

Hedera Council Meeting Minutes

Date: October 10, 2019
Time: 9:00 – 11:00am ET
Location: Teleconference

Attendees:

Boeing, Brian Jeffords
Deutsche Telekom, Friedrich Kurz
DLA Piper, Scott Thiel, Mark Radcliffe
IBM, Bryan Gross
Magazine Luiza, Simon Olson
Nomura, Kentaro Okamoto
Swirds, Leemon Baird
Swisscom, Kamal Youseffi
Tata Communications, Troy Reynolds

Hedera Officers/Staff
Mance Harmon, CEO
Leemon Baird, Chief Scientist
Brett McDowell, Executive Director & Vice Chair
Natale Furman, General Counsel
Lionel Chocron, Chief Product Officer
Christian Hasker, Chief Marketing Officer
Edgar Seah, Head of Asian Pacific Region
Tom Sylvester, Associate General Counsel

Members Not Present:

FIS Global

<p><i>Introduction</i></p> <p>Brett M. called the meeting to order and reviewed the agenda that had been previously circulated.</p>	<p><i>Brett McDowell</i> <i>Executive Director & Vice Chair</i></p>
<p><i>Open Access Update: Successes and Challenges</i></p> <p><i>Mainnet metrics</i></p> <p>Mance H. provided an update on network activity after Open Access, noting that the mainnet is averaging around 500k transactions per day and about 5-6 transactions per second (tps). Within a few weeks of going live, the network is already in the top five DLT platforms in terms of daily transactions. In addition, most of the network activity is driven by applications, not simple cryptocurrency transfers.</p> <p><i>Press and social media</i></p> <p>Hedera also received a sharp uptick in Twitter followers after Open Access, and was mentioned in 1,840 articles globally, including in 20 significant standalone articles, including Forbes and CoinDesk.</p> <p><i>Coin economics</i></p> <p>Mance H. noted that the technology has been performing well and the Governing Council has been active and effective. What has emerged as a challenge after Open Access was Hedera’s coin economics model, as the price of the coin dropped from \$0.12 in the final SAFT round to a price of \$0.038. As a result, a number of the SAFT 3 investors are upset and expressing their displeasure.</p> <p>Mance H. said that, prior to Open Access, Hedera had begun engaging with the Prysm Group, an economics consulting firm that specializes in DLT and cryptoeconomics, to review the Hedera network’s coin economics model. That engagement was accelerated after Open Access, and Prysm is expected to provide their report to Hedera in late November. Hedera also published a blog post after Open Access that mentioned the Prysm Group engagement</p>	<p><i>Mance Harmon</i> <i>CEO</i></p>

and invited feedback and suggestions from the Hedera community to pass on to the Prysm Group. Mance H. also has been having 1:1 video calls with SAFT Series 3 holders and Hedera ambassador groups to solicit feedback.

As the SEC Framework considers whether token supply generally tracks expected demand for network use, Mance H. explained that Hedera had amended the SAFT Series 1 and SAFT Series 2 so that, instead of initial distributions being 40% of a purchaser's coins at Open Access, distributions within the first week after OA would be 2% for SAFT Series 1 holders and 10% for SAFT Series 2 holders.

To further spread out distributions and to allow time for the Prysm Group to complete its analysis, Hedera has further proposed amending the SAFT Series 1 and SAFT Series 2 to allow for quarterly distributions (without the amendment, distributions under those SAFTs must be made at least monthly). Mance H. noted that the consent of SAFT holders representing a majority of the purchase amounts for that Series is required to amend that Series of SAFT and that sufficient consent has been received for Series 1, but not Series 2, to implement the amendment to allow quarterly distributions.

2020 Hedera KPIs

Mance H. then presented Hedera's 2020 corporate KPIs. He noted that some were difficult to set and may turn out to be overly ambitious and that the teams were putting together lower-level KPIs which would be presented to the Council in a dashboard format. Simon O. suggested a KPI for coin economics, given its importance to network operations on the app ecosystem. Management agreed to think about what such a KPI would look like.

Open Access Update: Technical Review and Development Roadmap

Open Access update

Leemon B. said that Open Access went smoothly from a technical perspective and that the network was operating smoothly with no glitches. The network was averaging 3-10 tps with guaranteed finality on consensus in 2-3 seconds. He noted that the network was briefly shut down for a software upgrade and that the intent is to not have to shut down the network when rolling out future updates.

Leemon B. also notified the Council Members that the network was currently down due to a configuration error. However, no transactions were lost, the state of transactions was intact, and they expect to be able to have it back up shortly with no transactions lost and in the same state. [Note: The network was back up the following day and no transactions were lost.]

Third-party code review

Leemon B. stated that Hedera has already had completed one third-party review of the platform's code. Leemon B. added that as new features get added to the platform, more code reviews will be completed by other third-party companies.

Third-party performance testing

Leemon B. said that the mainnet speeds have initially been throttled to 10,000 cryptocurrency tps, but that testnets have been running at 20,000 cryptocurrency tps and, as the testnets get faster, speed on the mainnet will also be increased. Also, since the network has just launched and is currently running 10 tps at peak usage, the top speed doesn't make a practical difference yet. Smart contracts are being throttled at 26 tps with a size limit of 800kb. Leemon B. said that a third party is being engaged to validate performance speeds.

Software development

Leemon B. said the top priority for software development was releasing the Hedera Consensus Service (HCS). HCS will allow users to use both a private network and a public network so

Dr. Leemon Baird
*Co-founder &
Chief Scientist*

they can get the best of both. Information intended to be kept private can be stored on a private network, but HCS can run on the public Hedera network to ensure greater trust in the nodes.

After HCS, the other priorities are to increase the throttling limits and other general improvements to the platform, such as ensuring the software can be upgraded without shutting the network down.

Roadmap

Leemon B. shared the roadmap of target dates for different features and explained that the Technical Steering & Product Committee would be working on the specifics.

Legal & Regulatory Developments and Next Steps

Natalie Furman
General Counsel

Post-Open Access update

Natalie F. provided an update on Hedera’s regulatory position after Open Access. She noted that the relatively high levels of network usage and performance are helpful for Hedera’s regulatory posture, as it demonstrates that there are apps running and hbars are being used on the network.

She said that the hbar distributions to SAFT holders also went smoothly, and that after Open Access there was a period of price discovery, with the coin price becoming relatively stable at about 3.8 cents. As that price is below the SAFT Series 3A price of 12 cents per coin, some SAFT Series 3 purchasers are upset.

Natalie F. described correspondence received from some such SAFT holders and Hedera’s position that it is focused on finding a solution that is good for all stakeholders and the network as a whole.

Regulatory update

Natalie F. provided an update on Hedera’s engagement with federal and state regulators.

Natalie F. also briefed the Council on recent actions that SEC had taken against two DLT companies, Block.one and Nebulous, which resulted both companies paying fines but continuing operations. Both settlements related to unlawful sales of securities and did not make any determination as to whether the tokens are currently securities and did not prohibit either company from further use of the tokens. Natalie F. and a Council Member representative both noted that such settlements do not provide any formal legal guidance or set any binding legal precedent.

Governance Update

Brett McDowell
Executive Director &
Vice Chair

Recent Board Activity

Brett M. updated the Council on actions taken by Hedera’s Board of Managers since the most recent Council meeting, including (i) approving Hedera’s Employee Transaction Policy, (ii) providing guidance on coin economics and relations with SAFT holders, (iii) participating in a meeting with the Prysm Group (the economics consulting firm engaged to review Hedera’s coin economics model), and (iv) guidance on various legal matters.

Governance Roles and Responsibilities

Brett M. provided an overview of the roles and responsibilities of the Council Members, the Board, Committees, and Hedera management. The Board, he noted, was responsible for corporate governance, which entails key decisions over corporate matters such as budgets, legal strategies, and key personnel decisions. While the Legal & Regulatory Committee will provide input and guidance to the Council on legal and regulatory matters, its role is not to give the Council formal legal advice nor be responsible for deciding Hedera’s legal strategy on any

particular issue. Management's role is to run Hedera's operations in accordance with the Board's direction. The Council Members have two main governance roles, which are (i) make key decisions around the Hedera network (e.g., technology roadmap, network pricing, software upgrades, managing coins held in Treasury) and (ii) to elect Hedera's Board of Managers, who are empowered with the authority to manage Hedera on behalf of the Council Members (similarly to a corporate board of directors). The Council Members agreed on the outlined roles and responsibilities for the Board, Council, and committees as discussed by Brett M. and as set forth in the presentation provided to the Council Members.

Board elections

Brett M. said the plan is to hold Board elections at the in-person Council meeting on December 11 in Sao Paolo, Brazil.

Any Other Business

The Council Members described recent developments in the DLT industry, such as Paypal and other companies withdrawing from participation in Facebook's Libra project.

The meeting was adjourned.

Brett McDowell
*Executive Director &
Vice Chair*