Contact: Clayton at UMA

Geoff - aka inalittlewhile.

Range Token vs. Success Token:does not create sell pressure on the FOX token.

better for those who want to long the tokenrequires less collateralization up front

One more thing to consider for VC sales. From the Sushi community call, VCs may be much more interested in the UMA success token. The VCs in attendance didn’t want downside protection but all the upside potential.

<https://medium.com/uma-project/success-tokens-an-incentive-aligned-way-for-vc-funds-to-invest-in-daos-1e8b8244f2f4>

Range tokens function as a loan a DAO can take against its own treasury — a sort of “crypto native convertible debt.”

Q:I don’t think you sell any FOX now to mint and sell Success Tokens. Like the Range tokens, there is an expiry date, and Success Tokens would convert to FOX at that time. But you also get additional FOX based on the call option set when minted. Whereas with the Range token, you don’t ever get more than 1 FOX for each Range Token held at expiration. I think that’s one of the differences anyway. Still learning this all myself.

A:My understanding is that with the UMA Range Token, you won’t sell your native asset. Instead, you use the native asset to borrow stablecoins with the preset value range.

If the contract expires within the range, it offers a yield. I saw 25% mentioned on the Sushi call, though this may depend on the set range. If the Range Token expires above range, there is some exposure to the upside but it’s capped. Assuming it expires below the range, there is exposure to the downside. The yield % will drop accordingly but the assets are still protected from liquidation.

With the UMA success token, you essentially wrap two tokens. One, the native asset. The other is the Option that only provides value to the buyer if the native asset expires above the strike value.

https://forum.shapeshift.com/t/mint-and-sell-range-tokens-for-treasury-diversification/136/18

Another aspect to consider with range tokens is the price the range tokens are sold to investors. A DAO can generate interest from VC investors by selling the range token at a discount. The rtUMA-0821 contract was sold at 0.963 USDC, which is priced to have a 25% APY (annualized yield over the 2 months until expiry). Due to the discount, the following payouts were possible at expiry:

If the $UMA price is above $12, the investor earns an effective APY higher than 25% (the investor has long exposure to a $12 call option);

If the $UMA price is below $4, the investor earns an effective APY lower than 25% (the investor has short exposure to a $4 put option).

If the $UMA price is between $4 and $12, the investor earned 25% APY paid in $UMA;

<https://docs.umaproject.org/range-tokens/summary>

If the expectation is for the protocol to grow, a DAO would want to delay selling their native token and instead find a way to borrow off of these tokens now and sell fewer of them at a higher price in the future. This is the core strategy and purpose of the range token. The DAO is leveraging its treasury to delay the sale of its native tokens and to bet on its own success. This can be particularly effective for promising new projects who need funds now, but believe their token will be worth more in the future. This buys them time to build out their idea and prove to the market they deserve a premium.

**//Proposal for the DAO to mint and sell a set of “range tokens” in collaboration with UMA to diversify treasury and raise some stablecoin for operational reasons.**

**Diversification**. More resilient treasury to handle multiple possible future market conditions. Specifically, **stable coins are a hedge against a down crypto market.** We have lots of GIV, **let’s not keep all our eggs in one basket.**

sell the minted Range Tokens via OTC and through connections. No precedence for selling through distributed protocols.

Q? *you say the range tokens need to be sold OTC, can you elaborate more on that? In theory why couldn’t the range token be sold to anyone who wants to buy? Maybe even setup on a bonding curve or something like that?*

Good for number of reasons:

(1) this allows the DAO to effectively leverage (take on debt) against its treasury now, with the hope of paying back that debt at a higher GIV price than today in order to ensure it has the necessary stable coin funds for various operational expenses it may want to pay out (when not paying directly in GIV or even paying a combo of the two).

(2) The DAO retains the upside on the GIV up to the max of the range.

(3) there is no liquidation risk on the loan.

I think this is a smart and innovative way to diversify DAO treasury without selling the GIV to the market now when the DAO should be bullish it’s own token.

RANGE:

*i think the lower range would be “How cheaply do we want to sell these for and no cheaper?” and the higher range would be “How much upside chance do we want to give people for taking that lower side risk”?*

*My initial gut for the range is we choose a multiplier and apply it equally on both ends. E.g if we issue the range token for 5 million $ when the market price of FOX is 1$ then we choose a multiplier like 5x, then we say the buyer has the right to redeem at a market price at a given time somewhere between the range of $.20 - 5$ (This way their upside/downside risk within the range would be equal - either way they are paid back $5 million + any interest with a equivalent amount of $FOX at repayment time within that range.*

*That is another question I have with these range tokens, what would be fair/standard for when repayment of the loan is due? Also wonder if other DAOs (like the Iron Bank) might be interested in buying these range tokens from the ShapeShift DAO.*

*The Success Token has a couple advantages over the range token. Mostly it is better for those who want long exposure to GIV. And the types of investors we are targeting we think will be long GIV. It also requires less GIV collateralization up front, so good for the DAO to not lock up as much for the timeframe.*

**PROCESS:**

The idea is we will be looking for a lead investor to set the terms, and then find follow-on investors to come in and complete the tranch. Much like a start-up first finds a lead investor for purchase of an equity position. Once we are nearing agreement with a lead investor, we would return to the community for an official proposal to mint the Success Tokens.

//////FOX proposal:

Range:

Lower price bound of $0.40 FOX/USD. Each Range Token is worth 2.5 $FOX at this price.

Upper price bound of $1.00 FOX/USD. Each Range Token is worth 1 $FOX at this price.

This is an adjustment from the original poll results. This adjustment is being proposed for a few reasons:

FOX/USD price has moved some since then.

A shorter contract life is also being proposed, which allows for a tighter range.

The current available funds in the ShapeShift treasury necessitates having more capital efficiency (tighter range).

The FOX/USD price today is ~$0.70. This range represents a ~43% move from current prices to each of the bounds.

This means that at expiry, if the FOX/USD price is at or above $1/FOX and the Range Token debt is still outstanding, the ShapeShift Treasury will have sold the underlying FOX for $1/FOX. If the FOX/USD price is at or below $0.40/FOX, ShapeShift will have sold the underlying FOX for $0.40.

This allows ShapeShift to sell FOX for a higher price at a later date, and also provides the ShapeShift treasury with downside protection in case of a larger than 43% negative move.

This range also seems like it would be attractive to RT investors, as they will still be able to earn yield on their Range Tokens and have a reachable upper bound that would potentially allow them to gain exposure to FOX upside.

OTC Sale:

It’s also proposed that the Range Token be sold OTC. This does not entirely agree with all of the conversations surrounding the initial range token discussion, but the motivation for this over creating a public sale is.

It will be easier to reach consensus on Range Token parameters by limiting the market participants.

Sale participants would be lined up beforehand, which would leave zero doubt about the success of the sale.

Would act as a pilot project to gauge investor sentiment, which could potentially make for a larger more successful public Range Token offering later.

This is proven and easier from an implementation perspective.

It should be noted that any FOX holder could still take it upon themselves to create the same FOX range tokens and a market for these.

Expiry Time:

6 months from the date of vote completion.

Initially a 1 year expiry garnered the most support in polls, so this an alteration to this is an alteration to that. This is motivated by a few things:

Will allow for more capital efficiency when creating range tokens. We can reduce the amount of FOX required to reach the desired amount of stables in diversification, by reducing this period and “sale discount”, since the yield is annualized.

Shorter expiry + tighter range play well together.

With current availability of FOX treasury funds, this could serve as a pilot offering with potentially a larger one happening later once more FOX is available.

Size and Range Token Yield:

35% net yield. Selling each range token for $0.825 with a notional of $1.

@Beorn, @jonisjon and others in the community have expressed interest in making this a good deal that would be attractive to investors. 35% net yield with additional potential upside on a project of ShapeShift’s caliber, seems like it would be very competitive.

The proposal is to lock 2.5M FOX to mint and sell 1M Range Tokens at ~$0.825, netting the ShapeShift treasury $825,000 in stables. This number is mostly for example’s sake, and definitely need feedback from the DAO about availability of FOX allocation and amount of stables needed.

5. Benefits

Benefits for treasury diversification with Range Tokens were covered by Josh and others in this thread.

The desired benefit of this post is to lead to a finalized vote for a range token that we all believe will be beneficial for the ShapeShift DAO.

6. Drawbacks

This proposal includes the proposal to sell these range tokens OTC. The advantages of this approach were discussed in “Specifications”, but there is also the drawback of not explicitly allowing for general market participation.

<https://forum.shapeshift.com/t/success-token-proposal-discussion/599>

<https://docs.google.com/spreadsheets/d/1QunHrkZx9JhylEwmGUFAdIF0n7xHXQpcMUYwmIIkswQ/edit#gid=1576197381>

<https://forum.shapeshift.com/t/mint-and-sell-range-tokens-for-treasury-diversification/136/34>

<https://medium.com/uma-project/success-tokens-an-incentive-aligned-way-for-vc-funds-to-invest-in-daos-1e8b8244f2f4>

<https://medium.com/uma-project/treasury-diversification-with-range-tokens-145d4b12614e>

<https://drive.google.com/file/d/1z3L5xjiyb-wSoLcLaB8Aij_6llTSlq_P/view>

<https://medium.com/@ShapeShift.com/the-success-token-scfox-what-is-it-cf506a9afb53>

<https://docs.umaproject.org/success-tokens/summary>

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