Setheum Initial Fiscal & Liquidity Offering White Paper

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Abstract

In this paper, I will elaborate the token economics of the Setheum Network. After going through this paper, the reader will understand the economic model behind the Setheum Network and SettIndex, from the Key Functions of the Dinar Tokens, to Liquidity Injections and parachain auctions on Polkadot.

Contents:

1. KEY FUNCTIONS OF DNAR TOKENS

The DNAR is the native token of the Setheum Network and it serves 6 (Six) key functions in the Setheum Network:

- Utility Token, DNAR is a native fee token (e.g. fee for native transactions and smart contracts/DApps), and also utilized in staking for collators and validators, staking for oracle, and other network activities.
- Governance Token, DNAR tokens provide their holders voting rights in Treasury governance, Council member elections, referenda, network up-grades, risk management et al, e.g. adjustment of key risk parameters such as Stability Fee, Liquidation Ratio, and Collateral Type.
- Stablecoin Standard, the DNAR token is used as the SETT standard, the SETT token and Sett Currencies are backed by the DNAR reserve called SERP (Setheum Elastic Reserve Protocol)
- Market Value Unit, DNAR is used as the market capitalization unit of the assets, all assets are converted into voting power according to the price of DNAR, similar to ETH/ERC20 in Ethereum.
- Collateral, the DNAR token is used as collateral for minting L-DNAR (LDNAR).
- Exchange Token, the DNAR token is also used as the base currency and exchange medium for certain non-mainstream assets in the SettIndex Exchange DApp, similar to BNB in Binance.

2. MINTING AND DISTRIBUTION OF DNAR TOKENS

Half (50%) of the total supply of the DNAR tokens will be minted at the launch of the mainnet and stored in the Setheum Treasury Pool to be distributed as such:

- Setheum Teams, 25% of the total supply of DNAR will be reserved for the Setheum Teams (A consortium of 2 teams, 12.5% each).

- DS3 Foundation (Ecosystem Fund), 7.5% of the total supply of DNAR will be reserved for Ecosystem development to foster growth and adoption, e.g. Grants, Bounties, Airdrops et al.
- Setheum Treasury Reserve, 7.5% will be reserved as Setheum Network's Decentralized Treasury.
- Strategic Investors & Token Sale, 5% will be distributed to the strategic investors and in token sale i.e, SAFT, ICO, IEO of Setheum.
- Initial Rewards, 5% will be distributed as rewards, to IPO participants as proposed in Section 7, and network contributors including liquidity providers, early participants, oracle operators and collators/validators.
The DNAR tokens are subject to re-denomination.

3. TREASURY GOVERNANCE

Network fees from the following sources are stored in the Treasury, which is under the governance of DNAR holders.

- **Stability Fee** to close a CDP with outstanding debt of n LSETs, the CDP owner is required to pay $s \cdot n$ LSETs as Stability Fee, where s is the effective interest rate.
- **Liquidation Penalty**, All open CDPs are constantly monitored by the system. For each collateral type, a corresponding liquidation ratio is voted by DNAR holders, reflecting the amount of overcollaterization a CDP is required to meet to avoid liquidation. Once the value of the CDP collateral has fallen below the requirement based on the liquidation ratio, the CDP becomes risky and is automatically liquidated by the system through a hybrid mechanism consisting of a built-in DEX (Settindex) and Collateral Auctions. In a Collateral Auction, a proportion of collateral is sold to cover the outstanding debt in the CDP, and a liquidation penalty of $p \cdot n$ LSETs, with any remaining collateral returned to the CDP original owners.
- **System Fees**, system fees include native transaction fee, DEX fee, SettDOT protocol fee, LDNR protocol fee and fees for other network activities.

4. BRIDGE MULTI-CHAIN RELAYCHAIN

We plan to launch our mainnet as an independent blockchain and issue DNAR for staking, meanwhile build the transfer bridges with the current main-stream chains, and integrate inter-chain assets on chains of BTC, LTC, ZEC, ETH, ERC20, ERC721, ADA, EOS, ATOM, REN, XRP, LINK, X-BTC, MKR, DAI to make it more extensive, so that more users can participate in asset minting, trading and liquidity, and we plan to Bridge to the Polkadot Network and the ChainX Network as another Relay Chain of the Substrate Web3 Ecosystem.

5. DNAR INITIAL LIQUIDITY INJECTION

A small proportion of DNAR tokens reserved in Treasury will be available at public sales events before the launch of mainnet, to inject initial liquidity to the network. DNAR tokens sold through public sales events will be distributed to the participants immediately and are ready to be traded at the launch of the mainnet.