

An Analysis of the Vow Corporate Model

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Synopsis

The rate of change in our world is accelerating, in its path redefining old ideas and refashioning the processes and implements that have served humanity thus far. Most significantly, the concept of money has recently been radically altered, not only in its physical representation (Bitcoin) but in its function (Vow) -- an incident with extraordinary implications for human organisation

This paper proposes a new organisational structure we believe shall serve as the edifice upon which the next phase of human activity can be built

Historical Context

As Kropotkin makes abundantly clear in his seminal work *Mutual Aid - A Factor of Evolution*,¹ Nature favours cooperation within species, and Man is no exception. In human affairs the most effective organising principle to date has been the corporation, which traces its origins to the rule of Byzantine emperor Justinian the Great, during whose reign a range of corporate entities² were already recognised by Roman law

In its primary function of building wealth, the corporation relies on the following capital formation mechanisms:

1. The cultivation and accumulation of profits from revenue
2. Valuation step-ups in the divestiture of equity, and

3. Leverage of the debt markets for growth, expansion and competitive advantage

However, the above mechanisms are not without drawbacks, for example, the accumulation of profits is slow and difficult as profits are squeezed by rising costs, shrinking markets, overbearing taxation, and the linear nature of its inputs

Equity rounds are hampered by highly subjective valuation models, a marketplace for equities that is obscure and illiquid, strangling regulation that hinders transactions, and layers of middle-men that extract value from the deal. Of course, the sale of equity also represents the loss of ownership and control over the enterprise

Finally, borrowing destroys future revenue, forcing the operator to trade the long term for the short, which damages sustainability

Additionally, as permitted creatures, corporations suffer from the need for consent from the local sovereign, which naturally subjects them to the whims of parasitic authorities that view their revenue streams as piggy banks for social projects and other quixotic forms of spending. Owing to the natural entelechy of the corporation, the larger organisations with greater resources tend to invest significant sums in transnational structures that can mitigate these costs and demands, leading to the uneven application of law (due to enforcement costs) and thus injustice for many

Cryptographic Rudiments

Though recent advancements in cryptographic technology have most obviously benefitted the individual in granting him sovereignty over his wealth, and denying authorities knowledge and control over his property, the corporation may also take advantage of these advances

The following rudiments are critical to an understanding of this paper's proposal:

Decentralised Autonomous Organisations

First and foremost, because the receipt of revenues can now be accomplished entirely on-chain³, corporations are no longer required to hold banking relationships, with their attendant requirements of good standing. This means that corporations need no longer seek the consent of a sovereign government in their formation but may instead manifest as DAOs on a blockchain, which is a path open to all, permissionless, and *de facto* outside of jurisdiction (extraterritorial claims notwithstanding)

From a technical perspective this is a *fait accompli* as DAO⁴ factories can already create the necessary functionality to perform the typical duties of a corporation (i.e. governance and beneficial ownership), on-chain. In fact, such constructs carry the additional benefit to participants of anonymity, which means that both the attribution of guilt and any possible enforcement action against the entity or its participants is effectively out of reach

The single fact that on-chain corporations are not legally recognised by any sovereign affords them the following advantages over their dinosaur counterparts:

- no burdensome reporting requirements to meet
- no draconian taxation of revenues to dampen returns
- no accounting and compliance costs
- no limitations on the breadth of activities undertaken
- no risks of confiscation or of legal battles
- no regulation in funding efforts

Liquidity Pools

Central to the creation of wealth is the valuation methodology used for its representation

Modern capital markets offer *market capitalisation* as a portrayal of a company's size and power, where the value of the last trade is presumed applicable to all the shares in a company. This metric, however, misrepresents the wealth inherent in the vehicle as the price of a share, in fact, depends on market liquidity and bears little relationship to the value of the assets in the company (its "book value"). Therefore, whilst an overpriced company may seem big, its shareholders may have difficulty finding buyers and face substantial price slippage⁵ during an exit event. Modern corporations are thus, largely paper tigers

In the blockchain space, valuation and liquidity are managed in a single instrument: the liquidity pool⁶ (LP), which both provides accurate and predictable value for an exit (or entry) and guarantees the liquidity needed for a functioning system

The benefits of this approach are manifold:

- because transactions are on-chain, there is no favouritism, nor behind-closed-doors horse trading that benefits the powerful. transactions are blind to the participant
- because the liquidity resides in the pool, an entry or exit can *a/ways* and at any time be accomplished
- because the pricing mechanism is automated and transparent, it is reliable and trustworthy. there are no "pictures" to be painted by market manipulators

- because the pool charges fees for transacting, it generates yield for *liquidity providers*
- because liquidity providers expand the size of the pool, they decrease the price impact of any one transaction
- because LPs are creatures of the blockchain, there are no limitations on trading, of any kind
- when the assets traded in an LP are also traded outside the LP, arbitrage opportunities arise. this promotes price stability for both assets

Vow Corporations

As a financial breakthrough, the Vow solution allows companies to effectively issue corporate currencies, in the form of discounts, that find instant acceptability in the marketplace owing to their common denomination

Not only does this represent an alternative to the three aforementioned capital formation mechanisms in existence, giving financial officers a new and creative way to fund company operations, it also leads participants to the logical conclusion that all profits must be rigourously poured into greater ownership of Vow

As a reserve currency, however, Vow represents the aggregate human activity on the planet, thus the price impact of such investments is necessarily small and fails to capture the relative performance of the enterprise. Much in the same way that corporations with particularly profitable divisions spin them off to allow for greater visibility of their success, Vow proposes the creation of an enterprise token that may better reflect the dynamics of the underlying business

This makes sense in light of the natural corporate desire for branding and loyalty. It also forms the basis for a *keiretsu*⁷ model where cross-ownership along supply lines is both encouraged and beneficial.

Structure

The scheme involves the issuance of a given token supply (TS), some percentage of which is held by the company, some of which may be sold to investors, and some of which is used to establish a liquidity pool. All Vow operations establish LPs with Vow as the reserve currency. The company then proceeds to commit all of its profits towards the repurchase of its own token, much in the same way as public corporations commit to stock buyback plans, which strengthens the token value and gives the community of token investors the certainty that over time token value will appreciate

Dynamics

To establish the LP the following questions need an answer:

1. What is the size of the expected cashstream?
2. What is the desired rate of appreciation in the token?
3. What capital is available (in Vow) for the initial setup?
4. What is the desired initial price of the token?

With these answers it is possible to calculate the size of the initial pool, the initial token price, as well as the price impact the expected cashstream will have on token value. Too small a pool and the cashstream creates too much slippage, wasting valuable PR opportunities at a time when the market for the token is not yet well established. Too large a pool and investors don't see any movement and lose interest. Too large a token issuance and the price is too low. Too large a contribution to the pool and the company is leaving money on the table. Too large a contribution and the reserve requirements for the pool fall outside the reach of the company

The modelling is a bit of an art, as each business exists at a different point in the maturity curve of crypto adoption and thus harbours different goals. It is, on that account, impossible to create a single plan for all companies. However, the basic model remains the same, irrespective of the figures involved

Function

The liquidity in the pool serves, essentially, as a private bank to which the company has immediate and perpetual access. Any time a business opportunity requires capital to exploit, the company simply sells some of the tokens in its reserve (at increasingly higher valuations as time goes by), deploys the capital in pursuit of the opportunity, only to amplify the company's commitment towards the repurchase plan. Thus smart operators optimise for valuation, taking advantage of irrational exuberance to build real value, and investors are given the opportunity to plan entries and exits carefully calculated within their investment horizons

For smart operators, who understand the dynamics of the model, and the clear objective of committing every possible dollar to the LP, it is easy to establish trust within the community. Those who know their business well can balance the asymptotic curve of return against the costs of expanding the business, and on the other side, investors who come to trust the operators see retractions in price as a chance to pick up more token for less money (because they know that as a function of the expansion of the business, even more profits will be committed to the pool)

Community

In addition to the vibrant and burgeoning community of liquidity providers within the Vow ecosystem, who'll be able to easily find the company LP and trade with it, companies will want to incentivise and promote the use and acquisition of their token within their sphere of influence. Amongst others, this may be done in the following ways:

1. In lieu of accepting payments from customers, companies can encourage purchases of the token. This accomplishes the following goals at once:
 - i. It makes the product or service effectively free to the customer (which means rejection of the scheme is virtually impossible)
 - ii. Guarantees the income stream into the LP, with its corresponding value gain,
 - iii. Eliminates income tax on the revenue since the company no longer receives payment, thus guaranteeing a larger contribution to the LP, and
 - iv. Establishes a larger base of token holders and entities that care about the viability of the company
2. Under the model companies are incentivised to build in token arrangements into partnership agreements and merger and acquisition deals whereby company tokens become leverage and a bargaining point, seeking to create a broader base and engagement in the company ecosystem
3. Because company tokens are immediately convertible for Vow, they may be spent on a retail basis, allowing companies to pay bonuses in token, handle company travel via established vendors like vTravel, and possibly even make payroll in token
4. Companies with existing relationships with investment funds may sweeten deals, eventually swapping stock for tokens, which also bring greater benefit to the funds

Legal Considerations

Because such token issuances follow the pattern -- to the letter -- of the Vow token, including its form, structure, utility, and legal posture, they will in all likelihood be covered by Vow's existing legal framework, which exempts them from securities law, e-money regulations, and commodities rules.

Conclusion

The markets for Vow Corporation tokens effectively constitute proxy demand for Vow -- because the acquisition for any such tokens must be accomplished in Vow, and the Vow used for the purchases becomes locked up in the LPs. **These token issuances serve, in effect, as sandtraps for Vow.** And as their demand increases, so does the demand for Vow, which in itself helps increase investor appreciation on the tokens purchased

Thus for the investor, the scheme is a win-win: they get a token that expresses the merits of a particular operation, that tracks the performance of selected operators, whilst in the same breath they get Vow and the benefits of having the world's first reserve crypto-currency

Footnotes

1. Available on [The Gutenberg Project](#)
2. See the Wikipedia entry on the [history of corporations](#)
3. The term "on-chain" refers to the existence of entities created on a blockchain, which generally bear no relation to real-world events or legal structures
4. For greater depth on this subject please consult the [Decentralised Autonomous Organisation](#) page on the wiki
5. Price slippage refers to the negative price impact that a transaction may experience in a given market i.e. as the buyers for a given offering at a given price are exhausted, the ask must lower to find buyers. The difference between the initial ask and the transaction's final price is known as slippage
6. Also known as *Automated Market Makers*, liquidity pools are portfolios of two assets where one is measured in terms of the other. Whilst there are various models the most common is the *Constant Product* formula that generally relates the values of the two assets in an asymptotic fashion: $y = 1 / x$. For greater depth please refer to this [Paradigm Research article](#)
7. A successor to the *zaibatsu* model prevalent in Japan before WWII, wherein rich, powerful families owned entire verticals within the economy, *keiretsu* is an arrangement whereby cross-ownership along the supply chain was mandated, with great benefit to the sustainability and anti-fragility of the economy. For further study, see the [wiki page](#) on the subject