Contribution Regulations

14 February 2023

Version 1.0

Impacts DAO Cooperative

These **Contribution Regulations** of the Impacts DAO Cooperative (hereinafter referred to as the "LVC") govern how contributions by members of the LVC are to be valued and how investors will be repaid.

The status of this document and governance procedures that must be followed for LVC members (also referred to herein as "DAO Members") to make amendments to the Contribution Regulations are set out in the Impacts DAO Cooperative *Statutes*.

The *Liechtenstein Venture Cooperative Code of Conduct* (February 2016), issued by the Liechtenstein Ministry for General Government Affairs and Finance, serves as a reference guideline for interpreting these regulations.

▼ 1. Legal basis of the Impacts DAO Cooperative (LVC)

- The Liechtenstein Venture Cooperative (LVC) is a form of incorporation offered by the government of Liechtenstein that is designed to help innovators develop their ideas through a specific legal framework that limits the liability of membership and investment.
- The LVC allows innovators to form cooperative relationships with other specialists and investors to fund, further develop, and commercialise the innovation and to grow a related ecosystem of member organisations that can contribute to the success of the innovation.
- Private individuals and legal entities can contribute work, non-cash contributions, and financial capital to the LVC to develop the innovation and its related ecosystem.
- The LVC provides a legal basis for bringing together these contributions as investments into the innovation.
- The model provides a fair method to calculate the degree of participation based on both contributions and performance during the development stages of the innovation.

- This approach aims to protect both inventors and those who contribute by doing work for the LVC, or by committing funds. All inputs are notionally valued as investments equivalent to cash contributions.
- By using this model, inventors and contributors should have a balanced and equitable share in the innovation process.

▼ 2. Members Points (DAO Tokens)

- Member Points record the nominal value of investments that members make into the LVC in the form of capital, work, or other intangible contributions.
- Cryptographic tokens (”DAO Tokens”) with the denomination “IMPACTS“ will be issued on the ixo blockchain ledger to represent Member Points. One IMPACTS token represents one Member Point.
- Blockchain mechanisms will be used to:
    1. Allocate Member Points in the form of IMPACTS tokens.
    2. Maintain the official register of Member Points.
    3. Redeem Member Points during liquidation
    4. Vote on DAO governance proposals.
    5. Transfer ownership of Member Points.
    6. Distribute staking rewards, profit shares, or dividends.
- A treasury of IMPACTS tokens will be held by the DAO Members and transferred to Members when **Contribution Proposals** are approved through the DAO Governance mechanisms.

▼ 3. Work Contributions

- Developing an innovation involves a significant amount of work that will be recorded and assessed using the ixo Claims mechanism.
- This evaluation allows for a comparison between the work contributions and the financial investments made by investors.
- Specific factors such as risk and administrative expenses are not considered in this evaluation and are assessed separately through the Conversion Factor mechanism.
- To determine the reference hourly rate for work contributions, the normal salary for employees in relevant roles within the Web3 sector will be used as

a benchmark.

- The reference hourly rate = (Gross annual salary + employer's contributions) / hours worked per year. The standard number of hours worked per year is set at 2,080 hours.
- A table of rates will be maintained as a reference and this will require a DAO governance proposal to approve changes in the rates.

▼ 4. Intangible Contributions

- Besides work and capital, developing an innovation also requires intangible contributions such as networks, market access, or experience.
- The value of these contributions will be evaluated on an individual basis and can be compensated with membership points in the form of DAO tokens.
- Here is an illustrative example: A DAO Member proposes to bring their distribution network into the LVC ecosystem and this is considered to be critical to the success of the LVC during the market growth phase of the innovation. The DAO member proposes that their contribution should be weighted as 10% of the total contributions in this phase. If the total investment during the market growth phase is 10 million DAO Tokens, the member contributing their distribution network may receive an additional 1.11 million DAO Tokens (10% / (100% - 10%)).

▼ 5. Contributions by Tokenised Protocols and Projects

- When a protocol, DAO or project becomes a member of the LVC, they may contribute a share of their issued tokens.
- The value of the tokens contributed must be evaluated on a case-by-case basis by the members of the DAO, taking into consideration a range of factors that may include the historic market value of the token, the token economics, as well as the intangible contributions that the project brings to the LVC.
- In each case, a governance proposal must be made to the Members Group with a written rationale for the valuation of the contribution and the number of members points (DAO Tokens) to be awarded.

▼ 6. Assessment of risk in valuing member contributions

- The risk of an idea not developing into a successful business model decreases as the innovation process progresses through phases.
    - Factors that may cause an idea to fail include lack of technical feasibility, unworkable business case, lack of customer demand, or higher than expected delivery costs.
    - As the first phase of investment is generally considered the highest risk compared to later phases, a portfolio model is used to cover potential losses from unsuccessful ideas.
    - A risk analysis of individual phases is necessary to evaluate the probability of abandonment after a specific phase.
    - The cumulative probability of an idea surviving multiple phases is calculated by multiplying the individual probabilities.
    - The risk of investments in each stage is taken into account by multiplying the investments in work and capital per phase by a risk multiplication factor.
    - The risk multiplication factor is the reciprocal value of the cumulative probability of success for that phase.
- The Impacts DAO Cooperative defines its innovation phases as follows:
    1. Ideation phase: A completed phase during which ixo and other cooperative members worked independently on exploring ideas relevant to the Internet of Impact.
    2. Concept phase: A completed phase Members during which ixo and other cooperative members worked independently to develop and understand the Internet of Impact innovations such as core protocols, technology features, target users, value propositions, and use cases.
    3. Proof of Concept phase: Members create and test prototypes or MVPs to validate the feasibility and functionality of the Internet of Impact innovations.
    4. Implementation phase: Members further develop the innovations and implement market-ready solutions in preparation for full-scale deployment.
    5. Market launch phase: Efforts focused on promotion, user acquisition, and gathering market feedback for future refinements.

6. Growth phase: Scaling the innovation, expanding its market presence, mainstreaming the Internet of Impact, and demonstrating its positive impacts.

- On formation of the Impacts DAO Cooperative, the stage of innovation is considered to be in the **Implementation Phase**.
- Determination of the state-change to the next phases will be made through a governance vote that requires a minimum 50% participation quorum and simple majority to approve the proposal. Any member may submit a proposal to progress the LVC to the next stage.
- For the risk of investments in earlier stages to be taken into account in the share calculation and allocation of member points DAO tokens, investments in each phase will be multiplied by the following risk weightings:
    - *Ideation phase: The inventor is allocated 25% share.*
    - Concept phase: 104 multiples
    - Proof of Concept phase: 31 multiples
    - Implementation phase: 6 multiples
    - Market launch phase: 5 multiples
    - Growth phase: 1 multiple

▼ 8. How each member's share is calculated

- The risk weighting for each stage of the innovation process is used to calculate the number of DAO Tokens for each contribution, including work performed, non-cash contributions, and capital funding.
- The total number of DAO Tokens is used to determine the share of each cooperative member in the future success of the innovation.
- This model can also be used for subsequent financing rounds to calculate membership points for new contributions.
- By using this model, cooperative members can receive a fair and transparent share of the innovation's success, based on their contributions over the lifetime of the cooperative.

▼ 9. How members receive a payout on their shares (Liquidation Preference)

- Investors will only invest if they can expect a positive return on their investment. But investment returns cannot be guaranteed until after a liquidation of the DAO’s assets and/or revenues into the DAO treasury have reached a break-even point.
    - In a break-even scenario, the total revenues or proceeds from the sale of DAO assets held in the DAO treasury equals or exceeds the total nominal amount that has been invested into the DAO over all phases of its development.
    - If the proceeds from liquidating or selling the LVC assets are less than or equivalent to the nominal capital invested, the investors of the last phase are given preference over those from the first phase. In extreme cases the inventors of the innovation and the early stage investors may go away empty-handed.
- To account for the lack of security offered to subsequent investors, a Liquidation Preference model is used. Investors in the most recent phases are repaid first, up to the value of their investment contributions in each phase. This cascades through each phase until all investors have been repaid.
- The remaining proceeds are then apportioned based on participation rights, according to the shares each member has in the cooperative.
- This mechanism results in a cascade of distributions that favours the investors in later phases, if the returns fail to meet expectations.
- Although this preferential treatment may seem skewed against early-phase investors, it is justified because later investments are made only on the promise of a minimum expectation of return.
- The inventors are rewarded for providing the idea with a specific number of membership points and also a specific share in the value of the innovation. The investors on the other hand receive the Liquidation Preference.

▼ 10. When payouts can be distributed (Liquidity Events)

- A Member of the LVC may make a proposal to liquidate any portion of the LVC’s liquid assets and distribute the proceeds of this liquidation back to the shareholders.

- Any proposal to liquidate any portion of the LVC's liquid assets must be approved by the LVC Members Group through the DAO governance mechanism.
- DAO Treasury liquidation and distribution proposals may only be approved by the members of the LVC if the cash value of the liquid assets held by the LVC are at least at a break-even point relative to the notional investments contributed into the LVC.
    - As an illustrative example: If a total of 10 million DAO Tokens has been allocated to members by the DAO over the lifetime of the LVC, this represents a notional investment of 100 million CHF into the LVC. If the valuation of the LVC's liquid assets is 110 million CHF and a proposal to liquidate CHF 10 million in value of these assets is approved by the DAO members, this will distribute CHF 10 million to the DAO shareholders, in accordance with their Liquidation Preferences.
- DAO treasury liquidations may be distributed in any denomination of cryptographic token approved by the DAO members.
- The value per LVC share of the distribution is in proportion to the calculated number of shares in the LVC. If the inventor's share of the LVC is 20%, the members' share is 80%.
- When a Liquidity Event has been approved, all members will have a period of 30 days (the "Redemption Period") within which to make a Redemption Offer.
- At the end of the Redemption Period the available distribution amount is distributed in the following way:
    - The total available Redemption Amount is divided by the total number of member points (DAO tokens) offered for redemption.
        - For instance, if redemption offers have been received for a total of 100,000 DAO tokens, and the total available Redemption Amount is 1 million CHF, the redemption value per IMPACTS token will be 100 CHF.
    - The nominal floor price per IMPACTS token will be 10 CHF. If the available Redemption Amount, divided by the total number of member points (DAO tokens) offered for redemption, is less than 10 CHF, then a Liquidation Preference will apply.

    - In the case of a Liquidation Preference being applied, investors in the most recent phases of the investment have the right to redeem their DAO Tokens at the floor price, before investors in each of the earlier phases get to redeem their DAO Tokens. Therefore earlier investors may not get to exercise their redemption option in a particular Liquidity Event.
- On redemption of a DAO Token, the token is returned to the DAO members group treasury.