



Rubicon: A Decentralized Equity Exchange Protocol

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I. Abstract

An inefficiency exists in financial markets where private firms looking to fundraise are not able to take funds from the majority of investors. Instead, public markets are a late-cycle benefit in a firm's life, made expensive by intermediaries and regulators, to the detriment of both the firm and public investors. In turn, public investors have little ability to invest in private markets. In the United States, investment in private equity markets is reserved for about 6% of the population. Once financial markets migrate and evolve onto public blockchains, access for investors will become much less restricted, allowing for seamless transactions between issuers, investors, and traders on the secondary market. The development of equity markets on the blockchain represents an inflection point in global financial systems. We propose a protocol to allow for the exchange of equity in a decentralized manner - that is, to remove reliance on any trusted third parties or costly intermediaries, and instead build financial markets on immutable, unyielding code. The Rubicon Protocol will begin with one class of digital assets and aims to ultimately decentralize the transaction of all equity assets, democratize financial markets, and give firms greater fundraising power. A governance token distribution will provide voting power to all users such that no centralized entity is the sole decision-maker and participation is democratized.

II. Introduction

In modern traditional finance, ownership of a firm sits on one side of an inflexible division between private and public markets. This structure seemed sufficient, as companies continuously started and failed, and it made access to public markets a reward reserved only for mature companies with prudent managers.

In recent history, firms are going "public" much later in their growth cycles than they used to. This trend traces to many root causes, most explanatory of which is the evolution of private markets over the last 30 years, which brought forth their ability to continue funding promising firms at late stages (see the dichotomy in fundraising paths between Amazon and Uber) [1][2]. The private investment ecosystem is more robust than it ever has been, rivaling and in some ways surpassing that of the public space. Investors with exclusive access to the markets where all promising young companies have to go for funding reap the benefits. However, this exclusivity poses a threat to market efficiency. The vast majority of the population disqualifies from investing in promising young companies. Furthermore, companies that find it too costly and difficult to cross into the "public" realm of finance miss out on significant benefits by way of liquidity, governance, and investor access. The current reality is that companies face costs in the millions of dollars to reach their first public investor.

Decentralizing the exchange of equity is a phase step for the financial world. This structure grants companies open access to the entire world as a liquidity pool and it brings investors the first-ever completely unlocked investment realm. Our belief is that the Rubicon Protocol is the primary point of interaction for these issuers, companies, and investors, ushering in a new age of open and streamlined finance.

III. Primer on Cryptocurrency and Decentralized Finance

Cryptocurrency took to the mainstage in the shadow of the 2008 financial crisis with the advent of the flagship technology in the space: Bitcoin (BTC). This digital currency promised a new approach to monetary policy, financial transactions, and storing value; instead of relying on nation-states, banks, and faith in legacy systems to support the monetary ecosystem, BTC built a currency based on cryptography, game theoretics, and economic theory [3]. The cornerstone technology of blockchains like BTC is that of the distributed ledger - a system that provides immutable and fraud-proof record-keeping to make sure that value is properly transferred between entities. As of writing, Bitcoin has a market capitalization of over \$215B and provides an open means of transmitting value to and from anyone in the world on a somewhat-instantaneous basis, regardless of station, background, or location. As BTC led the advent of digital currencies into global usage, other technologies emerged to develop and advance a financial ecosystem that embraced the same core ethos as Bitcoin.

Decentralized Finance (DeFi) refers to the open-source smart contracts, decentralized applications (“DApps”), and protocols built on a blockchain for the purpose of facilitating financial transactions. The DeFi infrastructure, at the time of writing, allows for long/short trades of digital currencies, instant leverage, options markets, peer-to-peer lending, and much more. The overarching goal of DeFi is to democratize and open access to global financial systems. This is achieved by replacing the trusted third parties and excess intermediaries of traditional finance with transparent and traceable smart contracts. Furthermore, all DeFi protocols and products enable anyone in the world to participate in the financial system in a permissionless nature. The leading platform for DeFi technologies and protocols is the Ethereum blockchain, primarily due to its robust developer ecosystem and Turing-complete smart contract programming language: Solidity [4]. Another key feature of DeFi is the composability of the ecosystem that is characteristic of open-source software: the plug-and-play nature of the public codebase that supports DeFi has enabled rapid growth and innovation.

At the time of writing, the USD total value locked (TVL) in DeFi has grown at a CAGR of 16,961.82% over the last 3 years, and since inception [5]. This rapid growth is driven by the early adoption and development of key DApps built for financial transactions. For example, the Compound protocol allows lenders to deposit digital currency into lending pools from which borrowers can borrow digital currencies (on a permissionless basis) provided they have staked sufficient collateral. Borrowers are able to gain access to make peer-to-peer transactions and take decentralized loans without the need for the stalwarts of traditional finance: banks [6]. Furthermore, a number of protocols in the DeFi space facilitate decentralized, permissionless, and nearly-instant exchanges between digital tokens and currencies. Their roles as decentralized exchanges (DEX) have enabled seamless pathways for participants in the space to swap or trade their currencies with protocols that implement various techniques to settle trades [7][8]. A key idea that permeates DeFi is that the fidelity, access, and peace of mind that traditional financial institutions provide while extracting value as a middle man, can simply be replaced with immutable, efficient, and unflinching code.

As the DeFi ecosystem continues to mature and develop, more relaxed regulatory hurdles and the mapping of real-world assets to the blockchain will continue to drive growth. The promise of a future in

which anyone, anywhere in the world can participate in the global financial system is a compelling and worthwhile pursuit.

IV. Primer on Traditional Equity Markets

In traditional finance, equity markets play a crucial role in the functioning of an efficient economy and are a major inspiration for the development of the Rubicon Protocol. In order to understand what the future has in store for the equity markets of today, it is important to understand the key activities and exchanges that these markets facilitate as well as how they have developed over time.

The first equity markets emerged several hundred years ago as a means to more efficiently allocate capital to businesses, ventures, and ideas, as well as spread the risk across a number of investors, rather than just one. These are all things they still do today. The overarching goal of equity markets is to facilitate transactions between net demanders of capital, primarily companies, and net suppliers of capital, entities like households, hedge funds, venture capitalists, etc. all looking to diversify their wealth. A crucial exchange that takes place is that of equity or a right to the governance, control, and upside of a company in exchange for the capital that a company needs. This exchange of value for ownership allows firms to raise money for new investments or business ideas and investors to participate in the upside or potential returns of those new projects or the business' growth. Additionally, this means of financing imposes fewer restraints and risks on companies than the alternative source of financing: debt [9].

In the modern era, when most people think of equity markets they think of the fast-paced and efficient stock markets that appear in popular culture and the dreams of aspiring financiers. These markets take the core principles of an equity market and boost their efficiency all the while providing key oversight and regulatory barriers in order to protect investors and companies alike from business malpractice.

In modern traditional finance, an important feature of equity markets is the oversight therein. In the US, for example, governing bodies like the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Agency (FINRA) provides important protections for investors and the companies that populate equity markets. An example of this can be seen in the regular filings that the SEC requires of publicly traded companies; the 10Q and 10K documents that are mandated by the Securities Exchange Act of 1934 to provide audited financial statements and company updates to the public so investors know the activities, and in turn can better understand the value of the companies they are investing in. This relationship works two ways, investors gain transparency into a company's activities and companies receive the opinions and oversight of their investors. This helps prevent the company from committing fraud, and the investors are able to leverage their ownership to guide the company in the right direction - aligning their financial incentive with tangible action.

Outside of public markets and the companies traded daily on the New York Stock Exchange (NYSE), there is an even larger number of private companies that do not have shares listed publicly [10]. As of writing, the value of assets held by private equity firms is estimated to be upwards of \$4 trillion, which if anything is a conservative estimate for the entire value of all private companies in the United States [11]. Importantly, these companies do not have to comply with the stronger regulatory requirements of a

publicly-traded company. As a consequence, private companies do not reap many benefits enjoyed by public companies. One of those is a liquidity premium, which provides a boost in equity value due to the fact that investors can easily sell shares on the secondary market. Furthermore, the oversight provided by regulatory authorities is a key two-sided benefit, making investors more comfortable to provide capital to the company. Finally, the required transparency of a company's activities that is demanded by public markets reduces the risk of moral hazard and helps align the company with investors for a better future [12].

V. Key Shortcomings of Traditional Equity Markets

Despite the many things that traditional equity markets do well there are still some key inefficiencies that should be rooted out as the ecosystem evolves. As inefficiencies are removed from equity markets in particular, the barriers to entry and biases of global finance will begin to permit access to previously neglected entities allowing for an efficient democratic system to emerge.

An example of a major barrier that exists in traditional finance can be found in the equity markets that pertain to private companies. These companies do not have stock listed on public exchanges that allow easy access for anyone who may want to participate in the upside therein; this is in part, from the company's perspective, due to the massive costs (regularly in excess of \$10M via an IPO) associated with deploying equity to the secondary market [13]. Without the ability to publicly list equity, these firms cannot reap the many benefits of being public: a liquidity premium, oversight, transparency of action, and clear regulatory guide rails. Furthermore, even those firms that wish to pursue means of equity financing are hard-pressed to find a secondary market that supports those offerings and provides even a modicum of the benefits that are characteristic of public equities. A lack of secondary markets with low barriers to entry for private companies and their equity offerings presents a major inefficiency. The gatekeepers of public markets in traditional finance operate an antiquated channel to private companies seeking equity financing and represent a costly, vestigial barrier in the life cycle of aspiring companies.

Outside of the inefficiencies that the present state of public markets imposes on aspiring private companies, the barriers that permeate the investor experience in private markets are similarly disheartening. As of today, the vast majority of retail investors in the US have no means of gaining access to traditionally private markets [14]. For example, should a savvy investor hope to gain upside exposure to an up-and-coming private company they would find it prohibitively difficult to do so? Traditionally, the main financiers and capital allocators in early-stage companies are Venture Capital (VC) and Private Equity (PE) firms. Furthermore, an investor that is given access to the funds at VC and PE firms must have a net worth of \$1 million - a requirement that excludes over 94% of Americans [15]. Presently, an early-adopter of a young private company's technology and the product does not have the direct means to participate in the upside, governance, and development of the said company - a relationship that would benefit both parties.

A discussion of inefficiencies and antiquated processes in traditional equity markets would be remiss to not mention the issues of fraud and obstructive monetary policy that are still a reality of the "efficient" markets of today. The annual cost on legacy financial infrastructure due to fraud was in excess of \$5T in

2019 [16]. The running list of financial frauds, deception, and exploits that are a product of the human-based legacy financial infrastructure of today is exhaustive. Outside of simple fraud or business malpractice, another common source of suffering and inefficiency in traditional equity markets can be the monetary policy decisions of many nation-states. Take, for example, the Venezuelan Bolivar, which has dropped to a near-worthless value since WW2. The fiat currency represents an example of a nation-state failing its financial system and people by devaluing their cash holdings dramatically. In Venezuela, many have turned to cryptographic ledgers in order to maintain value for themselves and escape the oppressive monetary policy of their state [17]. The most promising technology today that presents a solution to many macro-financial issues and crime alike rests in the blockchain. With every transaction, entity, business dealing, cash flow, and exchange publicly visible, it is easy to see how the shady dealings of yesterday are largely avoided, in part, due to improved financial infrastructure enabled by the blockchain.

Additionally, the ability of the present system to allocate capital efficiently to the best sources is far from perfect. This is apparent in the international barriers that face investors and private companies abroad. For example, a study of international barriers that face the equity markets of today can be seen in research done at Columbia University. In the paper, Market Integration and Investment Barriers in Emerging Equity Markets, the researcher finds that significant financial barriers exist for many emerging markets due, in part, to the mismanagement of monetary and financial processes by each market's government. This reduces their ability to generate returns, develop as a country, and receive requisite capital allocations [24]. In an interconnected and efficient world, major sources of liquidity and capital should not be bound by geographical boundaries or lines drawn by nations.

VI. Equity Markets and Digital Assets on the Blockchain

A potential solution for what is perceived as key inefficiencies in traditional equity markets may lay in the promise of blockchain. The advent of DApps and smart contract technology, as epitomized by the DeFi movement, are poised to herald in a new era of efficiency. Many of the key inefficiencies and access issues are addressed by blockchain - instead of arcane regulations by a nation-state, difficult means through which investors and companies gain access, and an ecosystem full of costly intermediaries, it is possible to envision an ecosystem in which all of these aforementioned items lay in the hands of the users and smart contract code.

Currently, equity transactions happening on blockchain platforms sit at a crossroads. Smart contracts are flourishing in debt markets, disrupting traditional lending practices by allowing anyone to stake their capital into pools across a number of different digital assets [5]. Limited by more regulation, equity markets have not taken so quickly to the blockchain. This lag in the natural progression of global financial systems can additionally be attributed to the cryptocurrency "hype cycle" of 2017 [25].

In what is now commonly known as the speculative ICO (Initial Coin Offering) craze of 2017, many players in the blockchain world rushed to try and port over real-world equity into this new technology. Many of these attempts to create security tokens ended up in limbo, as regulators, specifically the SEC, saw too many bad actors pushing out unsafe assets to investors with little to no approval from governing bodies. Much of the SEC's dissent towards the blockchain space came from asking the question of

whether or not different cryptocurrencies are securities or utilities. If defined as securities, they fall under full SEC scrutiny, which would make many of the fundraises of 2017 illegal. This question is still being answered today, but with increasing clarity from both regulators and those in the blockchain space.

In early 2020, Goldman Sachs and Citi were able to execute an equity swap on a private blockchain adhering to full regulation [18]. Only a few months later the SEC approved a fund to “tokenize” U.S. treasuries and have them exist as security tokens under a token protocol on the Ethereum blockchain [19]. Both of these events show that regulators are willing to accept the transfer of assets on blockchains, so long as those involved accept that if they are dealing with securities, the SEC will be regulating the transaction.

The message from the SEC is clear to those in the blockchain space. There is an existing path to tokenize equity and have it exist on a blockchain, open to all the advantages of quick peer-to-peer transfer, few to no intermediaries, and a global pool of liquidity. This path simply has more regulation than speculators in 2017 were willing to accept. Despite the decentralized nature of most public blockchains, strategic players must allow for the SEC and other regulators to retain their jurisdiction over transactions with securities from their respective countries even as markets evolve into less geographically-bound and nation-dependent systems. This is why the Rubicon protocol was developed to acknowledge the role played by regulators in the world of equity transactions, and not pretend that just because the transaction takes place on a decentralized ledger it is immune from scrutiny or important protections that are a part of the system today.

VII. The Decentralized Approach to Compliance and Regulators

In a decentralized world, the burden of compliance will fall on individual firms. Firms will report their own financing and operating activities directly to investors, market participants, and regulators without the need for a trusted third party. Protocols will be in place to shepherd firms along the correct path for regulatory compliance while replacing traditional intermediaries.

The Rubicon Protocol has been designed with this in mind. By enabling self-reporting features and shifting compliance issues away from third parties, we believe Rubicon can help build the framework for future financial compliance. A localized shift to firms semi-regulating themselves is not far from the current state of equity transaction compliance. Built upon the public ledger that is the Ethereum blockchain, data from the Rubicon Protocol is readily accessible to any regulatory body. In terms of fundraising reporting, that burden already rests on the firm and its associated underwriters. Additionally, Rubicon’s terms of use comply with all relevant state and federal regulations surrounding peer-to-peer transactions.

As a protocol Rubicon never takes custody of any securities and instead allows for the peer-to-peer exchange through a series of smart contracts outlined in this paper. These smart contracts were designed to emulate the best features of existing equity exchanges while removing some of their inefficiencies. This includes an open order book format of pricing and no market open or close, as no centralized entity

can suspend trading. These features can be altered in the future via community governance vote and should adapt as systems and technologies evolve.

Rubicon hopes to begin trading equities which fundraise using Regulation A from the Securities Exchange Commission [20]. This is a novel path for fundraising where firms can raise up to \$20 million from any investors in a Tier 1 offering, and up to \$50 million from investors in a Tier 2 offering. Rubicon plans to start with only Tier 1 offerings.

For a Regulation A offering, firms must file their offering statement. [21] This document includes basic financial statements, basic information about company officers, the current capital structure of the firm, and disclosure of fees paid to third parties in the process of filing. It essentially serves as a smaller scope prospectus for the firm. Once the offering statement is filed, the window to fundraise up to \$20 million (for a Tier 1 offering) lasts 12 months, but there is no limit on the exchange of these securities on the secondary market, except that of the total fundraising.

We believe that the SEC is heading in the right direction with Regulation A, opening up private markets to the public while still maintaining a stringent compliance framework to protect investors. We believe that the precedent it sets is somewhat scalable, in that Regulation A offerings are really only limited by their hard fundraising limit, and that Regulation A can change over time to stay in sync with new developments in the dynamic financial world. By offering a protocol for the exchange of Regulation A securities, and [eventually all securities], we can cross the proverbial Rubicon and usher in the era of decentralized finance. All of this while maintaining adherence to existing regulatory framework both in the United States and abroad.

It is our view that Regulation A securities are the perfect starting point for equity assets exchanging on a public blockchain. However, this is just the beginning of a trend. Eventually, most forms of ownership in the real world will be exchanged through some sort of public blockchain. Throughout this paper, we make the case for why public blockchains are better for ownership exchange as compared to legacy systems, and believe that long term the momentum from blockchain innovation will creep into most parts of finance as we know it. The ultimate goal is for Rubicon to be a protocol for an efficient way to exchange ownership in any type of transaction, whether it be securities, music royalties, real estate, or anything in between.

VIII. The Future of Digital Assets and Tokenized Equity

In the context of the present state of equity on the blockchain and the current regulatory environment that surrounds various securities in the US, the future of tokenized equity and digital assets is promising.

An important issue that financial markets need to resolve is the accessibility of traditionally “private” assets to a broader range of potential investors. The standard Regulation A offering enjoys very little if any secondary market liquidity and investors seeking to gain exposure to promising private companies are not able to do so. Oftentimes, this is not due to the company’s lack of outside investor interest - the present reality is it is much easier to turn to a traditional gatekeeper of capital in the current system than to

turn to the public for financing. If a company is able to raise an equal amount of money from a public investor base as they could from a VC firm there are compelling reasons why they might choose the public. The “public” route provides early users with vested interests in the success of the company and the ability to sell to a larger number of investors - those without the best interest of the company in mind will likely sell their share or be outvoted by the majority.

In addition to the access that blockchain technologies afford investors and companies alike, there are efficiency gains from a global capital allocation perspective. This is clear when examining a theoretical example: imagine a university student in a second world country that has a brilliant business idea. For the sake of argument, let’s assume that this business plan is global in scale and a positive NPV activity for any investor that would participate in it, and financing is required to scale the business in an efficient manner. Does the present system afford this student the ability to readily obtain financing for this idea? The odds are her native country doesn’t have dedicated institutional investors seeking out emerging technologies. Even though our theoretical entrepreneur likely has internet access, can she pound the pavement on Sand Hill Road and get her idea off the ground? Maybe the reality is there are only a few early believers in this revolutionary technology around the world, a select few with an interest large enough to want to provide financing in exchange for equity and align their incentives with the nascent company. Across international regulatory lines and archaic compliance procedures are these early investors able to successfully allocate their capital to the new idea in an ordered way? A thorough examination of the present system would yield unsatisfactory results for these questions. These musings lend themselves to the question: what is the global equity exchange of the future that will allow for efficient allocation of capital, democratized access to equity markets, regulations governed by the participants of the system, and seamless pathways for the growth of innovation in an unbiased manner?

Another key characteristic of any protocol aiming to replace the legacy equity markets of today is that it needs to be different from the present system in one regard - clarity. Any efficient equity exchange should not require teams of investment bankers and legal counsel to make sense of the rules therein for would-be company participants. Furthermore, once these markets are improved and replaced with community-governed, open-source code, the rules and regulations for participation will be clear for all to see and modify as users see fit. This will do nothing but draw in rational investors and companies seeking financing or liquidity alike as the optimal means for transacting equity.

Another important feature of a potential DeFi equity market future is the lack of any intermediaries impeding the openness or progress of the market. A properly implemented equity exchange protocol should provide easy, free, and open access to investors and companies alike. In this way, any holder of existing security that has been traditionally illiquid due to a lack of clear markets for exchange can look to sell their asset on global exchange of potential buyers. Furthermore, the massive costs associated with gaining access to “public” status or the liquidity premium afforded to the members of the NYSE today would be removed. This enables more firms to gain exposure to a greater number of investors and for the mutually beneficial wheel of the free market to spin without impediment. Promising companies will have easier access to capital, savvy investors will have easier access to new investment opportunities, and innovation will more easily flow into society as a bi-product of these relationships.

IX. The Rubicon Protocol - A Decentralized Equity Protocol

In an attempt to advance, democratize, and unlock the future of global equity markets, the Rubicon Protocol is being launched. Importantly, this protocol will improve or eliminate many of the aforementioned barriers, costs, and difficulties associated with the equity markets of today. Additionally, this protocol will embrace the ethos and requisite characteristics of the new wave of decentralized finance by being open-sourced, community-governed, and free to all.

The Rubicon Protocol will act as a system of smart contracts that will usher in these benefits. The contracts will contain a scalable open order book that will allow for peer-to-peer exchange for equities, a governance token that enables participation on a permissionless basis, clear rules and guidelines for the onboarding and trading of existing digital assets and on-chain equities, and visible data for all modern-era regulatory agencies and market participants to validate and monitor.

A key feature of the protocol will be the Rubicon Protocol Token, abbreviated to RBCN, which will afford all holders voting rights towards the protocol equal to the number of tokens that they hold. Importantly, this token will be non-fungible and impossible to counterfeit given the parameters of the Ethereum blockchain. RBCN will adopt the ERC-20 token standard while also enabling governance participation [26]. Additionally, a fixed supply of 1,000,000,000 tokens will be available for ownership and supplied to key stakeholders, and an allocation of the tokens not to be less than 51% will be provided for free to market participants over time. The community holders of RBCN will be able to vote on proposals to change the protocol's structure, key parameters, and functionality - this will enable the Rubicon Protocol to function as a Decentralized Autonomous Organization (DAO) and perpetuate into the future while leveraging democracy to enact changes.

A key concept underpinning the Rubicon Protocol is the ability for any equity owner to trade their shares of ownership with any provider of capital. With this said, it is important to understand the regulatory moment in which the Rubicon protocol exists. All market participants using the Rubicon Protocol technology as a means of peer-to-peer exchange are required to adhere to local, national, and international regulations and compliance obligations themselves. This obligation does not lay with the Rubicon Protocol and it plays no role in the regulation or compliance of the activities that are enabled by the technology - the protocol is simply a means of transacting, it is up to the users to comply to the full extent of the law, as well as the Rubicon terms of use. Rubicon will enable peer-to-peer trading while assuming no custody, imparting no opinion or bias, and leaving transacting in the hands of users.

In order to provide benefits to an easily addressable market for the protocol, the first version of the Rubicon Protocol will be developed with the primary purpose of facilitating the transactions of existing on-chain digital assets. Once we have built our exchange and satisfy regulatory criteria, we can transition to focusing on Regulation A equities. This is because these securities have few to none secondary market restrictions in the United States and, more importantly, have a dramatically underserved means of exchange from existing sources. Furthermore, the Rubicon Protocol will be designed with new digital

equity interfaces in mind and open to all token standards that enable compliant security token exchange. For example, Tokeny has developed the T-REX standard in order to allow for the easy mapping of real-world assets to the blockchain while also accounting for key regulatory requirements that may exist or be relevant throughout the lifecycle of the asset [22]. Furthermore, the Rubicon Protocol will support the transaction of ERC-1400 assets, a token specification that is well suited for tokenized assets [23]. A key principle of the Rubicon protocol will be to act as a middle layer that will enable any digital asset or equity to freely trade; in the early days of the protocol, while the world still requires localized regulation, it will be important to make sure that only compliant tokens are tradeable on the decentralized exchange.

Another key idea that is core to the Rubicon Protocol is the manner of the peer-to-peer exchange- it will leverage an open order book to facilitate transactions. This structure is more similar to the exchanges of modern finance and unlike the popular structuring of DEXs on the blockchain today, the Automated Market Making (AMM) model [5]. The AMM model is one that is not utilized in existing, efficient equity markets and has minimal research backing its effectiveness; as we perceive it AMMs are a temporary solution to a temporary problem. The open order book model of exchange will enable the usage of “limit” buy and sell orders while enabling market makers and equity holders to effectively manage risk and market exposure.

Many benefits will exist around the Rubicon Protocol simply due to its positioning in the DeFi space. One of the key benefits of DeFi, as presently stated, is the composability and openness of the system. For example, should a trader want to obtain leverage on a trade in the Rubicon Protocol, they would be able to atomically borrow the requisite capital and execute a trade all in one transaction across multiple protocols. Furthermore, suppose a market participant wants to sell short what they see as underperforming equity. In its initial phases, the Rubicon Protocol will leave this functionality to other protocols to enable synthetic shorts via options writing on the underlying assets and eventually directly enable shorts of the equities on the platform. As the Rubicon Protocol fills a crucial niche in the world of decentralized finance, firms, investors, DeFi protocols, and global financial systems will benefit alike.

X. Conclusion

We expect that in the near future, most real-world assets will transition to some state where they exist on a public blockchain. During this time of transition, we propose the Rubicon Protocol as a solution for the peer-to-peer exchange of assets on the blockchain and ensure that the precedent is set for an open and decentralized future of finance. Beginning with existing digital assets and then focusing on Regulation A securities, the protocol will extend to other types of popular assets and open up formerly private investments to a global pool of capital. Firms that previously had no solution for liquidity or hedging their risk will have the ability to tokenize their equity and offer it to the broader market at no cost. Investors who do not have access to restricted markets will have a place to invest that can give them exposure to younger companies and provide the two-sided benefits of traditional equity markets to a greater number of assets. By replacing expensive intermediaries with immutable code, Rubicon will act as a medium for ownership change across a range of asset classes. The protocol will be managed by the holders of governance tokens (RBCN) who create and vote on amendments to parameters of the protocol, giving active participants incentive to own RBCN and play a role in governance.

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Further Reading:

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