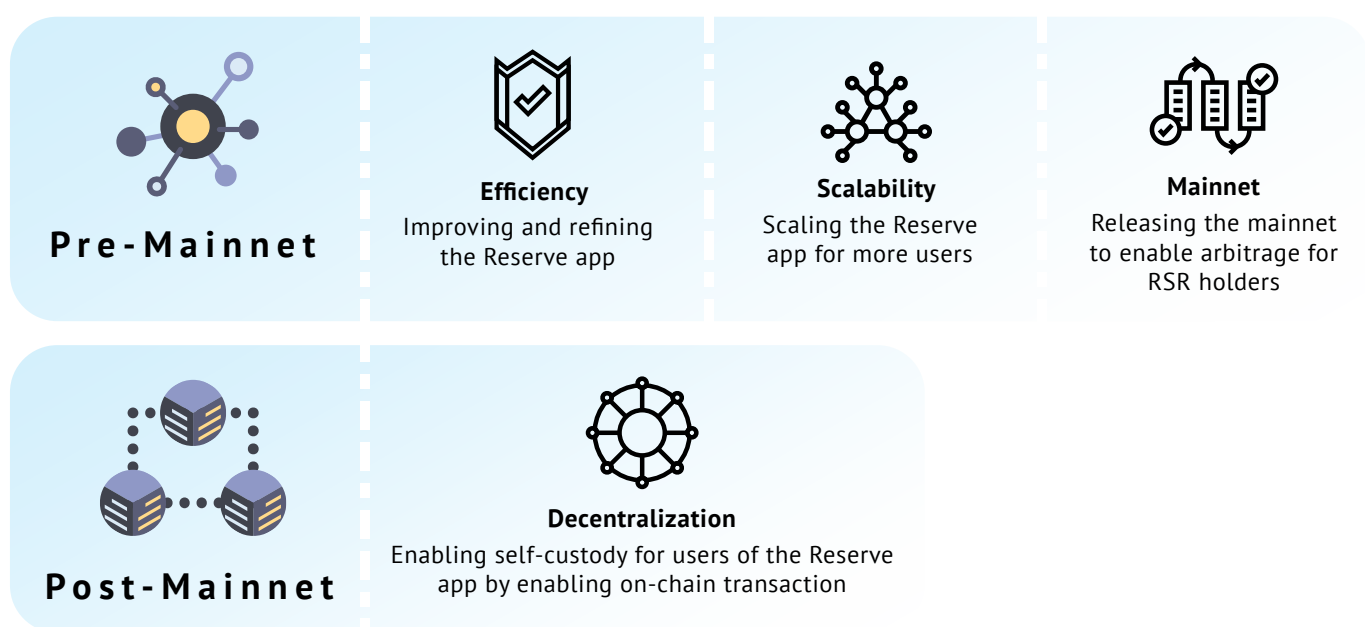


Figure 14 Roadmap of Reserve Protocol of 2021

Reserve App

The Reserve App is the payment app built on the Reserve Protocol. The payment app fulfills an important role within the ecosystem of Reserve Protocol. Because the Payment app is the gateway for citizens of regions suffering from hyperinflation to RSV, the stablecoin pegged to USD. The app allows users to buy, sell, and save RSV dollars without intermediaries or commissions. Besides that, users of the Reserve app can send and receive payments via several payment services such as PayPal and Zelle. This is significant considering financial exclusion is an issue in most regions with hyperinflation, this will further be highlighted in the 'Market opportunity' section.

The app was launched back in Q3 2019, and initially, it was launched in Venezuela. However, currently, the app is available in Argentina, Colombia, Panama, and Venezuela. The concept of the Reserve digital payment app is shown in figure 15. The precise numbers of usage are unfortunately not available, however, the app is currently downloaded more than 10.000 times, and more than 400 merchants in 75 cities are currently supporting RSV as a payment method solely in Venezuela, Colombia, and Panama. The current retention rate of users that use the Reserve App after 8 weeks is around 88%, which is very impressive.

Currently, the Reserve app is in private beta mode with a waiting list. However, in the first two weeks of March, the Reserve app will be open to everyone in the supported countries. In April, users of the Reserve app can send invites to their relatives, however, if the growth is going too rapid then the number of invites per user is going to be limited to ensure an overall good experience for all users. The Reserve app is comparable with a centralized exchange (CEX) at the moment, Reserve Protocol holds the tokens, and users can transact for free. In the future, a side-chain or layer 2 approach will be implemented to ensure low fees while being decentralized.

The Reserve App will get through 2021 crucial developments in efficiency, decentralization, and scalability, as shown in figure 14. These improvements will push the adoption of the Reserve app to a new level and therefore these improvements are significant.

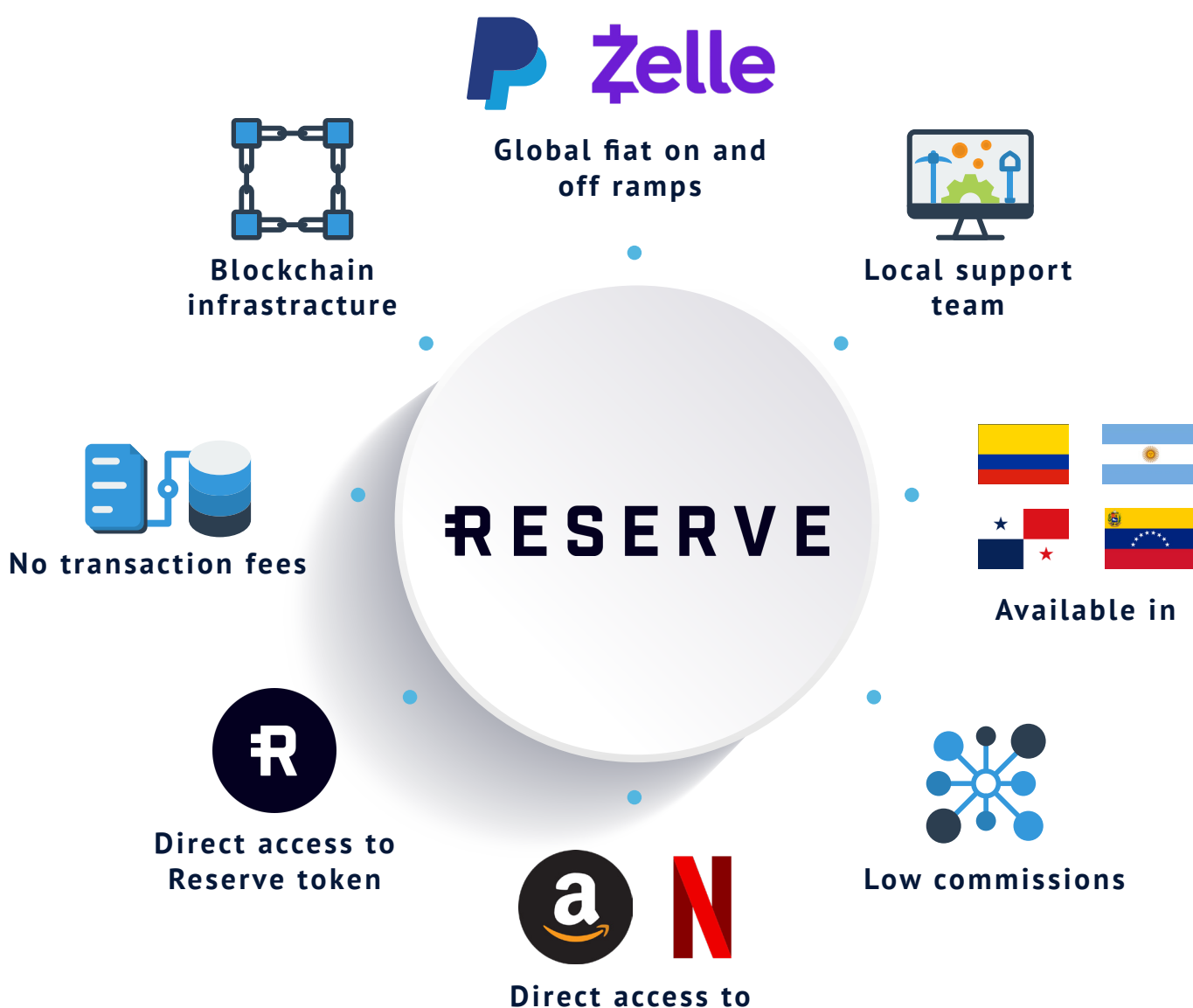


Figure 15 Reserve Digital Payment App features

MARKET OPPORTUNITY

The price of Inflation

It is one of the most used words in economics, 'inflation'. Inflation has plunged regions into long periods of economic distress and instability. Inflation was declared Public Enemy No. 1 in the United States – by President Gerald Ford in 1974. Inflation has an enormous impact on economies and trading considering the bad consequences of inflation on nominal income, expenditure, and purchasing power of a household. It is widely believed that controlling inflation is one of the most complex economic problems in the modern financial system.

The issue with a high rate of inflation is the many different bad implications on an economy. In general, a high rate of inflation is considered hyperinflation. However, hyperinflation occurs when prices of goods and services have risen by more than 50% per month for an extended period. The most imminent problem of hyperinflation is the distorting of purchasing power. The prices of goods and services are rising unevenly, in a region suffering from hyperinflation, therefore inevitably the purchasing of most consumers will fall and this erosion of real income is the single biggest cost of inflation. Over time recipients and payers of fixed interest rates, their purchasing power will be lowered considering if the fixed rate is below the inflation their purchasing power falls. In the long term, it is cumbersome to receive and give out loans considering the inflation rate is making it impossible to pay fixed interest rates and flexible interest rates give the counterparty an extreme amount of risk. Hyperinflation essentially puts the economy into a deep sleep, where the native currency is not able to fulfill basic features.

The issue of hyperinflation is an imminent problem in several regions, specifically central Africa and Latin America. The most problematic case of hyperinflation is arguably in Venezuela with an inflation rate of 2665%. However, more countries are suffering high rates of inflation such as Argentina, Zimbabwe, Suriname, and Sudan, shown in table 1. The Consumer Price Index (CPI) is as important as the inflation rate. The CPI measures changes in the price level of a weighted average market basket of consumer goods and services purchased by households. The CPI of countries in Latin America is rapidly rising, as shown in Table 2 in the appendix, considering the inflation is high and specific countries, such as Venezuela, are suffering U.S. economic sanctions.

The CPI of Venezuela is in the millions. The CPI of Q1 2017 was the base year i.e. CPI equal to 100. The consumer prices rose by more than a million %, this shouldn't come as a surprise considering the hyperinflation.

COUNTRY	CURRENT ANNUAL INFLATION RATE
Venezuela	2665%
Sudan	331%
Suriname	64%
Iran	48%
Argentina	41%
Congo	22%
Haiti	19%
Nigeria	17%
Turkey	16%
Uruguay	9%

source: tradingeconomics.com

Table 1 Inflation rates per country (2021)

Decentralized Finance (DeFi)

The move from traditional banking to the blockchain will reduce costs and enable more users to use services. Decentralized Finance pushes the boundaries of traditional finance by innovation and improved technology. Therefore, DeFi applications can offer benefits because the core innovation is a trust layer that is inherent to the software development itself, hence financial services, in that case, are permissionless, as shown in figure 16. Therefore, the entry barrier will be lowered to enter new financial services, thereby improving the competitive landscape and driving further financial innovation.

Reserve (RSV)

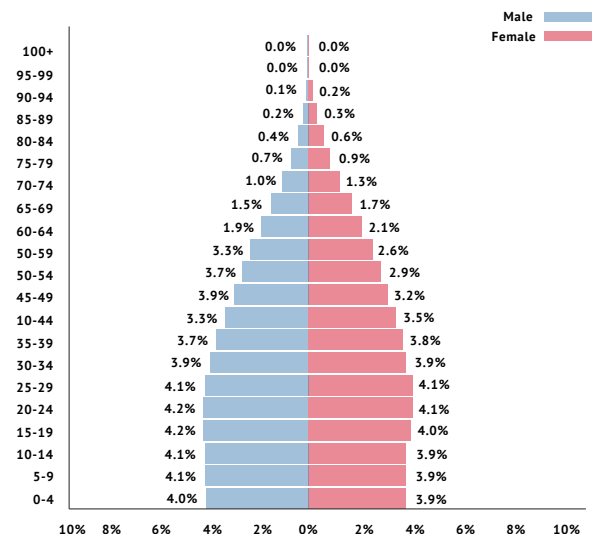
Reserve Protocol is actively penetrating the DeFi industry by their stablecoin, Reserve. The stablecoin is economically and legally robust at any scale, decentralized, and asset-backed by stable coins. The demand for stable assets is enormous in countries with a highly inflated currency, as highlighted before in this research. The exchange of assets should be smooth and cost less, however, in most of these regions that suffer hyperinflation this is not the case. The lack of accessible relatively stable assets is an imminent problem, Reserve Protocol attempts to provide a solution with their stable coin that is pegged to the USD dollar on a global scale.

In a recent VISA survey, VISA Covid-19 Consumer Sentiment Survey revealed that 25% of the users in Latin America would like to experiment with cryptocurrencies if payment processors gave them the opportunity. Latin America is the global leader in terms of cryptocurrency adoption. A recent study of Chain analysis revealed that Venezuela and Colombia are rapidly adopting cryptocurrencies, shown in table 3 in the appendix. Reserve Protocol is actively targeting Latin American regions such as Venezuela, Argentina, and Colombia. Hola Reserve, the Latin American branch of Reserve Protocol, is currently expanding at a rapid rate and Reserve Protocol is accepted by more than 400 merchants. The main focus audience is the youth of Latin America, considering the population distribution of Latin America shown in figure 17, this is logical. To add to that, the youth has, in general, a good understanding of modern technology and therefore the probability of adoption is higher.



Figure 16 Decentralized Finance value proposition

Latin America and the Caribbean - 2020 Population : 653,962,331



source: populationpyramid.net

Figure 17 Population distribution of Latin America

Economic issues in Latin America

Reserve essentially contributes to a solution of three imminent problems in Latin America:

- Lack of an accessible stable currency
- High transaction costs
- The exceptionally high rate of unbanked citizens

According to a survey by economic consultant Ecoanalitica, about 54% of the transactions in Venezuela during September 2019 were in US Dollars. The demand for US Dollars occurs from the abandonment of the native currency. The native currency of Venezuela is suffering from hyperinflation, therefore, is unable to fulfill the basic features of a currency. However, a new issue arises: the shortage of small USD notes.

The lack of US Dollars in Venezuela and other Latin American countries is an unreasonable issue, considering the technological developments in the last decade. However, the main issue is that Venezuela has little access to the international financial system because of the U.S. sanctions. This leads to bizarre situations where a 20\$ note is traded with a 30% discount for 17 one US Dollar bills. Reserve Protocol can meet the demand of US Dollars, considering it is not restricted to a certain US note for the collateralization of RSV

The issue of financial exclusion is imminent in Latin America. The financial system in Latin America is relatively inefficient and the costs of financial services are averaging 5-10% of a monthly minimum wage. Therefore, the unbanked rate in Colombia and Argentina is a baffling 51%, shown in figure 18. To add to that, the transaction cost to obtain US Dollars goes as high as 40% for small-sized notes. Reserve Protocol provides a DeFi solution that has extremely low fees, especially in comparison with traditional fees.

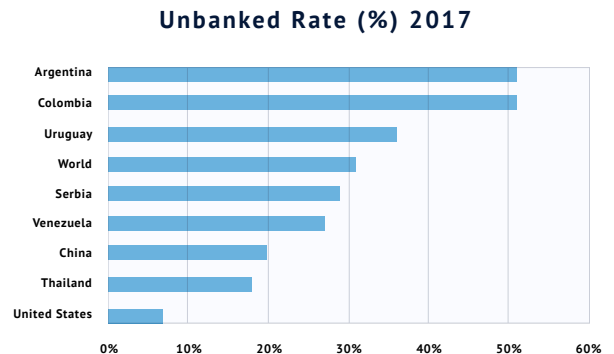


Figure 18 Unbanked rate of 2017 (%)

Purchasing Power

The stablecoin of Reserve Protocol, RSV, is currently pegged to the US Dollar and is, therefore, is not controlling for the purchasing power. However, in the 'Independent Phase' of Reserve Protocol, Reserve will be pegged to purchasing power. The peg to purchasing power is reasonable, considering that despite that RSV increases the accessibility of a relatively stable asset, it does not currently control for a rise of inflation of the collateral asset, US Dollars.

COMPETITION AND RISKS

Risks of the Blockchain Industry

The risks of newly developed industries are diverse and complex, furthermore, the blockchain industry is not a wild card on this general rule. The blockchain industry had its fair share of technological issues, e.g. smart contract issues, and overall accessibility issues, e.g. transaction costs. Thereby, the risk of investing in a highly volatile market is high in comparison with traditional financial products. Hence, to portray broad in-depth research of Reserve Protocol, the risks and flaws of the project should be analyzed and evaluated.

Competitor Risks

Reserve Protocol is operating in one of the most competitive markets within the industry. A competitive market has dis- and advantages, however, the disadvantage might be bigger than the advantage for Reserve Protocol.

The main advantage of a competitive market is the push for businesses to innovate and increase efficiency. The main disadvantage is that the market can get flooded by projects, therefore investors can lose track of innovative projects. In consequence, the market turns into an imperfect and inefficient market this means that the market cannot succeed to incorporate all available information into a true reflection of a fair asset price. That might be the case for Reserve Protocol, assuming that the current cryptocurrency market is imperfect.

Stablecoin challenges

The main challenge of innovative and disruptive technologies is to overcome certain adoption thresholds. The adoption of Reserve is considerably growing, as highlighted before in this research, however, there are certain challenges. The issue is that most coins are pegged to the US Dollar, and even though the probability is slim, if the US Dollar has issues with hyperinflation it would immediately start problems for these stablecoins. This issue will be solved by pegging RSV to purchasing power instead, however, this is a complex matter.

The peg to purchasing power allows, as highlighted before, Reserve token users to stabilize their purchasing power. However, a peg to a global index of a purchasing metric such as CPI or PPP is not ideal, considering a global index will have imperfections to the real purchasing power of a specific region.

Centralization

The centralization of stablecoins is an issue, considering it defeats the purpose of decentralization of monetary policy. The issue is that Reserve Protocol is currently holding users of the Reserve payment app, their funds to prevent high Ethereum network fees. Even though the team has a database of records of moving funds, centralization is an issue. The centralization issue of Reserve will be solved by enabling the self-custody feature in the app, later in 2021. However, the concern of centralization remains valid until this feature is added.

No Saving Interest

The Reserve stablecoin currently has no saving interest rate unlike MakerDAO DSR has. This makes it a less attractive store of value, therefore, the probability of adoption could be lowered. However, adoption is driven by economical and non-economic factors, hence, the absence of a saving interest rate is solely one factor that impacts adoption.

DISCLAIMER



Executive
Summary

Introduction

Growth
Overview

Market
Opportunity

Competition
and Risks

Disclaimer

Appendix

Disclaimer

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APPENDIX

Appendix

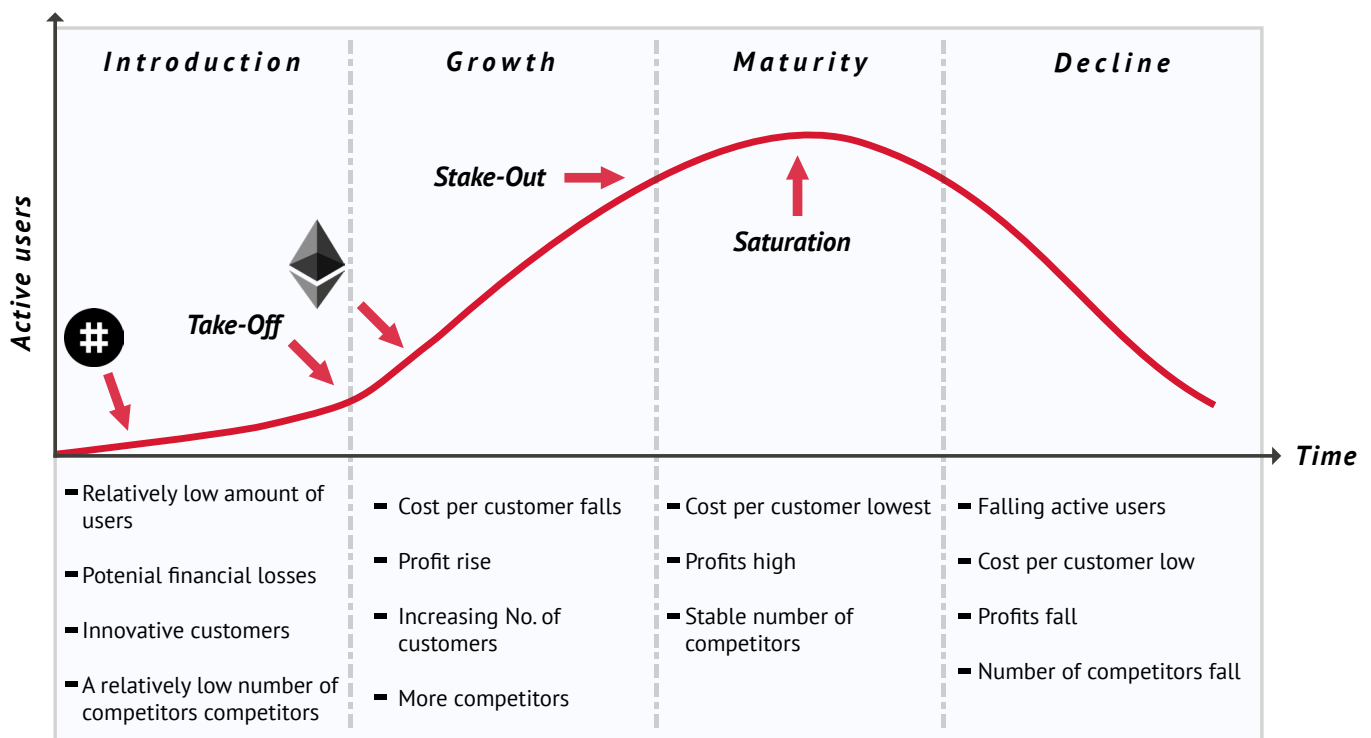


Figure 10 Product life cycle table

Marketcap vs. Volume Growth of RSR

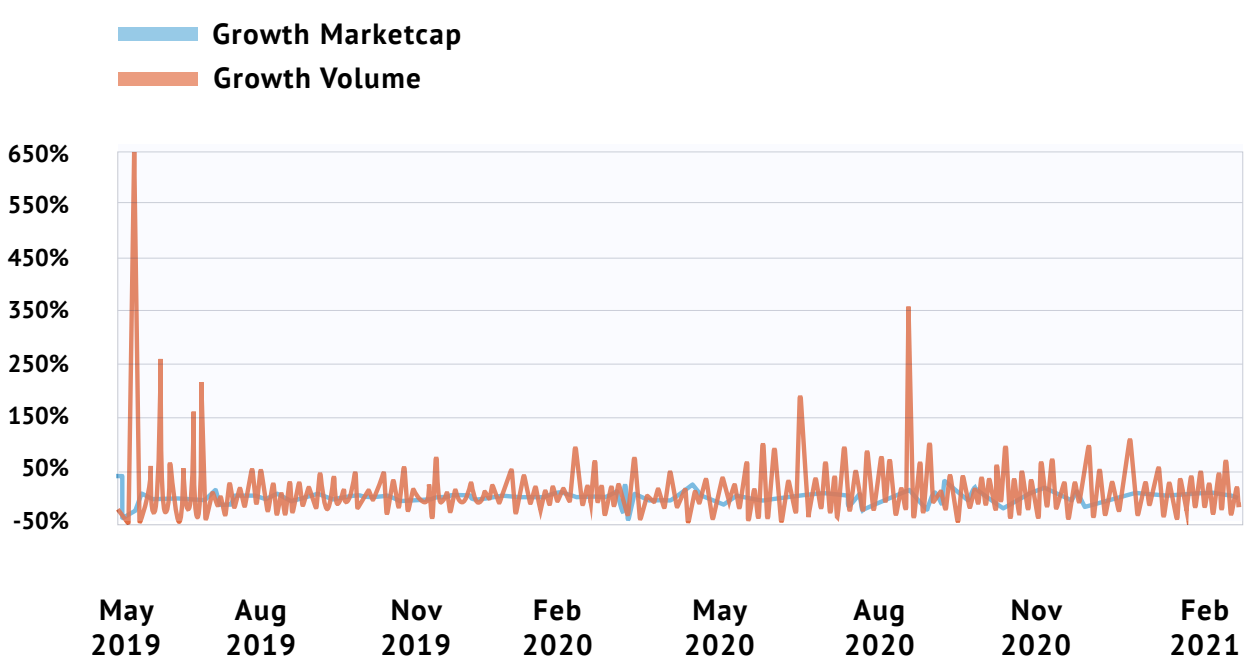


Figure 10 Marketcap vs. Volume growth of RSR

COUNTRY	CPI
Venezuela	480,533,055,894
Sudan	15,978
Turkey	518
Argentina	416
Nigeria	361
Iran	293
Suriname	236
Uruguay	228
Haiti	160
Congo	124

source: tradingeconomics.com

Table 2 CPI per Country of 2021

Rank of individual weighted metrics feeding into index

COUNTRY	SCORE	RANK	ON-CHAIN VALUE RECEIVED	ON-CHAIN RETAIL VALUE RECEIVED	NUMBER OF ON-CHAIN DEPOSITS	P2P EXCHANGE TRADE VOLUME
Ukraine	1	1	4	4	7	11
Russia	0.931	2	7	8	5	9
Venezuela	0.799	3	19	14	15	2
China	0.672	4	1	1	95	53
Kenya	0.645	5	37	11	57	1
United States of America	0.627	6	5	6	39	16
South Africa	0.526	7	12	9	41	10
Nigeria	0.459	8	14	7	112	3
Colombia	0.444	9	25	18	61	4
Vietnam	0.443	10	2	2	44	81

source: chain analysis

Table 3 Blockchain adoption score per country of 2020