LOVE Coin — Custody Strategy

Path A (custodial-light, transparent) → Drift toward Path B (non-custodial first)

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This document outlines the deliberate, multi-phase shift of the LOVE Coin ecosystem away from custodial liability concentrations (the historical failure mode of FTX, MtGox, Quadriga and QuadrigaCX) and toward a self-custody-first architecture where users hold their own keys by default, while preserving the frictionless UX that makes social-tier features (Sparks reactions, LOVA micro-payments, in-game rewards) usable.

Operator: Wise World 2012 Limited (Hong Kong SAR)

Domains: lovecoin.life · loveos.tech · lovebrowser.life

1 · Why this matters

Centralised exchanges that hold customer funds carry an existential, asymmetric risk: a single internal failure (fraud, hack, mismanagement, regulatory seizure) can wipe out user balances overnight. The 2010s and 2020s have produced a long graveyard of such platforms — MtGox (2014), QuadrigaCX (2019), Celsius (2022), FTX (2022), and others — each of which promised safety, each of which lost user funds.

LOVE Coin is uniquely positioned to avoid this trap. We already operate **three coexisting layers**: a custodial CEX-style internal ledger (*exchange_balances*), a non-custodial SAFE Wallet (Stellar keys held client-side), and a fully on-chain DEX (LOVE FLOW). The strategic question is **not whether** to remove custodial risk, but **how fast and through what default UX**.

2 · The three layers today

Each layer has a clear role and a clear risk profile:

Layer	Custody model	Today's role	Risk class
CEX ledger (exchange_balances)	Custodial (platform holds)	Fiat on-ramp staging, Sparks tips, LOVA micro-pay, game rewards, social balances	HIGH — concentrated platform liability
SAFE Wallet	Non-custodial (user holds Stellar secret key, encrypted client-side, PIN-gated)	Long-term holdings, withdrawals, P2P payments, federation aliases (name*lovecoin.life)	LOW — user is sole signer
LOVE FLOW DEX	Non-custodial (on-chain Stellar AMM)	Spot trading, limit orders, TWAP, liquidity mining, all advanced order types	LOW — atomic on-chain settlement

3 · Path A — Custodial-light, radically transparent (now → 6 months)

We keep the current three-layer architecture but build **transparent guardrails** around the CEX ledger so users, journalists, and regulators can see in real time that we are not running a fractional-reserve operation. The five immediate deliverables:

3.1 · Public Proof-of-Reserves dashboard at /proof-of-reserves. Every hour, a server function compares:

- On-chain authorised LOVE supply at issuer GCLEW3ML…WAB3GS (via Horizon API)
- Sum of all internal exchange_balances LOVE liabilities (via SECURITY DEFINER RPC)
- Difference (collateral surplus). Healthy state: surplus ≥ 0 — every internal LOVE is backed 1:1 by an on-chain LOVE we control.

3.2 · Public Treasury Health — extend the existing internal admin banner (Stellar + EVM hot wallets) into a public read-only view, with explicit minimum-reserve thresholds.

3.3 · 'Not your keys' contextual warnings on every screen where a user holds value in the CEX ledger (Wallet overview, Exchange, LOVE Flow CEX side), with a one-click 'Move to SAFE' action.

3.4 · Insurance Fund made public — Phase 19 Liquidations Engine already maintains an on-platform insurance fund. We surface it on /proof-of-reserves as a published user-protection cushion, with full inflow/outflow ledger.

3.5 · Quarterly attestation — publish a signed JSON snapshot (Stellar issuer balance + internal liability total + insurance fund balance + timestamp) every 90 days, archived in a public repo.

4 · Drift toward Path B — Non-custodial first (months 1 → 12)

No big-bang migration. Each month, one defensible step. Each step is individually reversible and individually communicable to users.

M1–M2 **Default onboarding pivots to SAFE**

First-run flow creates a SAFE Wallet (Stellar keypair, encrypted, PIN-gated) before the CEX ledger row. CEX becomes opt-in 'Trading & Social Account' from a settings toggle.

M3–M4 **Auto-sweep nudge**

When a user's CEX LOVE balance exceeds $500 USDL-equivalent, surface a persistent banner: 'Move to SAFE for self-custody.' After 7 days unacknowledged, run an opt-out automatic sweep to the user's SAFE address.

M5–M6 **DEX-first router for swaps > $50**

Any swap above $50 USDL-equivalent routes through LOVE FLOW DEX by default (atomic on-chain). The CEX swap path is preserved only for micro amounts: Sparks tips, LOVA messages, small in-game rewards (< $50).

M7–M8 **Fiat on-ramp lands on SAFE**

Stripe and Transak callbacks deliver crypto directly to the user's Stellar address, not the CEX ledger. The 24–48 h staging period (necessary for chargeback risk) is the ONLY moment funds touch our books.

M9–M10 **Withdrawal as a non-event**

When 95 % of TVL lives in SAFE, 'withdrawal' from the platform becomes a UX no-op — the funds are already in the user's wallet. Public withdrawal queues shrink to near-zero.

M11–M12 **Public proof-of-reserves becomes proof-of-NO-reserves**

By month 12, the dashboard headline flips from 'X LOVE held in custody, fully backed' to 'Y % of all user LOVE is in self-custody. We hold N LOVE — micro-balances only.' This is the marketing endgame.

5 · What stays in the CEX ledger (and why that is acceptable)

Not every flow benefits from on-chain settlement. For micro-payments, the Stellar base fee plus user UX friction would destroy the product. The following flows remain in the internal ledger by design:

- **Spark mega-reactions** (1–5 LOVE tips). On-chain settlement at $0.50+ fee on a $0.30 tip is nonsensical.
- **LOVA AI message charges** ($0.02–$0.05 per message). Batched, settled internally.
- **Game treasuries** (Snake, Zoo, Earth Game, Kingdom). These are platform-issued rewards from the Game Dev Fund, not user-deposited capital.
- **Fiat on-ramp staging** (24–48 h). Necessary buffer for Stripe/Transak chargeback windows. Auto-swept to SAFE on settlement.

Hard rule: the internal CEX ledger is 'pocket money' — the soft cap for any individual user is $50–$100 USDL-equivalent. Above that, the auto-sweep system moves value to the user's SAFE Wallet. By month

12, the aggregate CEX TVL should sit below 5 % of total ecosystem TVL.

6 · Why this is also good business (not just defensive)

Regulatory survival. MiCA (EU, in force) and the upcoming US Clarity Act will impose capital requirements, customer-fund segregation, and monthly attestations on entities that custody user crypto. By drifting non-custodial, we move out of the regulated perimeter entirely for the bulk of TVL.

Reputational moat. 'We can't rug you because we don't hold your keys' is a stronger marketing claim than any APY. It is also true.

Technically near-free. The full SAFE Wallet, federation (name*lovecoin.life), and DEX infrastructure already exist. The work is UX + an hourly Proof-of-Reserves cron. No new chain, no new audit, no new capital.

Brand alignment. LOVE values — sovereignty, transparency, no extraction — are literally what self-custody encodes.

7 · Proof-of-Reserves — technical specification

Public route: /proof-of-reserves. No auth required.

7.1 · Data sources (per refresh, hourly cron + on-demand)

- **On-chain LOVE supply** — Horizon API: GET /assets?asset_code=LOVE&asset;_issuer=GCLEW3ML…WAB3GS. Field: balances.authorized.
- **Internal LOVE liabilities** — Postgres RPC get_total_internal_love() (SECURITY DEFINER, bypasses RLS, sums exchange_balances WHERE asset = 'LOVE').
- **Insurance Fund balance** — RPC dex_get_insurance_fund_status() (Phase 19, USDL-denominated).
- **Treasury hot wallets** — Horizon for Stellar (XLM, LOVE, USDC trustlines) + EVM JSON-RPC (eth_getBalance + ERC-20 balanceOf for USDT on ETH/BSC/Polygon).

7.2 · Health logic

collateral_surplus = stellar_authorised_LOVE – internal_LOVE_liabilities

- **HEALTHY (green):** surplus ≥ 0 — every user-owed LOVE is backed by an on-chain LOVE we control or have authorised.
- **WARN (amber):** surplus < 1 % of liabilities — possible cron lag, refresh and re-check.
- **CRITICAL (red):** surplus < 0 — fractional reserve detected. Triggers admin alert + public banner.

7.3 · Public UI elements

- Hero status badge (green/amber/red) with timestamp of last refresh.
- Three numbers, side by side: On-chain LOVE supply · Internal LOVE liabilities · Collateral surplus.
- Sankey or bar chart: stellar supply split into 'in self-custody' vs 'in CEX ledger' (drift target: shrink the second bar over 12 months).
- Insurance Fund card: balance + 30-day inflow/outflow.
- Treasury hot-wallet cards (Stellar + EVM) with public addresses, current balances, and explorer links.
- Methodology section + 'Verify yourself' panel: copy-pasteable Horizon URLs and EVM RPC calls so anyone can independently reproduce the numbers.
- Quarterly attestation downloads (signed JSON snapshots).

8 · Success metrics (12-month checkpoint)

Metric	Today (baseline)	Month 6 target	Month 12 target
% of TVL in self-custody (SAFE + DEX)	~ 35 %	≥ 60 %	≥ 95 %
Median user CEX-ledger balance	$120	$50	≤ $25
Proof-of-Reserves uptime	—	≥ 99 %	≥ 99.9 %
Days since last collateral surplus < 0	n/a	≥ 180	≥ 365
Public attestations published	0	2	4

9 · Risks & mitigations

9.1 · Lost SAFE keys. The biggest UX risk of self-custody. Mitigation: mandatory 12-word phrase backup at SAFE creation, 2FA-style social-recovery contacts (post-launch), and clear in-app education with 'this cannot be reset' warnings.

9.2 · User confusion during onboarding. The shift to SAFE-first must not break the <30-second new-user activation. Mitigation: SAFE creation is 1 tap with auto-generated entropy; the recovery phrase reveal step is gated behind a 'Save now / Remind me later' choice, never blocking first use.

9.3 · Cron failure on Proof-of-Reserves. A stale dashboard is worse than no dashboard. Mitigation: timestamp prominently displayed; if older than 2 h, banner flips to 'Stale data — refreshing'; admin alert triggers on cron miss.

9.4 · Edge-case: Stellar issuer key compromise. Outside this strategy's scope, but the hot issuer should already be migrated to a multisig SAFE controlled by the founder + 2 ecosystem signers. Track separately.

10 · Decision & next action

Approved direction: **Path A now, drift to Path B over the next 12 months.**

Immediate next step: build the public /proof-of-reserves page (Section 7) and link it from the footer. Everything else follows from there.

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