

# How a New Crowdfunding Model Offers Guaranteed Refunds and Protection

Dynamic Coin Offerings (DYCOs) leverage blockchain technology to add accountability to teams.

July 28, 2020 5 min read

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Entrepreneurs and investors often struggle with finding a happy medium that balances risk, reward and accountability. The problem is, company accountability is hard to track and is often a catalyst for investments gone bad. A study by Harvard found that angel investors reported that only 11 percent of their portfolio yielded a positive return. This means nine out of 10 angel investments typically end poorly, with investors not having any control over the day-to-day operations of what a company does and how it spends its money.

Thankfully, a new crowdfunding model has emerged and just experienced its first successful launch. Dynamic Coin Offerings (DYCOs) leverage blockchain technology to add accountability to teams by holding raised funds in third-party management and offering up to 80 percent refunds to early contributors if the price of a company's token drops below the initial participation price.

The first DYCO was managed by a Prague-based company called DAO Maker that managed the crowdfunding campaign, KYC, audits and other regulatory and legal aspects. The first DYCO, Orion Protocol, saw massive interest on the platform,

oversubscribing 300 percent in its private contribution round and even more in its public round.

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Initial feedback from the startup community was overwhelmingly positive, with praise for its transparency and commitment to mutual success. To get a better feel of the model and potential drawbacks, here are three key aspects of DYCOs.

# **1. DYCOs offer multiple levels of safeguards**

The DYCO model allows participants to send in 100 percent of their tokens for up to 80 percent refunds, no matter if they previously sold tokens in the past or not. This process starts at the ninth month following the crowd sale and is tranced through the 16th month.

This creates a system of accountability where teams need to perform or they risk losing back most of the funds they crowdfunded. As explained by on DAO Maker's website, "With a DYCO, 100 percent of the circulating supply is backed by USDC (a stable equivalent for the U.S. dollar) for the first 16 months after the crowd sale. The token supply remains static during this time" and is governed by a third-party to ensure there is no misappropriation of funds.

It is important to note that refunds can only be requested and granted if the token value falls more than 20 percent of the initial price. The additional upside is an arbitrage opportunity where contributors could re-purchase tokens below the 20 percent mark and redeem them for a profit. Ideally, a company would want to simply keep the value higher than this point for a win-win.

## **2. DYCOs remove inflationary risks**

In the case of a claimed refund, companies must burn, or eliminate, the tokens from their supply. This creates a positive impact on the company's community, as fewer tokens are in circulation despite the refund being processed, as well as a deflationary mechanism that will help retain token value by creating a price floor.

In past crowdfunded token sales, there was usually a race to the bottom where contributors from multiple rounds race to dump tokens as fast as possible. This was even a problem with projects that enforced some level of lockups. DYCO projects should be selective with their contributors to ensure there is a mutual vision and sense of responsibility. The positive aspect is that the various safeguards prevent most of the common issues seen in previous sales.

## **3. Founding teams can't cash out before milestones are hit**

Teams, seed contributors, advisors and other internal staff are subject to a holding period of at least 16 months within a DYCO structure. Starting in the 16th month, these tokens will be tranching gradually over the following months to ensure teams remain accountable. If a team member leaves a company, they would still be subject to these lockups. The lockups are enforced by the host platform – in this case, DAO Maker.

It is important to note that DYCOs are not for everyone. They should be utilized by companies that are ready to build and commit to a long-term vision that includes very close interaction with various communities and supporters. This is not a cash-grab scenario like many token sales of the past as a significant portion of funds must be reserved for potential refund requests.

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## **Potential Risks With DYCOs**

As with any crowdfunding campaign or token sale, participation is usually restricted to certain countries and jurisdictions. Potential participants should ensure that this is not a conflict and also be ready to submit KYC information upon request. This is a professional process that will require information from each contributor. Also, DYCOs should be seen as a long-term opportunity, not something that happens quickly.

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