

STABLECOINS, BUILT FOR **DEFI**

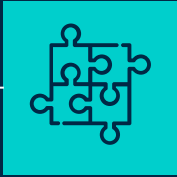
Understanding the stablecoin
~~trilemma~~ **pentemma** to overtake it



TokenBrice



PRESENTATION PLAN



01

INTRODUCING THE PENTEMMA

Collateral nature
Collat counterparty
Governance model
Technical exposure
Liquidity model



02

PREVIOUS, LIVE & FUTURE EXAMPLES

UST/USDC
crvUSD
LUSD
GRAIL & LCNy



03

FUTURE OUTLOOK & PROSPECTIVE

Effective FRAX vs LUSD
Liquidity & Reflexer forks



01

PENTEMMA

Cornering the problem with
proper terms

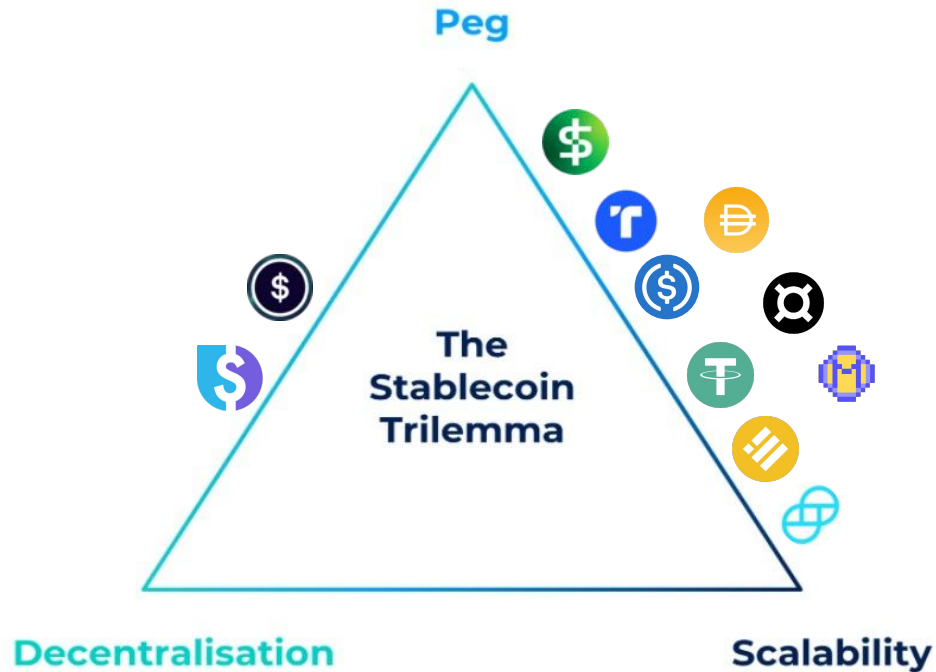
All metrics presented in this document were measured on May 31, 2023

\$129.3 B

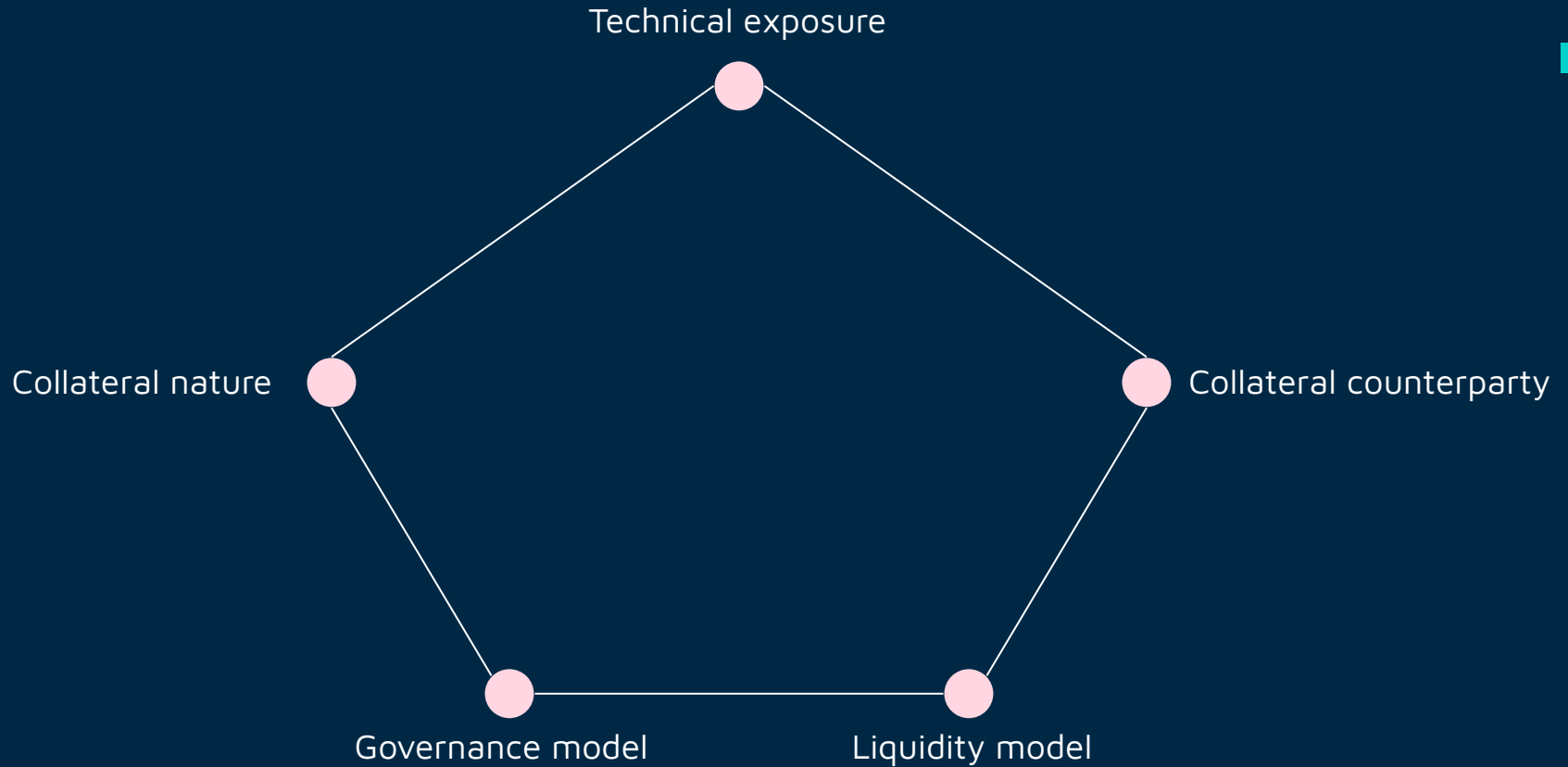
Stablecoin marketcap
(DeFi total TVL = \$47B)



The Trilemma: pick 2



The pentemmma: pick 3?



What decentralization means stablecoins

The tradeoff between decentralization, peg and scalability are better described using 5 axis:

1. **Collateral nature**: endogenous vs exogenous, volatility, liquidity, risk
2. **Collateral counterparty**: none (ETH self custodied), exchange, collateral
3. **Governance model**: collateral degradation, governance enforcement, etc.
4. **Technical exposure**: direct and third party (collateral, AMO, etc.)
5. **Liquidity structure**: stablecoin liquidity model

1. COLLATERAL NATURE

A/ Endogenous vs Exogenous

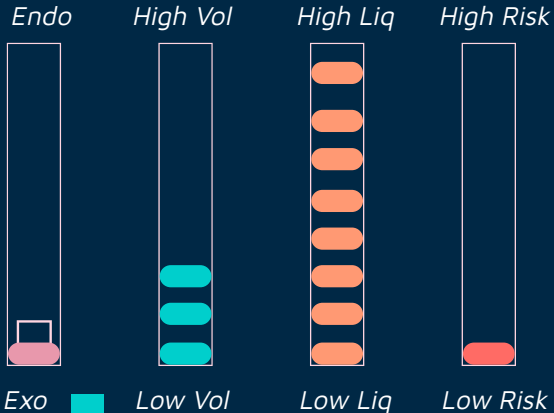
B/ Volatility

C/ Collateral liquidity

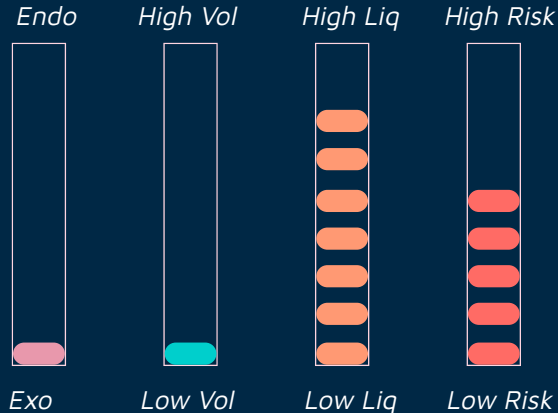
D/ Additional risks (ex: USDC censoring)



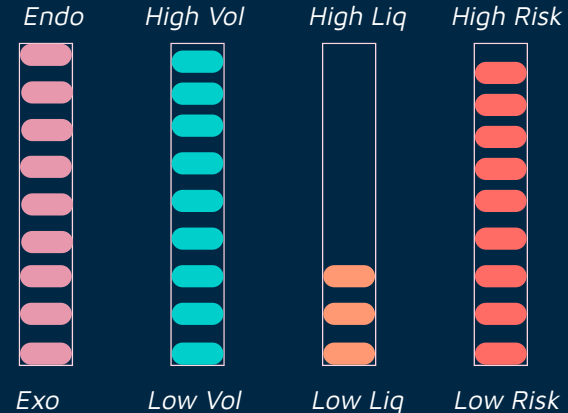
ETH



USDC



LUNA



2. COUNTERPARTY RISK

ETH/BTC

SELF CUSTODIED



Self-custodied,
uncensorable asset
with no counterparty
risk

ETH/BTC

IN EXCHANGES



Counterparty-less
asset, secured by a
custodian

USDC

-



Censorable asset
facing counterparty
risk

3. GOVERNANCE MODEL

- A. **Collateral degradation / dilution risks:** changes to issuance policy
⇒ risks: bad debt, bad collateral
- B. **Governance-enforcement related risks**
⇒ technical risk, can affect the whole project scope
- C. **Governance bloat, unpredictability, etc.**
⇒ long-term risk hindering scalability

A prime example of collateral degradation



MakerDAO SAI



Only ETH may back SAI

MakerDAO DAI (MCD)



Why not USDC too? (PSM)

Pigeon Stance



Let's ape 500M USDC into US Bonds
(Monetalis)

Why not use 3rd party managed
DAI/USDC LP as collateral for DAI?

4. TECHNICAL EXPOSURE

Risks posed by the
LUSD's contract)

But also **ALL** smart
cautious if there is



used



but harnessed



for yields



ex for Liquidity:

sed (be very



5. LIQUIDITY MODEL

Three main criteria to assess the stablecoin liquidity:

1. **Liquidity size** (vs stable supply)

TVL doesn't matter, relative sizing does

2. **Costs of liquidity**

Maintained through strategic position, incentives, or bribes?

3. **Structure of liquidity**

stable/3pool liquidity, stable/ETH, other pairings

Some/all of these liquidity needs can be enabled directly by the protocol



02

EXAMPLES

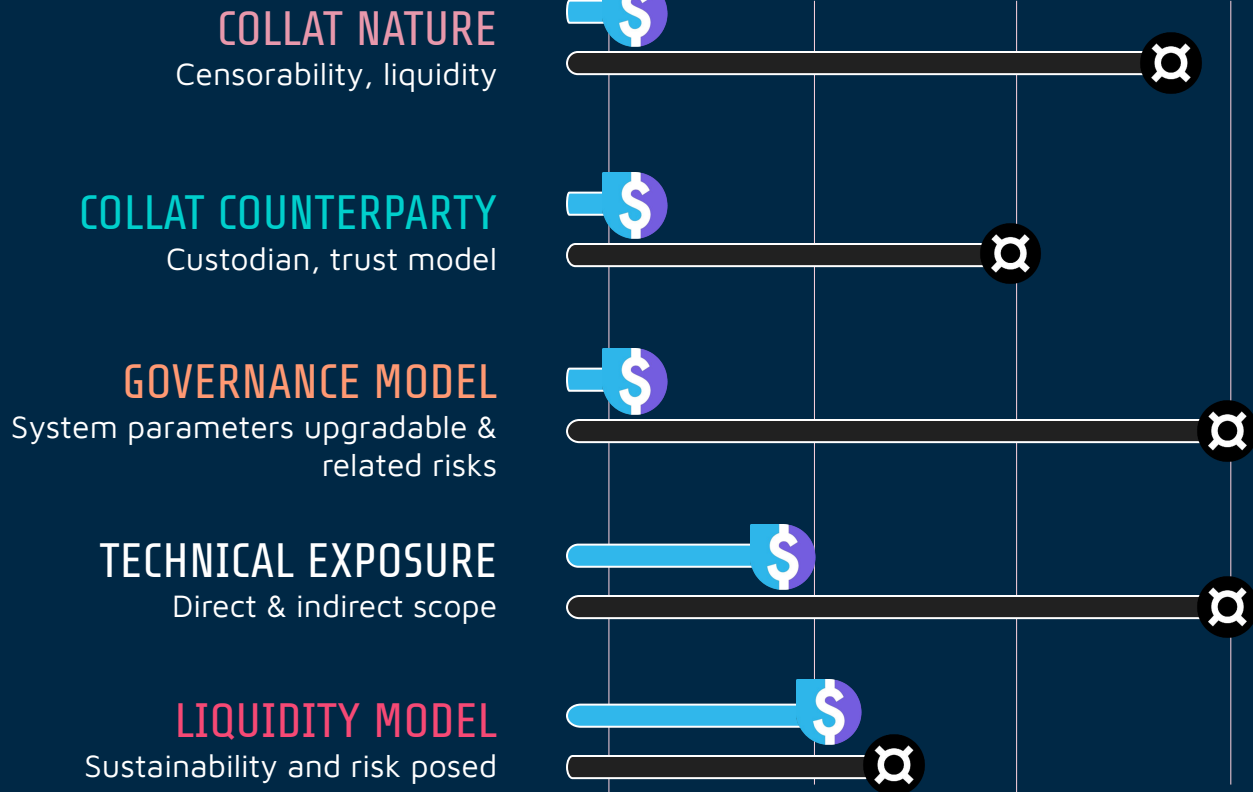
Applying the 5-axis model to
past & existing stablecoins

OVERVIEW

	COLLAT NATURE	COUNTER PARTY	GOV MODEL	TECH EXPOSURE	LIQUIDITY STRUCTURE
LUSD	Exogenous Low Volatility High Liquidity	None	No gov	Only direct exposure to Liquity contracts (immutable)	Sustainable liquidity support
USDC	Exogenous No Volatility High Liquidity	Circle's banks	Centralized Gov	Circle's tech stack	Freerider
UST	Endogenous High Volatility Low Liquidity	Terra Foundation Reserves	Theater	Upgradable contracts + 3 party (Anchor) dependencies	Bribes + Foundation money

MAPPING STABLECOINS RISKS: LUSD / FRAX

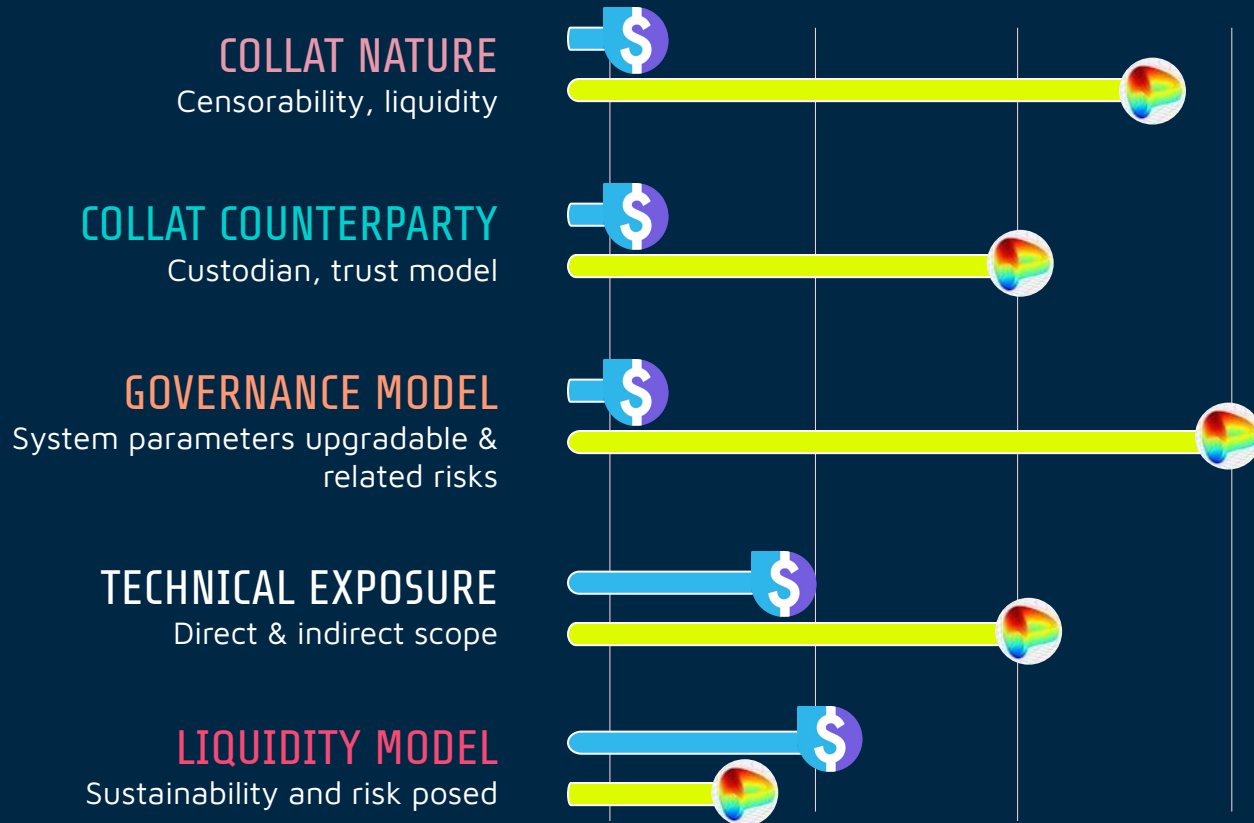
Evaluating the risks posed by various dimensions of the stablecoin models:



⚠️ *FRAX has a governance which can modify the protocol: the results of this risk analysis can evolve either way.*

MAPPING STABLECOINS RISKS: **LU**SD / **crv**USD

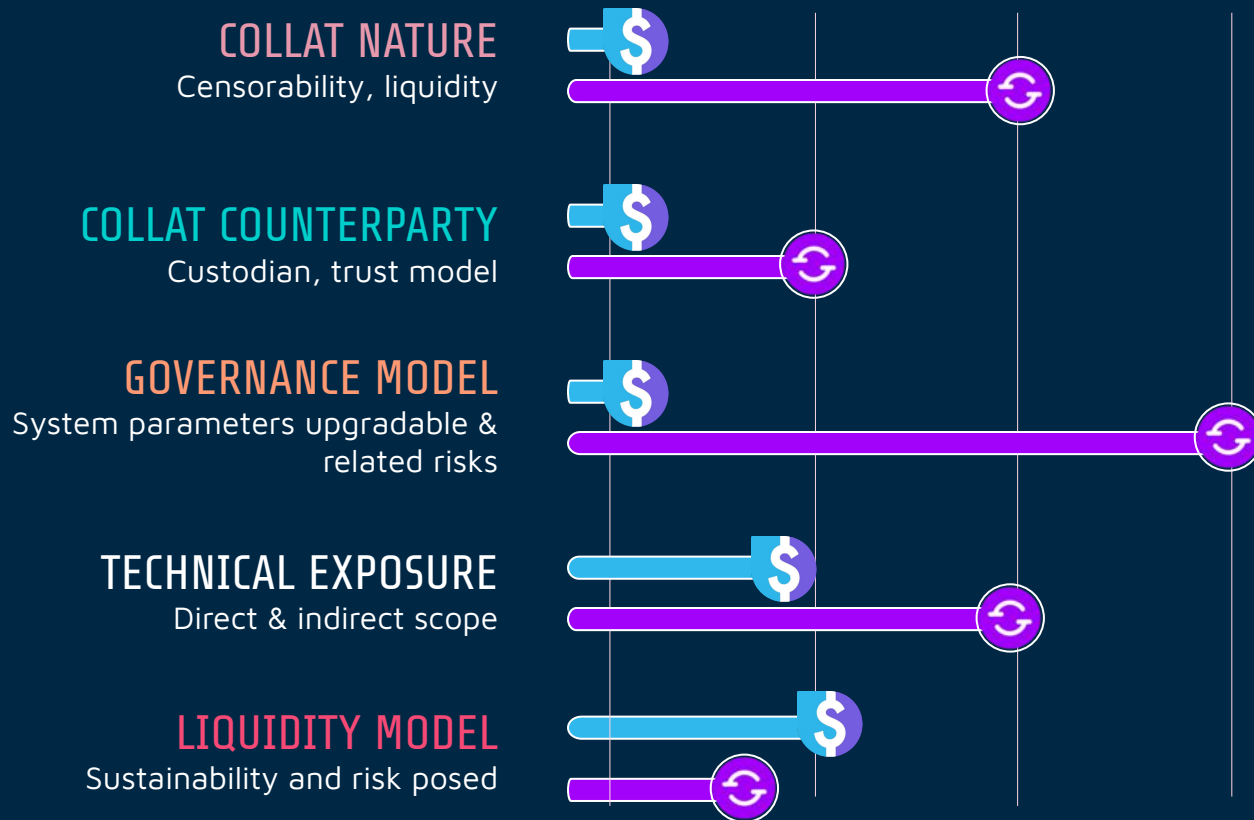
Evaluating the risks posed by various dimensions of the stablecoin models:



⚠ *crvUSD has a governance which can modify the protocol: the results of this risk analysis can evolve either way.*

MAPPING STABLECOINS RISKS: LUSD / GRAI

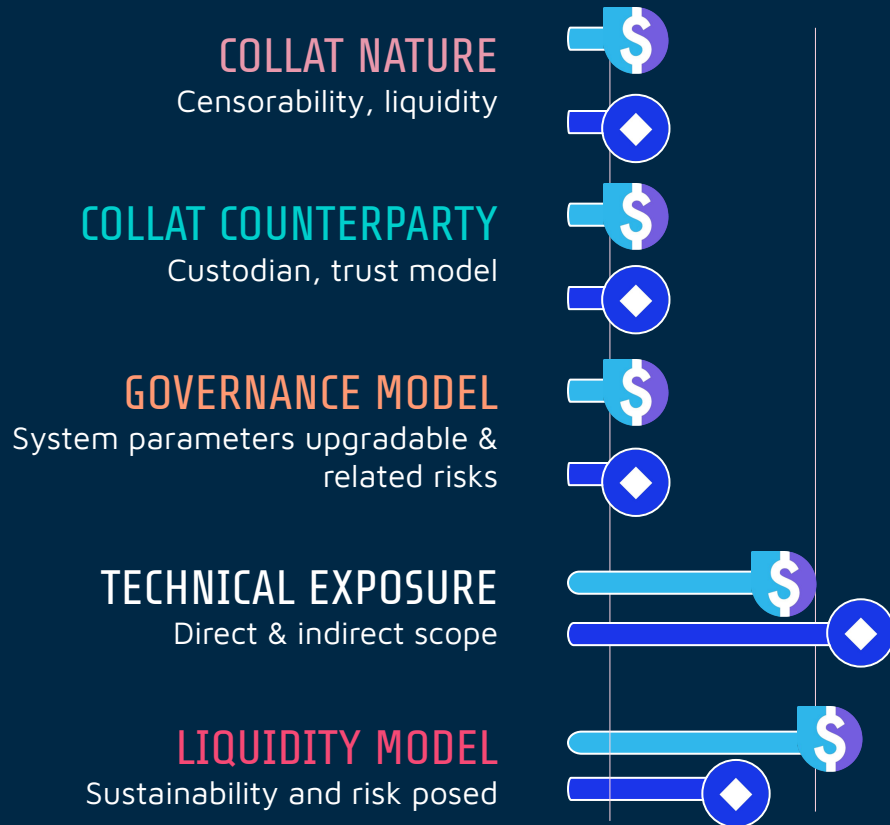
Evaluating the risks posed by various dimensions of the stablecoin models:



⚠️ GRAI has a governance which can modify the protocol: the results of this risk analysis can evolve either way.



MAPPING STABLECOINS RISKS: LUSD / LCNY

Evaluating the risks posed by various dimensions of the stablecoin models:



⚠ Since Alternity / LCNY is not live yet, the specifications used for the comparison are the ones currently presented in the documentation.

CONTEXT-AWARE LUSD/FRAX COMPARISON

	SUPPLY	COLLATERAL	AMO TVL	OUTSTANDING
 LUSD	260.7M	403K ETH (\$737M)	0	260.7M
 FRAX	1004M	\$172M, mixed	823M FRAX	181M

OUTLOOK

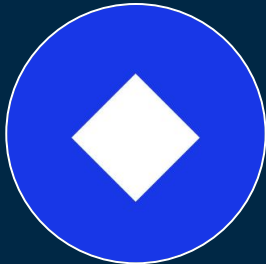
Which will be the next most
elegant answer to the
pentemma?

03

Liquity & Reflexer Forks

Key ideas for new iterations:

- Switching Interest bearing collateral (LSD)
- ve-based tokenomics for the fee-sharing token?
- Protocol owned liquidity / liquidity-driving tokens





0% INTEREST RATE

Enjoy interest-free borrowing with a low max fee of 0.5% for positions longer than 6 months. Take a shorter term position and pay even less.



PRODUCTIVE COLLATERAL

Unlock the potential stored in your liquid staking tokens. Borrow against them and maximize their productivity - all while still earning those underlying staking rewards.



DECENTRALIZATION

Make a difference in the Ethereum ecosystem by supporting minority liquid staking tokens - especially those emphasizing decentralization.

Featured Vessels

Launch a Vessel to borrow GRAI against a variety of different collateral types.



WETH
Wrapped ETH



rETH
Rocket Pool ETH



wstETH
Wrapped Lido Staked ETH

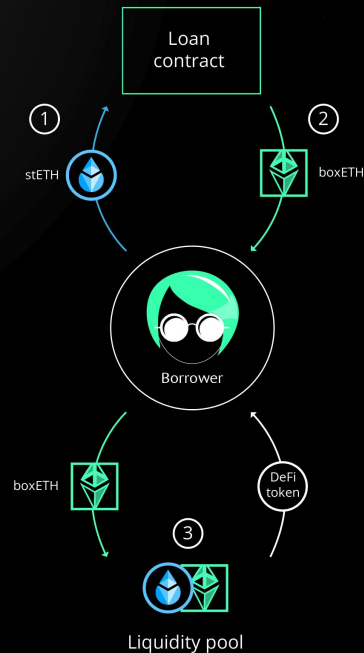


cbETH
Coinbase ETH



Borrowing user

1. Deposit stETH
2. Borrow boxETH
3. Swap boxETH for any supported DeFi token



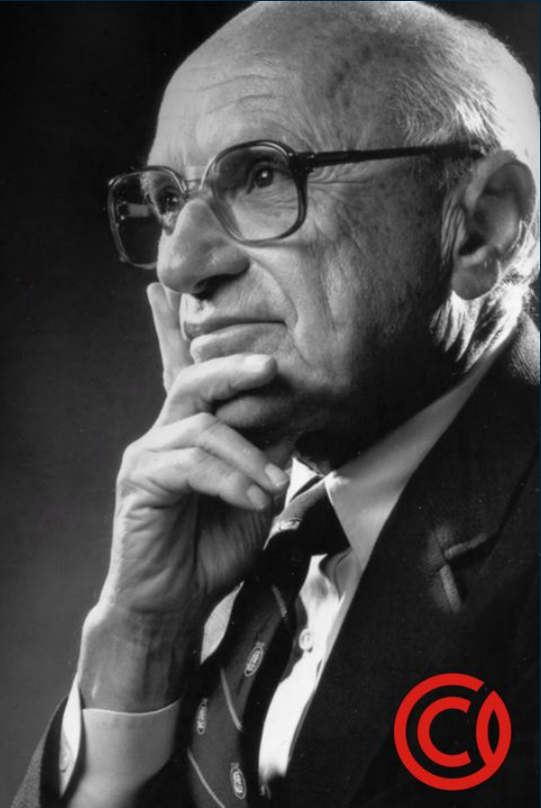
RAI forks: Breaking free from the \$



Friedman's wisdom (1/3)

"One of the great mistakes is to judge policies and programs by their intentions rather than their results."

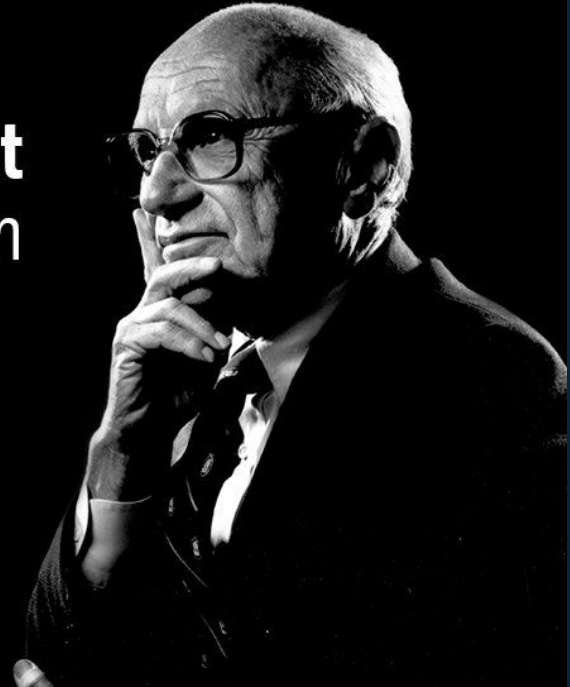
Milton Friedman



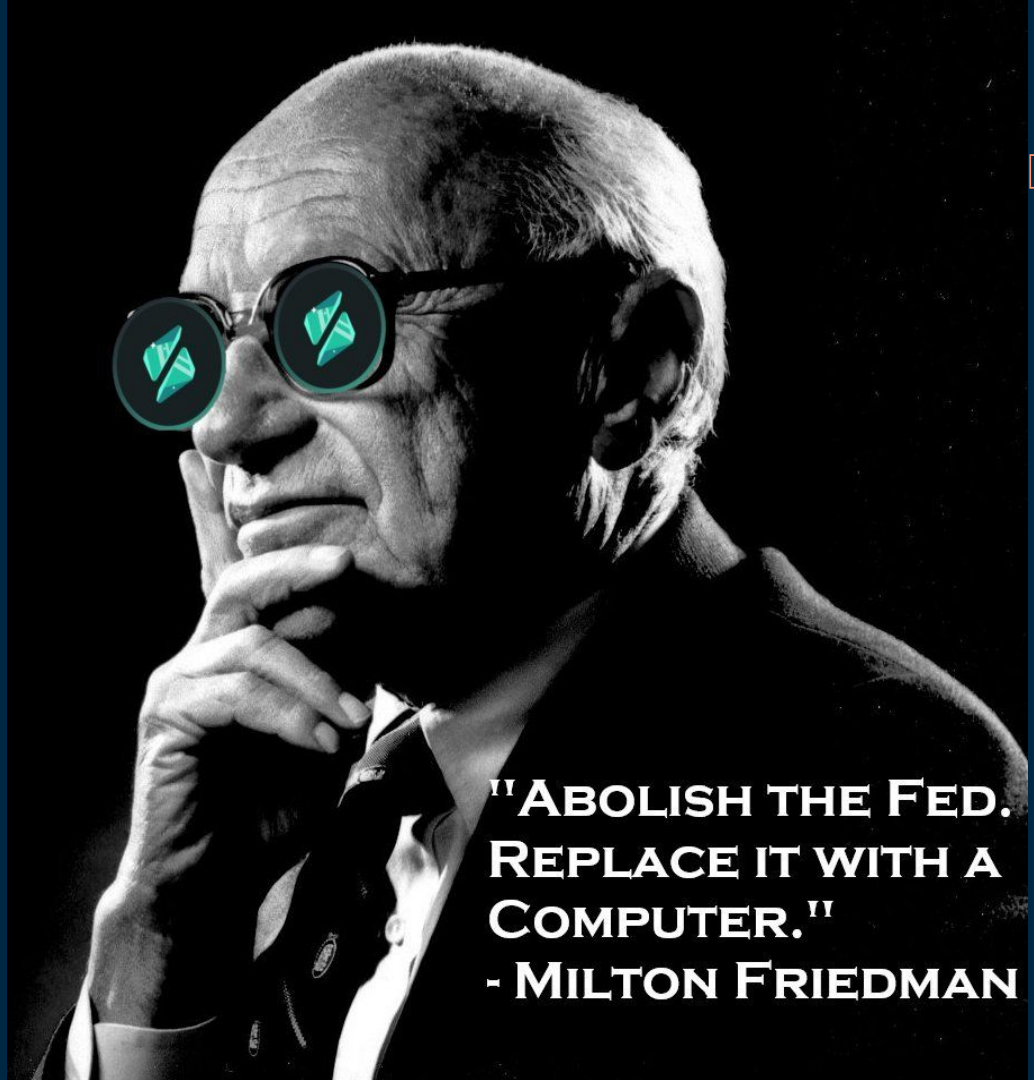
Friedman's wisdom (2/3)

If you put the **federal government**
in charge of the **Sahara Desert**, in
5 years there'd be
a **shortage of sand.**

— *Milton Friedman*



Friedman's wisdom (3/3)



**"ABOLISH THE FED.
REPLACE IT WITH A
COMPUTER."
- MILTON FRIEDMAN**

Stables, stables everywhere!



Stables, stables everywhere!

There will be hundreds of stablecoins:

- Index to various assets, fiat currencies or not, even baskets
- Using various stabilization mechanisms: redeemable or not, etc.
- **The flavours of pegging are densifying**: stablecoins, flatcoins, volatility-dampened assets: some partly volatility indexed ($\beta < 1$)
- Some will be immutable, most likely won't
- Some requiring active management by team, some autonomous

And that's a good thing: **diversity builds resilience** – it's time for every bloke to start his own central bank experiment.

Schooling central banks on monetary policies since 2019,



<https://tokenbrice.xyz>



DeFi Strategy

@ <https://liquity.org>

