



An Inflation-Proof Stablecoin Protocol: **Harnessing Scalable Yield**

Whitepaper



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Executive Summary

The Davos Protocol is an innovative collateralised debt position (CDP) protocol designed to facilitate the seamless minting of DUSD, an inflation-proof omnichain stablecoin, by leveraging Liquid Staking Tokens (LSTs). The protocol aims to address the challenges faced by traditional CDPs in decentralised finance (DeFi) by incorporating an unbiased monetary policy and fair borrowing rates, thereby enhancing user protection and promoting broader DeFi adoption.

The Davos Protocol introduces the concept of collateralising LSTs, allowing users to generate DUSD as a stablecoin through the CDP mechanism. By collateralising LSTs, users can access liquidity and benefit from the value appreciation of their staked assets. This innovative approach provides users with an attractive opportunity to maintain their participation in proof-of-stake networks while still unlocking the potential of their staked tokens.

One key distinguishing feature of the Davos Protocol is its borrowing rate mechanism. Unlike other CDP protocols that provide zero or near-zero borrowing costs, the Davos Protocol aligns the borrowing rate with real-world factors, striking a balance between the Consumer Price Index (CPI) Annual Change and the Central Banks Rate. This ensures fair borrowing rates and addresses the challenges of low-yield stablecoins in the current DeFi landscape.

The Davos Protocol incorporates liquidity gauges, which play a vital role in maintaining ample liquidity and driving active involvement. The utilisation of these gauges provides the ability to effectively redirect the stablecoin yield in a versatile and practical way, enabling it to be allocated towards various initiatives such as the DUSD Redistribution Rate (DRR) and liquidity incentives within liquidity pools. This enhancement allows for greater control and adaptability in managing the distribution of stablecoin yield, optimising the protocol's overall performance. In addition, the protocol employs borrowing gauges that offer tailored DGT borrowing incentives for different collateral types, with a primary emphasis on LSTs and LST Liquidity Pool Tokens (LPTs). The governance of these gauges is facilitated by the DGT token, serving as the protocol's governance token. Particularly, DGT holders who lock their tokens in exchange for veDGT are not just participants but architects, able to influence the allocation of DGT emissions concerning the relative liquidity, lending, and borrowing gauges.

By combining the benefits of LST collateralisation, an unbiased monetary policy, and community governance, the Davos Protocol aims to establish itself as a leading CDP protocol in the DeFi ecosystem. Its unique approach offers users a more inclusive and robust system for generating stablecoins while minimising the risks associated with inflation and unstable borrowing rates.

Introduction

Stablecoins have emerged as a crucial innovation in the dynamic crypto industry, offering stability amidst the volatility of cryptocurrencies. These digital assets, designed to mirror the value of major fiat currencies such as the USD or EUR, provide a reliable store of value and mitigate price fluctuations. However, the stablecoin market encompasses diverse types, each employing distinct collateralisation methods, resulting in variations in stability, decentralisation, and scalability.

While fiat-backed stablecoins like USDC and USDT have gained significant popularity, alternative stablecoin models have also gained traction. Crypto-collateralised stablecoins provide a decentralised alternative, while algorithmic stablecoins operate without collateralisation. Each stablecoin model presents its own advantages and disadvantages, catering to users seeking stability and value preservation. However, the advent of collateralised debt position (CDP) protocols has brought challenges to the stablecoin landscape by virtually reducing the cost of capital to zero, thereby decreasing the yield potential and creating possible risks.

In this context, the Davos Protocol aims to revolutionise the stablecoin landscape by introducing a groundbreaking solution that overcomes the limitations of traditional CDP protocols. By leveraging the concept of Liquid Staking Tokens (LSTs) and accessing Ethereum Proof-of-Stake Rewards, the protocol unlocks a scalable and lucrative source of yield generation for stablecoins. The Davos Protocol recognises LSTs as a means to establish an inflation-proof stablecoin protocol, providing a groundbreaking paradigm shift that positions crypto-backed stablecoins as a solution for generating yield backed by LSTs.

One of the central dilemmas plaguing stablecoin protocols is the dwindling yield potential, a direct consequence of the almost negligible borrowing costs propagated by conventional CDP models. This, over time, has considerably undercut the allure of stablecoins as a lucrative yield-generating asset. Addressing this quandary head-on, the Davos Protocol has pioneered a balanced monetary policy coupled with judicious borrowing rates. Through incentivizing the borrowing rate for DUSD — the stablecoin birthed by the Davos Protocol — it not only aligns this rate with a blend of the Consumer Price Index (CPI) Annual Change and the Central Banks Rate but also harnesses it as a sustainable revenue source. This approach allows the protocol to redirect the accrued revenue from borrowing back to its user base. As a result, users benefit not just from traditional yield farming rewards but also tap into an additional, scalable, and sustainable revenue stream. This dual-reward mechanism empowers users to effectively counteract the adversities of inflation, ensuring their returns consistently outpace inflationary pressures.

To incentivise participation and ensure liquidity within the Davos Protocol, the platform implements various gauges such as liquidity, lending, and borrowing gauges. These gauges distribute rewards in the form of DGT to various stakeholders, including lenders, borrowers, and liquidity providers decided by participants who have locked their DGT in vote-escrow for equivalent veDGT positions. Furthermore, the protocol distributes yield in the form of DUSD through the DUSD Redistribution Rate (DRR), which enables users to deposit their DUSD in DRR smart contracts in order to receive interest on their deposit. The allocation of these revenues will in part be decided by the Global Davos Council, specifically in terms of distribution between DUSD to the DRR and DUSD to liquidity gauges with a core mandate of ensuring DUSD price stability.

In this whitepaper, the intricacies of the Davos Protocol are expanded upon, offering a thorough comprehension of its intricate workings, technical specifics, and governance structure. We extend an invitation to stakeholders, developers, and the wider DeFi community to delve into the transformative possibilities of the Davos Protocol, actively contribute to its advancement, and collaboratively spearhead a groundbreaking transformation in the realm of stablecoins. Through its unique capability of providing an inflation-resistant stablecoin solution with yield generation via LSTs, the Davos Protocol introduces a fresh outlook on stablecoin innovation, fundamentally reshaping the role of crypto-backed stablecoins within the DeFi ecosystem.

What makes DUSD an Inflation-Proof Stablecoin

Inflation's debilitating effects ripple through economies, eroding purchasing power and stymieing wealth accumulation. To shield their assets, many gravitate towards stable foreign currencies or, more recently, stablecoins — digital assets that combine the reliability of fiat with blockchain's agility. Yet, it's essential to discern that most stablecoins, though pegged to fiat at a 1:1 ratio, inherit the same inflationary frailties as their traditional counterparts. In this intricate economic mosaic, Davos Protocol's DUSD emerges as a game-changer, an inflation-resistant stablecoin meticulously designed to defy wealth erosion and outpace inflation.

At its core, DUSD operates on an ingenious multi-tier yield system, primarily hinged on DeFi's foundational tenet of composability. Users initially deposit Liquid Staking Tokens (LSTs) as collateral, ushering in staking rewards. The Davos ecosystem then intelligently channels its revenue streams, like borrowing interest, to fuel various initiatives, including incentivizing liquidity providers. This stratagem creates a foundational yield layer.

However, the true ingenuity unfolds as users borrow DUSD. Davos Protocol offers a unique incentive — borrowers, based on their borrowing size, receive additional rewards, thereby encouraging healthy borrowing. This borrowing isn't gratuitous. It's meticulously calibrated, with the borrowing rate anchored between the CPI and Central Banks rate, echoing conventional finance's interest practices.

While aligning with traditional finance rates sounds counterintuitive for an inflation-proof coin, Davos Protocol's masterstroke lies elsewhere. It's in its sustainable yield redistribution. By accruing revenue from borrowers and repurposing this as yield for DUSD holders, the protocol ensures users consistently garner returns that eclipse prevailing inflation rates. This multi-layered yield generation — from LST staking, protocol incentives, and borrowing revenues — synergizes to keep DUSD holders ahead of inflation's relentless march.

Moreover, the market autonomously controls yield allocation, ensuring a dynamic, adaptive system. This adaptability extends to collaborations with DeFi flywheels desiring DUSD yield distribution as external protocol incentives. This amplifies the yield matrix, introducing diverse tokens and further yield sources.

Conclusively, as the shadow of inflation looms large, tools like DUSD rise as protective bulwarks. By harnessing borrowing revenues and staking yields, and through its collaborations, DUSD doesn't merely promise stability but delivers tangible, inflation-beating returns, safeguarding users from inflation's insidious erosion.

Davos Protocol

Davos Protocol introduces a groundbreaking solution for individuals seeking to optimise the value of their crypto assets, leverage their utility, and access loans in the DUSD stablecoin. As a decentralized on-chain stablecoin protocol, Davos doesn't limit its operational horizon to just one chain. Initially deployed on the Polygon Network, it swiftly extended its presence to the Ethereum Network and is guided by the Davos Governance Token (DGT). But what truly sets Davos Protocol apart is its omnichain functionality. DUSD isn't constrained by network silos; it boasts in-house capabilities that enable seamless operations across leading Proof of Stake networks. This includes giants like Ethereum, Arbitrum, BNB Chain, Optimism, and the nascent yet promising Polygon zkEVM. This expansive network reach ensures that wherever users might be in the vast DeFi landscape, they can access and benefit from the innovative offerings of the Davos Protocol.

Functioning as a lending platform, the protocol facilitates the provision of DUSD omnichain stablecoins to borrowers who pledge reward-bearing tokens as collateral. By engaging in activities like the DRR, lending, and liquidity provision, borrowers can secure a competitive interest rate based on their collateralised assets. Notably, Davos Protocol prioritises collateral types such as ETH LSTs and ETH LST LPs due to Ethereum's proof-of-stake mechanism, which represents the largest and most scalable source of crypto yield. Davos also plans to quickly extend the list of LST types accepted as collateral.

A key objective of Davos Protocol is to ensure a sustainable yield that aligns with or exceeds the prevailing inflation rate. By achieving this objective, the protocol empowers users to preserve their wealth and safeguard against the erosive effects of inflation. Through its robust framework, Davos Protocol offers individuals a reliable means to maximise the value of their crypto assets while benefiting from decentralised finance.

Davos Protocol adopts a dual token model comprising DUSD and DGT, accompanied by various mechanisms supporting instant conversions, asset collateralisation, borrowing, yield farming, and earning (DRR). Built upon the MakerDAO model, Davos Protocol has undergone significant enhancements to improve capital efficiency, price stability, and omnichain usability. Notably, the over-collateralisation of DUSD through reward-bearing tokens, particularly LSTs, stands as a key differentiator for the protocol, unlocking the most scalable source of yield in the crypto industry.

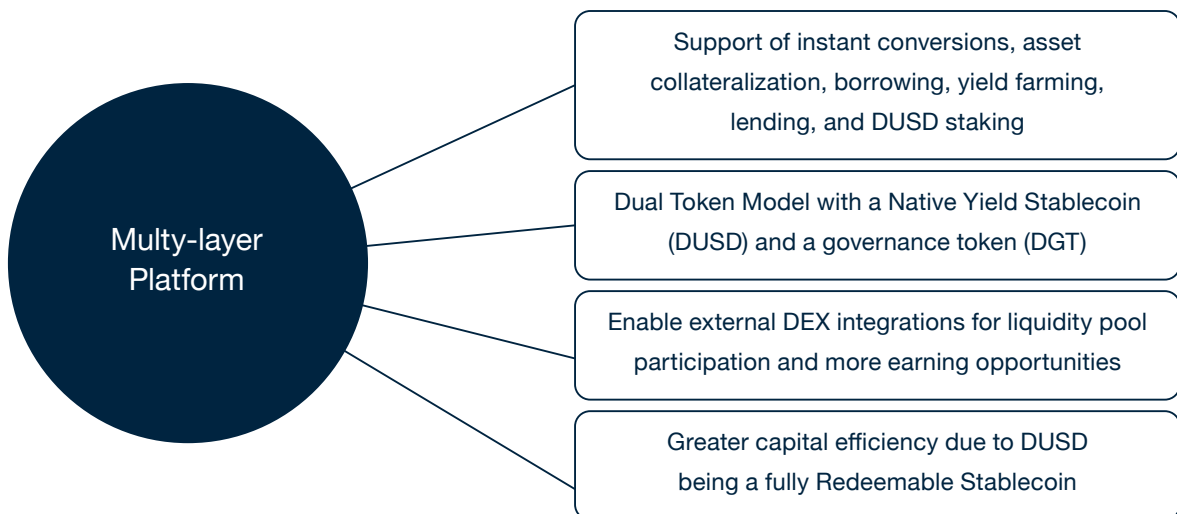
The inclusion of reward-bearing tokens introduces a new layer of DeFi composability, enabling users to further optimise their yields within the DeFi space. By utilising DUSD, users gain access to additional yield-earning opportunities that complement the yield generated by their collateral. This integration expands the possibilities for

users to maximise their returns and fully capitalise on their assets' potential in the DeFi ecosystem. Whether engaging in lending, liquidity provision, or other yield-generating activities, DUSD provides users with a versatile tool to amplify their profit potential and enhance their overall DeFi experience.

DUSD has been designed to be natively omnichain, facilitating seamless minting and burning across multiple blockchains. This unique feature offers users a capital-efficient and cost-effective experience, eliminating the need for unnecessary transactions or conversions between different blockchains.

The Davos Protocol is built on a foundation of community-driven governance, where decisions are made by the holders of DGT tokens. These token holders have a crucial role in important processes, such as approving new types of collateral for the protocol. The primary goal of the Davos Protocol is to create a decentralised and inclusive ecosystem where community members actively participate in shaping its future. Additionally, the platform incorporates a vote-escrow (ve) model, which empowers veDGT token holders to actively engage in bi-weekly voting. This allows veDGT voters to have a say in important matters, including the distribution of DUSD rewards to the DRR and DGT emissions to Liquidity, Borrowing, and Lending gauges. By integrating DGT emissions into DeFi protocols that integrate DUSD, either through direct farming rewards or by providing DGT as a voting incentive, Davos Protocol aims to promote transparency and democracy within its governance framework.

Furthermore, the Davos Protocol embraces the opportunity for other DeFi protocols to introduce supplementary voting incentives for veDGT holders, empowering them to exert greater influence over their votes and the redistribution of DGT emissions. In cases where third-party protocol rewards contribute to the expansion of Total Value Locked (TVL) in DUSD liquidity, DUSD lending, or the TVL of collateral within the Davos protocol, the distribution of DGT emissions will naturally shift towards pools with higher TVL. This approach ensures that the allocation of DGT emissions is dynamically aligned with the growth and prosperity of the entire ecosystem, fostering a collaborative and adaptable governance framework.



Collateral Assets

One of the distinguishing characteristics of DeFi, setting it apart and making it an attractive alternative to traditional financial systems, is its permissionless composability. Unlike the traditional system, which is hindered by permissioned structures, high barriers to entry, and associated costs, DeFi actively promotes and facilitates composability. In simple terms, DeFi protocols can be compared to Lego blocks that can be interconnected to construct fascinating structures. This means that each protocol has the ability to connect with others, enabling the output of one protocol to become the input of another. This remarkable feature allows users to interact with DeFi protocols in limitless combinations, akin to stacking Lego blocks on top of one another.

Composability brings several benefits to the DeFi ecosystem. Firstly, it significantly enhances capital efficiency, surpassing what the traditional financial system can achieve. By enabling seamless collaboration among different protocols, users can optimise their activities and capital allocation, resulting in increased efficiency and productivity. Additionally, composability adds to the utility of existing protocols. Through the interconnection of various protocols, new functionalities and capabilities can emerge. This synergistic effect creates a powerful network effect, enhancing the overall ecosystem and opening up new possibilities for innovation and growth. Ultimately, it fuels the growth and development of the DeFi ecosystem, providing users with unparalleled flexibility, utility, and opportunities for financial interactions.

Davos Protocol capitalises on composability by allowing users to deposit LSTs from PoS networks like Polygon and Ethereum as collateral to borrow the DUSD stablecoin, aiming to maximise returns for users. Liquid Staking has revolutionised crypto investing and serves as a crucial bridge between traditional finance and digital assets. LSTs offer increased liquidity, price stability, and facilitate added composability for PoS networks, resulting in a multiplier effect on the sector's total-value-locked (TVL). This allows other DeFi protocols to generate additional yield on top of PoS rewards, accessible exclusively through Liquid Staking. Essentially, Liquid Staking enables stakers to receive base layer staking rewards—the primary source of yield in the crypto space, while utilising LSTs in other DeFi protocols. As a result, LST holders can engage in lending, borrowing, and yield farming, expanding their earning strategies while continuing to earn staking rewards.

The Davos Protocol embraces the utilisation of collateralised reward-bearing assets, with a particular focus on LSTs as the primary collateral, to generate and maintain the stability of the DUSD stablecoin. Similar to MakerDAO's lending protocol, users have the ability to borrow against their reward-bearing LST collateral, enabling them to compound their yields while continuing to earn from their LST holdings. Moreover, the protocol actively leverages the power of DeFi composability, resulting in the

redistribution of DUSD yield and the distribution of revenues to participants of the DRR, lenders, and liquidity providers. This creates a synergistic effect within the ecosystem, amplifying the benefits for liquid staking protocols and maximising the overall utility of LST tokens.

Moreover, Davos Protocol's modularity allows for future expansion to support various other reward-bearing tokens as collateral, including LST LPs. Additionally, the protocol may extend collateral options to include other stablecoins and PoS tokens, providing users with a broader range of possibilities. By embracing composability and integrating diverse collateral options, Davos Protocol aims to provide users with a comprehensive and flexible platform to optimise their crypto assets and engage in various DeFi strategies.

How Does Davos Protocol Enable Yield Generation?

The Davos Protocol utilises cutting-edge approaches to enable the generation of yield in a transparent and sustainable manner. Let's delve into how it operates:

Borrowing Interest Rate and Redistribution: A pivotal driver within the Davos Protocol ecosystem is its borrowing interest rate mechanism. Those venturing to procure DUSD loans aren't merely participating in a transaction, but they're directly contributing to a sustainable and scalable yield source. Borrowers are met with an interest rate, strategically pegged to either the CPI or a Central Banks' reference rate, with the inclination towards the higher of the two. This approach doesn't only epitomize transparency and fairness but holds the key to the protocol's scalability in yield. Furthermore, borrowers receive borrowing incentives dependent on the collateral type provided.

The revenue, accrued from this borrowing interest, isn't static or dormant; it's channeled right back into the ecosystem. As borrowing gets incentivized, it invariably leads to increased revenues. And an upsurge in revenue isn't hoarded; it translates to a more significant distribution of yield among the Davos community. The collected borrowing fees are systematically redistributed, finding their way to liquidity gauges and the DRR. The overarching allocation between these two avenues is meticulously determined by the veDGT holders, ensuring that the protocol remains agile, user-centric, and yield-optimized. This revenue recycling and incentive redirection create a perpetuating flywheel effect, where increased Total Value Locked (TVL) in a pool amplifies its incentives, boosts its APY, and thus attracts even more TVL, thereby sustaining and accentuating the cycle.

In essence, Davos Protocol cultivates a sustainable yield generation strategy grounded in transparency and real-world financial indicators. By aligning borrowing rates with traditional finance (TradFi) measures such as the Consumer Price Index (CPI) and Central Bank rates, the protocol weaves the tangible realities of TradFi into the fabric of the decentralized finance (DeFi) ecosystem. The protocol also ensures that stablecoins do not kick-off with a null yield rate, fostering a more balanced and resilient ecosystem for all stakeholders.

Governance of Davos Protocol

DGT Token

Governance of the Davos Protocol is facilitated through the Davos Governance Token (DGT), granting holders the power to vote on protocol changes. DGT holders can propose and vote on modifications, ensuring democratic decision-making. Changes approved by the voters won't take effect immediately, safeguarding the system against potentially harmful proposals.

The Global Davos Council (GDC) is a council consisting of co-founders and advisors. The council will have a maximum of seven members, and some of the member seats will be subject to periodic elections in the future. The GDC serves as a governing body, providing guidance and expertise.

The Global Davos Council (GDC)

The GDC serves as the central governing body, responsible for voting on improvement proposals, parameter changes, and implementing community proposals known as Davos Improvement Proposals (DIPs). The GDC conducts risk analysis, economic forecasts, and proposes key economic adjustments through Davos Configuration Change Proposals (DCCPs).

The GDC governs nine main pillars:

1. Borrowing rate premium for each collateral type (reflective of TradFi interest rates).
2. Borrowing cap for each collateral type.
3. Collateral ratios.
4. Davos Protocol fees and the reserve pool contribution (% of Revenues).
5. Voting caps for liquidity and borrowing gauges.
6. Treasury management.
7. Allocation of revenues collected from Borrowing Rates to the DUSD Redistribution Rate (DRR) and DUSD liquidity providers.
8. The ability to pause borrowing & liquidations in case of a Black Swan Event.
9. Add a Liquidity Gauge and/or introduce a new collateral type with a Borrowing Gauge (*The approval of the following is contingent upon completing a three-day discussion period in the governance forum*).

Davos Improvement Proposals (DIPs)

Davos Protocol employs the use of DIPs as a critical mechanism for proposing and implementing changes within the protocol. Any member of the Davos community can submit a DIP, providing detailed information on the motivation, technical specifications, and rationale behind the proposed idea. The DIPs follow a concise three-step process: It begins with a focused forum discussion lasting for a specified 3-day period. Subsequently, the proposal undergoes streamlined submission to the GDC. Once the GDC evaluates and approves the proposal, it moves forward for community-wide voting. The vote result will be valid if at least 20% of all veDGT voters participated in the vote (quorum).

The GDC plays a vital role in the DIP process by conducting interviews with the proposal authors, engaging in debates on the potential implications of the DIPs, and ultimately deciding whether the proposal should be subject to vote. This comprehensive approach ensures that proposals are thoroughly evaluated and that the community has an active role in shaping the future of the protocol.

Davos Configuration Change Proposals (DCCPs)

DCCPs serve as artifacts that propose changes to existing parameters within the Davos Protocol. They follow a similar authoring and review process as the DIP (Davos Improvement Proposal) but specifically focus on modifying system parameters. These proposals often reference a deployed DIP within the Davos Protocol.

When submitting a DCCP, the proposal should include the following parameters for consideration, taking into account the technical similarities between Davos and MakerDAO:

Stability Fee: The proposed changes to the stability fee, which determines the interest rate borrowers pay on their loans denominated in DUSD stablecoin.

Liquidation Ratio: Any proposed adjustments to the liquidation ratio, which dictates the collateral-to-debt ratio required to trigger the liquidation of a borrower's collateral.

Auction Parameters: Proposed changes to the parameters governing the auction mechanism used to liquidate collateral in case of under-collateralisation or default.

Debt Ceiling: Adjustments to the maximum amount of debt (in DUSD) that can be generated within the protocol.

Collateral Types: The inclusion or removal of specific collateral types within the system, potentially expanding the range of assets accepted as collateral for DUSD loans.

Oracle System: Proposals regarding improvements or changes to the oracle system used to determine the prices of collateral assets and maintain accurate pricing information.

Governance Parameters: Modifications to the parameters related to the governance framework itself, such as voting mechanisms, voting weights, or decision-making processes.

Integration with External Protocols: Proposals for integrating with external protocols or platforms to enhance functionalities, increase liquidity, or improve yield opportunities within the Davos ecosystem.

It is important for the DCCP to provide a clear rationale and analysis supporting the proposed parameter changes. Additionally, the proposal should outline the potential impact of the modifications on system stability, risk management, and the overall functioning of the Davos Protocol.

Gauge Weight Voting

Davos Protocol implements a robust governance framework known as Gauge Weight Voting, providing token holders with the power to influence the distribution of rewards and borrowing incentives. This innovative system empowers users to actively participate in the decision-making process and shape the future of the protocol.

veDGT

The core of Davos Protocol's governance lies in the concept of veDGT (vote-escrow DGT) tokens. veDGT represents voting power and is obtained by locking DGT tokens in 80-20 liquidity pools on Balancer. This locking mechanism ensures market liquidity for DGT while enabling users to actively participate in governance.

Liquidity Gauges

To further strengthen the alignment of interests between the parties engaged with Davos and the protocol itself, an enhanced mechanism is implemented through the utilisation of liquidity gauges. This mechanism involves incentivising veDGT holders, who have locked their Davos Governance Tokens (DGT) in vote-escrow, by rewarding them with DGT as form of incentive. These DGT emissions, channeled as incentives to decentralized exchanges (DEXs), serve as more than mere rewards. It's a strategic move that amplifies the potential of DEXs, making them key players within the Davos Protocol environment.

This allocation is determined based on the proportion of Total Value Locked (TVL) within each liquidity pool. By employing this enhanced approach, the protocol ensures that participants have a vested interest in the platform's success and are motivated to actively participate in governance activities. This enhancement strengthens the connection between Davos, its stakeholders, and DEXs, fostering a collaborative ecosystem that encourages active engagement and aligns the interests of all parties involved. It should be noted that the operation of these gauges involves the GDC and a set of smart contracts deliberating on the allocation of DUSD rewards.

Borrowing Gauges

Davos Protocol introduces borrowing gauges to foster user engagement and incentivise borrowing activities. Token holders can utilise these gauges to vote on DGT borrowing incentives tied to different accepted collaterals for DUSD loans. Through their votes, users have the power to influence the allocation of newly emitted DGT tokens to specific borrowing gauges, thereby making certain collaterals more appealing options for borrowing DUSD compared to others. This emission of new DGT tokens allocated

to borrowing gauges serves as a deliberate strategy to stimulate borrowing activities within the ecosystem, promoting liquidity and efficient utilisation of the protocol.

Lending Gauges

The Davos Protocol plans to introduce lending gauges to incentivise lending activities and involve users in decision-making. However, this feature will not be available at the initial launch of veDGT.

To activate lending gauges, integration with at least two DUSD lending platforms is required. This integration will enable veDGT voters to receive DUSD for participation in voting on Lending Gauges, unlocking additional DGT emissions. DUSD voting incentives will be distributed proportionally to the TVL market share of specific DUSD lending pools vs. all DUSD lending pools and the DUSD Redistribution Rate TVL so as to ensure an unbiased distribution of DUSD to voters. Lending platforms will be free to actively participate in the governance process by adding additional voting incentives to Davos Protocol.

Price Stability Mechanisms

The primary objective of the Davos Protocol is to uphold the soft peg of the native stablecoin, DUSD, to the US Dollar. In instances where deviations from the peg occur, the protocol employs a range of price stability mechanisms to restore equilibrium and bring the peg back to parity. The following instruments have been implemented to address price stability:

Monetary Policy Adjustment

The protocol employs monetary policy adjustments to regulate the supply and demand of the stablecoin, primarily by modulating the borrowing rate. Davos Protocol has implemented a robust and adaptive borrowing rate mechanism that draws inspiration from pivotal financial benchmarks, namely the Consumer Price Index (CPI) and Central Bank reference rates. By actively monitoring annual variations in the CPI and Central Bank rates, the protocol aligns its borrowing rates with those prevalent in traditional finance (TradFi). This approach ensures clarity and consistency in the borrowing process, enabling borrowers to strategize with confidence. Marrying rates from the TradFi sphere with the decentralized finance (DeFi) ecosystem bridges the two worlds, enhancing interoperability. Consequently, the returns on stablecoins can potentially surpass the risk-free rate in TradFi, adding to its allure.

Importantly, the protocol's target borrowing rate isn't designed to undercut the lower value among the CPI and the Central Bank rate. Nevertheless, it retains the agility to pivot towards the upper end of these benchmarks. For instance, to modulate the supply of the DUSD stablecoin, the protocol might opt to amplify the target borrowing rate. When borrowing becomes pricier, it can naturally rein in the issuance of DUSD, allowing the protocol to adeptly steer the system's equilibrium by guiding borrowing patterns.

Arbitrage Mechanisms

In instances where DUSD's valuation deviates from its intended peg, the Davos Protocol facilitates arbitrage mechanisms that are instrumental in recalibrating these divergences. As an illustration, should DUSD be trading at \$1.03, users can leverage reward-bearing tokens from trusted lending entities. By securing 100 DUSD at a cost of \$103, they can subsequently convert it into 103 cUSDC, maintaining a 1:1 conversion rate. Through the protocol, this cUSDC can be employed to mint an equivalent amount of DUSD. Iterative execution of this mechanism enables users to capitalize on the prevailing price variance. It's pertinent to note that liquidating DUSD for USDC exerts "selling pressure" on DUSD, expanding its market availability and thus, gravitating its price towards the \$1 mark. In scenarios where DUSD is undervalued against its peg, a reverse procedure can be initiated, commencing with USDC.

Davos Protocol accentuates these arbitrage opportunities for stakeholders intent on leveraging discrepancies in stablecoin valuations, particularly when integrating tokens from diverse lending platforms. With its architecture meticulously crafted to enhance yield potential, the protocol concurrently emphasizes the preservation of DUSD's peg integrity. To this end, the protocol recognizes and integrates specific USD reward-bearing tokens from established lending systems as collateral. Such an arrangement sanctions the borrowing of DUSD at a commendable LTV ratio of 90-95%, thereby catalyzing avenues for robust yield generation.

By seamlessly orchestrating these arbitrage strategies coupled with attractive borrowing incentives, the Davos Protocol seamlessly marries the dual objectives of yield optimization and maintaining the stability of DUSD's peg. This methodology engenders a dynamic and responsive ecosystem that accentuates yield opportunities for its diverse user base.

Liquidation Mechanisms

To safeguard against the perils of liquidation, the Davos Protocol integrates a multiple layers of protective measures. This involves incorporating effective liquidation techniques, adhering to prudent liquidation ratios and penalties, delivering straightforward risk management directives, and deploying a comprehensive monitoring framework. This is all with the aim of proactively spotting and navigating potential liquidation scenarios.

A prime example of this ingenuity is the introduction of the Flash Mint functionality. Its foundational premise is straightforward yet robust: any amount that is minted using this function is mandated to be returned and eliminated within the same transaction. By doing so, it effectively circumvents potential malevolent exploits or undue advantage-taking of the DUSD token.

This functionality becomes particularly crucial during liquidation periods. Liquidators can harness the Flash Mint capability to instantly procure the requisite DUSD tokens needed to settle a borrower's outstanding dues. Following this, the acquired collateral can be effortlessly converted back into DUSD, facilitating the seamless repayment of the flash mint. The entire procedure unfolds within a single transaction's span. This design not only streamlines the liquidation process but also empowers liquidators to capitalize on market discrepancies, enabling them to realize risk-free gains.

Reserve Pool

The Davos Protocol will look to introduce a Reserve Pool, a strategic measure designed to preemptively address the challenges associated with bad debt. This protective mechanism is sustained by a fraction of the interest fees levied on borrowers. In essence, whenever a loan is facilitated, a segment of the associated interest directly feeds the pool. As borrowing activity intensifies and interest accrues, the Reserve Pool expands, forging a robust financial bulwark.

Through the consistent augmentation of this fund, the Davos Protocol underscores its commitment to mitigating potential fiscal disruptions or instances of bad debt. This initiative aims to fortify user trust, providing assurance that the platform houses inherent safeguards. These mechanisms are crafted to underscore the enduring stability and reliability of all lending and borrowing endeavors facilitated by the platform.

Risks of Davos Protocol

While Davos Protocol offers innovative opportunities for users to leverage their assets and participate in decentralised finance, it is essential to consider the potential risks associated with the protocol. By understanding these risks, users can make informed decisions and take appropriate measures to mitigate their exposure. Here are the key risks to consider:

Collateral Price Volatility

One of the inherent risks in decentralised finance is the volatility of collateral assets. The value of the assets used as collateral within Davos Protocol, such as cryptocurrencies or tokens, can experience significant price fluctuations. Sudden price drops may result in the collateral value falling below the required threshold, leading to liquidation.

Liquidation Risk

In the event of collateral price volatility or failure to maintain the required collateralisation ratio, there is a risk of liquidation. If a user's collateral falls below the specified threshold, their assets may be liquidated to cover the outstanding debt. It is important for users to closely monitor their collateral positions and manage risk accordingly.

Oracle Risk

Davos Protocol relies on oracles to obtain external data, such as market prices or other information, for accurate valuation and decision-making. However, oracles are not infallible, and incorrect or manipulated data can impact the accuracy of the protocol's operations. Users should be aware of potential oracle vulnerabilities and exercise caution when relying on external data.

Inter-Protocol Risk

Davos Protocol interacts with other protocols and platforms within the decentralised finance ecosystem. This introduces the risk of inter-protocol dependencies and potential vulnerabilities in the underlying protocols. Changes, disruptions, or failures in these interconnected protocols may have an adverse impact on the overall performance and usability of Davos Protocol.

Stablecoin Depeg

Depeg risk refers to the potential deviation of a stablecoin from its intended peg, impacting its stability and usability. Factors such as market forces, counterparty risk,

regulatory actions, systemic risks, and liquidity constraints can contribute to depeg risks. It poses a challenge to the stability and value preservation of stablecoins within the Davos Protocol ecosystem, requiring vigilant monitoring and robust risk management strategies.

Bad Debt

In the realm of lending and borrowing protocols, such as the Davos Protocol, bad debt signifies a critical scenario wherein borrowers become incapable of fulfilling their loan obligations, leading to a default. The reasons behind this default can be multifaceted, encompassing factors such as market volatility, liquidity constraints, or the insolvency of the borrower. Instances of bad debt impose risks on the stability and dependability of the protocol.

Smart Contract Risk

As a decentralised protocol, Davos Protocol relies on smart contracts to automate and execute its functions. However, smart contracts are subject to coding errors, vulnerabilities, or exploits that could be exploited by malicious actors. Users should be aware of the inherent risks associated with smart contracts and the possibility of financial losses due to vulnerabilities or bugs.

Macroeconomic Risk

The usability and performance of the Davos Protocol may be affected by macroeconomic factors such as inflation rates, changes in interest rates set by central banks (e.g., FED rate), or broader economic conditions. These factors can impact the value of collateral assets, borrowing costs, and the overall functionality of the protocol.

Regulatory and Compliance Risks

The decentralised finance space is evolving, and regulatory frameworks around the world are still being established. Changes in regulations or legal uncertainties may introduce compliance risks for participants of the Davos Protocol. Users should consider the regulatory landscape and ensure compliance with applicable laws and regulations.

Risk Mitigation Measures

Collateral Price Volatility

Davos Protocol manages collateral price volatility by implementing conservative debt ceilings, setting appropriate liquidation ratios and penalties, accepting collateral types whose underlying tokens have sufficient liquidity, and restricting tokens to those from trusted protocols vetted by Davos governance.

Liquidation Risk

To mitigate liquidation risk, Davos Protocol employs efficient liquidation mechanisms, enforces conservative liquidation ratios and penalties, offers clear risk management guidelines, and maintains a robust monitoring system to identify and address potential liquidation events.

Oracle Risk

Davos Protocol addresses oracle risk by integrating oracles from reputable providers, implementing a calculated ratio price oracle for LST to minimise price manipulation, and closely working with DEX providers to accurately estimate the value of Liquidity Pool (LP) tokens accepted as collateral in the protocol using reputable oracle providers for estimating the value of the underlying tokens in the LP.

Inter-Protocol Risk

Risk between protocols is mitigated by Davos Protocol through rigorous due diligence when forming partnerships and collaborations, conducting thorough audits of third-party protocols, and closely monitoring the performance and security of integrated protocols.

Stablecoin Depeg

To manage the depeg risk of the stablecoin, Davos Protocol implements a peg stability module, which actively maintains the stability of the stablecoin's peg by adjusting borrowing rates, providing borrowing incentives, and employing mechanisms to stabilise and defend the peg.

Reserve Pool

To mitigate the potential risk of bad debt, the protocol uses a reserve pool funded by a percentage of the borrowing interest fees accumulated by the protocol. This percentage

of the fee is directed into the reserve pool, allowing it to accumulate reserves over time. By building up these reserves, Davos Protocol aims to protect against instances of bad debt, ensuring the stability and sustainability of the lending and borrowing activities within the platform.

Smart Contract Risk

Davos Protocol mitigates smart contract risk by subjecting its smart contracts to comprehensive audits conducted by reputable firms, offering bug bounties to incentivise vulnerability reporting, and continuously monitoring and updating the smart contracts based on the findings.

Macroeconomic Risk

To address macroeconomic risks, Davos Protocol closely monitors macroeconomic conditions, adapts borrowing rates to mitigate potential impacts, and maintains a proactive approach to managing risks associated with inflation, central bank policies, and macroeconomic fluctuations.

Regulatory and Compliance Risks

Operating from Davos, Switzerland, Davos Protocol benefits from a jurisdiction with low political uncertainty and a clear regulatory framework for the crypto industry.

Conclusion

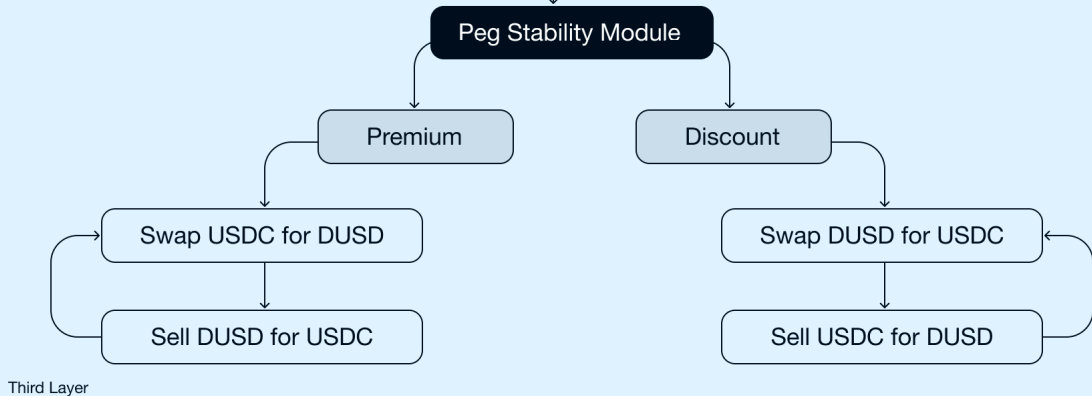
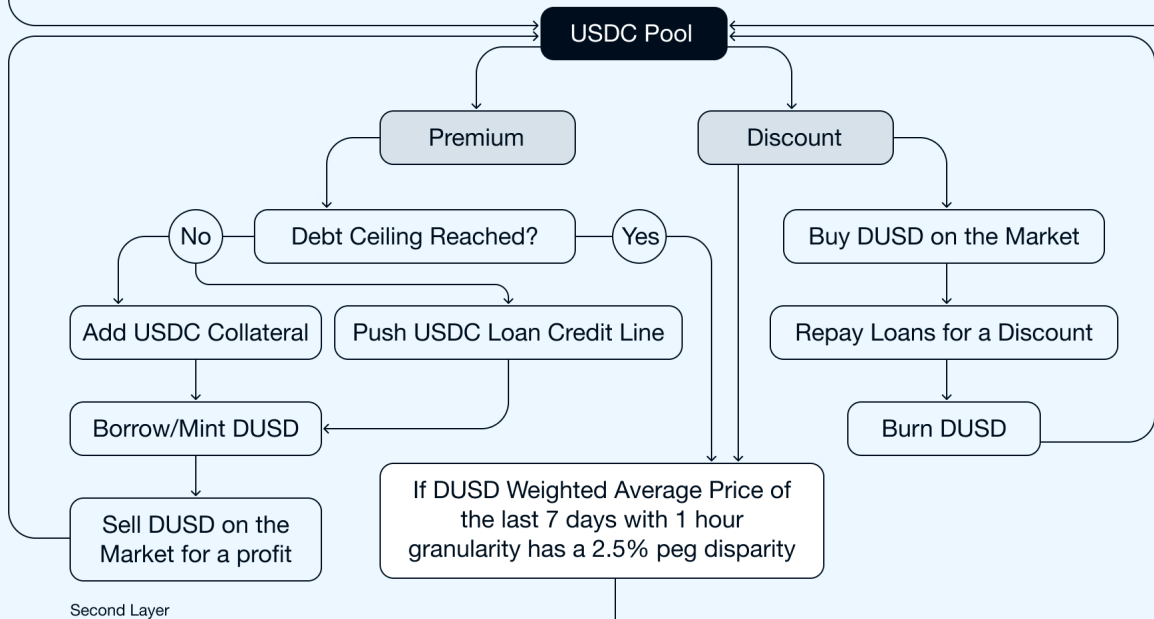
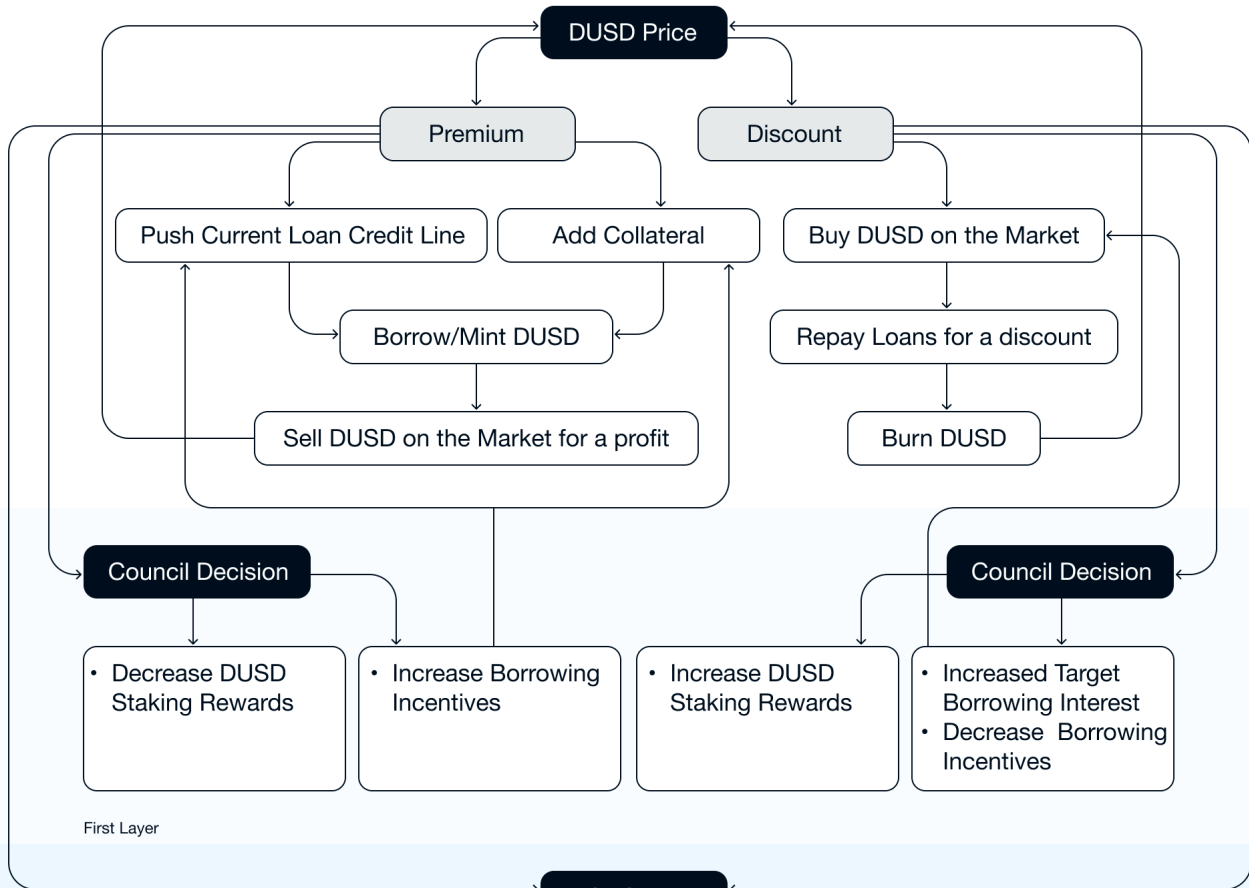
In conclusion, the Davos Protocol represents a remarkable leap forward in the DeFi ecosystem, tackling core challenges and introducing groundbreaking solutions. With its innovative features and unwavering commitment to sustainable lending practices, the protocol sets a new standard for responsible borrowing and yield generation.

By aligning borrowing interest rates with inflation, the Davos Protocol fosters a lending environment that promotes long-term financial stability. The integration of DUSD as a yield-generating stablecoin opens up unprecedented opportunities for users to optimise their returns and harness the full potential of DeFi.

The Davos Protocol empowers users to unlock enhanced yield optimisation and financial flexibility through its acceptance of reward-bearing tokens and the ability to create collateralised debt positions using predominantly LST assets. With this, users can borrow DUSD and generate yield. The protocol's focus on preserving purchasing power and achieving sustainable returns creates an environment of trust and attracts a wider audience to the DeFi ecosystem, fueling its growth and advancement.

Embracing the principles of composability and free-market dynamics, the Davos Protocol seamlessly integrates with other DeFi protocols, allowing users to maximise their yields and capitalise on synergistic opportunities. By incorporating borrowing gauges, liquidity gauges, and lending gauges, the protocol ensures fairness, transparency, and risk mitigation, protecting against liquidation cascades and bank runs.

In summary, the Davos Protocol revolutionises DeFi by providing users with access to sustainable yields, transparent borrowing mechanisms, and powerful tools for optimising their returns. By addressing the challenges of low stablecoin yields, promoting responsible borrowing practices, and empowering users to achieve their financial goals, the protocol fuels the growth, efficiency, and overall success of the DeFi landscape.



 DAVOS

