



Liquid
Network

LIQUID FEDERATION

MEMBER CHARTER v1.2

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Scope of Document

This document is owned and maintained by the Liquid Federation, and is agreed upon by all Federation Members as a standard code of ethics, duties, and criteria for Members.

Liquid Network Objectives

1. Build a safe, stable, and sufficiently decentralized network for the issuance and settlement of L-BTC and Liquid Issued Assets.
2. Provide an alternative to on-chain Bitcoin transactions with increased speed, confidentiality, and other extended functionality.

Liquid Member Principles

Liquid Network Member Principles identify the standards of behavior expected of all Liquid Network stakeholders, including Functionary and non-Functionary members, partners, and service providers to the Liquid Network.

- We take all reasonable measures to comply with applicable laws, rules or regulations.
- We take reasonable measures to avoid participation in any conduct which we are aware would represent a significant criminal offense.
- We conduct all activities and business in a manner that does not materially and adversely affect the Liquid Network.
- We make best efforts to incentivize good behavior, uptime, and longevity of the Network.

Roles & Responsibilities

Liquid Network roles and responsibilities are divided into three stakeholder groups:

1. All Members (any Liquid Federation member that has a PAK Entry, which includes all Functionaries);
2. Functionaries (any Network operator of Functionary hardware);
3. Third Party Tech Provider (Blockstream).

The responsibilities of each group are rooted in necessary conditions for the Network to continue operating in a secure, stable, and sufficiently decentralized manner.

All Members (PAK Entry)

- Keep the bitcoin receiving wallet offline and secure. This ensures that the underlying Bitcoin represented by Liquid Bitcoin is secure from attackers.
- Request a replacement of their PAK entry if they believe their wallet may be compromised. This ensures that all peg-outs are made by authorized members.
- Notify the federation if there are any unauthorized funds sent to a member's Bitcoin wallet associated with their PAK entry, as it represents a potential security breach.
- Actively stake bitcoin and facilitate the use of the Liquid network, a necessary condition to incentivize a healthy and secure network.
- Prioritize and communicate technical roadmap requests to the tech provider (Blockstream), so Blockstream can make best efforts to support the Federation.

Functionaries

- The Functionaries will make best reasonable efforts to keep Functionary hardware running at all times to help ensure uninterrupted operation of the Liquid Network. When more than one third of Functionaries are down, it can result in Network downtime.
- Functionary hardware is accessible to at least two individuals in the organization so that they can respond and address hardware downtime within 24 hours.
- Review and perform software updates as soon as reasonably possible, and notify Blockstream within 24 hours if unable to do so, or if there are objections tied to a reasonable belief that the disclosed vulnerability is not an actual security vulnerability or that the update will not repair said vulnerability.
- Develop and maintain criteria for identifying and reviewing Liquid Federation candidates. New Functionaries and PAK list entries are determined by Network consensus.
- Make decisions on inclusion or exclusion of new candidates qualified to serve as a Functionary, as it pertains to agreed-upon criteria.
- Make decisions on removal of existing Functionaries, as it pertains to agreed-upon criteria and Network consensus.
- Make decisions on inclusion or exclusion of new or existing PAK list entries, as it pertains to agreed-upon criteria and Network consensus.

- Perform the Federation transitions to update the PAK list and Functionary set, once a new decision has been made to add or remove a member.
- Maintain sufficient geographical, political, and control diversity for dispersion of global functionary set to avoid single points of failure in the Liquid Network.
- Remove Functionaries whose entity ceases to exist, or if multiple Functionaries fall under the consolidation of one corporate entity, in order to protect the functionality and security of the Network.

Boards

- The boards (currently comprising but not limited to the Oversight Board, Membership Board, and Technology Board) advise the functionaries in their technical governance of the network.
- The boards advisory roles and responsibilities will be defined from time to time with agreement from the members.
- No board, individual board member, employer of such individual board member, appointed legal counsel or other third-party professional (each, a “board participant”) hired by any board member in connection with any board member's performance of their duties as defined in this Charter or subsequent board rules (collectively, “Rules”) undertakes any duty of care, or shall be liable, whether for negligence or otherwise, to any other board participant, member or other network participant for any form of damages, whether direct, indirect, special, consequential or otherwise, that might arise in connection with any board participant's performance of their duties under the Rules, except in the case of gross negligence, fraud or wilful misconduct on the part of the relevant board participant, as applicable; and to waive any claim, whether for negligence or otherwise, that may arise against any board participant, except in the case of gross negligence, fraud or wilful misconduct on the part of the relevant board participant, as applicable. Each board participant, by joining such board, each member, by applying for membership and each network participant, by using the network are deemed to agree to the foregoing.

Blockstream

- Provide system upgrades and infrastructure to keep Liquid smoothly operating, and continue developing the system, taking into consideration the prioritization of the members.
- Release updates as needed and identify them as either emergency or ordinary, and provide an update package with the associated release notes and reason.

- Release emergency updates only to address specific security vulnerabilities, and disclose specifics of the vulnerability upon issuing the emergency update.
- Provide technical and/or hardware support to members who have signed Liquid Integration and Support Agreements per conditions of the Agreement.

Membership Criteria

The Liquid Federation Functionaries are responsible for determining membership criteria of Functionaries and non-Functionaries for the evaluation of new candidates and existing members.

All Members

- Entity has juridical personality
- Present clear objective to join Liquid Network with demonstrable use cases
- Agrees with the principles set forth in the Liquid Federation Member Charter
- Technically capable of supporting the Liquid Network

Functionaries

- Capable of maintaining reasonable efforts to keep Functionary hardware running at all times
- Exhibits sufficient geographical, political, and control diversity with respect to the complete Federation
- Exhibits strong incentive and capability to maintain security for the Liquid Network

Legal Compliance

Liquid members are subject to compliance with applicable laws, rules and regulations per the signed Liquid Integration and Support Agreement.

- All Liquid members will comply with applicable money services and banking laws, including:
 - Obtaining all applicable licenses and registrations

- Developing and implementing required anti-money laundering, counter-terrorist financing, customer identification, and know-your-customer policies
- Functionaries will provide other Functionaries with customary KYC diligence materials upon reasonable request.
- Functionaries will provide reasonable assistance to other Functionaries in responding to compliance inquiries.
- It is understood that reasonable assistance will not require the violation of legal or contractual confidentiality requirements, or anything which the Functionary believes would adversely impact its business or business relationships.

Network Failure

In the unlikely event of Network failure, the Functionaries have certain obligations and privileges in the manner in which the Network is restored, including the management of parameters designed to keep this process secure.

Background

- If one-third or more of the Network is ever unable to continue operating, the Network ceases to function and normal operations would prevent the funds from being spent.
- Upon Network failure, all funds held by the Liquid Network are also accessible by a set of three emergency keys when the network has been non-functional for twenty eight consecutive days (configurable in the future by Functionaries). The emergency keys cannot be used to spend any funds when the Network is operating correctly.
- Two of the three emergency keys can be used to access funds held by the Liquid Network so that they can be distributed back to their owners' authorized wallets.
- These keys are held in separate, secure locations to avoid a single point of failure.

Functionary Responsibilities

- In the event of a Network failure, Functionaries will cooperate with custodians of emergency keys to facilitate the transition to a new network, or unwind the network by allowing funds to be recovered by provable owners of Liquid keys.
- Functionaries may set the spending policy to determine maximum recovery time for emergency funds, the minimum amount of downtime before any funds can be

recovered, and number of emergency keys. These parameters exist to prevent unauthorized individuals from spending the emergency funds.

- The Federation is responsible for designating custodianship of emergency keys in escrow with sufficient geographical, political, and control diversity, and is not controlled by any member of Liquid. The holder of these keys or an agent on behalf of those keys may redistribute funds to customers based on the Liquid blockchain history.

Member company:

Has reviewed and will abide by the charter.

Name:

Title:

Signature: