

# Chocolate Coins

*The Chocolate Issuer Limited*

Stablecoins Whitepaper

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***The Chocolate Issuer Limited***

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# Initial Disclaimer

Nothing in this Whitepaper constitutes an offer of tokens for sale in any jurisdiction in which it is or may be unlawful to do so. The information provided in this Whitepaper is for informational purposes only and should not be construed as financial or investment advice. Users are encouraged to conduct their own research and consult with financial professionals before engaging in any transaction involving “Chocolate Coins” stablecoins or other digital assets.

## Abstract

In the dynamic landscape of digital assets (e.g. digital tokens, cryptocurrencies, etc.) and blockchain technology, users’ protection against threats and risks (e.g. financial, market and technological-related risks) is fundamental for any solid Web3 project. The regulatory landscape applicable to digital assets is rapidly evolving, requiring virtual assets issuers and providers to comply with regulatory requirements which, among others, are aimed at protecting users and investors.

This whitepaper provides a presentation of “Chocolate Stablecoins”, a set of cryptocurrencies issued by The Chocolate Issuer Limited and focused on users’ protection and regulatory compliance.

## Introduction

The Chocolate Issuer Limited developed “Chocolate Stablecoins” in order to issue public, fully functional, cryptocurrencies focused on users’ protection and regulatory compliance.

Chocolate tokens are stablecoins (i.e. “digital Assets that peg their value to an external reference”<sup>1</sup>), in particular fiat-backed stablecoins<sup>2</sup>: a stablecoin whose value is backed through cash or cash-equivalent reserves of a particular fiat currency or index of currencies.

The Chocolate Issuer Limited expects to possibly issue different stablecoins backed by different fiat currencies.

Coins to be issued will have the following naming convention:

*“Chocolate” + “ISO 4217 Currency code”<sup>3</sup> of the fiat currency backing the stablecoin*

(e.g. Chocolate USD, Chocolate EURd, Chocolate HKD, etc.).

Stablecoin symbols will have the following naming convention:

*“CHOC” + “ISO 4217 Currency code of the fiat currency backing the stablecoin”*

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<sup>1</sup> G.Y. Liao and J. Caramichael, “Stablecoins: Growth Potential and Impact on Banking”, Board of Governors of the Federal Reserve System, International Finance Discussion Papers 1334, January 2022 (<https://doi.org/10.17016/IFDP.2022.1334>).

<sup>2</sup> Derived from The Board of the International Organization of Security Commissions (2020) Global Stablecoin Initiatives. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD650.pdf>

<sup>3</sup> ISO 4217 Currency codes <https://www.iso.org/iso-4217-currency-codes.html>

(e.g. CHOCUSD, CHOCEUR, CHOCHKD, etc.).

Potentially, this would be reviewed or extended in the future depending on any necessary development of the project.

The initial stablecoin to be designed for testing purposes will be Chocolate HKD (CHOCHKD), hence it will be the focus of this Whitepaper.

Regardless of the fiat currency backing the Chocolate stablecoins, they will be designed so that it will be feasible to use them for:

- Remittance: fast and cost-effective payment between two parties (including cross-border payments and micro-payments).
- Investment: a store of value or hedge against market volatility.
- Trading: A stable asset to initiate digital asset trading or for exit strategies. It is a “safe haven” during times of high market volatility, allowing one to preserve value while waiting for trading opportunities.
- DeFi activities: stable unit of account within decentralized lending, borrowing, and trading platforms, allowing users to access financial services without relying on traditional financial assets or fiat currencies.

## General Principles

### Context

The characteristics of stablecoins, which maintain a stable value relative to a particular asset, make them a “bridge” between the traditional financial system and the cryptocurrencies world. Consequently, stablecoins have been one of the first types of cryptocurrencies to get the attention of Regulators due to their perceived risks to customers and the financial system in general. Regulatory frameworks are being developed and are evolving to address these concerns.

The EU commission is leading the regulatory effort around the Market in Crypto-Assets regulation (MiCA), which includes requirements for stablecoin issuers.

The Monetary Authority of Singapore (MAS) is crafting a comprehensive regulatory framework for all “digital payment tokens”, and specific requirements for stablecoins.

In Hong Kong, the Monetary Authority (HKMA) conducted consultations on a legislative proposal to implement the regulatory regime for stablecoin issuers.

Other regulators globally are similarly evaluating the adoption of regulations dedicated to stablecoin issuers.

Additionally, the Financial Stability Board (FSB) has developed high-level recommendations for the regulation, supervision, and oversight of global stablecoin (GSC) arrangements, which aim to promote consistent and effective regulation, supervision, and oversight of GSCs while supporting responsible innovation. These recommendations cover areas such as governance

structures, risk management frameworks, redemption rights, stabilization mechanisms, and prudential requirements.

## Vision

The Chocolate Issuer Limited vision for Chocolate stablecoins is to have a set of stablecoins developed with a specific focus on users' security and compliance against applicable regulatory frameworks.

Chocolate stablecoins will disclose all the necessary documentation and procedures to comply with target regulations and inform customers' on measures adopted to mitigate relevant risks.

The Chocolate Issuer Limited vision for Chocolate stablecoins will rely on on-chain registration of digital assets and off-chain compliance and operational mechanisms with the following characteristics:

- deployment of a smart contract and registration on a permissionless distributed ledger;
- Minting (i.e. issuance on blockchain) upon reception of corresponding fiat assets;
- conversion, and coin burning (i.e. removal from blockchain), upon reception of Chocolate stablecoins;
- storage of collateral assets off-chain by a regulated third party;
- full collateralization by cash-only reserves;
- price stability is maintained by a daily transparency of collateralization of at least 100% of the aggregate number of Chocolate stablecoin outstanding;
- Chocolate stablecoins will be blockchain agnostic and will be available on the Ethereum blockchain at first.

## Regulatory Frameworks

### Hong Kong

This first version of Whitepaper will focus on Chocolate HKD (CHOCHKD) and the applicable Legislative Proposal<sup>4</sup> developed by the HKMA. Any future version might be extended or separated in a new whitepaper to address any other relevant regulatory frameworks or requirements.

Consequently, the next section of the Whitepaper will describe the aspects necessary to address HKMA requirements including, among others: reserve assets management, risk management, disclosure and reporting, and effective stabilization mechanism.

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<sup>4</sup> Legislative Proposal to Implement the Regulatory Regime for Stablecoin Issuers in Hong Kong ( <https://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2023/20231227e4a1.pdf> )

## Main Applications

Chocolate stablecoins are designed to serve most of general stablecoins use case which include:

- **Remittance:** fast and cost-effective payment between two parties (including cross-border payments and micro-payments).
- **Investment:** a store of value or hedge against market volatility.
- **Trading:** a stable asset to initiate digital assets trading or for exit strategies. A “safe haven” during times of high volatility in the market, allowing to preserve value while waiting for trading opportunities.
- **DeFi activities:** stable unit of account within decentralized lending, borrowing, and trading platforms, allowing users to access financial services without relying on traditional financial assets or fiat currencies.

## Key Components

### Blockchain Technology and Smart Contract

Chocolate HKD will be issued on the Ethereum blockchain. The Ethereum blockchain is a public permissionless blockchain which allows for the deployment of “Smart Contract” (i.e. self-executing code deployed on the DLT with pre-defined functions upon fulfillment of predetermined conditions).

Chocolate HKD operations, which include issuance and transfers, are based on a smart contract on Ethereum address “0xCcf20e80664a2f4B94Feb9f99F1BACC9d87ee510”<sup>5</sup>.

### Reserve Assets

The main pillars constituting reserves backing Chocolate HKD are the following:

- **Full-backing:** the value of the reserve assets backing will always be at least equal to the par value of the Chocolate HKD in circulation at all times. This will be granted by the issuance (“mint”) of 1 Chocolate HKD upon receipt of 1 HKD (Hong Kong Dollar), which will be maintained as such and not converted to other assets or currencies, nor invested in any way.
- **No investment of reserves:** reserve assets received (i.e. HKDs) will not be invested but will be kept as such as reserve assets for circulating Chocolate HKD.
- **Segregation of reserve assets:** reserve assets (i.e. HKDs) will be segregated from The Chocolate Issuer Limited assets and will be kept in an account of a regulated financial institution. This account will be available to satisfy holders’ redemption requests, as well as their legal right and priority claim of the reserve assets in the event of an insolvency of The Chocolate Issuer Limited.

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<sup>5</sup> The smart contract can be found at <https://sepolia.etherscan.io/address/0xCcf20e80664a2f4B94Feb9f99F1BACC9d87ee510#code>

- **Safekeeping of reserve assets:** The Chocolate Issuer Limited defined internal control measures and procedures to reduce the operational risks associated with reserve assets, including theft, fraud and misappropriation. Furthermore, the account in the regulated financial institution will be protected / insured until the threshold expected by the applicable regulation (e.g. USD 250,000 in US, EUR 100,000 in EU, HKD 500,000<sup>6</sup> in HK, etc.).
- **No payment of interest:** no income or loss from the reserve assets is expected considering the composition of reserve assets by sole HKD hence, and in any case, no interest, dividend or capital gain/loss will be paid to Chocolate HKD users.

## Stabilization Mechanism

The aim of Chocolate HKD is to maintain the peg with HKD, hence keeping a stable value. Stabilization is granted by

- full-backing with reserve assets composed only of HKD;
- no investment of reserve assets;
- reserve assets hosted in a regulated financial institution;
- structured, straightforward and transparent redemption procedures (more details are provided in the Redemption Policy, which is publicly available).

Other factors that reduce the risk of losing peg with HKD in case of disaster scenarios are:

- Smart contract audit which reduces the potential risks deriving from hacks / scams;
- Reserve assets are in an account of a regulated financial institution segregated from other The Chocolate Issuer Limited assets, hence liquidation would be feasible even in case The Chocolate Issuer Limited is insolvent.

In the remote event of a “withdrawal / redemption run”, the peg could be temporarily lost but given the mechanism described above, while all users’ requests are addressed the peg will be re-gained and users will still get 1 HKD for 1 Chocolate HKD.



## Risks

While stablecoins in general are designed to mitigate the volatility inherent in cryptocurrencies, they still carry a range of risks that users should be aware of. Understanding these risks is fundamental for making informed decisions while engaging with stablecoins, including

<sup>6</sup> HKD 800,000 since Q4 2024 <https://www.hkma.gov.hk/eng/news-and-media/insight/2024/02/20240206/>

Chocolate HKD. Some of the primary risks associated with stablecoins are outlined below, together with the measures The Chocolate Issuer Limited employs to mitigate them:

- Counterparty Risk: Chocolate HKD is issued and managed by a centralized entity (i.e. The Chocolate Issuer Limited), hence users must entrust such entity to maintain appropriate reserves and manage stablecoins effectively. The Chocolate Issuer Limited makes available to the public Chocolate HKD in circulation, together with reserve assets value and composition so that users can monitor the status of reserve assets. Furthermore, reserve assets are stored in segregated accounts in a third party entity (a regulated financial institution in Hong Kong) which would allow users' assets recovery also in case of The Chocolate Issuer Limited insolvency. The risk associated with failure and/or insolvency of the institution storing reserve assets should still be considered even if remote and partially mitigated anyway by Hong Kong insurances on financial accounts.
- Regulatory Risk: new regulations, laws, and requirements from Authorities could impact Chocolate HKD stability or operations. The Chocolate Issuer Limited intends to always collaborate with all relevant Authorities and to be able to solve any regulatory issue to the fullest extent possible. In the remote event of high impacts on Chocolate HKD, The Chocolate Issuer Limited would proceed by returning assets in reserves to users, as described in the Redemption Policy.
- Market and Liquidity Risk: although stablecoins aim to maintain a stable value relative to the one of another assets, market dynamics (high supply and demand fluctuations, liquidity constraints, market sentiment) could still affect their value. To reduce such risk, Chocolate HKD is backed by cash only and potential fluctuations will be mitigated by its stabilization mechanism (described in the dedicated chapter).
- Technology and Cybersecurity Risk: reliance on blockchain technology and smart contracts expose stablecoins to risks associated with them (e.g. vulnerabilities, hacks, failures, etc.). Chocolate HKD smart contract is audited by an independent party. Additionally, The Chocolate Issuer Limited is a contributor to the security of Web3 in general, supporting the security of blockchain to a broader extent.

## Risk Management

The Chocolate Issuer Limited set up a secure environment by evaluating potential risks that could specifically affect Chocolate HKD. The risk management framework includes evaluations over operational risks, liquidity risks, personnel-related risks (i.e. fitness and properness), security and privacy risks. Anti-money laundering and counter-financing of terrorism will also be part of the risk management framework, and will be aligned with Hong Kong "Anti-Money Laundering and Counter-Terrorist Financing Ordinance"<sup>7</sup>.

The Chocolate Issuer Limited environment hosting Chocolate HKD is fully segregated from the rest of The Company's business and business lines. Therefore, Chocolate Issuer Limited has

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<sup>7</sup> "Anti-Money Laundering and Counter-Terrorist Financing Ordinance"  
<https://www.elegislation.gov.hk/hk/cap615>



evaluated that no additional risk is introduced to Chocolate HKD from other The Chocolate Issuer Limited businesses and activities.

## Disclosures and Reporting

The total amount of the Chocolate HKD in circulation, the mark-to-market value of reserve assets and the composition of reserve assets will be publicly disclosed. These will include documentation released by qualified and independent auditors. Specifically The Chocolate Issuer Limited will publish in a dedicated web page:

- real-time (or at least daily) total amount of Chocolate HKD in circulation;
- daily value of reserve assets;
- at least weekly indications over the composition of reserve assets;
- monthly attestations by independent auditors.

The same web page will also host the Redemption Policy, which describes the redemption process, the timeframe for such redemption, the applicable fees, and Chocolate HKD users' right to redemption.

Further documentation can be shared as required for specific investigations upon the specific requests of regulators or other relevant authorities.

## Final Disclaimers

*This white paper is not intended to provide any recommendation regarding stablecoins (including Chocolate HKD). Each person interested in purchasing any stablecoin should make its own independent evaluations of the financial conditions and affairs, and its own appraisal of the entity issuing such stablecoin, and any other third party or stakeholders involved in the issuance. The White Paper does not constitute an offer or invitation by or on behalf of the The Chocolate Issuer Limited to any person to subscribe for or to purchase any stablecoin.*

*This White Paper does not constitute an offer to buy or sell any stablecoin in any jurisdiction to any entity to whom it is unlawful to make an offer or solicitation. Stablecoins and other digital assets sale may be restricted by law and regulations in certain jurisdictions.*

Chocolate HKD holders must know that they have no claim or direct right against The Chocolate Issuer Limited and that their rights are limited to the collateral assets they provided to It Chocolate Issuer Limited when requesting Chocolate HKD.

### Suitability Evaluations

*Each prospective purchaser must evaluate the suitability of each purchase in consideration of its own circumstances. Elements that must be considered by the purchaser itself, or with the support of professional advisers, are whether it:*

- *has sufficient knowledge and experience to conduct meaningful analysis of the stablecoins;*
- *has access to, and knowledge of, appropriate tools to evaluate, in the context of its particular situation, a purchase of stablecoins;*
- *has sufficient resources and liquidity to bear all of the risks associated the holding of stablecoins;*
- *s able to evaluate possible scenarios for economic, technology and other factors that may affect its purchase and its ability to bear the applicable risks.*

*A prospective purchaser may not rely on The Chocolate Issuer Limited to determine whether the acquisition of stablecoins is lawful in consideration of its own circumstances (whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates). The purchaser should conduct independent evaluations to analyze merits and risks of the The Chocolate Issuer Limited and stablecoins.*

#### *No Legal and Tax Advice*

*The Chocolate Issuer Limited is not providing legal or tax advice to the purchasers. Each prospective purchaser should conduct its own evaluations as to legal, tax and regulatory aspects relating to a purchase of stablecoins, on its own or supported by specialized advisers.*

*Prospective purchasers / sellers of stablecoin should be aware that they may need to pay taxes or present documentary charges or other duties as required by laws and practices of the applicable jurisdiction(s). It is the responsibility of the prospective purchasers to seek their own tax advice with respect to all operations associated with stablecoins (e.g. acquisition, holding, disposal, etc.).*