TheStandard

PROPOSAL: IBCO

Initial Bonding Curve Offering to bootstrap deep liquidity for the sEURO Stablecoin

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Glossary

PCV	Protocol Controlled Value
TST	The Standard Token (Governance Token)
sEURO	Standard Euro (Stablecoin)
MVP	Minimal Viable Product

Abstract

The Standard DAO proposes an Initial Bonding Curve Offering (IBCO) event to mint sEURO for the first time.

All contributed funds in the IBCO will be used to back the initial cohort of sEURO by building deep Protocol Controlled Value (PCV).

The PCV will be deployed to fund secondary markets for sEURO and back the sEURO minted during the IBCO. This innovative offering constitutes a smooth mechanism to lead sEURO to its 1:1 peg of fiat EURO. It shall be mutually beneficial to the protocol's liquidity, as well as to IBCO participants buying the stablecoin sEURO under a discount.

Problem

Stablecoins are growing in popularity, because of increasing adoption in and outside the Defi space. However, many decentralized stablecoin projects have struggled to gain sufficient liquidity early on, which made them vulnerable to price volatility and market manipulation. When evaluating the data as to why other decentralized stablecoins failed, the research suggested that most suffered from a lack of liquidity. Not only does low liquidity inhibit trading and confidence but it also significantly impacts the stability of the peg. The problem is simple: Stablecoin prices will shift if there is not enough liquidity, regardless of the pegging mechanism.

Any new stablecoin project entering the market usually faces three hurdles:

1. The new stablecoins are usually not accepted as a form of payment, as they lack the first market validation.
2. There are no options on how users can generate a yield on new stablecoins.
3. New stablecoins suffer from long acceptance curves of approx. 1-2 years until deep liquidity has been built up.

Goals

To solve the problems above, The Standard DAO proposes an Initial Bonding Curve Offering. The goals are as follows:

1. Set strong incentives for users to mint sEURO

2. Set strong incentives to build deep liquidity to both the first stablecoin sEURO and the governance token TST.
3. Keep sEURO stable and pegged to the fiat EURO
4. Incentives to onboard sEURO in as many projects as possible

Launching The Standard's First Stablecoin

These goals will be achieved with three stages that work together and are released simultaneously to facilitate the launch of the first stable coin issued by The Standard.

Stage 1 - Initial Bonding Curve Offering

An Initial Bonding Curve Offering (IBCO) shall be used to quickly grow the Protocol Controlled Value (PCV) by incentivizing users to acquire sEURO at a discount.

Stage 2 - DEX Liquidity Bonding

Deep liquidity will be achieved on decentralized exchanges by rewarding users with TST who bond liquidity into liquidity pools.

Stage 3 - TST Staking Rewards

TST holders can stake TST to receive rewards derived from the DAO's deployment of the PCV funds into liquidity pools. These will be paid out in sEURO.

Stage 1 - Initial Bonding Curve Offering

The initial bonding curve offering will be the first mechanism to mint sEURO. Participants of this offering will enjoy a discount of up to 20% on the sEURO stablecoin which shall encourage a quick build-up of the Protocol Controlled Value (PCV). The goal is to distribute the amount of 100 million sEURO backed by the PCV.

This mechanism has proven to be an effective way to build up liquidity quickly when launching a new stablecoin. The initial bonding curve can be also seen as the first smart vault operated by The Standard protocol.

The concept of a bonding curve is to enable the build-up of reserve assets in exchange for the minting of sEURO. Tokens that can be initially converted into sEURO are Ethereum Virtual Machine (EVM) compatible. Stage 1 should be available on multiple EVM compatible blockchains at the same time to reduce transaction/operational costs to execute the contracts in the network. The minting of sEURO follows a mathematical formula represented by a discount curve that finally matches a 1:1 swap.

The IBCO and the build-up of the PCV shall connect the total supply of sEURO minted during the IBCO with the full value of the reserve assets inside the PCV backing. Furthermore, it shall also enable sEURO holders to liquidate their positions, as the PCV will be deployed in liquidity pools to create fully liquid secondary markets for sEURO.

Bonding Curve Math

A bonding curve is a mathematical concept used to describe the relationship between price and the supply of an asset. The basis of the bonding curve is the idea that when a person purchases an asset that is available in a limited quantity (like bitcoin), then each subsequent buyer will have to pay slightly more for it.

The curve is a graphical representation of an algorithm determining how much sEURO people receive at any given time throughout the sEURO distribution.

The formula

$$y = k\left(\frac{x}{m}\right)^j + i$$

k = end price - initial price

x = circulating supply

m = maximum supply

j = 0.2

i = initial price

Pegging the price: The initial discount rate is subsidized by the assets held by the DAO including TST and the DAO's treasury collected from the first sale Stages of the protocol. This ensures that more value shall always back the circulating sEURO value.

Important: Neither The Standard DAO, nor the Standard protocol controls the prices of issued sEURO on secondary markets.

Example

NOTE: Not real values.

A user contributes **800 Euro worth of ETH** into the Stage 1 bonding smart contract and receives **1000 sEURO** in return. The bond has an instant maturing time.

Why a bonding curve?

A bonding curve enables the DAO to directly incentivise users to contribute value which will back the first stablecoins. It is a fair and decentralized way to distribute sEURO and in Stage 2 the governance utility token TST.

Every time someone sends funds to the IBCO contract, the price on the bonding curve increases. The earlier someone participates, the greater potential return they receive until the sEURO to EURO price ratio reaches 1:1. The main goal of the initial bonding curve offering is to launch sEURO, develop the price peg with deep liquidity on secondary markets.

What happens to the PCV?

Initially the final fund split ratio will be voted on by the DAO (TST holders). Below is an example of the protocol controlled value split:

1. **50% of the PCV shall be locked into Liquidity Pools**

   (*In above example: 400 Euro worth of ETH)*

   Liquidity pools shall be used to generate revenue for the protocol and secure the underlying value of sEURO. Up to 50% of the revenue shall be distributed to TST owners who take their TST off the market by staking them in a smart contract. The other 50% shall be compounded to grow the DAO's treasury / PCV.

2. **50% of the PCV shall be used to buy physical gold**

   (In the above example, 400 Euro worth of ETH)

   Gold shall be used as a base reserve to secure the sEURO value along with other assets in the future. A foundation or another legal entity controlled by The Standard DAO shall be the custodian of the gold.

NOTE: For the MVP the DAO Treasury Committee will be deciding on the split, however in future upgrades the DAO aims to use a smart deterministic system to decide on the allocation of assets. Further information can be found in The Standard Protocol's Whitepaper.

Stage 2 - DEX Liquidity Bonding

In the second Stage the focus lies on building additional liquidity for the trading pair of sEURO and USDT (or another USD pegged stablecoin). The inspiration for this Stage was taken from Olympus DAO so that the protocol can own the liquidity in the pools rather than renting it. This ensures consistent deep liquidity and stabilizes the sEURO while offering early participants the strongest bonding rewards.

The two markets that shall be operating on a decentralized exchange are:

1) sEURO <> (USD pegged stable coin and/or MATIC/ETH)
2) TST <> sEURO (without bonding)

How does it work?

Liquidity bonding allows the protocol to control its own liquidity for long term price consistency .

The user will deposit their sEURO and USDT into the DAO's bonding contract. This will be locked into the Uniswap sEURO / USDT liquidity pool. The longer the bond maturity, the higher the yield. All yields are calculated depending on the liquidity provided in the liquidity pools. All yields will be rewarded in The Standard Token.

To acquire a bond in the form of an LP token, the acquirer has to provide a 50 : 50 split between sEURO and a USD pegged stable coin to the liquidity pool through a smart contract.

Target ROIs

The target ROIs are automatically calculated by the protocol to incentivize liquidity bonding when the protocol needs liquidity or disincentivize it if liquidity is not needed.

Bonding Pay Out Price

The bonding pay-out price, meaning the price in which bond rewards are calculated, has a fixed price at the start of the IBCO of Euro 0.064 per TST (average last price TST was traded for). Therefore, the secondary markets can only positively impact the amount users receive as bonding remuneration. This provides an opportunity and a risk: if the price of TST is higher than Euro 0.064, it will stimulate users seeking arbitrage opportunities to participate in the liquidity bonding event. If the spot price on secondary markets is below the Euro 0.064, impermanent loss could occur.

If market metrics like staked volume or bonded volume or overall circulating supply indicate the fixed bonding price can be changed to a variable bonding price pegged to the TST price on secondary markets or adapted to another fixed price if beneficial to the protocol.

It can be summarized that the higher the price of TST, the more incentive there is for people to participate in the liquidity bonding stage & receive TST below market price. This also creates the demand by the community to incentivize other users to stake TST and limit the supply on secondary markets.

Liquidity Bonding Cap

The total amount of TST reserved for the liquidity bonding mechanism of Stage 2 is hard capped. There will be no further bonds offered once the hard cap is reached. The protocol is aiming to control 20 million euro worth of sEURO and USDT in the liquidity pools. Trading fees earned by the pools will be distributed to the PCV until a 1:1 peg is achieved. After that TST holders might be eligible to receive payouts.

Example

A contributor bonds assets worth 10.000,00 Euro into the liquidity pool (50/50 split between sEURO and USDT). With a 10% ROI and a fixed TST price at 0.07 Euro he will receive 11.000,00 EURO or approx. 157.142,85 TST after the bonding time (for example 14 days)

Stage 3 - TST Staking Rewards

TST is a utility token that unlocks various rewards and governance features in the DAO. You can read more about this in The Standard Whitepaper. The TST staking reward comes from the yield earned by the DAO placing the PCV into safe yield farming activities. Yield farming activities are discussed and voted on by the DAO.

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Mentions

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