

Algorand Foundation Transparency Report (Period April 2021 - September 2021)

Introduction

The Algorand Foundation continues its commitment to the community to provide full transparency into our Algo flows, usage and holdings, including the changes over time and explanations of the Algo dynamics. Further analysis on Algo Dynamics will also be published in forthcoming dedicated Reports but key areas will be touched on in this Transparency Report.

This report covers a 6-month period, in continuity with the previous report, issued in April 2021 for the period October 1, 2020 to March 31, 2021.

Starting this time and going forward, the Foundation will also publish the transparency reports with the purpose of providing relevant information for decision making within the Governance program, increasing frequency when needed.

During this period, the path to decentralization, devised at the beginning of the previous reporting period with the publication of the revised [Long Term Algo Dynamics](#) (LTAD), has seen an unprecedented change of pace, thanks to favourable market conditions coupled with relevant events for the Algorand Ecosystem.

First of all the Governance Referendum approval paved the way for the shift from Foundation Governance to Community Governance, including the transformation of the Rewards system described in the [Economic Evolution Report](#), which is now in progress.

Moreover on September 1, 2021 the **Super Staking Reward program ended**, after having successfully engaged more than a thousand participants who staked 200M Algo for two years, witnessing their trust in the long term vision of the Algorand Ecosystem, a trust also confirmed by the market dynamics after the end of the program.

Another important step towards decentralization is represented by the **distribution** of the funds related to the Early Backer **Accelerated Vesting Program**, which happened with particular emphasis at the end of September. In this case, thanks to the algorithmic design of the vesting, coupled to favourable market conditions, the market stability dramatically increased with the release of liquidity into the circulating supply, without any sizeable impact on the Algo dynamics.

Also, during this semester the Foundation introduced a **change in the representation of the circulating supply** in order to be consistent with the standard metric adopted by research websites: **all unrestricted Algo not held directly by the Foundation are part of the circulating supply**. This has quantitatively relevant implications such as the inclusion of the Algorand Inc holdings in the circulating supply, but without any actual change in the Algorand Inc's plans about their commitment to the Algorand ecosystem, as mentioned in the [Economic Evolution Report](#). As a consequence of this update, an increase in the published circulating supply has been displayed in most research and market cap websites on September 9, 2021, from 3.6B to circa 5.2B Algo, but it's worth to stress that **it does not represent an inflationary increase, just an improvement in the accurate reporting of the actual circulating supply**. With the completion Accelerated Vesting, the circulating supply now sits at over 6.15B Algo.

Equally importantly, we continued the execution of our large-scale ecosystem grant program to enable and accelerate the buildout of the infrastructure and applications on the Algorand blockchain. Full details about the ecosystem efforts of the foundation will be found in the forthcoming Ecosystem Development Progress Report which will be shared shortly.

As done in the past, we outline below the distribution of Algo to community players, our Algo holdings and their changes during this reporting period, as well as a forward-looking view about future Algo dynamics. Wallet addresses managed by the Foundation can be found [here](#).

Details of tokens entered into circulation by the Foundation

We first report the distribution of Algo by macro channels (Community Incentives, Ecosystem Development, Structured Selling, and Others) and by specific items within each channel, following a “financial flows statement” approach, listing Algo distribution for each category.

During the reporting period the following Algo has entered circulation through the following channels:

COMMUNITY INCENTIVES: 1.278B Algo

Algo has been distributed to the market in the form of rewards and incentives to different parts of the community.

Participation Rewards

Since mainnet launch, the primary form of rewards has been Participation Rewards. These are received by everyone holding Algo, proportional to their Algo stake. The amount distributed is regularly guided by the [LTAD](#) or other pages of our website. **Consistent with the published schedule, we have distributed 154.9M Algo in Participation rewards during the reporting period.** This is slightly up from 135.5M distributed in the previous reporting period, also considering the increase in the market capitalization. A stable amount of rewards will be distributed in the forthcoming months, yet, as announced in the Governance documents, the participation rewards will be gradually decreased in favour of the Governance rewards, which will be introduced in the ecosystem by the end of this year.

Early Backers / Relay Nodes Vesting

The most significant source of Algo distribution during the reporting period has been the vesting of the Early Backer / Relay Node rewards. As explained in the LTAD, the vesting of these rewards as both an incentive for running relay nodes and a compensation for early support to the project, was an important element of inflation in the early days of the Algorand Blockchain. EIP-11252019AF was proposed as a reform based on input from the community, and approved with a blockchain vote by the Early Backers. According to the approved reform, the distribution is composed by a base vesting plus an algorithmic contribution defined by an acceleration mechanism, designed to happen only under pre-defined favourable market conditions. The base vesting schedule prescribes a 8% yearly distribution for 2021, which corresponds correctly to the total amount equivalent to 94.55M Algo distributed during the period under consideration, i.e. from March 2021 to September 2021. During 2021, in particular at the beginning and at the end of the period under consideration, a stable and consistent growth of the value of the circulating supply triggered two distinct periods of acceleration, during which substantial amounts of Algo were introduced in the circulating supply with limited effect on market dynamics. As a result of acceleration, we distributed an additional 973M Algo in accelerated vesting during the reporting period, for a total supply of 1.068Bn Algo due to vesting in this period. As in the previous period, during which we had a distribution of 1.067Bn Algo, we can note that the acceleration clusters were never deterministic, and at the same time the whole dynamics had features of smoothness thanks also to the usage of a moving average in the algorithm. It's worth noting that acceleration managed to advance the end of the early backer distribution while being constrained by design to happen only under positive market conditions, thereby reducing dramatically the potential market impact.

As of September 30 2021, the Algorithmic Vesting is completed, but **328M Algo** still needs to be fully transferred to recipients, for different reasons. Some of the Early Backers are in an exceptional situation since they entered later in the program, therefore their distribution according to the algorithm has yet to be completed, while for some others lack of completion has reasons which are technical, leading to their vesting to be paused in the past (around **196M Algo** are in this situation). Also, as reported previously, during the last acceleration phase some of the Early Backers asked to continue to run their nodes and asked at the same time a voluntary suspension of their vesting, as a proof of enduring commitment (around **132M Algo** are in this situation). These exceptions will be subject of forthcoming communications about how the final distribution will happen in practice. The completion of vesting will be more extensively covered in the near update of the Long Term Algo Dynamics that will also incorporate the evolution of algonomics due to Community Governance.

Contingent Incentives

Contingent Incentives were established to enable them to address unforeseen trends or needs that may have a negative effect on the growth of the ecosystem. All the previous uses of these rewards addressed the supply issues that emerged in the first months of the network and aligned the interest of participants to the community. The part of contingent rewards used to facilitate the EIP has already been covered in the previous section. The only remaining part of contingent rewards relevant for this reporting period is represented by the last of the four installments related to the 200M Staking Program reward, **which amounts to 55.3M Algo**, as coherently reported in the previous transparency report. This last installment includes rewards that were not previously distributed, because participants have finally completed compliance. From the next reporting period on, the 200M staking program will be a thing of the past.

ECOSYSTEM DEVELOPMENT

The Algorand Ecosystem team facilitates the development and growth of the ecosystem and developer pipeline including undiluted funding, technical onboarding and standardization conventions for ASAs, Wallets and AVM.

Ecosystem Grants

During the reporting period, the Foundation distributed **7.5M Algo** as grants to developers and companies as part of the Foundation AlgoGrant Program and related programs. Please note this amount represents only part of the total awarded as the Foundation paid the other part of the grants and awards in fiat currencies or stable coins. We have experienced mass acceleration of applications across all channels with growth over 235% since 2020 in the first three quarters of 2021 alone. Core projects from this reporting period include Yieldly, Aorist and Gaiachain.

The amount of Algo distributed in this reporting period is in line with the amount distributed in the previous transparency report, consistent with the increasing maturity and reputation of the Algorand Ecosystem. Our application pool has accelerated from under 100 in 2020 to over 320+ in the first 9 months of 2021 alone.

OTHER DISTRIBUTION CHANNELS: 124.4M Algo

Algo Distribution through Structured Selling

During the reporting period, the Foundation has distributed 47.0M Algo via the structured selling program. The plan is executed through approved 3rd parties, with the following guidelines, also stated in the [Foundation's previous reports](#):

- *The seller only makes offers above market price, and doesn't sell into bids.*
- *Daily sales remain materially below a fixed amount set based on medium term volumes, and with the constraint of remaining below 5% of estimated real market volume on any given day.*

Automatic halting of sales if;

- *there is a 10% price drops within 24hrs*
- *the price goes below a fixed threshold set based on medium term market conditions*

Differently from the past, however, during the latest period the last guideline regarding a threshold to stop selling has been essentially ineffective, leaving only the fully algorithmic ones. In the future, we will make this channel of Algo distribution part of a larger general funding treasury strategy, for further details see the final section below. Also, in this reporting period the total amount of Algo sold has been reached by consistently selling approximately the same amount every day, since the maturity of the market, particularly in terms of volumes, made pauses or quantitative changes in sales happen more rarely.

As a part of our funding strategy, the Foundation has also started a parallel OTC sales program that has released, towards the end of this reporting period, 76.45M Algo from the Foundation 500M Algo endowment. The advantage of this program is to bring funding with no short to medium term market impact, due to an agreed, long term, commitment of counterparties to the Algo and the Algorand ecosystem. We expect the program to distribute funds also in the next reporting period, although the nature of this program allows the foundation to more rapidly fulfill its funding needs so we expect it to be concentrated in specific periods and not to be continued indefinitely. In fact, beyond spreading the potential market impact across long periods of time from now, another advantage of this program is to bring into the ecosystem valuable partners that are crucial in this moment for the scaling of the ecosystem itself. This program also relieves pressure on our regular structured selling.

Algo are distributed to the market by the Foundation to fund its operations, build the ecosystem and community, support research and development, and increase token circulation and decentralization. We will present below, and in the forthcoming Ecosystem Development Progress Report, how sales proceeds and Algo have been used in achieving these objectives.

University Program Consensus Participation

In order to further strengthen the security and decentralization of the protocol, the Foundation has delegated to the [Global University Program](#) partners the ability to participate in Algorand consensus protocol with their unvested stake, for a total amount of **38M Algo**. It's worth mentioning that they are properly included in the calculation of the Algo Liquid supply metric while they are excluded from the circulating supply, since the Foundation still has the control over the funds.

Board and Advisors Compensation

A total of 960,000 Algo were used as compensation for members of the Foundation's board of directors and advisors. This is up from 395,000 Algo in the last reporting period since board members and advisors have become more involved in the Foundation activity.

In Closing Statement

We conclude this transparency report by adding further information of interest for the community:

1. Providing further details on the usage of funding obtained by structured selling proceeds.
2. Providing, after the above classic "financial flows statement" view of the foundation activity, also a "balance-sheet" view updating the composition of our Algo funds.
3. Describing the fundamental directions for future Algo Dynamics that were already referenced above.

HOW SALES PROCEEDS ARE USED

We have already mentioned that part of the total grant awarded was paid in fiat currencies or stable coins, and that, beyond this, sales proceeds were used to fund operations, to support further efforts in building the ecosystem and community, and to support research and development. Here we provide some more precise figures.

1. Grants and awards in fiat or stablecoins: **USD 5.9M**
2. Marketing and other forms of ecosystem promotion in fiat or stablecoins: **USD 0.6M**
3. Daily operations, Staff costs, and other programs and fiat expenses: **USD 20.8M**

LONG TERM ALGO ALLOCATION, UPDATED

We also want to add a balance-sheet view updating the composition of our Algo funds, to be compared with the [LTAD tables](#) (where the different pools refer to the initial LTAD allocation).

Community Incentives

Participation Rewards (to become Governance Rewards)	1887.94M
Early Backers Relay Nodes*	328M
200M Staking Contingent Incentives	Completed
Contingent Incentives for the future	495.35M

* The Early Backer Relay Node pool includes an amount of Algos already vested but not yet claimed.

Ecosystem Support

Innovation Fund	400 M
Foundation Algo Grant Program	212 M
Research and Social Good Program	200 M
Contingent Incentives for the future	406M

DIRECTIONS FOR FUTURE TOKEN DYNAMIC

In the above report we have described the main changes that have already impacted the circulating supply of the Algorand Ecosystem during this semester and will continue to play a fundamental role in the near future. At the same time, forthcoming changes will accelerate even further the Algorand evolution towards a new paradigm of decentralization, where governors' involvement will (can) be extended to different aspects of the blockchain, from consensus to infrastructure. These will be the main future drivers for innovation:

1. Participation Rewards will be kept stable in the last quarter of 2021 and will continue to exist alongside Governor rewards for some time after that. Their importance and impact on the token dynamics will be however superseded by Governance rewards, which will become the cornerstone of the future inclusion of the Community in several aspects of the ecosystem, leading to the end of Participation Rewards, designed for the early stage of the network.
2. With the natural termination of the Early Backers/Relay Node distribution, there will be no more similar distributions. In order to ensure proper Node Running, the foundation is implementing a decentralized Node Running program, absorbing a much smaller amount of dedicated resources. The program, already started with the recent pilot, will focus on Relay Node Running only, and will aim at increasing accountability, automation and decentralization, alongside a provable economic commitment.
3. Alongside the ongoing Grants Program, the Algorand Centre of Excellence (ACE) Program will start in 2022 with an allocation of 100M Algo. The program aims for the long term involvement of Higher

Education systems in shaping the future generations of blockchain natives and promoting Algorand Community growth, central to the vision of Algorand inclusive ecosystem.

4. Although the Foundation 500M Endowment is not part of the Community AERP, we report briefly about the evolution of its management, since it is the main source for the Foundation to fund its operations, build the ecosystem and community, and support research and development. We continue the plan of diversifying forms of revenues and investments. The main goal of the structure is to effectively couple the long term structured sales component of distribution (whose amounts are regularly reported within this report) with the active management, adding revenues related to lending activity, promotion of financial products, diversified holding, opportunities from DeFi and other forms of capital utilization, such as participation in strategic projects. The management happens within a clear diversification and risk minimization setup, with regular reporting and transparency provided through dedicated channels.

The Foundation is committed to building a more inclusive, organic ecosystem with broad community participation, while maintaining the security of the protocol over time. We are also committed to increasing the availability of tools and dashboards for transparent monitoring of Algo flows and statistics, beside the publication of regular transparency reports. Economic publications, including Economic Evolution Reports, will continue to explain and describe the Foundation's Algo dynamics. For further details on the topics covered here, we will publish the aforementioned Ecosystem Development Progress Report and the update of the Long Term Algo Dynamics in the next few weeks (November 2021).