

**Company Number: 10917763**

**THE RULES**

**OF**

**NEXUS MUTUAL LIMITED**

**(Adopted on the initial deployment of the Mutual's Smart Contracts)**

## THE RULES OF NEXUS MUTUAL LIMITED

### Table of Contents

PART 1 – INTRODUCTION .....	4
THE RULES.....	4
AMENDMENTS TO THE RULES AND THE MUTUAL’S SMART CONTRACTS .....	4
PART 2 – DEFINITIONS AND INTERPRETATION .....	4
DEFINITIONS .....	4
INTERPRETATION .....	9
PART 3 – NXM TOKENS .....	9
PURCHASE OF NXM TOKENS.....	9
TRANSFER OF NXM TOKENS .....	9
REDEMPTION OF NXM TOKENS.....	9
PART 4 - COVER.....	10
COVER .....	10
DISCRETION.....	10
RIGHT TO SEEK RECOVERY .....	10
POWER OF THE MUTUAL TO MAKE PAYMENTS.....	10
LIMIT OF COVER.....	10
CONDITIONS OF COVER.....	10
PURCHASING COVER AND USE OF NXM TOKENS.....	10
COVER PERIOD.....	11
PART 5 - SCOPE OF COVER .....	11
PROTECTED RISKS .....	11
OMNIBUS RULE.....	11
PART 6 - MEMBERSHIP.....	11
APPLICATION FOR AND COMMENCEMENT OF MEMBERSHIP .....	11
DISCRETIONARY DECISION OF THE BOARD .....	12
TERMS AND CONDITIONS OF MEMBERSHIP .....	12
PARTICULARS AND INFORMATION PROVIDED BY MEMBERS .....	12
PART 7 - CESSATION OF MEMBERSHIP .....	12
WITHDRAWAL FROM MEMBERSHIP.....	12
BOARD MAY REQUEST MEMBERS TO WITHDRAW .....	13
NO RIGHT TO SURPLUS.....	13
SUMS DUE ON CESSATION OF MEMBERSHIP.....	13
PART 8 - CLAIMS.....	13
CLAIMS ASSESSORS: APPOINTMENT AND STAKE .....	13

CLAIMS SUBMISSION AND CLAIMS DEPOSIT .....	13
CONSIDERATION OF CLAIMS: CLAIMS ASSESSORS .....	14
CONSIDERATION OF CLAIMS: MEMBERS.....	14
THE BOARD’S POWER TO DESTROY CLAIMS ASSESSOR’S STAKES.....	15
THE BOARD’S POWER TO SUSPEND A CLAIMS ASSESSOR’S ABILITY TO VOTE ON CLAIMS .....	15
EXCLUSIONS.....	15
CONDUCT OF CLAIMS .....	16
INTEREST .....	16
PART 9 – PRICING AND RISK ASSESSMENT .....	16
PRICING.....	16
RISK ASSESSMENT.....	16
PART 10 - THE FUNDS OF THE MUTUAL.....	17
APPLICATION OF CONTRIBUTIONS AND MEMBERSHIP FEES .....	17
CAPITAL POOL AND MINIMUM CAPITAL REQUIREMENT .....	17
INVESTMENT.....	17
APPLICATION OF INVESTMENT GAINS AND LOSSES.....	18
PART 11 – EMERGENCY PROCEDURES .....	18
PART 12 – GOVERNANCE .....	19
PART 13 - COMMUNICATIONS AND NOTICES.....	19
COMMUNICATIONS .....	19
NOTICES TO BE SERVED ON MEMBERS .....	20
DEEMED DATE OF SERVICE AND PROOF OF SERVICE .....	20
PART 14 - DISPUTES, GOVERNING LAW AND JURISDICTION .....	20
GOVERNING LAW AND JURISDICTION .....	20
PART 15 - GENERAL TERMS AND CONDITIONS.....	20
NO ADMISSIONS .....	20
ASSIGNMENT ONLY WITH CONSENT .....	20

## PART 1 – INTRODUCTION

### THE RULES

1. These are the Rules of Nexus Mutual Limited and they are to be read in conjunction with the Articles of the Mutual, the Mutual’s Smart Contracts and a Covered Member’s Cover Wording. Subject to Rule 2 [Amendments to the Rules and the Mutual’s Smart Contracts], if there is ever any conflict or inconsistency between these Rules and any other document, such conflict or inconsistency shall be resolved according to the following order of priority:
  - 1.1. the Articles;
  - 1.2. the Mutual’s Smart Contracts;
  - 1.3. these Rules;
  - 1.4. a Covered Member’s Cover Wording.

### AMENDMENTS TO THE RULES AND THE MUTUAL’S SMART CONTRACTS

2. These Rules and the Mutual’s Smart Contracts may be amended or varied at any time by a Standard Decision with a Board Support Level of not less than 80%.

## PART 2 – DEFINITIONS AND INTERPRETATION

### DEFINITIONS

3. The following definitions apply in these Rules.

<b>Approved</b>	The acceptance in full or in part of a claim made by a Covered Member.
<b>Articles</b>	The Articles of Association of the Mutual.
<b>Base Minimum Amount</b>	The target minimum level of currency assets, for example, ETH or DAI, to be held in the Currency Asset Pool.
<b>Board</b>	The Board of Directors for the time being of the Mutual. Also called the Advisory Board for the purposes of regular communication with Members.
<b>Board Proposal</b>	A proposal raised by a member or members of the Board.
<b>Board Support Level</b>	The majority of directors’ votes required to either: <ol style="list-style-type: none"><li>1) set the default outcome of a Proposal to “Pass”, in relation to Standard Decision; or</li><li>2) “Pass” a Proposal.</li></ol>

Unless the Rules specify otherwise the default Board Support Level is not less than 80%.

<b>Capital Pool</b>	The total of all cryptographic assets held by the Mutual excluding assets held in the Mutual's bank accounts.
<b>Chairman</b>	A member of the Board selected by the Board of Directors.
<b>Claims Assessment</b>	The consideration by Claims Assessors, on a discretionary basis, of a claim made by a Covered Member.
<b>Claims Assessor</b>	A Member or Member's Representative who assesses a Covered Member's claim under these Rules.
<b>Claims Assessor Reward Pool</b>	The pool of NXM Tokens to be shared amongst Claims Assessors and/or Members participating in either Claims Assessors Vote or a Membership Claims Vote (as applicable).
<b>Claims Assessors Vote</b>	The procedure whereby Claims Assessors exercise their discretion in determining a claim by a Covered Member.
<b>Claims Assessors Vote Result</b>	The outcome of a Claims Assessors Vote, either Approved or Declined.
<b>Claims Deposit</b>	The NXM Tokens deposited with the Mutual by a Covered Member on submitting a claim under the Cover which shall be equal to 5% of the Cover Price of the Cover under which the Member is making a claim
<b>Contribution</b>	Money paid or payable to the Mutual by a Member when purchasing NXM Tokens.
<b>Cover</b>	The matters which are the subject of the discretionary cover provided by the Mutual as set out in the Member Smart Contract Data and a Covered Member's Cover Wording.
<b>Cover Amount</b>	The maximum amount and currency of Cover chosen by the Member or agreed with the Mutual.
<b>Cover Period</b>	The period of time chosen by the Covered Member when purchasing Cover and stated in the Member Smart Contract Data.
<b>Cover Price</b>	The cost of Cover in NXM Tokens.
<b>Cover Wording</b>	The document which contains the details of the Cover which the Mutual provides to Covered Members.
<b>Covered Member</b>	A Member who has Cover and, where the context requires, a former Covered Member.
<b>Critical Decision</b>	A type of Proposal that requires 75% or more of the Voting Entitlement to pass.

<b>Currency Asset Pool</b>	A subset of the Capital Pool designed to hold liquid assets for the purposes of paying claims.
<b>DAI</b>	A cryptographic asset running on the Ethereum Network that is designed to closely track the value of one USD.
<b>Declined</b>	The rejection in full of a claim made by a Covered Member.
<b>Default Outcome</b>	In relation to a Standard Decision, the Default Outcome is “Decline” unless the Board votes to set it as “Pass” by means of a Board vote on a Proposal that exceeds the Board Support Level.
<b>Delegate</b>	A Member to whom another Member has delegated their voting decisions.
<b>document</b>	Includes, unless otherwise specified, any document sent or supplied in electronic form.
<b>electronic form</b>	Electronic communication as defined by the Companies Act 2006.
<b>Ether/ETH</b>	The blockchain token native to the operation and/or functioning of the Ethereum Network.
<b>Ethereum Network</b>	The smart contract protocol, virtual machine and decentralised consensus mechanism including all its related components and protocol-related projects both present and future that is supported by the Ethereum Foundation based in Zug, Switzerland, which began operation (as a "Genesis Block") on 30 July 2015.
<b>Governance Voting</b>	The procedure whereby a Proposal is put to a Membership vote.
<b>Locked</b>	NXM Tokens that cannot be Redeemed or Transferred.
<b>Member</b>	An individual or entity who has paid their Membership Fee and is entered in the Mutual’s register of Members and, where the context requires, a former Member.
<b>Member Proposal</b>	A proposal raised by a Member or Members.
<b>Member Smart Contract Data</b>	Data held on the Ethereum Network in relation to a specific Member’s Ethereum address.
<b>Member’s Representative</b>	An officer or employee of a Member which is not a natural person, appointed by the Member, who is duly authorised by the Member to: <ul style="list-style-type: none"> <li>(i) receive statutory and other notices and documents from the Mutual;</li> </ul>

(ii) communicate with and give instructions to and receive instructions from the Mutual on the Member's behalf; and

(iii) make contributions to the Mutual on behalf of the Member.

<b>Membership</b>	The admission of a Member to the Mutual and, where the context requires, the Members
<b>Membership Claims Vote</b>	The procedure whereby Members exercise their discretion to determine a claim by a Covered Member.
<b>Membership Claims Vote Result</b>	The outcome of a Membership Claims Vote, either Approved or Declined.
<b>Membership Fee</b>	The fee which must be paid to the Mutual to become a Member.
<b>Minimum Capital Requirement</b>	The amount of funds the Mutual should hold to allow it to pay all claims as determined by the open-source calculation methodology.
<b>Mutual</b>	Nexus Mutual Limited, company number 10917763.
<b>Mutual's Smart Contracts</b>	The smart contracts running on the Ethereum Network that govern the operations of the Mutual and the Members' interaction with each other.
<b>NXM Tokens</b>	The cryptographic tokens running on the Ethereum Network launched by the Mutual's Smart Contracts.
<b>Proposal</b>	A proposal to be put to a Membership vote, which is classified by the Board as either a Critical Decision or a Standard Decision and is open for voting for the Proposal Period.
<b>Proposal Period</b>	The length of time a Proposal shall be open for voting, which is one week.
<b>Quorum</b>	The quorum for Standard Decisions, being 15%, which is calculated by taking the sum of each Member's Voting Entitlement at the time they vote, divided by the total number of NXM Tokens held by Members at the end of the Proposal Period.
<b>Redeem/Redemption</b>	The act of a Member destroying some or all of their NXM Tokens in exchange for Ether.
<b>Reward Pool</b>	The pool into which NXM Tokens awarded to a Member are held pending withdrawal by the Member.

<b>Risk Assessment</b>	The process by which a Member assesses the risk of a specific smart contract failing and then stakes NXM Tokens against that risk as well as the related processes of earning rewards and potential loss of stake.
<b>Rules</b>	The rules of the Mutual for the time being in force.
<b>smart contract</b>	A computer protocol running on the Ethereum Network to digitally facilitate, verify or enforce the negotiation or performance of a contract, allowing the performance of credible transactions without third party involvement.
<b>Smart Contract Cover</b>	A product of Nexus Mutual designed to protect against the risks of bugs or hacks in Ethereum smart contracts.
<b>Stake</b>	A general term for the process of preventing NXM Tokens from being either Transferred or Redeemed as well as being exposed to loss in either the Claims Assessment or Risk Assessment processes.
<b>Standard Decision</b>	A type of Membership Proposal that passes if either: <ul style="list-style-type: none"> <li>a) the Quorum is not met and the Default Outcome is “Pass”; or</li> <li>b) the Quorum is met and the majority of Voting Entitlement “Pass” the Proposal.</li> </ul>
<b>Sufficient Voting Power</b>	For the purposes of Rules 40 and 47, five (5) times the value of the Cover Amount being voted on expressed in NXM tokens, where the amount of NXM tokens is calculated at the time each Claims Assessor or Member votes (as appropriate).
<b>Transfer/Transferred</b>	The act of a Member transferring ownership of some or all of their NXM Tokens to another Member.
<b>Voting Entitlement</b>	The number of votes each Member has for the purposes of Proposals which is one vote plus: <ul style="list-style-type: none"> <li>a) on a Standard Decision, the number of votes equal to the number of NXM Tokens the Member holds at the time the Member votes on the Proposal, subject to a maximum Voting Entitlement of 5% of the total number of NXM Tokens in existence at the time of voting on the Proposal;</li> <li>b) on a Critical Decision, the number of votes equal to the number of NXM Tokens the Member holds at the time the Member votes on the Proposal.</li> </ul>



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#### **INTERPRETATION**

4. In these Rules:
  - 4.1. any reference to a person includes individuals, partnerships, corporations, unincorporated associations and mutuals;
  - 4.2. any reference to the singular includes the plural and vice versa;
  - 4.3. any reference to legislation includes any amending or replacement legislation.

### **PART 3 – NXM TOKENS**

#### **PURCHASE OF NXM TOKENS**

5. Subject to Rule 7, any Member can apply to the Mutual at any time to purchase NXM Tokens.
6. The purchase price of NXM Tokens, in Ether, will be determined by the Mutual's Smart Contracts.
7. The Mutual's Smart Contracts will limit the number of NXM Tokens that can be purchased in one transaction.

#### **TRANSFER OF NXM TOKENS**

8. NXM Tokens shall only be Transferred to other Members.

#### **REDEMPTION OF NXM TOKENS**

9. Subject to the remainder of this Rule 9, NXM Tokens can be Redeemed in exchange for Ether at a price determined by the Mutual's Smart Contracts:
  - 9.1. the Redemption price will be lower than the purchase price prevailing at the date of Redemption;
  - 9.2. Redemptions shall be not be allowed if the funds in the Capital Pool are less than the Minimum Capital Requirement;
  - 9.3. the number of NXM Tokens that can Redeemed in one transaction shall be limited to  $(MCR\% - 100\%) \times 2000$ , where MCR% is the ratio of the funds held in the Capital Pool to the Minimum Capital Requirement; and
  - 9.4. Redemptions are subject to sufficient liquidity being available in the Currency Asset Pool.

## **PART 4 - COVER**

### **COVER**

10. The Mutual may provide Cover to Covered Members as set out in these Rules and the Covered Member's Cover Wording.

### **DISCRETION**

11. Any Cover provided by the Mutual is always at the absolute discretion of the Mutual and:
  - 11.1. any reference in these Rules or any other document issued by the Mutual to risks protected, or to Cover, or to any Claims Assessment, Membership Claims Vote, payment by the Mutual to a Covered Member, or any such similar expressions shall be read accordingly; and
  - 11.2. any reference to the discretion of the Mutual and to any action to be taken as the Mutual thinks fit shall be construed as a discretion to be exercised and action to be taken in the sole and absolute discretion of the Mutual without any fetter or other qualification whatsoever.

### **RIGHT TO SEEK RECOVERY**

12. A Covered Member shall be entitled to seek recovery out of the funds of the Mutual the amount of any liability, loss, cost or expense which may be incurred by the Covered Member in respect of the risks protected set out in the Covered Member's Cover Wording.

### **POWER OF THE MUTUAL TO MAKE PAYMENTS**

13. The Mutual may make a payment from the funds of the Mutual to any Covered Member or former Covered Member wholly or in part with regard to any of the matters set out in these Rules and that Covered Member's or former Covered Member's Cover Wording and shall not be required to give any reasons in respect of its decisions.

### **LIMIT OF COVER**

14. The Cover provided by the Mutual to each Covered Member is limited to the amounts stated in the Member Smart Contract Data in respect of that Covered Member.

### **CONDITIONS OF COVER**

15. The Cover provided by the Mutual is subject to all the conditions set out in these Rules and the Covered Member's Cover Wording.

### **PURCHASING COVER AND USE OF NXM TOKENS**

16. Cover shall only be purchased by a Member and only in exchange for NXM Tokens.

17. On purchasing Cover, 90% of the NXM Tokens held by the Member shall be destroyed and, subject to Rule 18, 10% of such NXM Tokens shall be locked from Redemption and Transfer.
18. NXM Tokens locked from Redemption and Transfer as a result of purchasing Cover, shall be released to the Covered Member on the earlier of:
  - 18.1. a successful claim on that Covered Member's Cover; or
  - 18.2. 35 days after the Cover Period in which the NXM Tokens were locked ends.

#### **COVER PERIOD**

19. Except as otherwise provided in these Rules, the Cover Period shall begin on the date and at the time stated in the Covered Member's Smart Contract Data and end on the date and at the time stated in the Covered Member's Smart Contract Data.

### **PART 5 - SCOPE OF COVER**

#### **PROTECTED RISKS**

20. Subject to the terms of the Cover Wording the Mutual may offer Cover for any of the following risks:
  - 20.1. Smart Contract Cover;
  - 20.2. such other risks as the Members may determine from time to time.

#### **OMNIBUS RULE**

21. The Mutual may consider and agree claims that fall outside the terms of a Covered Member's Cover as the Mutual, in its discretion, may decide even if such risks are excluded by these Rules or in any Cover Wording.

### **PART 6 - MEMBERSHIP**

#### **APPLICATION FOR AND COMMENCEMENT OF MEMBERSHIP**

22. Any person ("Applicant") that wishes to become a Member of the Mutual shall apply for Membership in such form as may from time to time be required by the Board and shall provide all particulars and information requested by the Mutual.
23. On notification to an Applicant of acceptance for Membership the Applicant shall pay the Membership Fee plus VAT.

24. On receipt of the Membership Fee by the Mutual, the Applicant will be a Member from the date stated in that Member's Smart Contract Data and shall be entered into the Mutual's register of Members.

#### **DISCRETIONARY DECISION OF THE BOARD**

25. Refusal of an application for Membership is in the Mutual's absolute discretion and the Mutual will not be obliged to give reasons for refusing to admit any Applicant as a Member of the Mutual.

#### **TERMS AND CONDITIONS OF MEMBERSHIP**

26. The terms and conditions of Membership are set out in these Rules, the Mutual's Smart Contracts, the Members' Smart Contract Data, and any documents contemplated by them, and are subject to such variations, within the scope of these Rules, as may be agreed between a Member and the Mutual.

#### **PARTICULARS AND INFORMATION PROVIDED BY MEMBERS**

27. A Member shall comply with all statutory requirements and requirements prescribed by the Mutual concerning information to be provided before and during Membership and, in so far as is permitted by law, such information shall, if the application for Membership is accepted, form part of the terms of Membership between the Member and the Mutual, and it is a condition of Membership that all such information is true and complete so far as it is within the Member's knowledge or could with reasonable enquiries or other means have been ascertained by the Member.

### **PART 7 - CESSATION OF MEMBERSHIP**

#### **WITHDRAWAL FROM MEMBERSHIP**

28. A Member may withdraw from the Mutual at any time provided that the Member has:
  - 28.1. no active Covers; and
  - 28.2. no NXM Tokens staked for Risk Assessment; and
  - 28.3. no NXM Tokens staked for Claims Assessment; and
  - 28.4. no NXM Tokens locked under a Membership Claims Vote; and
  - 28.5. no NXM Tokens locked under Governance Voting; and
  - 28.6. no NXM Tokens in the Reward Pool.
29. A Member shall withdraw from Membership in the following circumstances:
  - 29.1. the dissolution of the Member (if the Member is not a natural person);

- 29.2. a resolution or an order is made for the winding up of the Member, other than for the purposes of re-organisation;
- 29.3. an insolvency practitioner, receiver or the official receiver is appointed in respect of the Member; or
- 29.4. the death of the Member, in which case their estate is shall withdraw the Membership.

#### **BOARD MAY REQUEST MEMBERS TO WITHDRAW**

30. If, in the opinion of the Board, the conduct or presence of a Member prejudices the interests of the Mutual by putting the ongoing operations of the Mutual as a whole in danger, for example due to actual or potential legal or regulatory breaches, the Board may request that the Member withdraws from Membership. If the Member refuses to withdraw, the Board may, subject to any legal restrictions on termination of a Covered Member's Cover, raise a Board Proposal to terminate that Member's Membership.

#### **NO RIGHT TO SURPLUS**

31. From the date of withdrawal from Membership, or, if earlier:
    - 31.1. the date upon which the Member may withdraw from the Mutual under Rule 28 [Withdrawal from Membership]; or
    - 31.2. the date of any event listed in Rule 29 [Withdrawal from Membership]
- the Member shall have no right to share in any return of Contributions or other receipts except in accordance with Article 4 [Winding Up].

#### **SUMS DUE ON CESSATION OF MEMBERSHIP**

32. A former Member shall be and remain liable to pay to the Mutual all sums owed by them to the Mutual.

### **PART 8 - CLAIMS**

#### **CLAIMS ASSESSORS: APPOINTMENT AND STAKE**

33. Any Member wishing to be a Claims Assessor or to appoint its Member's Representative as a Claims Assessor shall Stake a number of NXM Tokens chosen by the Member.

#### **CLAIMS SUBMISSION AND CLAIMS DEPOSIT**

34. A claim under a Cover must be made to the Mutual in accordance with the requirements of the Member's Cover Wording.
35. The Mutual will only consider claims under a Cover if the Covered Member makes a Claims Deposit.

36. If a claim is Approved the Claims Deposit shall be returned to the Covered Member at the same time as the final claim decision is made.
37. If a claim is Declined the Claims Deposit shall not be returned to the Covered Member and the NXM Tokens deposited by the Covered Member in respect of the claim shall be destroyed.

#### **CONSIDERATION OF CLAIMS: CLAIMS ASSESSORS**

38. Claims Assessors shall consider claims which may be paid by the Mutual in accordance with these Rules and in accordance with the procedures and conditions set out in in the Mutual's Smart Contracts.
39. Each Claims Assessor shall exercise their discretion to vote on claims and:
  - 39.1. each Claims Assessor shall have a number of votes equal to the number of NXM Tokens that Claims Assessor staked under Rule 33 [Claims Assessors: Appointment and Stake];
  - 39.2. subject to Sufficient Voting Power being achieved, the claim shall be decided by not less than a 70% majority of the Claims Assessors votes on the claim and the vote result shall be final;
  - 39.3. if the outcome of the Claims Assessors Vote Result is that either a) the 70% majority is not reached or b) Sufficient Voting Power is not achieved, the claim shall be referred to a Membership Claims Vote.
40. Claims Assessors shall only vote on one claim in any twelve (12) hour period.
41. A Claims Assessor shall only vote once on each claim.
42. Claims Assessors shall be rewarded for their participation in the Membership Claims Vote with additional NXM Tokens, as determined by the Mutual's Smart Contracts, if they voted in accordance with the outcome of a Membership Claims Vote and the voting outcome was determined as per Rule 39.2.
43. Claims Assessors shall have their NXM Tokens locked from Redemption and Transfer for longer periods, as determined by the Mutual's Smart Contracts, if they vote against the outcome of a Claims Assessors Vote and the voting outcome was determined as per Rule 39.2.

#### **CONSIDERATION OF CLAIMS: MEMBERS**

44. If a claim is referred to a Membership Claims Vote under Rule 39.3 [Consideration of Claims: Claims Assessors], any Member may vote on the claim in accordance with these Rules and subject to the procedures and conditions set out in the Mutual's Smart Contracts.
45. If a Member participates in a Membership Claims Vote, all their NXM Tokens shall be Locked from Redemption and Transfer for two (2) days.

46. Each Member participating in a Membership Claims Vote shall exercise their discretion to vote on claims and:
  - 46.1. each participating Member shall have a number of votes equal to the number of NXM Tokens that Member owns at the time of voting;
  - 46.2. each participating Member shall only vote once on each claim;
  - 46.3. subject to Sufficient Voting Power being achieved, the claim shall be decided by not less than a 50% majority of the Members' votes on the claim and the Membership Claims Vote result shall be final;
  - 46.4. if the Membership Claims Vote does not contain Sufficient Voting Power and the Claims Assessors Vote Result contained at least one Member voting, then the Claims Assessor Vote decided by not less than a 50% majority of the Claims Assessors votes on the claim shall be final;
  - 46.5. if the Membership Claims Vote does not contain Sufficient Voting Power and the Claims Assessor Vote had no Members voting the claim shall be Denied.
47. Members shall be rewarded for their participation in the Membership Claims Vote with additional NXM Tokens if they vote with the consensus outcome and the Membership Claims Vote was resolved according to Rule 46.3.

#### **THE BOARD'S POWER TO DESTROY CLAIMS ASSESSOR'S STAKES**

48. Without prejudice to any other provisions of these Rules, the Board may, in its absolute discretion, destroy a Claims Assessor's Stake if the Board reasonably determines that the Claims Assessor has engaged in wilful misconduct in respect of voting on a claim referred to a Claims Assessors Vote or a Membership Claims Vote. A decision of the Board under this Rule requires the approval of 80% or more of the directors then in office to be passed.

#### **THE BOARD'S POWER TO SUSPEND A CLAIMS ASSESSOR'S ABILITY TO VOTE ON CLAIMS**

49. Without prejudice to any other provisions of these Rules, the Board may, in its absolute discretion, suspend any Claims Assessor's ability to vote on claims for three (3) days if the Board has reason to believe that the Claims Assessor may have engaged in wilful misconduct in respect of voting on a claim referred to a Claims Assessors Vote or a Membership Claims Vote. A decision of the Board under this Rule requires the approval of 60% or more of the directors then in office to be passed.

#### **EXCLUSIONS**

50. Except as otherwise provided in these Rules or a Covered Member's Cover Wording, there shall be no right to recover from the Mutual any liability, costs and expenses resulting or arising from:
  - 50.1. any circumstances occurring before the start of a Cover Period and which the Covered Member knew or ought reasonably to have known might give rise to a claim falling within the Cover provided under these Rules; or

- 50.2. subject to Rule 21 [Omnibus Rule], all other matters which are excluded in the Covered Member's Cover Wording.

### **CONDUCT OF CLAIMS**

51. The Mutual shall, without requiring a Proposal to be raised, have the right at any time, if it so decides, to control or direct the conduct of any claim or legal or other proceedings relating to any matter which has resulted in or which may result in loss, damage, expense or liability in respect of which a claim has or may be made under these Rules or a Cover Wording and, where it is reasonable so to do, require that such claim is or proceedings are settled or otherwise disposed of in such manner and upon such terms as the Mutual sees fit.

### **INTEREST**

52. The Mutual shall not pay interest on any claim made under a Covered Member's Cover save for interest which may be due for late payment of a claim agreed or awarded by a court or tribunal in respect of claims brought by third parties.

## **PART 9 – PRICING AND RISK ASSESSMENT**

### **PRICING**

53. Pricing algorithms combined with the Risk Assessment process will determine the cost of Cover.
54. Smart Contract Cover's current pricing algorithm is located here: <https://nexusmutual.gitbook.io/docs/docs#pricing>
55. Pricing algorithms shall only be updated via a successful Standard Decision with a Board Support Level of not less than 60%.

### **RISK ASSESSMENT**

56. For Smart Contract Cover, any Member may stake NXM Tokens against specific smart contracts on the Ethereum main-net and become a Risk Assessor in respect of those smart contracts in accordance with these Rules and subject to the procedures and conditions set out in the Mutual's Smart Contracts.
57. Risk Assessors' stakes shall be released gradually back to the Member over a period of time as specified in the Mutual's Smart Contracts and, for the purposes of Rule 58.2, are considered expired when they are fully returned.
58. Risk Assessors shall earn rewards in the form of additional NXM Tokens when a Member purchases Cover on a smart contract against which the Risk Assessor has staked NXM Tokens provided they are the first in line to earn rewards and:
- 58.1. Risk Assessors shall join the queue for a specific smart contract in chronological order based on the time when their stake is placed;



- 58.2. a Risk Assessor shall exit the queue when either they have earned their maximum rewards as defined in the Mutual's Smart Contracts or their stake has expired;
- 58.3. a Risk Assessor holds a separate place in the queue for each stake placed against a specific smart contract.

## **PART 10 - THE FUNDS OF THE MUTUAL**

### **APPLICATION OF CONTRIBUTIONS AND MEMBERSHIP FEES**

- 59. The Members' Contributions shall be:
  - 59.1. used to pay the claims and other expenses or outgoings (whether incurred, accrued or anticipated) which at the discretion of the Members properly fall upon the Mutual; and/or
  - 59.2. transferred to the Capital Pool.
- 60. Membership Fees shall be used for the purposes of paying claims, expenses or outgoings (whether incurred, accrued or anticipated) which at the discretion of the Board properly fall upon the Mutual.

### **CAPITAL POOL AND MINIMUM CAPITAL REQUIREMENT**

- 61. The Mutual's Smart Contracts will hold the Capital Pool.
- 62. Except as permitted under Rule 70 [Emergency Procedures], or as otherwise provided under these Rules or the Articles, no Member, Member's Representative, the Board or any director shall have access to or control the funds held in the Capital Pool unless the Members approve such access or control by a Standard Decision with Board Support Level of not less than 80%.
- 63. There shall at all times be a defined open-source calculation methodology for determining the Minimum Capital Requirement which will be posted on the Mutual's website.
- 64. The Minimum Capital Requirement calculation methodology shall only be updated via a Standard Decision with a Board Support Level of not less than 60%.

### **INVESTMENT**

- 65. The Capital Pool shall be invested entirely in assets on the Ethereum public blockchain ("Assets") as determined by the Members and such investments will be implemented according to the Mutual's Smart Contracts.
- 66. The Members shall, using Governance Voting, determine which Assets are to be invested in, the target Asset allocation and Asset ranges.

67. The Mutual's Smart Contracts shall define when trades are to be made, including volumes, assets to be traded and any exchanges to be used.
68. Each matter referred to under Rules 65, 66 and 67 shall only be updated via a Standard Decision with a Board Support Level of not less than 60%.

#### **APPLICATION OF INVESTMENT GAINS AND LOSSES**

69. Any investment gains or losses shall be attributed to the Capital Pool.

#### **PART 11 – EMERGENCY PROCEDURES**

70. For a period of 6 months from when the Mutual's Smart Contracts are first deployed to the Ethereum Network the Board shall have the ability to upgrade and/or change the Mutual's Smart Contracts.
71. The Mutual's Smart Contracts shall only be upgraded or changed in accordance with Rule 70 if and only if the Board believes the Members' funds are at risk or the Mutual's Smart Contracts are clearly not working as intended.
72. Subject to Rule 73 any director may enact the emergency pause functionality enabled in the Mutual's Smart Contracts, and if enacted all interactions with the Mutual's Smart Contracts shall, subject to Rule 74, cease for a period of four (4) weeks maximum.
73. The emergency pause functionality under Rule 72 shall only be enacted if a director believes the Members' funds could be at risk or the Mutual's Smart Contracts are not working as intended.
74. After an emergency pause has been enacted, normal operation of the Mutual's Smart Contracts will resume:
  - 74.1. if a Standard Decision to resume normal operations of the Mutual's Smart Contracts with Board Support Level of not less than 80% is passed; or
  - 74.2. four (4) weeks after the Emergency Pause was enacted; or
  - 74.3. if a Standard Decision is passed which has the effect of upgrading the Mutual's Smart Contractswhichever happens first.
75. If an emergency pause is currently active it shall only be extended by passing a Standard Decision with a Board Support Level of not less than 80%.

## **PART 12 – GOVERNANCE**

76. All Proposals shall be submitted to the Board for whitelisting, except for a Member Proposal to replace a director which shall:
  - 76.1. proceed directly to a Membership vote; and
  - 76.2. be treated like a Standard Decision with a default outcome of decline; and
  - 76.3. have zero NXM tokens as rewards.
77. The Board shall whitelist all Proposals to be voted upon and will only prevent a Member Proposal proceeding to a Membership vote if the Board unanimously agrees that the proposal is unreasonable or not consistent with the Mutual's Objects as defined in the Articles.
78. As per Rule 76 and 77, to whitelist a Proposal the Board shall:
  - 78.1. decide on the total NXM tokens to be awarded to Members participating in the Membership vote; and
  - 78.2. classify the Proposal as either a Critical Decision or a Standard Decision; and
  - 78.3. in the case of a Standard Decision, select an appropriate Board Support Level given the nature of the Proposal; and
  - 78.4. in the case of a Standard Decision, vote on the Proposal to set the Default Outcome.
79. Any Member may designate any other Member ("the Delegate") to exercise voting rights on their behalf for all Standard Decisions and Critical Decisions, subject to the following restrictions:
  - 79.1. a Member can only designate a Delegate if they have not voted in Governance activities within the week immediately preceding the date on which the vote is to be cast; and
  - 79.2. a Member who has revoked their designation of a Delegate may not vote in Governance activities for one (1) week from the date on which they revoked their designation.

## **PART 13 - COMMUNICATIONS AND NOTICES**

### **COMMUNICATIONS**

80. Any update to the Member's Smart Contract Data by the Mutual will take effect on the date of such update.

81. General discussions between Members regarding the Mutual's operations and Proposals will be conducted through on-line chat groups and forums as the Members informally agree from time to time.

#### **NOTICES TO BE SERVED ON MEMBERS**

82. A notice which is required or permitted under these Rules to be served on a Member may be served:
- 82.1. by hand; or
  - 82.2. by post in a pre-paid envelope to the Member or the Member's Representative; or
  - 82.3. in the case of a general notice to Members, by posting a notice on the Mutual's website, or, by giving reasonable prominence, on an on-line chat group or forum.

#### **DEEMED DATE OF SERVICE AND PROOF OF SERVICE**

83. Any notice or other document shall be deemed to have been served three (3) days after on the day it was posted on the on-line chat group or forum.

### **PART 14 - DISPUTES, GOVERNING LAW AND JURISDICTION**

#### **GOVERNING LAW AND JURISDICTION**

84. These Rules and the Mutual's Smart Contracts shall be governed by and construed in accordance with English law and, unless the Member and the Mutual agree otherwise, any dispute between a Member and the Mutual arising out of or in connection with these Rules or the Mutual's Smart Contracts shall be referred to the English Courts.

### **PART 15 - GENERAL TERMS AND CONDITIONS**

#### **NO ADMISSIONS**

85. No act, omission, forbearance or conduct of the Mutual whatsoever and whenever occurring, whether by or through its officers, Managers, agents or otherwise, shall constitute any admission or promise that the Mutual will forgo any of its rights under these Rules.

#### **ASSIGNMENT ONLY WITH CONSENT**

86. No obligation of the Mutual and no interest under these Rules or under any contract between the Mutual and any Member may be assigned without the prior written consent of the Board. The Board has the right, in its discretion, to give or refuse such

consent, without stating any reason, or to give consent upon any such terms or conditions as it may think fit.

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