

The Ultimate Repeg Plan - A Community-Driven Repegging Proposal

Introduction:

USTC serves as the backbone of LUNC, anchoring its stability and functionality within the global crypto ecosystem. Repegging USTC and the other Terra stables is paramount to the prosperity of our chain, it is a crucial step in safeguarding the value of our investments in LUNC and ensuring the resilience and long-term success of our chain. As previous attempts of repugging USTC have stalled, this proposal proposes a new approach.

Objective:

To establish a resilient and community-driven mechanism aimed at incrementally restoring and preserving the stability of the USTC peg.

Concept:

To maintain the peg, the chain must be capable of absorbing surplus USTC and release them when demand arises. LUNC being a community-owned chain, the responsibility of defending the peg should belong to the community if we want to truly claim community ownership. In this sense, this proposal seeks to entrust this task to the community, making it the guardian of the peg. This proposal empowers community members to defend the peg by leveraging staking rewards, incentivizing their participation and offering them profit opportunities.

Proposed mechanism:

1. Stakers are required to lock a specific amount of USTC alongside their LUNC delegations to fully earn their staking rewards. For instance, 1 USTC for each 10,000 LUNC.
2. When the price of USTC falls below the peg, stakers must lock additional USTC to maintain eligibility for full staking rewards. This encourages stakers to purchase USTC at a discounted rate, exerting upward pressure on USTC and driving it back towards the peg.
3. As the price of USTC returns to the peg, stakers are no longer required to maintain the additional USTC balance to earn rewards, allowing them to freely sell those extra USTC at a profit.

Technical outline:

- The community set an initial peg price through governance (e.g., \$0.02) and incrementally increases it over time, based on market conditions and community strength.
- No lockup durations or restrictions on USTC, stakers to lock and unlock USTC at any time.
- USTC locking ratio is dynamically adjusted based on the oracle price of USTC, requiring an algorithm for adjustment.
- Stakers continue earning partial rewards even if locked USTC falls below the required ratio.
- The mechanism will be governed by parameters, which can be easily adjusted through community governance. It will purposefully be initiated with low pressure, letting the community adjust the pressure according to its preference.

Some notes:

- By involving the community in maintaining the peg, the plan ensures decentralization, resilience, and sovereignty, achievements that would be difficult to achieve through other means.
- Assessing the true efficiency of the solution may be challenging initially. While this solution is capable of restoring a peg, achieving the \$1 peg might necessitate additional mechanisms or adjustments to empower it and enhance its effectiveness. Nevertheless, this solution offers a robust foundation to build on and a good starting point.
- In case of depegs, this solution prioritizes the systematic restoration of the peg over the time it takes to achieve it. By leveraging the collective strength of the community, it transforms depeg events into profit opportunities, naturally paving the way for repeg events.
- The current USTC price presents an advantageous opportunity to test the proposed mechanism. Succeeding repegging USTC from this level can serve as a testament to its reliability and effectiveness. It will also send a strong signal that USTC can be relied upon as a stable and trustworthy asset within the ecosystem.

Benefits

This plan provides a user-friendly and accessible mechanism for restoring and maintaining the USTC peg. By empowering the community to actively participate in peg defense, the proposal ensures decentralization and cultivates a sense of ownership among stakers. Moreover, it provides robust resilience against external threats, such as centralized entities and regulatory challenges. Profits generated from defending the peg are redirected back towards the community, returning power to its members and promoting equitable distribution. The anticipated repegging of USTC is expected to attract back both old and new investors eager to participate and profit from the endeavor. This, in turn, will lead to the expansion of the community and increased demand for LUNC.

Addressing concerns

The presented plan offers a low-risk / high rewards solution. It is non-obtrusive and non-disruptive, its pace can be adjusted based on the community's wish, it can be supplemented with - or function in parallel to - other systems (MM, collateral mechanisms...). Additionally, the mechanism can be easily disabled or reduced if necessary. With no minting involved, it is immune to death spirals and oracle attacks. The concrete action of the mechanism only affects rewards distribution, with the worst-case scenario limited to potential undistributed rewards, rendering it virtually risk-free.

Explore Further

A PDF version of this proposal is available at: https://github.com/BullBoss5/proposals/blob/main/terra-classic/The_Ultimate_Repeg_Plan_Proposal.pdf

For more in-depth details, examples, and discussion, or to engage, please visit the Commonwealth thread: <https://commonwealth.im/terra-classic/discussion/17095-the-ultimate-repeg-plan>

Cast your vote

Vote YES: I approve this proof of concept and wish for the constitution of a volunteer team to design an algorithm and a high-level implementation document. A subsequent governance vote will be conducted to approve these documents before final implementation in the code, following PPJ guidelines.

Vote NO: Do nothing