Digital Monetary Fund Issuance Principles

Digital Monetary Fund (DMF), is a *Distributed Autonomous Organisation* (DAO) stable-coin provider, with more than 200 different tokens in circulation as of 2021. Due to the importance of stable-coin Tokens to the entire crypto ecosystem, the issuance of DMF tokens is a careful and strategically planned process that spans four distinct stages: ***Authorized, Issued, Redeemed, and Destroyed***.

This article will explain each of these stages in detail and shed light over why DMF uses this process to maximize the security and usability of DMF tokens.

Authorized

Authorized tokens can be thought of as pre-issued tokens. Authorized tokens are created in large batches for two key reasons: to meet customer demand and to minimize how frequently DMF signer's need to interact with the private keys.

Authorized transactions can be generated ahead of time and then signed by multiple signers involved in the DMF tokens issuance process. Authorized transactions are always prepared for a fixed number of tokens. This amount is determined by conversations DMF has had with clients and represents the anticipated demand for tokens by these parties.

DMF's private keys control the ability to issue tokens, so private key security is a top priority for DMF. By issuing tokens in batches, DMF is able to greatly reduce how often private keys need to be used. Additionally, maintaining an inventory of authorized tokens allows DMF to meet customer demand in a timely manner.

The authorization process ensures that DMF tokens don't need to be issued every time a request is made. Otherwise, DMF's private keys would need to be interacted with and potentially exposed every time a client submits a request for our stable-coin tokens.

Authorized DMF stable-coin tokens are not counted as part of the market cap of DMF tokens. These tokens are not in circulation and as such are not backed by collateral. All DMF stable-coin tokens that are issued into circulation are fully backed by collateral. All authorized tokens are held within DMF's treasury.

Issued

Issued DMF tokens are tokens which have been issued to a client and are currently in circulation.

All issued DMF are 100% backed by reserves, which include traditional currency and cash equivalents and, from time to time, may include other assets and receivables from loans made by DMF to third parties.

The market cap of DMF tokens is made up entirely of issued tokens. Issued tokens may be held by an exchange, an individual, or an institution that is using DMF stable-coin tokens to transact with or to store funds in a secure digital form.

All issued DMF stable-coins tokens are initially taken from the current supply of authorized DMF in DMF's treasury. In order to leave DMF's treasury, newly issued stable-coin tokens must be backed by collateral. The supply of authorized tokens decreases every time DMF stable-coin tokens are issued until it is replenished by future authorizations.

Redeemed

Every DMF stable-coin token can be redeemed for the related fiat currency Eg. US Dollars, on a 1:1 basis. Redeemed stable-coin tokens that have been sent back to DMF to be processed for redemption into the related fiat currency. Redeemed tokens that are no longer backed by collateral are held back from circulation and stored in DMF's inventory or treasury. Redeemed DMF stable-coin tokens are not released back into circulation unless new collateral has been provided to back these tokens. Redeemed DMF stable-coin tokens may be issued to new clients in response to demand or they may be destroyed.

Redeemed DMF stable-coin tokens are not counted in the market cap of that coin.

Destroyed

Destroyed DMF stable-coin tokens are coins that have been permanently destroyed. Destroyed DMF stable-coin tokens are neither in circulation nor in the DMF treasury/inventory.

DMF stable-coin tokens may be destroyed in the event that DMF has more tokens in it's treasury/inventory than are required for estimated client demand after a redemption has taken place.

DMF stable-coin tokens may also be destroyed if after a chain swap there were excess tokens which were deemed unnecessary.

Chain Swaps

DMF stable-coin tokens are issued on the Ethereum blockchain. The Ethereum Blockchain was initially chosen because it is the most accessible, popular and widely accepted.

There are plans to also distribute DMF stable-coin tokens on other blockchains, including Algorand, Bitcoin Cash's Simple Ledger Protocol (SLP), EOS, Liquid Network, Omni, Tron, and Solana.

In order to manage user demand in each of these different ecosystems, it is sometimes necessary to move DMF stable-coin tokens from one blockchain to another.

For the average DMF user, the best way to swap DMF stable-coin tokens from one blockchain to another is via a cryptocurrency exchange that supports both versions of DMF stable-coin tokens, such as Bitfinex. However, when a cryptocurrency exchange needs to balance out a surplus of one type of DMF stable-coin tokens it may require a chain swap.

In order to perform the chain swap, the exchange will send DMF stable-coin tokens and a corresponding number of DMF stable-coin tokens will be sent back to the exchange on the corresponding chain.

If the client's request is for more DMF stable-coin tokens (of a specific chain) than DMF currently has in its treasury, then new DMF stable-coin tokens will be first authorized and then issued on the corresponding chain and DMF may destroy the excess DMF stable-coin tokens on the previous chain if necessary.

Chain swaps are a net neutral process in terms of DMF stable-coin tokens issuance. The net balance of total DMF stable-coin tokens remains the same, as tokens are simply moved from one blockchain to another. All DMF stable-coin tokens remain backed by the same collateral.

While users may see DMF stable-coin tokens being issued due to chain swaps, it can be helpful to understand that this issuance of tokens does not constitute the creation of additional DMF stable-coin tokens.

Hedging and Risk Management

It is not practical or possible to hold certain fiat currencies or assets to back issuance of the related DMF stable-coin tokens. This may occur where the national fiat currency or asset is not readily exchangeable or there are restrictions on holding bank accounts or the physical asset for that fiat currency.

To hedge the market risk of those currencies the DMF treasury may hold the value of a DMF stable-coin token in a readily exchangeable asset, such as USD, ETH or BTC, and use derivatives, such as Forward Contracts, Futures Contracts, Contracts for Difference (CFD) and Options, to avoid market movement risks.

The Lifecycle

At any given time, a DMF stable-coin token can be identified as being in one of these four stages of the issuance cycle: ***authorized***, ***issued***, ***redeemed***, or ***destroyed***.

By conducting issuance using this system, DMF is able to safeguard some of the most important private keys in the cryptocurrency industry and provide in demand services to DMF clients.

By better outlining the DMF issuance cycle, DMF hopes to create more transparency and provide a clearer picture of the various issuance alerts that become circulated via block explorer monitoring.