M^0

Adopted Guidance

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Description of the Adopted Guidance

1.1. Purpose of the Adopted Guidance

The Adopted Guidance is a document produced and proposed by the M^0 Foundation, and approved through the M^0 Two Token Governor (or, more simply, **Governance**) that outlines the core rules of engagement that exist outside of the enforceable domain of the protocol smart contracts for the various actors in the M^0 ecosystem. In this document, **Protocol** refers to the deployment of the M^0 Protocol on the Ethereum blockchain under the protocol address which defines the rules upon which M can be minted.

The **Protocol Address** is as follows:

0x866A2BF4E572CbcF37D5071A7a58503Bfb36be1b

While Protocol governors cannot be forced to take action for any breach of these rules, it is implicitly expected that holders of the appropriate Governance tokens will act in accordance with this document, or else change it.

The Adopted Guidance describes certain actors, characteristics (e.g. Approved Jurisdictions for Collateral Storage), as well as business practices, binding contracts and business behavior. It also indicates, among other things, the type and composition of collateral that is eligible to back Owed M.

Ultimately, the Adopted Guidance exists as the guiding manifesto for core business practices within the M^0 ecosystem. The expectation is that as the ecosystem continues to grow and evolve, so will the Adopted Guidance through appropriate Governance oversight and approval. As such, this should be regarded as a living document that will continuously mature alongside the development of the M^0 project at large.

1.2. Change Process for the Adopted Guidance

The nature of the Adopted Guidance is such that it must allow for only one valid version per voting epoch to be agreed upon.

In most cases, it is expected that a voting epoch will contain non-conflicting, **Discrete Change Proposals** which, if approved by governance vote, can be immediately put into effect. In such cases, it is expected that, upon executing the proposal, the new version of the Adopted Guidance (as specified by its document hash) is ratified and should be adopted by ecosystem Actors. While the physical act of ratifying an approved change proposal can be done by anyone, it is expected that the proponents, or the M^0 Foundation as protector of the ecosystem, will perform such duties.

At scale, it can be expected that a voting epoch might contain conflicting Change Proposals. This poses a specific challenge in the case where multiple changes to the Adopted Guidance are being voted on simultaneously within a single epoch, especially since Governance requires the ability to accept or reject each change separately.

As such, when conflicting change proposals emerge, the process of amending and updating the Adopted Guidance should be split into two votes:

1. In the first voting epoch, one or multiple proposals are voted on. They can be accepted or rejected independently on an individual basis (i.e. the **Discrete Change Proposal**).

2. During the second voting epoch, all individually approved proposals are consolidated into a new version of the Adopted Guidance via voting (i.e. the **Executive Change Proposal**). While the physical act of consolidation and an Executive Change Proposal can be done by anyone, we are expecting some

of the proponents, or the M^0 Foundation as protector of the ecosystem, to perform such duties.

We expect proponents to clearly state whether a proposal should be considered as a Discrete Change Proposal or an Executive Change Proposal.

New proposals shall only be deemed valid upon confirmation of the relevant Executive Change Proposal.

An example flow is detailed below:
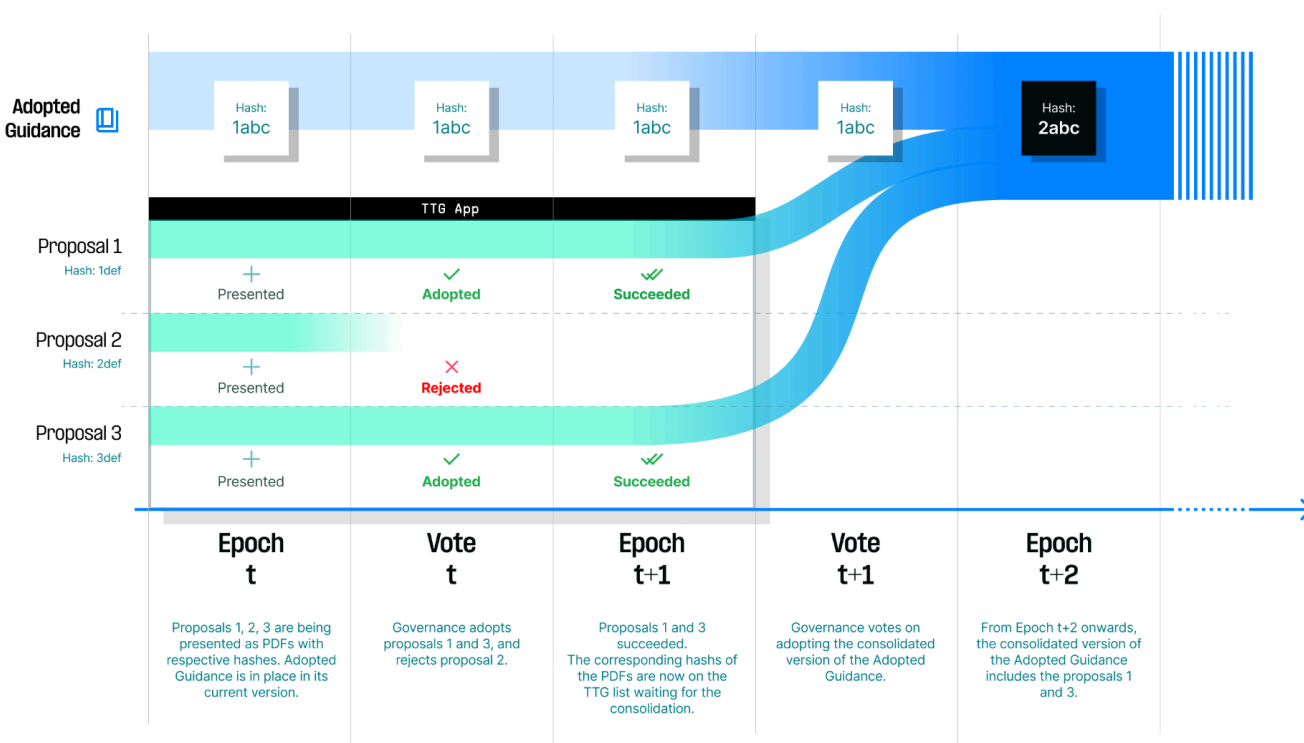
A proposal shall clearly reference each section and/or sentence that is subject to change and clearly state what it shall be replaced with. Any ambiguity that could lead to different interpretations for the consolidated version will be avoided. In order to facilitate individual votes, a proposal should be formulated in a way that is as atomized as possible.

The visual below shows an example of an appropriately proposed amendment to the Adopted Guidance:

```
Date: June 22, 1633
Author: Galileo Galilei

Adopted Guidance - Discrete Change Proposal

Context (option, will not become a part of the Adopted Guidance): This
change is required to explain observations made on planets.

Old:
"0.0.1 The earth stands still."

New:
"0.0.1 The earth moves around the sun.stands still."
```

In the event of conflicting versions or proposals, the most recently executed proposal that was executed on-chain should be considered valid.

2

Ecosystem Description

The M^0 Protocol is designed to support permissioned Actors in the minting of a crypto asset called M. The minting of M requires collaboration across a set of Actors complying with a set of rules, some of which can be enforced on-chain.

First and foremost, a sufficient balance of Eligible Collateral (as described in the Adopted Guidance) must be constantly identifiable and constrained for the backing of Owed M. This requires a demonstration of the existence and validity of the collateral, repeated on an ongoing basis, and executed via the updateCollateral() function call. Only if sufficient collateral balance has been updated and only if such balance is still valid within the timeframe implied by the collateral update interval can a Minter (see below) mint M or retrieve collateral.

With **Eligible Collateral** we refer to the types of collateral that are defined to be suitable to back M, based on the criteria listed in [Criteria for Eligible Collateral]. With **Collateral Balance** we refer to the on-chain value of the Eligible Collateral available to mint M.

The sufficiency of the Collateral Balance is determined by the following **Core Operating Condition:**

```
(Collateral Balance - Total Pending Retrievals) * Mint Ratio
                            >=
                    Owed M + Proposed M
```

subject to the following definitions:

- **Total Pending Retrievals** indicate the total amount of collateral a Minter is trying to retrieve from SPV by submitting a Retrieval Request to the protocol via the proposeRetrieval() function. **Retrieval Request** is the process by which a Minter submits a request to the Protocol to retrieve a specified amount of M. The Protocol verifies that the Core Operating Condition would

not be breached by the retrieval of this amount of M, based on the latest Collateral Balance.

- **Mint Ratio** refers to the fraction of a Minter's Collateral Balance that can be used to generate M, which effectively controls the leverage of a Minter and the over-collateralization of M.

- **Owed M** describes the amount of M generated by the Minter, plus the Minter's Accumulated Minter Rate and Penalty, still outstanding — i.e. not burned.

- **Proposed M** is the amount of new M that a Minter is requesting to mint.

The Core Operating Condition intends to guarantee that no M can be minted and/or no collateral can be retrieved unless there is sufficient Collateral Balance.

We define Burn (or Burned M) as a successful call to the burn() function, which specifies a Minter's address. Such operation effectively reduces that Minter's Owed M balance by the amount of burned M.

2.1. Actors

Actors are relevant participants (roles and entities) within the M^0 ecosystem. Only a subset of the Actors (so-called **Permissioned Actors**) are explicitly approved through Governance, while the rest is explicitly, albeit more loosely, identified as part of the Adopted Guidance.

The following diagram displays a schematic view of the Actors within the M^0 ecosystem and how they connect to external parties (i.e. parties whose practices are not covered by the Adopted Guidance) and contracts that need to be in place between Actors. The list of Actors is defined below.
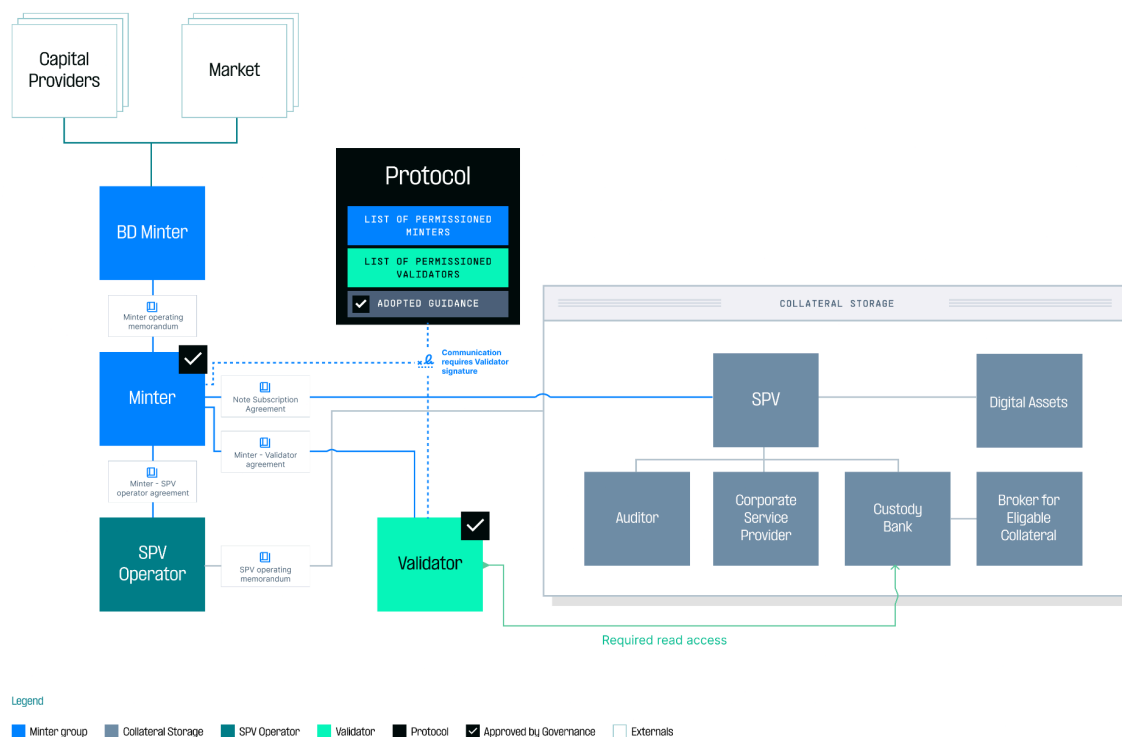
Minter: The Minter is an entity considered orphaned from the risk of exogenous insolvency, operated by a separate entity responsible for business operations that is in place to further distance the Minter from bankruptcy issues (referred to here as the BD Minter). The Minter owns the private key associated with a public address that is permissioned by Governance to interact with a minting smart contract in order to mint M against a sufficient Collateral Balance, represented by Notes which are issued by the SPV (see below for details) and held on the Minter's balance sheet.

The Minter is not allowed to conduct any other business or take on any other liabilities except the M balance it owes to the Protocol and the contractually defined liabilities vis-à-vis the BD Minter.

BD Minter: The BD Minter is the business development entity that performs the operational obligations of the Minter and contractually absorbs any and all potential liabilities arising from agreements with service providers of the Minter. While the suggested exclusive relationship between the Minter and the BD Minter should not be overly prescriptive, we emphasize that this provision aims to maintain liability segregation, keeping all non-minting responsibilities away from the Minter.

SPV Operator: The SPV Operator manages the portfolio of collateral in the SPV on behalf of the SPV but for the benefit of a Minter's business operations. The SPV Operator also acts as selling agent in the context of a wind down (as described in Obligations Outside of the Normal Course of Business) and can even wind down a Minter in cases where the Minter is unable or unwilling to comply with the Protocol rules.

SPV: The SPV is the orphaned and insolvency-remote legal owner of the Eligible Collateral, available financial resources, or of any other asset which is managed by the SPV Operator.

Validator: The Validator independently verifies that the amount of collateral to be published on-chain appropriately exists and is compliant with appropriate eligibility criteria. While, in the current construct and based on the Adopted Guidance, existence means physical existence in the accounts at the custody bank in the name of the SPV, we expect the role of Validator to evolve jointly with the evolution of the nature of the underlying available collateral (e.g. appropriate tokenization).

2.2. Mandatory Contracts

Mandatory Contracts are contracts that are required to be in place between the Actors to ensure maximum protection for the collateral as well as maximum

degree of enforceability of the Protocol rules. The execution of these contracts should improve robustness against collusion among malicious Actors.

As with many aspects outlined in the Adopted Guidance, the following set of contracts is intended for scenarios where no robust on-chain equivalent exists. With advancements in tokenization efforts for instruments deemed Eligible Collateral, we anticipate that some of these contracts may become redundant in future updates of the Adopted Guidance.

Given that Governance participants and holders of M are likely not contractual parties to any of the Actors, the Mandatory Contracts are designed to ensure alignment among all Actors involved in the legal and operational framework, ensuring compliance with Protocol rules.

Minter Operating Memorandum: The Minter is an entity with a contractually-limited purpose to hold Notes and mint M. Therefore, it is not allowed to e.g. hire personnel and build operational resources or directly enter into distribution agreements, as well as sale/ purchase agreement, with buyers of M. **Notes** are defined as pass-through and look-through limited recourse notes issued by the SPV in one or more tranches in accordance with the Terms and Conditions of the Note itself.

The Minter Operating Memorandum should regulate that:

- The BD Minter provides sufficient operational resources to the Minter for its operations, given that the Minter should not have operational staff.

- The BD Minter and Minter should have appropriate liability segregation in order to limit eventual spillovers between general liabilities and those solely related to the Protocol with regards to the requirement to back the Owed M by sufficient Collateral Balance.

Minter-SPV Operator Agreement: The relationship between the Minter and the SPV Operator is of core importance since the intentional split between an entity that mints M and another entity that manages the collateral creates a field of tension between collaboration, control and potential enforcement. The Minter-SPV

Operator Agreement should regulate this relationship. It differentiates between two scenarios:

a) Normal Course of Business
b) Outside Normal Course of Business

While the Normal Course of Business regulates the obligations of the SPV Operator to maintain the Eligible Collateral balance, the Outside Normal Course of Business ensures that the SPV Operator is allowed to perform actions against the Minter to enforce the Protocol rules in case the Minter is not compliant.

This agreement is crucial for the protection of the collateral.

Minter-Validator Agreement (where required): The Validator requires broad ongoing visibility of the collateral storage.

With **Collateral Storage** we identify the collection of venues such as Securities and Cash Accounts, as well as digital asset accounts, held by the SPV.

The services provided by a Validator to the Minter (and, indirectly, the ecosystem) need to be well-defined to ensure the smooth operation of the Protocol. Therefore, this agreement, where required, should regulate all transparency, access and confidentiality aspects between the parties, as well as the service of validation in compliance with the Protocol rules.

Terms and Conditions (and Subscription Agreement) of the Note: The Terms and Conditions of the Note (as well as Subscription Agreement) represent the economic link between the collateral and the Minter entity. Their enforceability and protective clauses have an obvious direct impact on the quality and availability of the collateral for the purpose of the Protocol. Additionally, these documents need to reflect the scenarios where the SPV Operator winds down a Minter balance without the Minter's collaboration. This requires certain rights of a party (the SPV Operator) which is not the noteholder (Minter) that need to be mandatorily reflected in the Terms and Conditions of the Note itself.

SPV Operating Memorandum: Every Actor should practically be replaceable; in particular any operation of the SPV should be highly standardized. This is what an

appropriate SPV Operating Memorandum should ensure. As a crucial point this document also regulates the transfer restrictions of funds transferred out of the Collateral Storage.

In case any of the Mandatory Contracts defined here are modified as part of the change process, all parties shall work to amend the respective contracts as soon as practically feasible.

Parties are not expected to perform changes on their Mandatory Contracts (or similar) that are not made in the spirit of the Adopted Guidance. Parties are expected to remedy such misaligned clauses by replacing them as soon as practical and without undue delay.

2.3. Duty of Transparency

To the extent reasonable, and observing proper confidentiality practices, all Actors within the M^0 ecosystem are encouraged to abide by a duty of transparency and candor toward Governance. The Actors will enter into Mandatory Contracts with each other and are expected to timely and appropriately make the latest versions of such agreements available to Governance and other interested parties, ideally in the public domain, but certainly upon request.

2.4. Core Operational Flows

While the Protocol is immutable and the direct impact of Governance on the Protocol's behavior is limited to the **Governance Controlled Parameters** (the set

of variables that can be modified by Governance votes and that have an impact on the Protocol's functioning) and the permissioning of certain Actors, calls of Protocol functions should go hand in hand with off-chain processes that the Actors must comply with. The following processes are, at the current state of technology and collateral eligibility, to be considered binding for all Actors.

2.4.1. Update Collateral Process

The updateCollateral() function (**Update Collateral**) needs to be called once per Update Collateral Interval.

Update Collateral Interval: In accordance with Protocol specifications, the period between which Update Collateral must be called by a Minter. If Minters do not call Update Collateral within this amount of time after their previous call, their on-chain Collateral Value is assumed to be 0 and they will incur a penalty rate on the next update. This protocol parameter is alterable with a Standard Proposal.

The **Penalty Rate** is defined as the percentage charged on Owed M that is in excess of the amount a Minter is permitted to have generated. It is assessed any time Impose Penalty is called, which is embedded in both Update Collateral and Burn. It is alterable with a Standard Proposal. This is a fixed percentage and not an annualized rate.

Failure to do so will result in the Collateral Balance being set to 0 and the application of a respective Penalty.

Some key financial definitions are outlined below:

- **Cash Equivalents** are amounts, denominated in the Reference Currency, held in either Cash Accounts or in the form of so-called stablecoins (including M) in wallets.

- **Cash Account** is the cash account held by the SPV with the Account Bank.

- **Account Bank** is defined as any entity appointed by the SPV to act as an account bank.

- The **Reference Currency** throughout this document is USD (United States Dollar).

An example collateral update flow is shown in the picture below:
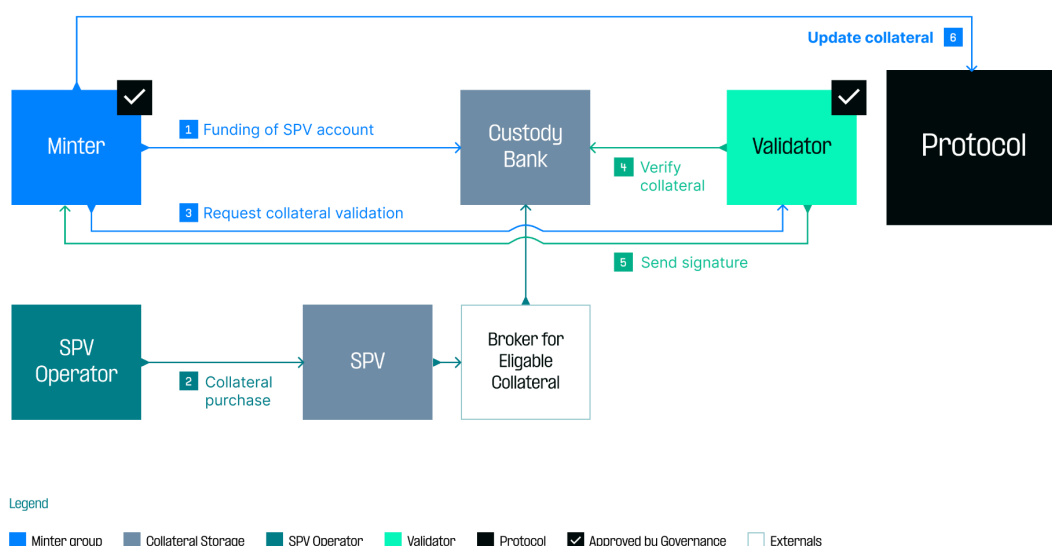
1. The Minter purchases Notes from the SPV with Cash Equivalents.

2. The SPV Operator on behalf of the SPV will perform the collateralization process.

3. Minter sends a Validation Request (see below) which contains the amount it would like to update on-chain to the Validator.

4. Validator verifies the existence of the Collateral (e.g. via its read access to the depository account), verifies the compliance with the eligibility criteria and, potentially, verifies the implementation of Mandatory Contracts.

5. If all checks have been successful, the Validator sends a Signature to the Minter.

6. With this Signature the Minter can call the updateCollateral() function.

Validation Request: A call from the Minter to the Validator where the Minter requests a Signature for either updating its Collateral Balance or for removing a RetrieveID from the Protocol.

Steps 3-6 have to be completed at least once per Update Collateral Interval. Step 2 has to be completed whenever new funds are transferred to the Collateral Storage or whenever collateral matures thus liquidates.

2.4.2. Minting M

The mint process of M can be triggered by the Minter at any time as long as the Collateral Balance is sufficient and the Core Operating Condition satisfied.
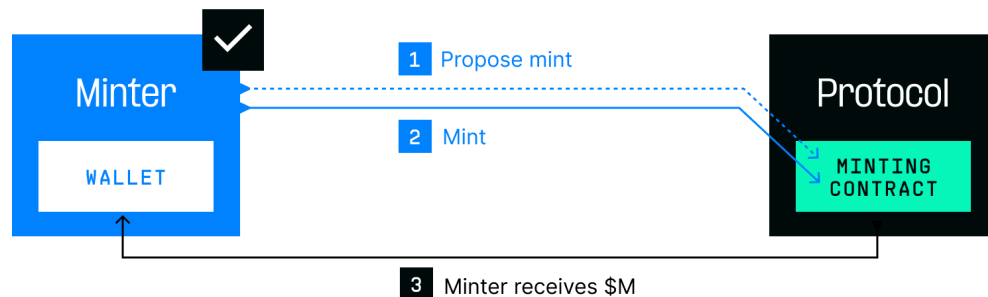
✔ Approved by Governance

1. The Minter can call the proposeMint() function at any time, indicating the amount it wants to mint. The Protocol will support the verification of the Core Operating Condition following a successful mint. The transaction will fail if the condition is not satisfied. As a reminder, during the Mint Delay time any Validator can cancel the mint.

2. Once the Mint Delay has elapsed, the Minter can execute the mint and the Protocol will again check the Core Operating Condition. If the mint is successful, the minted M will be transferred to the wallet indicated in the mint request.

2.4.3. Retrieval of Collateral

As defined in the Whitepaper, and as a reminder for the reader, collateral can generally only be retrieved (at least during the Normal Course of Business — see below) if the Core Operating Condition remains satisfied following a successful retrieval. Given that the retrieval flow is the main way in which funds can leave the Collateral Storage, the process should absolutely come with strict rules. We are expecting Governance to holistically assess that those rules remain satisfied by any alternative implementation proposed by a prospective Minter. An example of such a flow is described in the chart below:
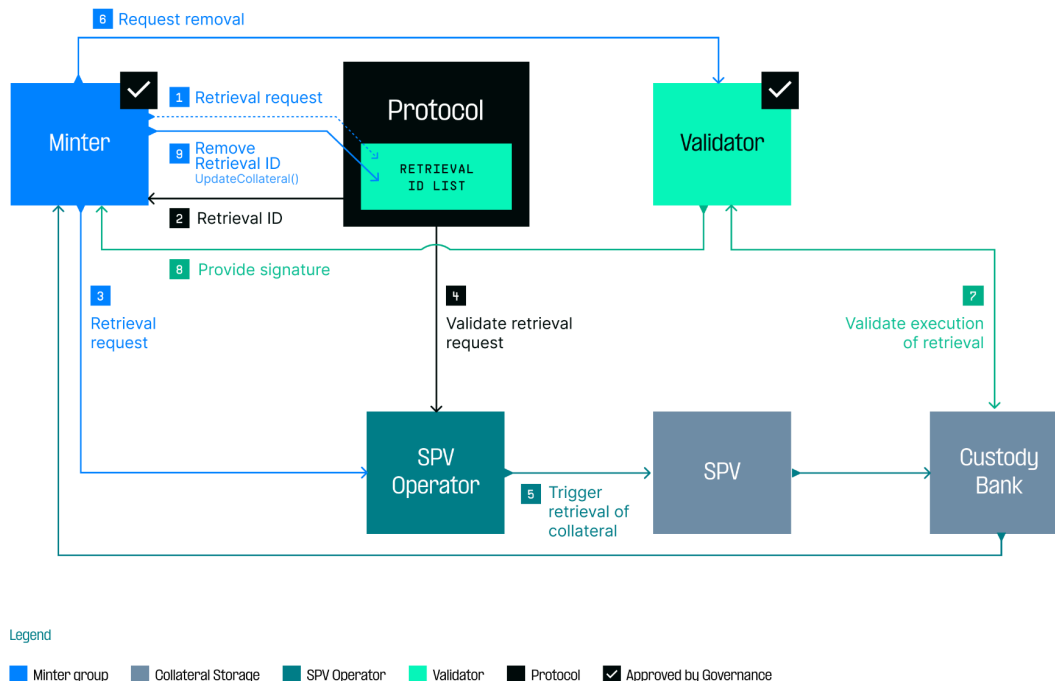
1. The Minter requests a retrieval by calling the proposeRetrieval() function with the amount it wishes to retrieve.

2. If the Core Operating Condition remains satisfied after the retrieval the call succeeds and a RetrievalID is generated and stored in the Protocol. For as long as the RetrievalID is not closed the Protocol will subtract the requested amount from the Collateral Balance.

3. The Minter can now request the retrieval with the SPV Operator.

4. The SPV Operator will now validate the existence of the Retrieval Request in the Protocol.

5. If the existence of a corresponding Retrieval Request has been confirmed, the SPV Operator can initiate the liquidation of the equivalent collateral and transfer the funds back to the Minter.

6. Once the transfer has been executed the Minter can request a Signature from the Validator for the removal of the RetrievalID.

7. The Validator confirms via appropriately provided access to the Collateral Storage that the transfer was executed.

8. If the check was successful, the Validator provides a Signature for the removal of the RetrievalID.

9. The Minter can now call the updateCollateral() function and pass on the RetrievalID it wishes to remove together with the Signature. The RetrievalID will be removed, and the respective amount will no longer be subtracted from the Minter's Collateral Balance.

2.5. High-Risk Jurisdictions

For the benefit of this document, the countries in the following lists are considered to be high-risk jurisdictions.

- **FATF "Black and Gray" lists.**
  As available, for instance, on
  https://www.fatf-gafi.org/en/countries/black-and-grey-lists.html .

- **European Commission's list of High-risk Third Countries.**
  As available, for instance, on
  https://finance.ec.europa.eu/financial-crime/anti-money-laundering-and-countering-financing-terrorism-international-level_en#strategic-deficiencies.

- **Any jurisdiction comprehensively subject to Office of Foreign Assets Control (OFAC) sanctions.**

- **Any jurisdiction comprehensively subject to European Union (EU) sanctions.**

3

Eligible Collateral

3.1. Criteria for Eligible Collateral

We expect Validators to solely and exclusively recognize assets as Eligible Collateral when such assets conform to the criteria below.

i. Criteria for the Eligibility of Assets:

- United States Treasury Bills with a remaining time to maturity of 180 days or less.

- Wrappers of United States Treasury Bills such as money market fund units that comply with the above mentioned remaining time to maturity criteria - subject to specific definition of the financial product in scope.

  o List of approved wrappers: Superstate Short Duration US Government Securities Fund (commonly referred to as USTB).

ii. Ancillary Criteria for the Eligibility of Assets:

- So-called **In-Transit Cash**, defined as Cash Equivalents in an amount equal to placed-and-executed-but-not-yet-settled buy orders for assets defined in (i). In case such orders are ultimately canceled, settled, or never settled, such balances shall no longer be recognized.

- So-called **In-Transit Securities**, defined as executed-but-not-yet-settled sell orders for assets defined in (i) (at the time of purchase) in case, for the avoidance of doubt, neither the securities nor balances in Cash Equivalents are listed in the Collateral Storage (and more specifically Securities and Cash Account of the SPV).

It is important to highlight that aside from the preceding exceptions, neither Cash Equivalents nor any other type of asset should be considered Eligible Collateral.

3.2. Valuation Policy for Eligible Collateral

Eligible Collateral shall be recognized at their daily market value (according to the last closing price) published on www.treasurydirect.gov. It is understood that Validators and Minters might not observe the same market price in case they access the market data at different times. Minters shall consider this when requesting signatures for updateCollateral() calls from Validators. With **Signature** we refer to the cryptographically hashed meta information of a transaction with the private key of the Validator which allows the Minter to perform a certain Protocol transaction after the Validator has verified that the conditions for such a transaction are met.

In proposing valuation options for Eligible Collateral, the Adopted Guidance document has considered two alternative options: *mark-to-market*, and *at-cost*, opting ultimately for a mark-to-market approach. The two options somehow reflect similar accounting methodology for so-called *held for trading* or *available for sale* assets, and have a set of pros and cons that have been analyzed when proposing one over another:

- Fair value representation: the current executable market price of an asset remains the most accurate representation of its value at any given time. By opting for a mark-to-market approach Minters would see the immediate benefit of the appreciation of a fixed income asset as it approaches maturity, without having to realize it. Given the eligible instruments, we believe that a mark-to-market approach would allow Minters to operate based on the most accurate level of overcollateralization

- Non-arbitrage: reflecting collateral value fluctuations on-chain can prevent misalignments and unexpected behaviors due to arbitrage opportunities among parties. This is particularly important in scenarios of extreme price movements driven by significant interest rate changes. We are aware that

recognizing the mark-to-market fluctuations of fixed income instruments on-chain, even without the obligation for a Minter to redeem those assets at will, could expose the structure to interest rate risk and, in extreme scenarios, bank-run phenomena. While we believe that those effects should be accounted for and mitigated by appropriate levels of overcollateralization, similar to what happens for a bank's core capital, we think that the nature of Eligible Collateral today, as well as the dominant macroeconomic conditions, make those risks manageable.

- Capital efficiency: the continuous increases in Minters' Owed M due to the accrual of Minter Rate introduces natural pressure on the Collateralization Ratio. Valuing collateral at market price can alleviate this pressure, due to the time value of the instruments currently considered eligible.

- Technology agnostic: the valuation of Eligible Collateral is independent from the technological wrapper it is stored in, assuming this wrapper does not insert additional risk layers for the holder. This means that, for instance, in case of an explicitly approved investment in fund units, the NAV calculation of the fund is ignored and a look-through approach is applied to evaluate the value of the underlying assets. In case additional risk layers are instead added by the wrapping technology, appropriate haircuts should be defined as part of this document..

It is important to remember that the recommended Valuation Policy is strictly interdependent with the nature of the Eligible Collateral. Following an evolution of the eligibility criteria, e.g. expanding towards longer maturities of different asset classes, will require, among other things, a revision of the Valuation Policy. This will be valid also in case of significant shifts in the current economic landscape.

Collateral that is to be considered Eligible Collateral under the conditions set forth in Ancillary Criteria for the Eligibility of Assets shall be valued without a haircut.

3.3. Collateral Storage

Collateral shall only be recognized as Eligible Collateral by the Validator if this collateral is appropriately held in the Collateral Storage.

Given the current technological conditions, and the nature of the Eligible Collateral proposed by the Adopted Guidance, with appropriate Collateral Storage we refer specifically to the fact that the entity that legally owns the collateral (SPV) fulfills a set of requirements as described below. The fulfillment of these requirements should be verified through cooperation between Minters (via appropriate transparency), Validators, and Governance oversight in a way deemed satisfactory by Governance. The appropriate execution of the Mandatory Contracts described above should satisfy those conditions.

Based on this set of fundamental requirements, the SPV:

- is an orphaned entity;

- is minimally affiliated (via its shareholders) with or (practically) controlled by any Validator or Minter or the affiliates of any Validator or Minter;

- does not conduct any other business except the storage of collateral for Minters and issuance of Notes to Minters;

- is a restricted-purpose vehicle that prevents entering into any other liabilities but the ones directly related to the storage of collateral and the issuance of Notes against such collateral;

- is designed to be insolvency remote;

- is incorporated in an Approved Jurisdiction, as described below;

- possesses all required licenses and permissions (if necessary) to store collateral and to issue Notes against such collateral;

- is audited on an annual basis by a licensed auditor deemed appropriate to perform the task.

Additionally, any Notes issued to the Minter shall comply with the following in order to be considered Eligible Collateral:

- Full asset segregation of collateral not only at the Minter level, but also at the level of each wallet address controlled by the Minter — in case the Minter controls more than one permissioned address.

- Limited recourse so that the claims of any Minter are strictly limited to the collateral belonging to its Notes.

3.4. Approved Jurisdictions

Given the current technological conditions, and the nature of the Eligible Collateral proposed by the Adopted Guidance, any form of collateral shall only be recognized as Eligible Collateral by the Validator if the SPV is located in one of the jurisdictions listed below:

- Luxembourg

As for other elements of the Adopted Guidance, the list of **Approved Jurisdictions** (as described above) can be amended any time through a Governance vote. In case the list is amended, Actors are expected to ensure compliance with and enforceability of the rules set out in the Adopted Guidance in such a new jurisdiction.

Candidates for Approved Jurisdictions shall comply with the following minimum requirements:

3.4.1. Bankruptcy Remoteness

The jurisdiction provides legal and structural mechanisms that reduce the risk of insolvency for the legal entity, reinforcing the effectiveness of provisions that prevent creditors and investors from initiating insolvency proceedings against the legal entity or seizing its assets or the assets of its compartments, estates or sub-funds.

3.4.2. Non-Petition and Non-Seizure Provisions

Jurisdictions must uphold provisions that prevent creditors and investors from initiating insolvency proceedings against a legal entity or seizing its assets or the assets of its compartments or estates or sub-funds, thus ensuring the legal entity's bankruptcy remoteness.

3.4.3. Priority of Payments and Subordination

The legal system recognises and enforces contractual or statutory arrangements that clearly define the priority of payments and the subordination of claims among investors and creditors.

3.4.4. Regulatory Compliance

The jurisdiction has a regulatory framework that supports the business activities of the legal entity, including clear guidelines for the trading of financial instruments and Eligible Collateral associated with them.

3.4.5. Legal and Regulatory Framework

The jurisdiction has a legal and regulatory framework that permits the issuance of financial instruments and the investment in Eligible Collateral.

3.4.6. Political Stability

The jurisdiction exhibits a high degree of political stability, characterized by a consistent and predictable legal and regulatory environment, minimal political unrest, and an upholding of the rule of law.

3.4.7. Dispute Resolution

An effective legal framework for dispute resolution is in place, including access to courts or arbitration panels.

3.4.8. Asset Segregation

Collateral for each Minter is either to be stored in a separate legal entity per Minter or the jurisdiction must provide legal frameworks that enable the establishment of separate compartments or estates or sub-funds within a single legal entity,

ensuring that each compartment or estate or sub-fund is its own distinct pool of assets and liabilities.

There must be clear legal recognition that assets within one compartment or estate or sub-fund are exclusively reserved for the investors and creditors of that compartment or estate or sub-fund and are protected from the claims of creditors of other compartments or estates or sub-funds and claims of creditors of the legal entity to ensure the functioning of the intended wind down processes, as described below.

3.4.9. Limited Recourse

The legal system must enforce that the claims of investors and creditors are strictly limited to the assets of the compartment or estate or sub-fund to which they have exposure.

In cases where the assets of a compartment or estate or sub-fund are insufficient to satisfy the claims, the legal framework permits the extinguishment of any remaining claims, prohibiting further recovery efforts.

3.4.10. Investor Protection

There are robust mechanisms in place to protect investors, including clear disclosure requirements and the enforcement of fiduciary duties by the managers of the legal entity.

3.4.11. Operational Infrastructure

The jurisdiction boasts a developed financial infrastructure capable of supporting complex financial transactions, including experienced service providers and legal counsel with expertise in financial matters.

3.4.12. Custody Relationship

The jurisdiction recognises and enforces the legal nature of the custody relationship between the legal entity and its custodian, ensuring that assets held in custody are protected and segregated from the custodian's general estate in the event of its bankruptcy.

3.4.13. Audit

The jurisdiction requires the mandatory (by law) audit of the annual financial statements of the legal entity.

4

SPV Operators

An SPV Operator is the Actor managing the portfolio of collateral in the SPV on behalf of the SPV but for the benefit of a Minter's business operation. The SPV Operator also acts as selling agent in the context of a wind down (as described in Obligations Outside of the Normal Course of Business) and can even wind down a Minter in cases where the Minter is unable or unwilling to comply with the Protocol rules.

Adopted Guidance indicates the entities that should be considered as appropriate to act as SPV Operators in the M^0 ecosystem.

4.1. Contact Information of Currently Approved SPV Operators

i) CrossLend GmbH
    Leipziger Str. 124, 10117 Berlin, Germany
    operations@crosslend.com
    www.crosslend.com

4.2. Eligibility Criteria for Approved SPV Operators

SPV Operators shall fulfill the following minimum requirements:

- Be a duly incorporated entity in an Approved Jurisdiction.

- Minimum affiliation (via its shareholders) with or (practically) control by any Validator and/or Minter, or the affiliates of any Validator or Minter. To the extent that the SPV Operator has overlapping stakeholders with other Actors within the ecosystem, it is the duty of the SPV Operator to provide evidence of appropriate corporate governance and liability separation in dealing with collateral.

- It has obtained and maintained all necessary licenses, authorisations and consents for the performance of its obligations under the mandatory agreements it needs to enter into with other ecosystem participants according to the Adopted Guidance.

- It maintains a contractual relationship with the SPV that under no circumstance endangers the status of that SPV to be considered as such in its Approved Jurisdiction, as outlined in Approved Jurisdictions.

- It has meaningful equity to sustain its business.

- It has developed and can provide upon request a business plan for the following 3 years of operations.

4.3. Obligations of SPV Operators

SPV Operators are expected to enter into a Minter-SPV Operator Agreement with every Minter they provide services to. Today, these agreements are considered part of the Mandatory Contracts as defined in the Adopted Guidance. In case of any change to the Mandatory Contracts, the Minter and SPV Operator, as any other Actor, are expected to amend the Minter-SPV Operator Agreement accordingly without delay.

The mandate of the SPV Operator to manage the collateral is intended to have the main objective be to protect the stability of M under all possible circumstances. For this reason, the Adopted Guidance suggests prudence in adopting technological innovation (e.g. in the form of tokenized securities) at this level of the stack.

To that end, the duties of the SPV Operator can be divided into two groups:

a) Obligations in the Normal Course of Business

b) Obligations outside of the Normal Course of Business

The Normal Course of Business generally refers to the scenario where the Minter operates in accordance with the Protocol rules and is fully capable of doing so. As a consequence, outside the Normal Course of Business refers to all scenarios where the Minter is, for example, non-compliant with the rules of the Protocol, enters into insolvency, or is incapacitated or unwilling to fulfill its obligations for other reasons.

4.3.1. Obligations in the Normal Course of Business

In the **Normal Course of Business** the SPV Operator shall manage the Collateral Storage in accordance with the Adopted Guidance and all applicable laws and regulations.

To that extent, the SPV Operator shall use most or all available financial resources (including Cash Equivalents) to purchase Eligible Collateral. Some flexibility on reinvestment should be provided to the SPV Operator in order to timely fulfill existing or foreseen Retrieval Requests. It shall do so whenever available financial resources are existing in the Collateral Storage unless such available financial resources are part of a Retrieval Request or the amount is economically negligible.

The following chart shows the replenishment of Eligible Collateral in the Normal Course of Business:
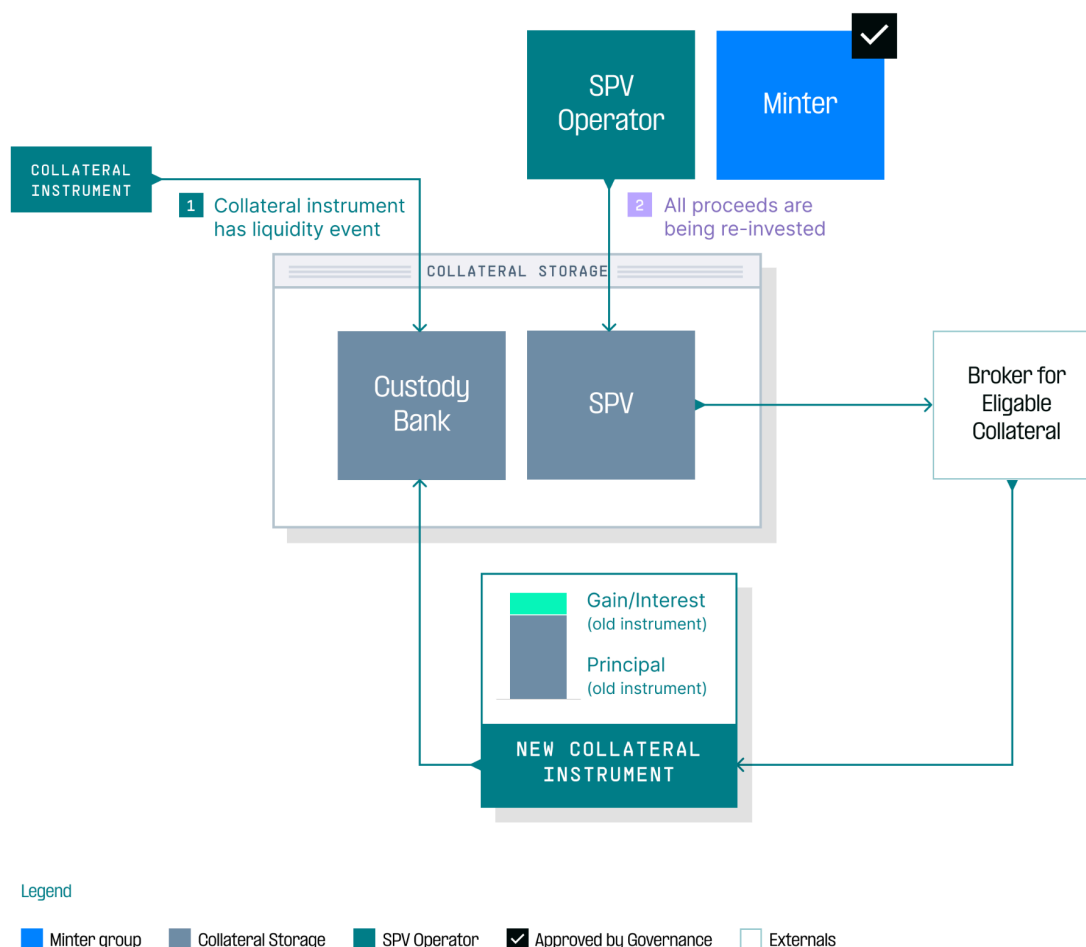
1. Any liquidity event affecting any collateral instrument (e.g. upon maturity of the instrument or as regular interest payment or other cashflow) is paid within the Collateral Storage, or more specifically to the custody bank accounts of the SPV.

2. Without delay, the SPV Operator initiates the purchase of new Eligible Collateral. This means that the amount of collateral, all other factors unchanged, will grow over time. The only way for the Minter to extract collateral is via the Retrieval Process.

The SPV Operator shall also cooperate with the Minter to execute Retrieval Processes. When a Minter requests a retrieval of collateral with the SPV Operator, the SPV Operator shall verify that a respective RetrieveID is existing in the Protocol. Once verified, the SPV Operator shall timely sell a corresponding amount of collateral and/or use liquidity from maturity collateral maturing at the same day and transfer the amount requested to be retrieved to the Minter.

4.3.2. Obligations Outside of the Normal Course of Business

The interruption of a Minter's Normal Course of Business, due to a diverse set of circumstances that the Adopted Guidance intends to address, should immediately or within a realistic timeframe lead to a Wind Down of such a Minter.

Wind Down Process
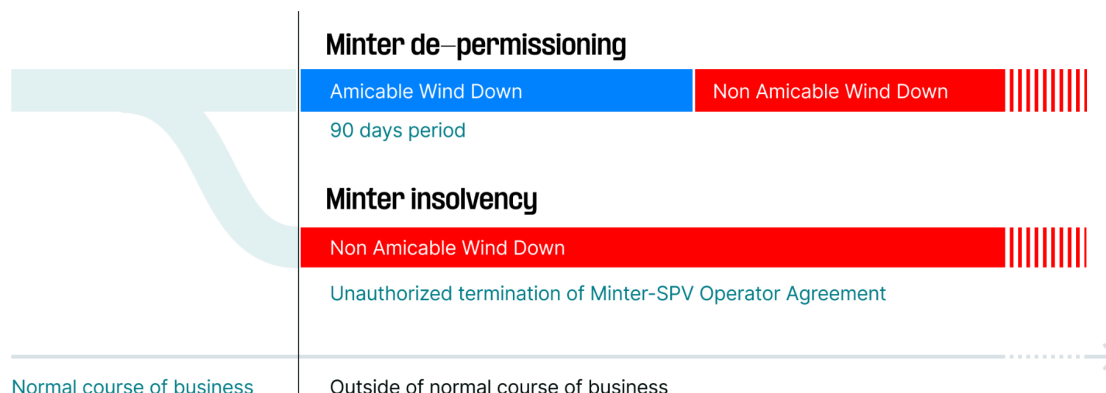
Minter De-Permissioning refers to any event resulting in a successful Governance vote to remove a Minter from the list of Permissioned Minters. **Permissioned Minters** are any entities in the M^0 ecosystem that have been permissioned by Governance to mint M. The Minter De-Permissioning is the main smart-contract enforced way for a Minter to leave the Normal Course of Business and enter a Wind Down process. A **Wind Down** is the process of progressively terminating a Minter's operations by the SPV Operator, who sells or otherwise realizes the Eligible Collateral, using all available financial resources to purchase M in the market, and burning such M in repayment of the Minter's Owed M. Depending on the scenario, such a Wind Down will be done either in an amicable way – i.e. the **Amicable Wind Down**, or under the full control of the SPV Operator – i.e. the **Non-Amicable Wind Down**. The intention of this staged process is to give the ability to a Minter in good faith with the ability to remedy its actions and provide an orderly execution of its exit process, while maximizing funds recovery in the interest of the protocol.

In other exceptional cases in which a Minter is incapable of redeeming, a Minter's set of counterparties could go directly to the SPV Operator for the successful

execution of a primary redemption, provided that all core principles of the Adopted Guidance remain intact.

During an Amicable Wind Down the Minter shall continue to engage the service of a signature threshold of Validators. The Validator(s) shall continue to check the appropriate balances of the Minter's SPV and will publish this information to a public forum at least once per Update Collateral Interval.

4.3.2.1. Amicable Wind Down Process

The document refers to an Amicable Wind Down Period as a 90-calendar day period starting on the day after a Minter De-Permissioning. In providing a window for the execution of an Amicable Wind Down, the Adopted Guidance intends to avoid, as much as possible, any unfairness towards a Minter, as well as protect its ability to resolve any outstanding liability against the protocol.

During an Amicable Wind Down, the SPV Operator shall act as the supervisor of the orderly wind down and shall assist the Minter on a best-effort basis in redeeming its Owed M. To redeem, the Minter shall purchase and burn M by calling the burn() function and specifying the Minter's address in that call, which effectively reduces the Minter's Owed M balance by the burned amount. Following each Burn Event in its respective address, the Minter shall notify the SPV Operator, and the SPV Operator shall verify the occurrence of such Burn Event on-chain. Upon successful verification, the SPV Operator shall initiate the sale of Eligible Collateral and transfer an amount to the Minter that equals the amount burned in a Burn Event divided by the Mint Ratio, which was valid at the time the Minter De-Permissioning occurred.

During an Amicable Wind Down, the SPV Operator shall not be obliged to meet any portfolio composition requirements laid out in the Adopted Guidance. If the Minter wishes to provide recommendations to the SPV Operator concerning the sale of Eligible Collateral with respect to (including but not limited to) minimum execution price, execution time and type of instrument, such recommendations shall not be binding. However, the SPV Operator shall commit to following them

solely on a best-effort basis. If a full repayment of the Minter's Owed M is reached within the Amicable Wind Down period, any residual financial value shall be paid to the Minter.

If a full repayment is not reached within the Amicable Wind Down period, no further amounts shall be paid to the Minter and the SPV Operator shall initiate a Non-Amicable Wind Down, as described below.

For sake of clarity: during the Amicable Wind Down Process, the option to transition into a Non-Amicable Wind Down Process with immediate effect is not excluded. While it is the main goal of the SPV Operator to protect the stability of M, this can only be achieved if the SPV Operator does not face a situation where itself might be in violation of applicable laws within the jurisdiction it is operating from. Therefore, in the case of severe changes in circumstances, especially but not limited to its contractual relationship with the Minter, leading to the situation that the SPV Operator needs to cease its contractual relationship with the Minter to maintain compliance, the SPV Operator might transition from a Amicable to a Non-Amicable Wind Down Process with immediate effect in regards to the Minter.

4.3.2.2. Non-Amicable Wind Down Process

Once the Amicable Wind Down Period has lapsed, and provided that the Owed M exceeds 0 and the Collateral Storage still contains collateral, the SPV Operator shall unilaterally and contractually wind down the Minter's structure through the so-called Non-Amicable Wind Down. In case the Minter has not been de-permissioned before, i.e. if the Non-Amicable Wind Down has been triggered by exceptional conditions described below, the SPV-Operator is required to submit a governance proposal to de-permission the respective Minter. The SPV Operator shall act as a selling agent of the collateral and shall distribute all proceeds in accordance with the rules of the Adopted Guidance. More specifically, as part of the Non-Amicable Wind Down, the SPV Operator shall no longer disburse any proceeds from the sale of collateral to the Minter.

As part of a Non-Amicable Wind Down, in the case a Minter is incapable or non-cooperative of redeeming, a Minter's set of counterparties could go directly to the SPV Operator for the successful execution of a primary redemption, provided that all core principles of the Adopted Guidance remain intact and that the appropriate contractual obligations between Minter and counterparties regulate those situations.

The SPV Operator shall exercise best effort in reaching the maximum reduction of Owed M related to the Minter part of the Non-Amicable Wind Down process by, e.g.:

- Waiting for collateral maturity while interrupting the automatic replenishment (run down the portfolio) if the market conditions require to do so, and subsequently burn such M on the Minter's behalf.

- Selling all remaining collateral on a best effort basis and using all available proceeds to purchase M on the open market, and subsequently burn such M on the Minter's behalf.

- Enter into contractual agreements to dispose of assets and liabilities to another Minter in the network still in the Normal Course of Business.

Should the SPV Operator, due to market conditions surrounding the purchases, have remaining M balance in its control, although the Owed M of the Minter is 0, the SPV Operator shall burn such M and increase the system-wide implicit overcollateralization. Should purchased M not be sufficient to fully bring the Owed M of the Minter to 0, such Owed M will continue to exist, effectively decreasing the Protocol-wide overcollateralization. Governance should act proactively to ensure that such a scenario will never materialize, by appropriately monitoring individual collateralization levels and/or de-permissioning Minters that constitute excessive risk for the Protocol.

In addition to Minter De-Permissioning, the Adopted Guidance considers additional circumstances that should lead immediately to a Non-Amicable Wind Down. Those circumstances are described below.

4.3.2.3. Minter Insolvency

The SPV Operator shall enter into a Non-Amicable Wind Down immediately as soon as they receive a valid notification that a Minter has filed for (or has been filed for) insolvency.

The Minter shall need to indemnify the SPV Operator for any claims brought forward by an insolvency administrator against the SPV Operator in context of a insolvency-related Non-Amicable Wind Down.

4.3.2.4. Unauthorized Termination of Minter – SPV Operator Agreement

It is crucial that all Eligible Collateral is always available to back the Owed M. To that end, it is mandatory that Minters contract with SPV Operators who are permissioned by Governance and listed in the Adopted Guidance to operate the Collateral Storage.

To avoid any circumvention of Governance-led rules, e.g. by exchanging the SPV Operator with an unauthorized party, it is expected that Minters shall only replace an SPV Operator with another permissioned SPV Operator.

In the case a Minter, while remaining a Permissioned Minter or within the Amicable Wind Down Period, terminates the Minter-SPV Operator Agreement without replacing it with another viable agreement meeting the criteria as outlined in the Adopted Guidance, the SPV Operator shall perform an immediate Non-Amicable Wind Down. A termination during a Non-Amicable Wind Down shall generally be excluded.

4.3.3. Operational Obligations of SPV Operators

To ensure smooth operations the SPV Operator needs to comply with the following additional obligations.

4.3.3.1. Co-signature of the SPV for significant payments

To protect against unauthorized transactions that could lead to significant loss of funds, the SPV Operator shall set up the respective Collateral Storage such that the signature of the SPV (via its corporate service provider) shall be required (in addition to its own) in order to externally transfer financial resources that are considered significant payments.

The definition of what constitutes significant payments, as well as the respective sign off limits, shall be assessed and if necessary, adjusted on a quarterly basis such that payments exceeding the typical interest payments (in case existing) require the signature of the SPV via its corporate service provider.

4.3.3.2. Cooperation with Validators

The SPV Operator shall cooperate in any required way, as defined in the Adopted Guidance, with Validators in the network. This includes supporting the Minter to provide read access to the Validator of the Collateral Storage.

4.3.3.3. Maintenance of Administrative Buffer

Administrative Buffer is defined as a reserve of 25,000 worth of Cash Equivalents that the SPV Operator can use to cover possible off-chain administrative costs, such as assisting with the Wind Down of the Minter or resolving legal disputes, according to the rules set out in the Adopted Guidance. Such a buffer should exist

within the Collateral Storage in a way considered satisfactory by the SPV Operator, but should not in any case be simultaneously pledged to the system as Eligible Collateral for minting. For the avoidance of doubt, the SPV Operator shall be allowed to use the Administrative Buffer to ensure operations in cases where the Minter is unwilling or unable to cooperate.

Where the Administrative Buffer is not meeting the minimum amount specified in the Adopted Guidance, the Minter shall not submit any mint proposals. Should the Minter still submit a mint proposal despite an insufficient Administrative Buffer, the SPV Operator shall socialize this concern (i.e. through the network of Validators, Governors, or other stakeholders). As in any social consensus construct, stakeholders are expected to act accordingly, in their own interest.

Only following the completion of a Wind Down, any unused part of the Administrative Buffer is to be paid back to the Minter.

4.3.3.4. No Wire Back Instructions

The SPV Operator shall not wire back any financial resources to the Minter except for:

- Orderly Retrieval Process.

- Residual financial value, if applicable following a Wind Down process described above.

4.4. Guidelines for Submission of Approval Requests

An application for the approval as SPV Operator shall be submitted via a change proposal of the Adopted Guidance following the process described in [Change Process for the Adopted Guidance](#). The change proposal shall aim to add the SPV Operator to [Contact Information of Currently Approved SPV Operators](#).

Before submitting its application, the SPV Operator shall publish a KYC report via appropriate channels, as well as appropriate proof that the requirements set forth in [Obligations of SPV Operators](#) are met:

- Certified copies of the commercial register and/or trade register and/or register of companies or alike, proving that the company was duly incorporated in the jurisdiction it is providing its services from.

- Proof of who the ultimate beneficial owners (UBO) of the company are, including proof for negative politically exposed persons (PEP) / sanctions check.

- Certified copies of all required official licenses required to operate the business and to provide the services outlined in the Adopted Guidance and in the contractual agreements where the SPV Operator is a party to.

- A legally binding declaration that no insolvency, bankruptcy or similar/comparable proceedings are currently pending or to be anticipated in the foreseeable future in relation to the company.

- Proof that the company is minimally affiliated (via its shareholders) with or (practically) controlled by any Validator and/or Minter named as permissioned actor in the Adopted Guidance. When there is some level of affiliation, relevant evidence of appropriate corporate governance shall be presented.

- A legally binding declaration, as long as objectively and legally possible, to set up its business activities in regards to the services and contractual relationships as outlined in the Adopted Guidance.

- A legally binding commitment, as long as objectively and legally possible, to amend its contractual relationships reflecting potential mandatory changes of the Adopted Guidance.

Where confidentiality concerns emerge, the M^0 Foundation can step under Non-Disclosure Agreements to analyze the required documentation and provide a qualified public opinion to the ecosystem.

5

Validators

5.1. Contact Information of Currently Permissioned Validators

i.   Validator One GmbH
     Friedrichstr. 114A, 10117 Berlin, Germany
     contact@validator-one.com
     www.validator-one.com
     Public Key: 0xEF1D05E206Af8103619DF7Cb576068e11Fd07270

ii. Chronicle Labs
     190 Elgin Ave, George Town Cayman KY1-9005, Cayman Islands
     hello@chroniclelabs.org
     www.chroniclelabs.org
     Public Key: 0xEe4d4938296E3BD4cD166b9b35EE1B8FeD2F93C1

5.2. Eligibility Criteria for Permissioned Validators

Validators shall fulfill the following minimum requirements:

- Be a duly incorporated entity, not in a High-Risk Jurisdiction.

- Have minimum affiliation (via its shareholders) with or (practically) control by any Minter and/or SPV Operator (or the affiliates of those) that is in direct contractual relationship with for the provision of its services. To the extent that the Validator has overlapping stakeholders with other Actors within the ecosystem, it is the duty of the Validator to provide evidence of appropriate corporate governance.

- Obtain and maintain all necessary authorizations and consents for the performance of its obligations under the Mandatory Contracts it needs to enter into with other ecosystem participants according to the Adopted Guidance.

- Have technical visibility of the Collateral Storage, and specifically the ability to connect to the SPVs bank and securities accounts, e.g. via API or other technical means, as well as to exchange Signatures with the Minter.

- Have all applicable licenses and permissions in their jurisdiction.

5.3. Obligations of Validators

Validators provide Signatures to Minters for the update of their Collateral Balance and for the removal of RetrievalIDs.

This requires the Validators to have full visibility on:

- The Minter's Collateral Storage, including its Cash Accounts.

- All order flows of such accounts.

- The appropriate wallet addresses of a Minter's Collateral Storage.

In addition to verifying account data and compliance with the eligibility criteria for collateral, the Validators shall perform checks, given that it is in the interest of the Minter to provide maximum transparency on the collateral.

Validators shall, for example, confirm that the Mandatory Contracts are in place between the Minter and the SPV Operator, as well as confirm that the country of incorporation of the SPV is in an Approved Jurisdiction at the time of each confirmation, etc.

In the case that the Validator gains certain knowledge that certain Mandatory Contracts have been made invalid or have been terminated without a valid replacement, the Validator shall no longer provide Signatures until those contracts have been remedied in compliance with the Adopted Guidance.

Should the Validator perceive obviously suspicious or obviously non-compliant mint proposals as well as mint proposals that are the result of obvious human error (by any Minter) it shall cancel such mint proposals within the Mint Delay time frame.

The Validator shall in particular cancel mint proposals of Minters if the Validator was informed by the SPV Operator of such Minter that the Administrative Buffer is not meeting the criteria set out in the Adopted Guidance for as long as such breach exists.

In emergency situations where a Validator has a justifiable reason to believe that a Minter is non-compliant with the Adopted Guidance in a material way, but does not refrain from submitting mint proposals, or a damage to the collateralization of M is to be reasonably expected, the Validator shall use the freezeMinter() function until the situation is remedied.

The use of the freezeMinter() and the cancelMint() functions shall not constitute any basis for claims for damage compensation by the affected Minter and/or its BD Minter against the Validator who has called such function.

Validators shall only terminate a Minter-Validator Agreement with a notice period of no shorter than 90 days, including in the case of a Wind Down. They shall help the Minter to transition to a replacement Validator. If no replacement Validator can be found within this time window, the terminating Validator shall extend its service for the Minter for up to an additional 90 days upon request of the Minter. The right to terminate for cause shall remain unaffected.

5.4. Guidelines for Submission of Permissioning Requests

An application for the permissioning as a Validator requires the whitelisting of the applicant's public key on the list of permissioned Validators.

Before submitting its application, the Validator shall make a KYC report public via appropriate channels, as well as appropriate proof that the requirements set forth in [Eligibility Criteria for Permissioned Validators](#) are met:

- Certified copies of the commercial register and/or trade register and/or register of companies or alike, proving that the company was duly incorporated in the jurisdiction it is providing its services from.

- Proof of who the ultimate beneficial owners (UBO) of the company are.

- Certified copies of all required official licenses required to operate the business and to provide the services outlined in the Adopted Guidance and in the contractual agreements where the Validator is a party to.

- A legally binding declaration that no insolvency, bankruptcy or similar/comparable proceedings are currently pending or to be anticipated in the foreseeable future in relation to the company.

- Proof that the company is minimally affiliated (via its shareholders) with or (practically) controlled by any SPV Operator and/or Minter the Validator is in direct contractual relationship with for the provision of its service. When there is some level of affiliation, relevant evidence of appropriate corporate governance shall be presented.

- A legally binding declaration, as long as objectively and legally possible, to set up its business activities in regards to the services and contractual relationships as outlined in the Adopted Guidance.

- A legally binding commitment, as long as objectively and legally possible, to amend its contractual relationships reflecting potential mandatory changes of the Adopted Guidance.

Where confidentiality concerns emerge the M^0 Foundation can step under Non-Disclosure Agreements to analyze the required documentation and provide a qualified public opinion to the ecosystem.

6

BD Minters and Minters

6.1. Contact Information of Currently Permissioned Minters

i)   Minter One Generator (SPV) Ltd.
       171 Main Street, PO Box 92, Road Town, British Virgin Islands VG1110
       minter.one.generator@mxon.co
       www.mxon.co

6.2. Eligibility Criteria for Permissioned Minters

BD Minters and Minters shall be set up and operated in compliance with the requirements and criteria described in the Adopted Guidance. In case the setup and operations of the BD Minter and/or Minter requires decisions on matters that are not covered in the Adopted Guidance, the stability, safety and availability of M shall be the sole guiding principle for such decisions.

Per one Minter entity, the current version of the Adopted Guidance allows only one Minter Address to be permissioned.

Minters shall be set up in such a way which maximizes insolvency remoteness. They shall not be allowed to conduct any other business but interact with the Protocol for the management of M. This excludes, for example, in particular any commercial and employment agreements. In principle, the Minter entity shall be fully owned or at least controlled by a BD Minter. Alternatively, a Minter shall be orphaned and operated by the BD Minter.

Permissioned Minters are expected to fulfill the following criteria:

- Be a duly incorporated entity, not in a High-Risk Jurisdiction.

- Have the technical ability to interact with the Protocol.

- Be able to provide signed Minter-SPV Operator agreement with a permissioned SPV Operator.

- Have all licenses and permissions required in their jurisdiction.

- Have reasonably strong insolvency remoteness.

- Be orphaned, solely owned, or controlled by the BD Minter.

- Be affiliated to a BD Minter that is not incorporated in a High-Risk Jurisdiction.

- Have established practices that are consistent with internationally accepted standards (such as the Financial Action Task Force (FATF) Recommendations) in regards to policies and procedures reasonably designed to prevent the Minter from facilitating money laundering and terrorist financing including an established KYC program and identifying and reporting suspicious activity, as appropriate.

- Have established policies and procedures designed to prevent the Minter through the BD Minter from processing transactions that violate OFAC or EU sanctions, including by implementing transaction screening procedures to identify OFAC listed Specially Designated Nationals (SDNs) and persons normally resident in jurisdictions subject to comprehensive sanctions.

Minters should not enter into any other agreements except the following:

- Agreements necessary to purchase Notes issued by the SPV.

- Agreements with its BD Minter for the provision of services required to operate the business of the Minter.

- Funding agreements with its BD Minter for the sole purpose of financing collateral purchases.

- Minter-Validator Agreement(s) and Minter-SPV Operator Agreement(s).

- Agreements reasonably necessary for compliance with regulatory obligations including anti-money laundering and sanctions checks (can be fulfilled by the BD Minter on behalf and for the Minter).

Every agreement that the Minter enters into shall be co-signed by the BD Minter and shall contain a clause whereby the BD Minter absorbs any and all financial liabilities arising from such agreements.

6.3. Obligations of Minters

The provisioning of sufficient collateral for its Owed M is deemed to be in the responsibility of the Minter, irrespective whether such Owed M was caused by the minting of M, applied Minter Rate or Penalties. It is the Minter's obligation to at all times provide enough capital to the SPV so that the SPV Operator can purchase sufficient Eligible Collateral.

Minter's need to demonstrate that they provided a sufficient amount of Eligible Collateral via calling the updateCollateral() function at least once per every Update Collateral Interval. If they fail to do so a Penalty will be added to the Owed M for the time they are not in compliance with Protocol rules.

Minters need to at all times have a valid Minter-SPV Operator Agreement which meets the criteria set in place with an SPV Operator that is and remains for the time of service listed in Contact Information of Currently Approved SPV Operators.

Before submitting the first and any consecutive mint proposals, the Minter has to make an Administrative Buffer available to the SPV Operator. The payment of the Administrative Buffer can be made in Cash Equivalents. If the SPV Operator is making use of the Administrative Buffer or parts thereof in accordance with the criteria set out in the Adopted Guidance, the Minter shall replenish the

Administrative Buffer so that it meets or exceeds the defined amount for the Administrative Buffer before submitting any further mint proposal.

In the interest of the stability of M and the ecosystem, a BD Minter should provide assurance (solely) to their direct institutional counterparties that it will buy back M at par value (minus any applicable fees), within the scale and time frame appropriate given its business operating conditions.

6.4. BD Minter and Minter Compliance Requirements

Each Minter and its affiliates, such as the BD Minter, must have written policies, procedures, and internal controls designed to ensure compliance with the applicable laws within the jurisdiction in which they operate. Additionally, Minters need to have anti-money laundering procedures that are reasonably designed to prevent the Minter from facilitating money laundering and terrorist financing including know-your-customer policies, maintaining highly useful records for law enforcement and regulators and identifying and reporting suspicious activity, as appropriate. These controls must be designed to comply with the obligations of the Minter's jurisdiction of incorporation or with the international standards recommended by the Financial Action Task Force, as specified below. These obligations can be fulfilled by the BD Minter on behalf and for the Minter.

Minters need to maintain anti-money laundering and counter terrorist financing (AML/CFT) programs that are reasonably designed to manage and mitigate the Minter's risks related to money laundering and terrorist financing. The nature and extent of the AML/CFT program depends upon a number of factors, including the nature, scale and complexity of the Minter's operations, the diversity of its operations, including geographical diversity, its customer base, product and

activity profile, and the degree of risk associated with each area of its operations, among other factors. These obligations can be fulfilled by the BD Minter on behalf and for the Minter.

As part of its AML/CFT program, Minters need to obtain and verify the customer identification information as required by the laws of the jurisdiction within which it operates. Minters must also implement policies and procedures to collect additional information to verify the customer's identity at the beginning of the customer relationship to demonstrate that the Minter can form a reasonable belief of the identity of its customer. Minters must also implement policies and procedures to conduct due diligence about its customer sufficient for the Minter to establish a customer's risk profile and conduct ongoing monitoring. Such additional, non-core identity information, could include, for example an IP address with an associated time stamp; geo-location data; device identifiers; digital asset wallet addresses; and transaction hashes. Minters may simplify the extent of these due diligence measures where the risk associated with the customer relationship or activities is lower. These obligations can be fulfilled by the BD Minter on behalf and for the Minter.

Minters need to implement policies and procedures that assist with identifying customers' unusual or suspicious movements of funds or transactions indicative of potential involvement in illicit activity. These policies and procedures should ensure that the Minter can timely identify, investigate, and report customers' unusual or suspicious activity in compliance with the requirements and timeframes imposed by the jurisdictions within which they operate. These obligations can be fulfilled by the BD Minter on behalf and for the Minter.

Minters need to designate a person with the responsibility to ensure compliance with the AML/CFT program and oversee day-to-day operations concerning such compliance. This person must be empowered with sufficient authority and autonomy to implement the Minter's AML/CFT program including access to sufficient resources as needed to mitigate the Minter's risks of money laundering and terrorist financing. These obligations can be fulfilled by the BD Minter on behalf and for the Minter.

Minters need to develop procedures to test the effectiveness of the AML/CFT program commensurate with the Minter's level of AML risk exposure. The party designated to test the AML/CFT program must be independent, qualified, unbiased and free from any conflicting business interests that may influence the outcome of the compliance program test. The Minter's policies should include provisions for tracking and remediating weaknesses identified as part of these independent reviews. These obligations can be fulfilled by the BD Minter on behalf and for the Minter.

BD Minters need to implement a training program to ensure that all employees at the BD Minter, or independent contractors or third party service providers involved in the BD Minter's and/or Minter's operations, understand their obligations under the AML/CFT program. Such training should include senior management and the board of directors or other similar governing bodies of the BD Minter and Minter. The training program should be designed to provide appropriately detailed information to employees based on their level of responsibility regarding the AML/CFT program.

BD Minters and Minters need to, at all times, comply with all economic or financial sanctions or trade embargoes imposed, administered or enforced by the United States (including those administered by OFAC and the U.S. Department of State), the EU, and any other government authority with jurisdiction over the BD Minter and Minter. The Minter needs to maintain effective measures to ensure compliance with, and awareness of, its sanctions-related obligations. This includes implementing measures to conduct appropriate due diligence on customers' underlying transactions and the parties involved by screening such parties against OFAC's SDN list and EU sanctions and monitoring virtual asset wallet addresses against such lists. Additionally, these measures will monitor the jurisdictions within which its customers are domiciled to prevent the Minter from facilitating transactions on behalf of persons residing in any country, region or territory, or government thereof, that is the subject or target of comprehensive sanctions. These obligations can be fulfilled by the BD Minter on behalf and for the Minter.

6.5. Guidelines for Submission of Permissioning Requests

An application for the permissioning as a Minter requires the whitelisting of the applicant's public key on the list of permissioned Minters.

As the most central actor in the ecosystem, Minters shall have a thorough understanding of the Adopted Guidance and all the ways it impacts their business. It is expected that the approval of Minters by Governance shall involve an in-depth collaboration with governors so they reach a good level of understanding of the applicant's abilities.

Before submitting its application, the Minter shall make a KYC report public via appropriate channels, as well as appropriate proof that the requirements set forth in Eligibility Criteria for Permissioned Minters are met:

- Certified copies of the commercial register and/or trade register and/or register of companies or alike, proving that the company was duly incorporated in the jurisdiction it is providing its services from.

- Proof of who the ultimate beneficial owners (UBO) of the company are, including proof for negative politically exposed persons (PEP) / sanctions check.

- Certified copies of all required official licenses required to operate the business and to provide the services outlined in the Adopted Guidance and in the contractual agreements where the Minter is a party to.

- A legally binding declaration that no insolvency, bankruptcy or similar/comparable proceedings are currently pending or to be anticipated in the foreseeable future in relation to the company.

- Proof that the company is minimally affiliated (via its shareholders) with or (practically) controlled by any SPV Operator and/or Validator named as

approved or permissioned actor in the Adopted Guidance. When there is some level of affiliation, relevant evidence of appropriate corporate governance shall be presented.

- A legally binding declaration, as long as objectively and legally possible, to set up its business activities in regards to the services and contractual relationships as outlined in the Adopted Guidance.

- A legally binding commitment, as long as objectively and legally possible, to amend its contractual relationships reflecting potential mandatory changes of the Adopted Guidance.

Where confidentiality concerns emerge, the M^0 Foundation can step under Non-Disclosure Agreements to analyze the required documentation and provide a qualified public opinion to the ecosystem.

Document Version 1.20
Last updated: February 3, 2025