

## Motivation

While there are definitely several factors as to why Luna and UST were successful, in my opinion there's one reason in particular. The Luna <--> UST burn-to-swap mechanism essentially means that they were able to flip the supply-and-demand invariant on its head. Normally, selling one currency for another has a negative price impact on the currency sold, since it reduces the demand for that currency (finite demand pool, where some of that demand is met, equals reducing the overall demand).

With Luna, the ability to burn that coin in return for UST, does the exact opposite – it reduces the overall supply of Luna, which increases the overall demand.

## Overview

Recently, I've been thinking on how to replicate that model with SCRT in a way that makes sense. As many people know, Cosmos is a multi-chain ecosystem, and recently, a lot of different projects and chains have been airdropping to each other. Clearly, airdropping is a powerful mechanism to connect two ecosystems together, but what if we could also create an economical mechanism that ties SCRT with other coins – for the long run?

I see this especially with new chains that share an interest with SCRT, for example projects that heavily utilize privacy-enhancing-technologies like MPC, FHE and ZKP. Since in SCRT we want to explore more technologies, it only makes sense to create tighter integrations with these ecosystems. Also, since SCRT is by far the largest 'tech-heavy' chain in Cosmos, it also makes sense for any such new chain to partner with Secret directly.

In my mind, SCRT would become the focal currency of these ecosystems, where burning SCRT could mint, in a slippage-free way, another currency (as an example, let's say these coins are MPCCoin and ZKPCoin), and vice-versa.

Another cool possibility is to not really burn any partner coin that is received, but instead, treat that as part of Secret Network's community treasury – those coins (which are out of circulation) could be staked or used to provide liquidity, earning rewards that can then be sent to the community pool. The network's community would therefore start having a basket of multiple currencies – all of which are heavily related/partnered with the Secret ecosystem.

## Technical considerations

TBD, but since SCRT is already out this likely requires a hard fork that issues new non-circulating SCRT to a contract or module. That SCRT can be minted when burning one of the selected cryptocurrencies. Any cryptocurrency we partner on this would need to have a similar mechanism on their end (easier in a new chain).

Doing things in this way may screw up staking rewards since the overall supply would increase, in which case the network would need to agree to fix any parameters (like inflation) to the 'true total supply' which does not count these coins. If this is too complicated or undesired then a slightly more elaborate hard fork is required where SCRT is truly minted/burned on demand.

## First candidates

- Stablecoins – it's key that at least one stablecoin is supported as well. I would suggest we try to do this with both UST and Silk. Since both of these tokens are out, we may need to figure out a workaround, like asking for a starter liquidity from Terra and the Shade teams, and use Hydro's Curve-AMM to actually help with closing the loop
- Partner coins – There's at least one MPC project that wants to collaborate with Secret but would still serve as its own Cosmos L1. This could be a great example
- Other coins can be added over time, using community governance

Sorry for the relatively quick/messy post. This is very much an early work in progress I wanted to share with the community to get feedback and ideas on.

Guy