XNET
AND GOVERNANCE

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# TABLE OF CONTENTS

OVERVIEW

Governance is one of the most important aspects of any collective human endeavor. Without good governance and effective leadership, no organization can hope to be successful. At XNET, we are committed to good governance of our project, and an eventual transformation from the largely centralized corporate governance model we currently implement to a future community-involved governance model that balances the needs and interests of all stakeholders.
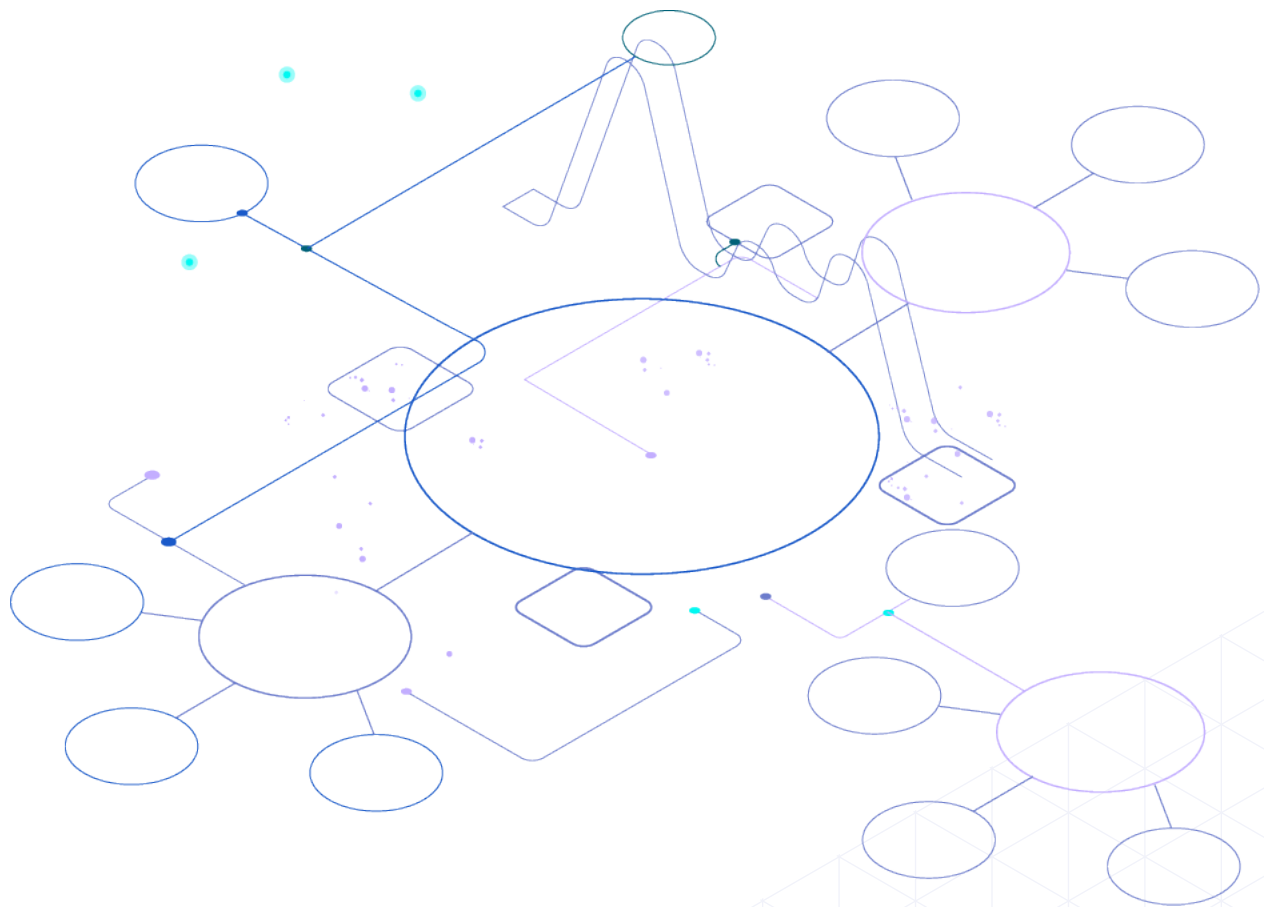
GOVERNANCE MODELS

Traditionally corporations have opted for a centralized, top-down form of leadership, with governance by a board of directors and indirectly by shareholders. We will call this model the shareholder governance model. This model has worked well for centuries, allowing for responsive leadership with the interests of shareholders represented by the governing board, the membership of which shareholders vote upon on an annual basis. However, this model also has deficiencies, including a lack of transparency and no formal mechanism for shareholder involvement beyond voting at an annual meeting. Further, shareholders may not be representative of the community at large, e.g. the difference in interests between Meta shareholders and Facebook community members.

With the emergence of crypto, new forms of governance have become possible, including the now-famous DAO structure. While the term DAO is often used to describe a non-hierarchical organization with a simple token-based direct-voting structure, a wide variety of decentralized organizational structures are possible, some of which are described on the Ethereum DAO page. In general, the goal of a DAO is to enable a community of stakeholders to directly participate in important decisions impacting the community. Hence, we will refer to this broad category of governance as the community governance model.

Just as there are pitfalls to shareholder governance, including a narrow focus on increasing the value of the company and paying dividends, there are pitfalls to community governance, especially when implemented for young communities or when implemented in unstructured ways. In particular, community governance is not a substitute for effective leadership, and the lack of hierarchy in many community-governance systems can make delegation of authority and structured decision-making difficult.

XNET PROJECT GOVERNANCE

LAUNCH STRUCTURE

The XNET is launching two organizational components: XNET, Inc, which includes the XNET MNO functions and the XNET Technology Development Team, and will launch first, to be followed by the XNET Foundation, which will be constituted as a DAO and an associated non-profit organization based in Singapore or another non-US jurisdiction.

XNET, Inc is a conventional Delaware C Corp, led by corporate officers and governed by a board of directors, which at present is composed of XNET insiders and investors.

Initially, the XNET Foundation DAO will be in charge of XNET grant giving and will also play a role as a counterparty in providing liquidity to early XNET token markets. Over time, as the XNET network matures, the XNET Foundation will play a more involved role: It will oversee XNET ecosystem investments, more actively manage the Foundation treasury, and play a growing role in governing the XNET network and smart contracts. In addition, after a period of years, we envision the XNET foundation DAO acquiring a substantial stake in XNET, Inc. and appointing directors to its board, thus achieving a hybrid of community governance and shareholder governance for the XNET project.

XNET FOUNDATION DAO GOVERNANCE

The XNET Foundation will employ a DAO voting mechanism. The Foundation will also be a legally-recognized non-profit entity, with designated executive officers — at a minimum a President, a Treasurer, and a Community Officer. The executive officers will be responsible for day-to-day operations of the Foundation, with membership in these roles subject to DAO vote on a yearly basis. These officers will also be responsible for overseeing the creation of executive committees for reviewing partnership deals, ecosystem and charitable grants, interacting with governments and NGOs, etc. The membership of such committees and any binding resolutions or business contracts (with a total value above a de minimis threshold) will be subject to approval by executive officers and a community-wide vote. In addition, the Community Officer will be responsible for working with the XNET community to source and shape DAO governance proposals, which will be brought to a community-wide vote from time to time, but not less frequently than once per quarter.

Voting rights will be split between a governance NFT, or XGOV, and the $XNET token itself. The reason for this split is to ensure that in the early days of the XNET project, where $XNET is illiquid and concentrated in the hands of investors, the XNET community will play a strong role in the governance of the XNET Foundation DAO. A substantial amount of voting power will be allocated to the XGOV token, as described in the XGOV — DAO Governance Token section below.

$XNET TOKENS and DAO GOVERNANCE

The $XNET token (Polygon address **0xbC5EB84C052FD012bb902C258C9fD241b17C0005**) is an ERC20 token implementing the OpenZeppelin Votes extension. This allows the use of the OpenZeppelin Governor smart contract and standard tools such as Tally for voting.

XNET Foundation DAO proposals may address a wide range of topics, including off-chain operations. While some proposals may address purely on-chain operations, such as the allocation of Foundation treasury assets, many others will not, such as voting for officers. In general, even purely on-chain operations will require the active, pro-forma approval of a majority of Foundation Officers (in the form of a multi-sig) as well as a majority of the community vote for implementation in order to mitigate certain types of malicious governance attacks.

$XNET token holders will have the right to make DAO governance proposals and to exercise voting rights on decisions put to a vote by the DAO officers, as well as the right to vote for officer candidates and any other consequential DAO administrative business as the DAO officers might bring to a DAO vote from time to time.

Locked and Vesting tokens

In order to vote, $XNET tokens must be held in the wallet of the voting entity, as any vote must be signed by the private key associated with the wallet address.

Vesting tokens, such as $XNET tokens locked in a vesting wallet associated with a Founder or Phase X rewards, are not votable until they vest and are transferred out of the vesting wallet.

Other locked tokens, such as tokens locked in a bridge, a liquidity pool, or some other smart contract are generally not votable unless they are held in a smart contract that specifically supports a voting proxy mechanism.

XGOV — DAO Governance Tokens

Two thousand five hundred governance NFTs, or XGOV, will be minted, each of which will represent the voting power of 2,000,000 $XNET, or 0.01% of the total $XNET supply. Taken together, these XGOV NFTs will represent 17.2% of the total possible voting power in the DAO — total voting power being 24B $XNET plus the equivalent of 5B $XNET represented by 2,500 XGOV.

The holders of these XGOV NFTs will be able to make DAO governance proposals and exercise their voting rights just as though they held an equivalent number of $XNET tokens.

The XNET Foundation DAO will distribute 250 XGOV NFTs to investors, insiders, and community members during the first year of operation, starting with an initial air drop of 100. The proportion of allocation between these groups will be 38 to community members, 38 to investors, and 174 to insiders, a group that includes XNET founding team members, early employees, etc.
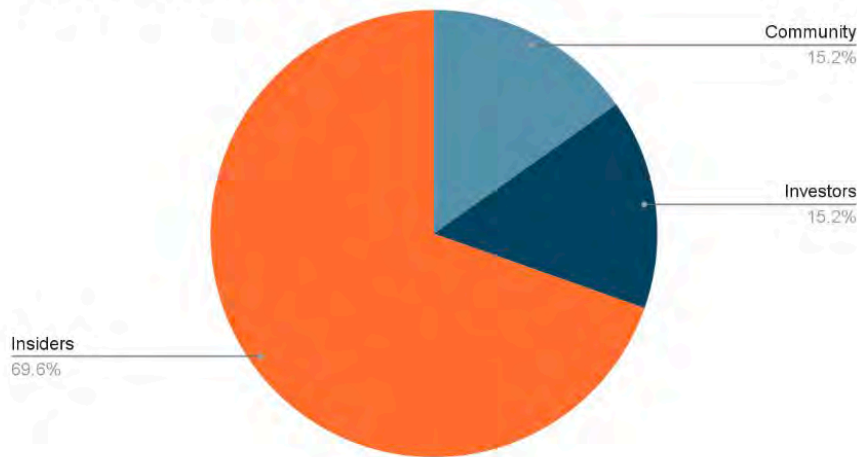
These XGOV NFTs will not be transferable, except back to the XNET Foundation. XGOV NFTs may, under extraordinary circumstances (such as the death of the NFT holder, the compromise of the holding wallet, or egregious or anti-community behavior on the part of a holder) be revocable by a full DAO vote.

An XGOV NFT cannot be sold. If the holder of an XGOV NFT wishes to transfer it to another entity/wallet, it must first be returned to the Foundation, who can then airdrop it to the next holder if that transfer is approved by the DAO Officers.

The purpose of this transfer restriction is twofold:

1. First to make XGOV as much as possible a non-speculative, non-financial asset. We are not naive, and are aware that money could still change hands in return for a DAO vote or even the DAO-mediated transfer from one holder to the next. However, it will prevent XGOV from being listed on Blur or OpenSea.
2. Second, and most importantly, to give the XNET Foundation an active role in shaping the membership of this important governing body, which represents a large fraction of the total voting power of the DAO.

Starting in the second half of 2024 the Foundation will start the process of distributing the remainder XGOV at a rate of approximately 60 per quarter. Distribution will be accomplished through a series of mechanisms that will be decided by the XNET Foundation DAO.

Power of the XGOV

The rationale for XGOV token voting power is to make the XGOV NFT governance tokens the dominant force in XNET Foundation governance for the foreseeable future.

Initial governance will be controlled by XGOV holders because $XNET tokens held by insiders and investors will be subject to lockup and will be non-voting, as will $XNET held in the Foundation Treasury and Ecosystem pools. Because the XNET Foundation will have to approve further transfer of these tokens, it will allow the community to directly vote on the evolution of its governance.

By the time these $XNET tokens held by insiders and investors have unlocked, enough XGOV will be in the hands of the community to represent a powerful counterweight to the voting power of circulating $XNET. This should help to counterbalance the influence of $XNET whales, whose interests may not always align with the interests of the XNET Foundation and community.

CONCLUSIONS

We believe that the dual organizational structure of the XNET Project, combining a traditional corporate structure for the centralized activities with a DAO for the Foundation, will maximize the benefits of both types of organizational leadership and governance. By building the muscles of the XNET Foundation over time through grant administration and other community-oriented activities, we believe that the XNET Foundation will evolve into a highly capable organization. It may take a decade or longer, but our intent is that over time XNET Foundation will control more and more aspects of the project, ultimately governing all aspects of the XNET protocol, eventually acquiring a significant control interest in XNET, Inc. and other players in the emerging XNET business ecosystem.

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