



NEWS RELEASE

Crypto Garage Developed and Executed the Contract of a P2P Protocol Based Crypto Asset Derivative Settled in Bitcoin

~Executed First Derivative Contract with Blockstream~

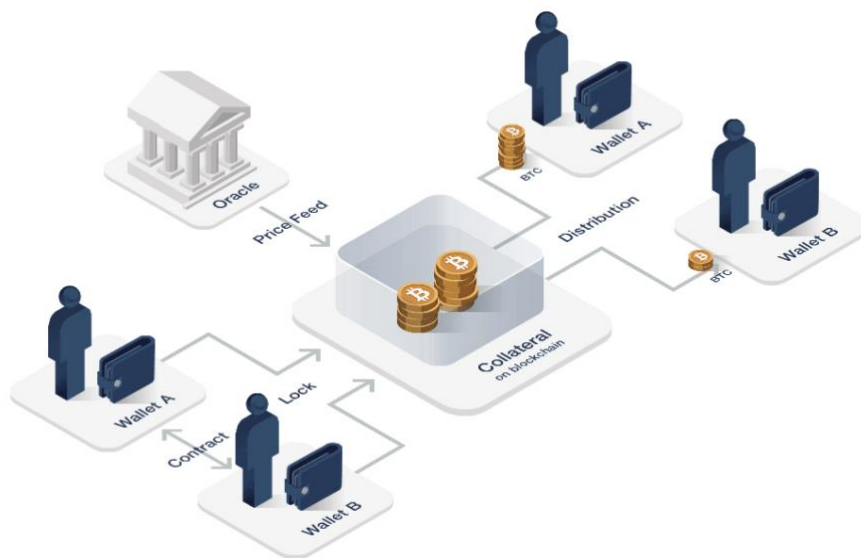
Crypto Garage, Inc. (HQ: Tokyo; Representative Director: Masahito Okuma; Crypto Garage), a Fintech company developing blockchain financial services and also a subsidiary of Digital Garage, Inc. (TSE first section: 4819; HQ: Tokyo; Representative Director, President Executive Officer and Group CEO: Kaoru Hayashi; DG) developed a peer-to-peer crypto asset derivative contract protocol and executed a contract based on this protocol on the Bitcoin Blockchain.

Blockstream Corporation (HQ: Victoria Canada; CEO: Adam Back; Blockstream), the global leader in blockchain technology and financial cryptography, and Crypto Garage entered into a derivative contract that locks the future Bitcoin price [on a collared basis] in order to hedge the Bitcoin price fluctuation risk against the US dollar.

Crypto Garage developed a P2P derivative technology based on the Discreet Log Contracts (<https://dci.mit.edu/smart-contracts>) that Thaddeus Dryja from MIT Digital Currency Initiatives proposed.



P2P derivatives



This contract is a smart contract applied on the Bitcoin Blockchain and requires the agreement and posting of collateral by both parties. The agreed terms and collateral are defined on the Bitcoin Blockchain. Since settlement is cryptographically secured, this contract minimizes counterparty risk, such as breach of contract and other contract termination events.



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The bitcoin price for the maturity date is determined by the ICE Cryptocurrency Data Feed, as agreed upon by both parties in advance. A third party, generally referred to as the Oracle, automatically broadcasts the bitcoin price from the data feed to settle the trade.

The current contract structure for peer-to-peer crypto derivatives trade is in principal based on a traditional ISDA agreement. This causes counterparty risk, as collateral and margin are exchanged based on a mutual trust. Furthermore, managing a ISDA/CSA agreement is a complex and costly operation which requires industry-specific knowledge.

More players are expected to execute P2P derivatives, where they can see the benefits of reducing counterparty risk and operational costs. In the last few years most of the crypto market activity has been speculative, but with the development of P2P derivatives, we aim to provide an instrument that manages the risks of crypto and helps the transition to a more stable and mature crypto market.

Future works include the addition of various types of derivative contracts, and support for Liquid Bitcoin (L-BTC) and Issued Assets (Stablecoins and other tokens on the Blockstream Liquid Network).

Furthermore, Crypto Garage plans to launch an application in 2019 that creates a derivative-based smart contract in which the terms are agreed upon by both parties within the application.

[About Liquid Network] <https://blockstream.com/liquid/>

The Liquid Network is an inter-exchange settlement network connecting cryptocurrency exchanges, market makers, brokers, and other financial institutions around the world. Liquid enables rapid, confidential, secure transfers of bitcoin between members of the network. The network is operated and managed by its federated members, ensuring the system has no single point of failure.

[About Cryptocurrency Data Feed]

<https://www.theice.com/market-data/connectivity-and-feeds/consolidated-feed/coverage-list/cryptocurrencies>

The Cryptocurrency Data Feed is a partnership between Intercontinental Exchange (ICE) and Blockstream, delivering 200 million updates per day of best-in-class real-time and historical trade data on over 400 trading pairs from the world's leading cryptocurrency venues.

[About Crypto Garage] <https://cryptogarage.co.jp/en/>

Crypto Garage is a Fintech joint venture of Digital Garage and The Tokyo Tanshi Co., Ltd. (HQ: Tokyo; President: Shoji Ushiro), engages in R&D and commercialization of blockchain financial services.

Crypto Garage is currently looking for financial institutions and crypto related companies to conduct PoC and testing of our P2P protocol.

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