

PAYWARD LTD

CRYPTO ASSET RISK DISCLOSURE

Filecoin (FIL)

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Disclaimer

Please note that this risk disclosure is not exhaustive of all risks associated with trading FIL. Investors should perform their own assessment to determine the appropriate level of risk for their personal circumstances. Be sure to do your own research and due diligence while taking into account your own financial situation and risk tolerance. Please review the [Risk Summary](#) for additional discussion of general risks associated with the assets made available in the platform. These materials are for general information purposes only and are not investment advice or a recommendation or solicitation to buy, sell or hold any crypto asset or to engage in any specific trading strategy. The information contained in this risk disclosure is based on publicly available information that may be inaccurate, incomplete, or change at any time.

What is Filecoin?

Filecoin is a cryptocurrency that aims to incentivize a global network of computer operators to provide a file sharing and storage service.

The Filecoin network operates atop another protocol for decentralized file handling called the Interplanetary File System (IPFS) acting as its security and incentive layer. Filecoin miners get paid for making storage space available to users. Filecoin users, in turn, must pay miners for storage, retrieval or distribution of this data.

Who is behind the project?

Filecoin is an open-source software that was created by Protocol Labs, the same firm that created technologies like IPFS and Libp2p aimed at replacing existing internet protocols.

Protocol Labs was founded by Juan Benet, who co-founded a game developer called Loki Studios while studying computer science at Stanford. The company was acquired by Yahoo in 2013. Benet then participated in the Y Combinator startup accelerator to start Protocol Labs.

Protocol Labs has received funding from notable investors like Digital Currency Group, Stanford University's startup accelerator StartX, Coinbase co-founder Fred Erhsam and AngelList founder Naval Ravikant.

Filecoin's initial coin offering, which ran from August to September 2017, further raised \$257 million from a number of venture capital firms like Sequoia Capital, Andreessen Horowitz (a16z) and Union Square Ventures. The Filecoin offering was the largest of its kind at the time.

How does it work?

Users who want to store data on the Filecoin network must pay a miner to do so. How much they pay is determined by an open market where miners compete with one another to offer the lowest price for storage. Miners, in turn, have an incentive to provide storage because they stand a chance to receive rewards from the network in the form of Filecoin tokens. The more storage they offer the network, the better their chances of receiving a reward. But these rewards aren't free. Miners must perform several computationally intensive processes (called proofs) to prove to the network that they are storing the data they claim to be storing, and that they're doing so reliably over a period of time. If they do so reliably and provide enough storage, then they can create new blocks on the Filecoin blockchain and receive the network reward and the transaction fees.

There is one additional category of Filecoin miners, known as Retrieval Miners and Services. These miners are paid by users to retrieve data and to perform services that speed up the transmission of data, such as caching or participating as a node in a content delivery network.

Proof of Replication and Proof of Spacetime

Blockchains rely on different forms of proofs to ensure that all users of the network can agree on new transactions. The Bitcoin blockchain, for example, relies on Proof of Work, where a miner must show it has performed a massive number of calculations to earn the right to add new transactions to the blockchain and claim newly minted bitcoin.

Filecoin uses two new proofs to verify that miners are actually storing the data they claim to hold. Proof of Replication shows that a miner has truly stored the number of copies of data it claims. Proof of Spacetime shows that a miner has stored the data over an agreed period of time. Together, these proofs allow users to trust that miners are acting honestly.

Filecoin Storage Markets

Using these technologies, Filecoin will offer a market for disk storage where users who wish to store data can bid on available storage offered by miners who offer disk space. Miners who supply disk space will also be judged based on their reliability as well as the prices of storage they are offering. Filecoin's Storage Market will be similar to a financial market, where users can make bids and offer asks.

Tokenomics of FIL

Users of the Filecoin network use FIL to pay miners to store or distribute data and to retrieve their information. Filecoin miners post FIL as collateral which gets slashed should a deal with a customer fall through.

70% of the total FIL supply is allocated to miners and will be released over time to reward them for their services. 10.5% was allocated to Protocol Labs and 4.5% to Protocol Labs team members. 7.5% was distributed to the investors of the 2017 Simple Agreement for Future Tokens (SAFT), 5% was reserved for the Filecoin Foundation and the remaining 2.5% will be used for future fundraising and ecosystem development.

According to CoinGecko, the circulating supply as of September 2023 is ~451 million with a maximum supply of 2 billion tokens.

General Risks

Like all other digital assets, there are some general risks to investing in FIL. These include short history risk, volatility risk, liquidity risk, demand risk, forking risk, code defects, cryptography risk, regulatory risk, concentration risk, electronic trading risk and cyber security risk. For more information on general risks associated with smart contracts and digital assets, see Kraken's Risk Statement.

Risks specific to FIL

Competition

Filecoin faces competition from other storage platforms such as Arweave, Storj, Sia, and many others. Failure to capture sufficient adoption compared to other options in the market could negatively impact the value of FIL.

Developer Dependence

Although there are many developers working on Filecoin, there are no guarantees that they will continue to contribute. FIL could be negatively affected by an inability to retain and/or attract developers to continue to build out its storage platform and build applications that utilize the network.

Regulatory and Litigation Risk:

On June 6, 2023 the United States Securities and Exchange Commission (SEC) filed a case against Coinbase alleging that Coinbase offered trading services in crypto asset securities. One of the crypto assets alleged to be a crypto asset security in this case was: FIL. If the SEC finds Coinbase to have dealt in crypto asset securities, there may be consequences for the price of this token.

Due Diligence

Prior to listing on the Kraken platform, Kraken performed due diligence on FIL and determined that Kraken was permitted to make FIL available for trading to UK users, in compliance with UK law. This process generally consists of reviewing publicly available information on the following:

- The creation, governance, usage and design of FIL, including the source code, security and roadmap for growth in the developer community and, if available, the background of the developer(s) that created FIL;
- The supply, demand, maturity, utility and liquidity of FIL;
- Material technical risks associated with FIL, including any code defects, security breaches and other threats concerning FIL and its supporting blockchain (such as the susceptibility to hacking and impact of forking), or the practices and protocols that apply to them; and
- Legal and regulatory risks associated with FIL, including (i) any pending, potential, or prior civil, regulatory, criminal, or enforcement action relating to the issuance, distribution, or use of FIL,

and (ii) consideration of statements made by any regulators or securities regulatory authorities in the UK, other regulators of the International Organization of Securities Commissions, or the regulator with the most significant connection to FIL about whether FIL, or generally about whether the type of crypto asset, is a security and/or derivative.

Don't invest unless you're prepared to lose all the money you invest. This is a high-risk investment and you should not expect to be protected if something goes wrong. [Take 2 mins to learn more.](#)

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