

Vardiz OTC Onboarding & Trading Guide

Last Updated August 2018



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Dear clients,

Thank you for choosing Vardiz OTC.

This document aims to equip first timers with essential knowledge on trading, owning and using Bitcoin. Since the goal of our business is to bring as many unsophisticated early adopters into the ecosystem as possible, this guide will cover the all basics, yet be light on technical complexities. That being said, Bitcoin is not a simple phenomenon, and preparation is necessary before you venture deep into this space.

An over-the-counter ("OTC") brokerage is a service whereby buyers and sellers of relatively illiquid assets are brought together to trade in private. In our case, that asset is Bitcoin, which is and will remain our primary focus. Bitcoin is the oldest and most secure cryptocurrency, and the best form of entry into the wider world of cryptocurrencies. The clients we seek are Malaysians who have a deep curiosity of cryptocurrencies, are patient with the evolution of the technology, and are capable of weathering the volatility of this young market.

Essential for Vardiz OTC is the formation of a deep and diversified Client Book. All clients who wish to trade through Vardiz OTC must be approved entry into our Client Book, and your counterparties for every trade are always other clients within the Client Book. A well curated Client Book, with rigorous adherence to best practices, allows us to mediate trades with confidence and in compliance with local laws.

To ensure market integrity, Vardiz OTC itself will not be a counterparty unless as last resort. While this stance alleviates concerns about conflicts of interest, it also means that until we have curated a Client Book of sufficient depth, our ability to mediate large trades will be fairly limited. To that end, Vardiz OTC will be organizing regular public lectures through which Malaysians can discover both Bitcoin and ourselves. Of course, your recommendation of our services to your esteemed peers will go a long way in helping us reach critical mass.

The value of an OTC service isn't speed nor efficiency – exchanges are capable of handling much higher throughput by design. The value instead lies in the curation of a sophisticated community whose market movements contribute disproportionately to price signals. Unlike exchanges, OTC trades are a lot more personalized; requiring good faith and conduct to work efficiently. Those qualities need to be trained and preached, and we believe that community development is prerequisite before any exchange service is built.

It is important to us that you participate in Vardiz OTC with a good understanding of the principles, opportunities, risks and challenges inherent to Bitcoin and its ecosystem. The world of Bitcoin changes rapidly, and it pays to stay updated on new developments. Please keep an eye out for new editions of this guide, which will be always available for download from our website.

We would like to thank you for your patronage, and we hope you enjoy your time with us.

Affendi Ariffin
CEO



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1. Introduction

1.1. Bitcoin as a store of value

Bitcoin is many things. Bitcoin the *network* is an open, permissionless and decentralized value transfer system based on the architecture of the internet. Bitcoin; the *asset* is a provably secure, scarce and fungible commodity that exists natively within the network. Taken together, these properties produced something truly novel; the first form of money that combines the liberty of cash with the convenience of electronic transactions.

The notion of acquiring something as a “store of value” is largely a cultural one. A store of value is form of wealth that serves as insurance in worse case scenarios; better to have it and not need it, than need it and not have it. For most of us, our options constitute real estate, currency or gold. However, bear in mind that these options are not equally available to everyone in every country.

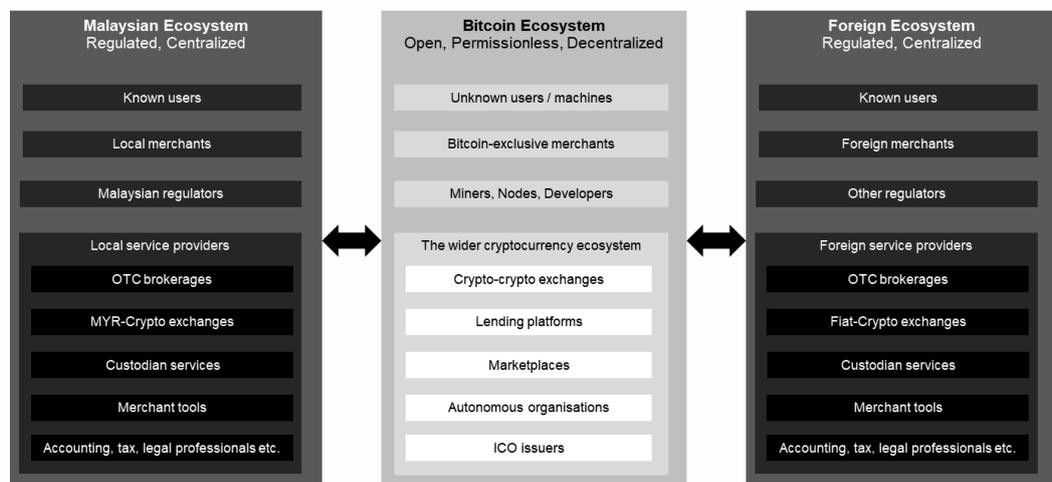
If your country is getting bombed, then real estate is worthless. If your government is imposing exchange controls, then a reliable currency becomes difficult to obtain. For many people around the world, gold is the only real option; as it has for thousands of years. Gold is scarce and widely revered but it is very difficult to transact with it.

Our argument for the inclusion of Bitcoin in your portfolio is not for any meteoric price appreciation, but as an alternative store or value. Bitcoin is Gold 2.0; more portable, divisible, and resilient. What Bitcoin is not is a ‘get-rich-quick’ scheme, and you should treat anyone advising you as such with scepticism.

For more information, please click on the following public lecture on our website: -
[Bitcoin: Where it matters, and where it's going](#)

1.2. The Bitcoin Ecosystem

The intrinsic value of Bitcoin is highly dependent on the vibrancy of its ecosystem. The more users enter the ecosystem, the more mature service providers become, the more economic value circulates within the ecosystem, and ultimately the less economic value leaves it. The accumulation of economic value by the Bitcoin ecosystem is a goal shared by *all* participants, and this alignment of interest is a big reason why its use has spread so quickly.





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The evolution of the Bitcoin ecosystem mirrors that of traditional finance, with local scenes developing independently while being connected with one another through a shared platform. The major difference is; while the platforms of traditional finance are closed (SWIFT, BIS, NOSTRO-VOSTRO etc.), Bitcoin is open, permissionless and decentralized.

While this means that any Bitcoin we acquire in Malaysia will be just as spendable in Indonesia and Japan, it also means that user experience will vary widely between different countries. Pro-Bitcoin countries will have many important infrastructure built up, making the user experience seamless while anti-Bitcoin countries will actively put roadblocks to prevent mainstream adoption. If we want our Bitcoins to be spendable locally, then it is important that we as a community lobby our local stakeholders for a conducive environment.

While many (e.g PayPal, Alipay, VISA) private concerns are competing for global dominance within this space, none of them offers the same fungibility, interoperability and liberty that Bitcoin does. Over time, we believe such competitive advantages will prove insurmountable.

For more information, please click on the following public lecture on our website: -
[Business niches in the Bitcoin Ecosystem](#)

1.3. Fundamental drivers of the Bitcoin Market

For those of us investing in Bitcoin as a store of value, then its long term price appreciation is a core concern. As a purely digital commodity, the supply-demand dynamics of Bitcoin can be analysed with great fidelity; a unique property amongst investment assets.

The supply side of the equation is fairly straightforward. Bitcoin the *asset* can be seen as a product of mining activities performed by transaction validators on the Bitcoin *network*. The amount of Bitcoin earned by these validators is mathematically determined so that ever decreasing amounts are produced to a maximum of ~21 million Bitcoins by year 2140. This also means that the supply of Bitcoin is fixed, unlike that of fiat currency where central banks can (and have) increased the money supply at will.

Not all Bitcoins produced are in circulation. Bitcoins existing in addresses whose private keys are lost, are essentially gone forever. Bitcoins from obvious criminal proceeds are often ostracised by service providers. The remaining ~10m actively participating Bitcoins currently in the market today are on OTC platforms, exchanges and peer-to-peer services.

Historically, the demand for Bitcoin is driven by availability of adoption enablers. Enablers such as proactive regulation, maturing exchanges, growing integration with traditional finance (options, futures, custodians, ETFs) in key markets tend to have a positive impact on the price, while disablers such as adverse regulation, exchange hacks and bank de-risking in key markets tend to move the price downwards. A good understanding of these dynamics may guide you in negotiating with counterparties when performing a trade.

Many of the valid criticisms of the Bitcoin market is attributable to its young age. As adoption grows and enablers mature, a smoothing-out of its infamous volatility is inevitable. We believe that patient investors who also contribute to the health of the ecosystem will be handsomely rewarded in the long term.

For more information, please click on the following public lecture on our website: -
[Fundamental Drivers of the Bitcoin Market](#)



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2. Compliance & Onboarding

Vardiz Commerce Sdn Bhd is registered as a Reporting Institution (“RI”) to Bank Negara Malaysia (“BNM”) under its AML/CFT 2001 Guidelines of Digital Currency Exchanges (Sector 6). This doesn’t mean that our industry is regulated, nor does it mean that we are licensed or endorsed by BNM. What it *does* mean however, that we are subject to many of the regulatory burdens without any of the regulatory benefits - a veritable no-man’s land.

Nevertheless, compliance is an existential concern to Vardiz OTC, and demonstrable compliance will pave the way to better engagements with BNM and better support from service providers. In interpreting the AML/CFT guidelines to ensure that compliance is achievable with available resources, we have decided to:-

- Focus on the Bitcoin-MYR trading pair
- Focus on clients willing and able to execute trades worth >RM 50,000 per trade, per year
- Prioritize Malaysian citizens, Malaysian-based foreign residents, and Sdn. Bhd. legal entities

If you meet the above requirements, and would like us to onboard you to our Client Book, then please notify us through compliance@vardiz.com. We will assign an Account Manager to your case as soon as possible.

2.1. Individual Clients

Vardiz OTC is open to Malaysian citizens and Malaysian permanent residents; identities of which are verifiable through face-to-face attestation by our Account Managers. We are required to keep copies of either your Malaysian IC or national passport for our records, and you will need to provide a residential address should you reside in a different location stated therein.

Some client groups are automatically classified as “Higher-Risk” according to AML/CFT 2001. These include:-

- Citizens of certain countries
- Individual, family members and close associates of foreign and domestic “Politically Exposed Persons”; broadly defined as those entrusted with prominent public functions and state corporations.
- Clients conducting transactions in unusual circumstances and transactions out of line with their usual transaction patters.

In order for Vardiz OTC to onboard and continue doing business with Higher-Risk clients, we are required to continuously perform Enhanced Due Diligence on those clients. Your cooperation and faithful disclosure of the relevant information upon request is most appreciated.

2.2. Malaysian Sdn. Bhd. legal entities

Many sophisticated clients prefer to make investments via special purpose vehicles or family offices. While the AML/CFT 2001 provide allowance for a wide range of legal entities, the extensive resources required for their verification means that for the moment, Vardiz OTC will prioritize Malaysian Sdn. Bhd. legal entities.

We are required to understand the activities, ownership and control structure of your legal entity prior to onboarding. Our primary tools for verification are databases operated by the Companies Commission of Malaysia (e-info), hence up-to-date records will be critical. Additionally, individuals owning >25% of the legal entity, as well as the designated authorized representative must go through AML/CFT checks similar to individual clients.

For authorized representatives, we will also require that your legal entity furnish us with a board resolution (format provided in the next section) approving such a person to act on its behalf. All correspondence and transactions with Vardiz OTC are to be done solely through said authorized representative, and changes to the authorized representative can only be made through similar board resolutions.



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2.2.1. Malaysian Sdn. Bhd. legal entity BOD resolution format

Please instruct your CoSec to retype with appropriate amendments and CTC the following resolution:-

 [Company Name]
 [Company Number]
**DIRECTORS' RESOLUTIONS IN WRITING MADE PURSUANT TO REGULATION 15 OF THIRD SCHEDULE
 OF THE COMPANIES ACT, 2016**

[I/We], being [sole director/directors] of the company, do hereby resolve:

SUBSCRIPTION OF SERVICES - VARDIZ OTC

THAT approval be hereby given for the Company to accept the services ("Services") which may from time to time be offered by Vardiz Commerce Sdn Bhd (1278728-P) ("VCSB").

THAT approval and authority be given to the person specified below and acting in accordance with the signing condition set out thereto ("Authorised Person") for and on behalf of the Company:

- a) that approval and authority be given for the affixation of the Rubber Stamp of the Company, wherever necessary or required by VCSB on any instrument document and agreement in accordance with the Companies Act, 2016;
- b) to agree to such terms and conditions as may be required, apply for, enter into, accept, sign and execute any relevant agreements, forms or documents on behalf of the Company including any negotiations, amendments, variations, modifications or supplements thereof in respect of the Services;
- c) to issue all notices and instructions to VCSB in connection with the respective Services; and
- d) to select, submit application, to add, modify and delete Company's account(s) and any additional modules and services made available under the respective Services from time to time.

THAT this Resolution shall be in force concurrent with the resolution(s) passed by the Board of Directors or any other amending Resolutions thereto passed by the Board of Directors from time to time. The Company undertakes to notify VCSB of any changes on the Resolution given to operate the respective Services in the future.

THAT this Resolution be communicated to VCSB and shall remain in force until an amending resolution passed by the Board of Directors and certified true copy thereof received by VCSB and the Company shall indemnify and save harmless VCSB from any loss suffered or liability incurred by it continuing to act in pursuance of this Resolution.

Authorized Person

Name	IC / Passport	Designation	Specimen Signature

Dated:

[Signature]

 [Director Name]

[Signature]

 [Director Name]



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2.3. Personal Data Protection Act 2010 Notice

Vardiz OTC is registered as a “Data User” with the Malaysian Personal Data Protection Commissioner. Data collected and stored by Vardiz OTC includes personal identifying information such as name, address, email, phone numbers, bank accounts and trade history.

Vardiz OTC takes appropriate (physical and electronic) measures to safeguard all personal data provided to us. We do not engage in selling of personal data to third parties. No personal data will be disclosed to third parties unless for trade mediation, record keeping and regulatory compliance.

By signing up to our services, you hereby give your consent to Vardiz OTC to obtain and utilize your personal data for the above purposes.

For more information on the PDPA, please visit <http://www.pdp.gov.my>



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3. Guidelines for over-the-counter trading

3.1. Transactions Steps

In contrast to cutting-edge exchanges, OTC brokerages are very much a low-tech affair. The steps typical to a trade mediated through Vardiz OTC are as follows:-

- a) Account Manager receives a quantum of interest (either in Bitcoin ("BTC') or fiat) from customer
- b) Account Manager registers appropriate data in Vardiz OTC's trade database
- c) Our Lead Broker advises on trade execution strategy and the quantum of Vardiz OTCs brokerage fee with your Account Manager
- d) If you are agreeable, then your Account Manager to arrange trade logistics with potential trade counterparties, on a first-come first-served basis
- e) Seller transfers agreed BTC amount into 2-of-3 multi-sig wallet
- f) Buyer remits the agreed fiat amount into the Seller's bank account
- g) Buyer provides documentary evidence that the fiat amount has been transferred and/or the Seller provides written confirmation that the fiat amount has been received
- h) Account Manager initiates transfer of Vardiz OTCs brokerage fee from the 2-of-3 multi-sig wallet into our corporate wallet, to be approved by the Buyer
- i) Buyer initiates transfer of the remaining BTC into the Buyer's wallet, to be approved by Vardiz OTC
- j) Vardiz OTC will produce our brokerage fee invoice and be forwarded to the Buyer
- k) Vardiz OTC will arrange for Trade Acknowledgement Receipt to be produced and be forwarded to the Buyer and the Seller

3.2. Rules of Engagement

Quantum of interest

A client looking to buy or a client looking to sell must notify their Account Manager the exact quantum either in BTC or MYR of which they wish to acquire or dispose.

Trade database

This is a proprietary database maintained by Vardiz OTC to match potential counterparties. Large trades may be broken up with several counterparties and scheduled over an appropriate timeframe.

Trade logistics

Account Managers are responsible to arrange with counterparties either to meet physically or electronically to discuss matters such as trade execution date and time, agreed method of payment and reference price.

Multi-sig wallet

Account Managers are to setup single-use 2-of-3 multi-sig wallets for every trade. One key is to be controlled by the seller, one key controlled by the buyer, and one key controlled by Vardiz OTC. Trade multi-sig wallets must never be recycled.

Evidence of funds transfer

Accepted proof of the above is MT103 forms (standardized SWIFT payment confirmations) for cross-border transactions. For local transactions, accepted proof will be official confirmation by the sending bank that funds



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have been transferred. Should the seller fail to acknowledge receipt of funds within 7 days, Account Managers are to immediately escalate to our Lead Broker.

Transaction fees

Account Managers are to advise that fees associated with fiat transfers are to be borne by the Buyer, while fees associated with BTC transfers are to be borne by the Seller. Amounts transferred between counterparties must include additional provisions for said fees.

Vardiz OTC brokerage fee

Our brokerage fee will always be charged in BTC to the buyer. The quantum will vary according to trade complexity and volume of historical transactions mediated for the particular client. Our fees will be informed and must be agreed to prior to every trade.

Applied conversion rate

One of the most common issues in OTC trading is where the market value of the asset moves in between initiation and settlement of a trade. For the MYR-BTC trading pair, the cause is primarily the *Ringgit* (GIRO, TT, RENTAS, Banker's Cheques) not the BTC (confirmation typically <1 hr). As such, the applied conversion rate will be agreed upon immediately prior any BTC transfers into the multi-signature wallet. Buyers and Sellers are stressed on the importance of timeliness of transfers.

Trade acknowledgment receipt

A trade acknowledgment receipt is a proprietary document produced by Vardiz OTC to both the Buyer and Seller for record-keeping and supporting document purposes. Information contained includes amount in BTC acquired or disposed, applied conversion rate and date of fiat or BTC received. Please keep this document as it may be required by your bank for their own AML/CFT purposes.

Clients who repeatedly break our rules of engagement may be suspended from our Client Book.



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4. Managing your investment

4.1. Accounting treatment

As of August 2018, there is no specific accounting guideline for Bitcoins in the Malaysian Financial Reporting Standards ("MFRS"). This means that if you are a legal entity, then the treatment of your investment will be subject to the judgement of your auditor. Most professionals will debate whether to define Bitcoin as financial instruments, commodities, foreign currencies or inventory, none of which fits them particularly well.

At Vardiz OTC, we are instructing our accountants to treat our Bitcoin holdings as "indefinite-lived intangible assets", in reference to a published recommendation by PwC titled "Cryptocurrencies, time to consider plan B" in March 2018. This treatment is similar to the way brands and intellectual property are accounted for when acquired: -

- The cost of acquisition will be recorded at time of purchase
- The asset will not be amortized and will not be marked to market
- Disposals will incur gain/loss at the date of disposal, using the first-in-first-out ("FIFO") method
- At the end of the financial year, a test will be done to determine whether an impairment is justified

Due to the volatility of Bitcoin, overzealous mark-to-market valuations may result not only in increased costs, but also risk that the accounts produced may not provide a true assessment of the financial state of the legal entity. We believe the above treatment is a suitably conservative compromise, especially for legal entities whose trading of Bitcoin is not a core business activity.

To aid in record-keeping, please ensure you keep the Trade Acknowledgment Receipt for every transaction you enter into that is mediated by Vardiz OTC.

4.2. Tax considerations

Tax considerations for Bitcoin in Malaysia are threefold; capital gains tax (which currently stands at 0%), sales and service tax (of which Bitcoin is exempted) and income tax (which is dependent on your core business activity). As with the MFRS, there is no specific guideline for Bitcoin issued by LHDN.

A rule of thumb when dealing with the taxman is simplicity and consistency. If you are an individual or a legal entity that is looking to hold Bitcoin long-term, then it is arguable that your investment may be eligible for capital gains treatment. However, if you plan on regularly buying and selling Bitcoin in the market, then you risk being classified as a trading entity; profits of which are charged income tax.

For high-volume, active traders, we highly recommend setting up a special-purpose vehicle in a low-tax jurisdiction (such as a Labuan LLP) to minimize your tax exposure.

4.3. Security

In Bitcoin; the onus of security is on the user, and vigilance is the price we pay for liberty. The complexity of security arrangements is a concern many share when dealing with Bitcoin, and one which there are currently no easy answers. Security is a spectrum, and users are advised to scale their investment in security in proportion to the Bitcoin they own.

At Vardiz OTC, our policy is to **not hold** Bitcoin on behalf of clients, but to share security practices that we ourselves use to keep our funds secure: -



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- **Wallet selection: -**

Bitcoin wallets are available in both desktop client and smartphone app forms. A good practice is to separate “petty funds” from “funds in storage”. Petty funds may be kept in any of the popular Android or iOS apps such as *Samourai* or *BRD* with minimal security considerations, while storage funds typically require desktop clients with increased functionality. At Vardiz OTC, we are currently using *Éclair* (an advanced wallet compatible with the experimental Lightning Network) for our petty funds and *Electrum* for our storage funds; both of which are open-sourced and extensively tested.

- **Multi-signature: -**

What resides in your wallet is not your Bitcoin per se, but rather the private keys to unlock specific addresses that you control on the network. Whoever knows the private keys to an address can spend its Bitcoin balance, even if it’s not you. When hackers, scammers and malware attack your computer, it is these keys which they are targeting.

A good practice is to make use special addresses which require n-of-m keys to unlock. These are called multi-signature addresses. They are analogous to joint bank accounts and can be generated using most popular wallet software including *Electrum*. At Vardiz we are using a 2-of-3 multi-signature arrangement. That way if one of the keys become compromised, the attacker will not be able to steal our funds.

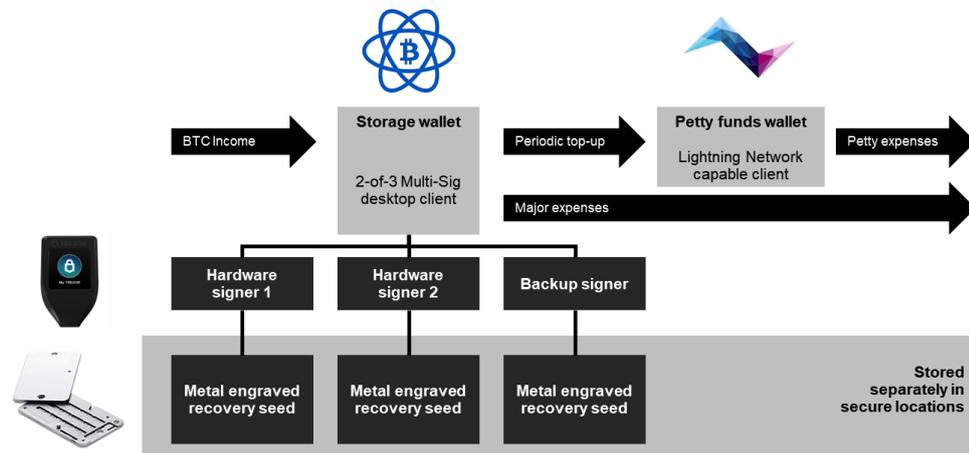
- **Hardware devices: -**

Another safeguard on top of multi-signature is to isolate keys used in a desktop client to a part of the system that will remain secure even if the system itself becomes compromised. Hardware devices do just that; they attach to your computer via USB and will sign keys externally on your behalf. At Vardiz OTC, we are using the Trezor hardware device, which is open-sourced and extensively tested.

- **Redundancies: -**

Many Bitcoin wallets make use of mnemonic recovery seeds as backup. As with private keys, should your recovery seeds become compromised, your funds may be stolen. It is important that recovery seeds be written down on paper (or metal) and stored at different locations in case of natural disasters. At Vardiz, the seeds to our 2-of-3 multi-signature wallets are stored at a dedicated safe deposit box facility.

A visual representation of the setup we use at Vardiz OTC are as follows:-





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Should you require us to walk you through a similar security setup on your behalf, please click on this link for our [Storage Setup Service](#) brochure. A mobilization and equipment fee may apply.

Nevertheless, for investors looking for a trusted custodian, or investors with fiduciary limitations disallowing them from having direct control over assets; commercial solutions are available. On top of having very secure facilities, a trusted custodian solution may also provide insurance, delegated access-control & inheritance management. Such a solution is not available from Vardiz at the moment; however it is on our roadmap in the medium term.

4.4. Privacy

Bitcoin is pseudonymous, not anonymous. In fact, all transactions ever made are stored in the public blockchain, viewable with tools such blockchain.info. If you have a look, you will notice that the information stored include addresses, amount transferred and timestamps. These are all just a string of characters and hence not immediately identifiable with real-world identities. However, if any one of the owners of these addresses can be linked with a real-world identity, then in theory he or she may be browbeaten to reveal the next link in the chain; all the way up and all the way down.

Understanding this dynamic is key in ensuring privacy in Bitcoin. As a reporting institution to BNM, Vardiz is obliged to share client information should we receive a subpoena, however since we don't control client funds, at no point will authorities will be able to confiscate or freeze funds. They will, however, be able to determine that addressees involved in any trade mediated by Vardiz OTC for your benefit are under your control.

A practical way to achieve privacy is to break that chain of transactional references using technical means. One way is to trade a base cryptocurrency (such as Bitcoin) with a specialized cryptocurrency with privacy enhancements (e.g. using 'privacy coins' such as Monero), then trading back to a new set of base cryptocurrency addresses. This approach requires careful planning and technical expertise, and few except the most die-hard privacy activist find it worth the trouble.

As matter of principle, Vardiz values the privacy of our clients and the privacy capabilities of the cryptocurrencies we work with. We are aware of several user-friendly developments to improve privacy within Bitcoin itself and will advise you on their implementation on future updates on this guide. We will pursue this goal for as far as our local compliance obligations allow. Privacy ensures liberty and fungibility of assets within the cryptocurrency ecosystem, and we believe the pursuit of privacy should be encouraged where practicable.

4.5. Contingency

Contingency planning in Bitcoin (due to death, incapacitation or changes in personnel) is closely tied to the redundancy steps you planned in advance. Should anything happen to you, then the wallets you operate may be reactivated using the mnemonic recovery seeds explained in Section 4.3. However, without clear instructions to your heirs, they might not even be aware that such a wallet exists, much less inherit it.

While pen-and-paper is the most common way to safely store mnemonic recovery seeds, more sophisticated arrangement using metal-engraving and security seals may provide additional peace of mind in case of natural disasters.



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5. Dispute resolution & support

Dispute between trade counterparties are to be mediated via use of 2-of-3 multi-signature wallets, judgement of the Account Manager mediating that trade, and our Compliance Officer.

Common scenarios of dispute include non-receipt of fiat amount, or a wish to cancel transactions due to adverse market movements.

As long as the BTC is still within the 2-of-3 multi-sig wallet, the BTC may be returned to the Seller. However, once BTC has been transferred out of the 2-of-3 multi-sig wallet, it is no longer returnable. Care will be taken by the Account Manager before initiating any transfers out of the 2-of-3 multi-sig wallet.

Likewise, once fiat has been received by the seller, sellers hereby grant consent to Vardiz OTC to transfer the BTC within the 2-of-3 multi-sig wallet to the buyer. Should no confirmation is received by Vardiz OTC within 7 business days, the trade may be reversed entirely. In the event that the fiat amount received is less than the agreed upon amount (net of taxes and transaction fees), the amount of BTC transferred will be equal to the actual received fiat amount based on the applied conversion rate. The remainder of the BTC will be returned to the Seller.

For complaints about the Account Managers themselves, or advice regarding compliance and security matters, you may submit a report to customerservice@vardiz.com, which is handled by our senior management. We take integrity and professionalism seriously and will attend to your queries with haste.