

Token Model

Base token - the core token is simply based on a collateralization ratio to the actual asset. This would typically be 1:1.

Hence for an asset worth (as assessed by an oracle) 10M USD with tokens at 1USD per token, then 10M tokens would be issued.

Of course different collateral ratios can be used which then would affect the number of tokens. If for every two dollars of asset value, we have just one dollar of token value, then for the 10M example - 10M USD would equate to 5M 1USD tokens. This clearly would indicate the capital asset was unstable and could drop in value and hence the ratio is very high.

Derivatives

Once the core token is issued, then token holders will be able to re-tokenize their asset based on risk ratings. This is done using established debt models used in fiat money financial instruments -

1. Senior Debt
2. Mezzanine Debt
3. Junior Debt
4. Equity

The process described to tokenize is re-issued and then investors choose which debt is suitable for their risk appetites. If a fund is built for senior debt (across multiple assets) then investors would vote twice -

1. Once for the fund construction (eg senior debt)
2. On the actual deployment of the funds into an actual re-finance (ie part of the overall fund).

Under this model

When the tokenized asset is then tokenized (ie tokens for the original asset (eg real estate) are then used as an asset themselves to re-finance in the debt market (CDOs)) then there is a risk and reward rating for that debt offering.

If a senior debt investor invests say 5M in the above example (of the 10M USD which was issued for the original asset, ie the base coin), then the senior debt investor will be entitled to a return based on the risk. That will not be 50%. Although he paid 50% into the fund, that money is protected against defaults in the original financial asset.

If there is a default, then the equity investor will lose their money first and then the junior debt investor. Then the Mezzanine investor, and then lastly the senior debt investor.

Hence the risk taken is far less for the senior debt investor than the junior one. Therefore the senior debt investor would receive a reduced return, maybe 35% on the 50% investment.

These percentages would be placed into the fund structure and subject to voting which has in that structure a primary market dynamic and hence the funds would be assured.

In this way the original asset tokens may then be re-financed via debt instruments which creates more liquidity.

Credit Default Swaps

But then of course there is still risk and a loss of liquidity for the debt investor. The risk can then mitigated by swaps. This is basically insurance on the debt against defaults. The same process as already described for all the fund construction and voting will then be used to build the insurance funds and then the CDS decisions. Hence risk is offset.

More Instruments

Once the fundamental model of fund building and deployment is built then more models can be built to provide more incomes for more people, more liquidity, and to offset more risk.

Payments

The original asset will generate an income (eg rents). This is then paid through to the investors via the structure which has been explained.

In this fashion money is distributed via the investors based on risk.



