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Abracadabra: The Magic Behind Magic Internet Money

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Executive Summary

This report first examines the existing DeFi context, namely the importance of stablecoins, the cross-chain future, and the current capital inefficiency problem in DeFi.

Following, we highlight and explain what Abracadabra Money is, the core protocol features, and how it fits in the general DeFi context and address the problems as highlighted in part one. Specifically, this draws attention to Magic Internet Money ($MIM), its stablecoin, and innovative customisability - each collateral asset market for borrowing is independent. For example, users' cvx3pool's open position does not affect their FTT position. Liquidation risk will remain contained to each asset market.

There are several pieces behind the Magic of Abracadabra's $MIM:

- **MIM unlocks capital efficiency in DeFi**. Accepted collateral assets include previously idle interest bearing tokens, or staked / bonded tokens.
- **MIM allows users to control risk**. Each collateral asset market for borrowing is an independent market so risk is separated, and users can adjust their own leverage and liquidation, allowing better risk control.
- **$MIM is a cross-chain native stablecoin**:
    - A) The Abracadabra team is proactively working to create more markets with different assets across chains (crv, cvx, FTM, xJOE, aUST, with more assets such as those on BSC to be announced)
    - B) The Abracadabra UX / UI is designed for users to seamlessly bridge and transport with AnySwap bridge integration, quickly becoming not just a competitive edge but a necessity for any stable in a multi-chain future.
- **$MIM is positioning itself as the leading decentralized stablecoin.** This is especially relevant as stablecoins' counter party risk has quickly gained relevance with investigations into stable issuers such as Circle and Tether.

Ultimately, what is so 'magical' about Abracadabra is its stablecoin $MIM, which is rapidly positioning itself as a cross-chain native and decentralised stablecoin for DeFi.

1. Background Information

1.1 The Importance of Stablecoins

Stablecoins play a key part in the infrastructure of DeFi – they serve the function of a stable store of value for a financial infrastructure to function. This is particularly important as many cryptocurrencies are highly volatile assets. For example, payment in ETH, while feasible, would not be very convenient for the majority of users due to the fluctuating rate. Stablecoins also enable investors to retain the value of their holdings by exiting their volatile asset positions and swapping for stablecoins instead without leaving the crypto ecosystem.

There are several types of stablecoins:

- Fiat collateralised
- Commodity collateralised
- Crypto collateralised
- Algorithmic

Snapshot Summary of Stablecoins

Each type of stablecoin presents different advantages and disadvantages

	Fiat Collateralised	Commodity Collateralised	Crypto Collateralised	Algorithmic
Peg	Backed by fiat currency	Backed by commodity	Backed by crypto	Stability achieved by algorithm
Examples	USDC, USDT	Digix Gold	DAI, SUSD	TUSD, AMPL, OHM, FRAX
Advantage	Less vulnerable to hacks; easy to understand	Less vulnerable to hacks; easy to understand	Decentralised and no counterparty risk	Decentralised; resistant to tampering; open source code

Disadvantage	Centralised issuers as a point of failure	Underlying commodity may increase in value	Over-collateralisation leading to capital inefficiency; vulnerable to hacks	Difficulty building and maintaining; continuous maintenance

Source: Crypto.com Research

The above chart only summarises some of the various properties of stablecoins, and is far from an in-depth analysis. A full list of stablecoins can be found here. For the purpose of this article, it is only necessary to highlight the importance of stablecoins in allowing a flourishing DeFi ecosystem to sustain itself.

1.2 Towards a Cross-chain Future

Since Ethereum's unveiling in 2015, a vibrant ecosystem of DApps has emerged using Ethereum as the settlement for a variety of digital assets. Of course, this has not been limited to just financial applications, but also gaming collectibles and digital art with the advent of the NFT technical standard. However, Ethereum is a live-product still undergoing development and is far from perfect. Even with the much-publicised EIP1559 which seeks to make gas fees more predictable with a 'base fee' and adjustable miner 'tip', gas still remains very high and can cost users hundreds of dollars for a single transaction or to execute DeFi positions. For time-sensitive transactions, this can lead to gas wars, further pushing up the gwei. Aside from cost, the Ethereum blockchain is overloaded, resulting in trade slippages.

Seeing this pain point, many other chains offering cheaper and faster transactions emerged such as Binance Smart Chain, Solana, Fantom, and Avalanche. There has also been the release of L2 scaling solutions like Polygon and Arbitrum - seeking to offer faster transactions while still inheriting the security of Ethereum. There is also the development of chains for specific uses, such as ConsenSys' Palm, and Dapper Lab's Flow and the Wax blockchain for gaming, to name a few.

While Ethereum is still the preeminent blockchain dominatingt 70% of all TVL locked, this has decreased from nearly 95% of all TVL within a year to the time of writing. Rival chains have been able to rapidly capture TVL in a short amount of time. Simultaneously, many DApps are moving towards a cross-chain first approach with EVM compatibility, and many users are becoming increasingly familiar with bridging their assets across chains with bridging solutions.

2. Abracadabra

2.1 What Is It?

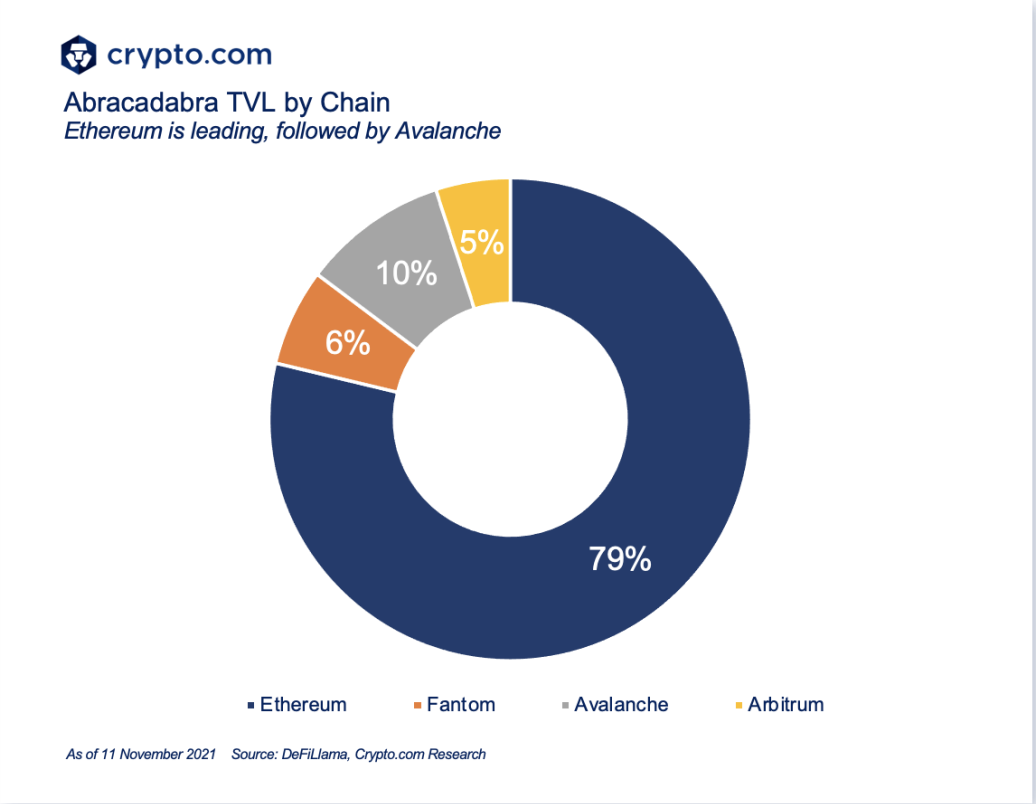
Abracadabra ($SPELL) was launched in May 2021. **It is a protocol that allows users to deposit interest bearing tokens (positions on Convex, Yearn, and Sushi) as collateral to borrow a stablecoin ('Magic Internet Money', $MIM) pegged to USD 1.** $MIM is a crypto-collateralised stablecoin. Currently, Abracadabra is positioning itself as a multi-chain decentralised stablecoin for DeFi.

Abracadabra TVL by Chain

Total protocol TVL is at $4.6B

Chain	TVL ($bn)
Ethereum	3.63
Avalanche	0.30
Arbitrum	0.45
Fantom	0.23
Total	**4.61**

As of 11 November 2021 Source: DeFiLlama

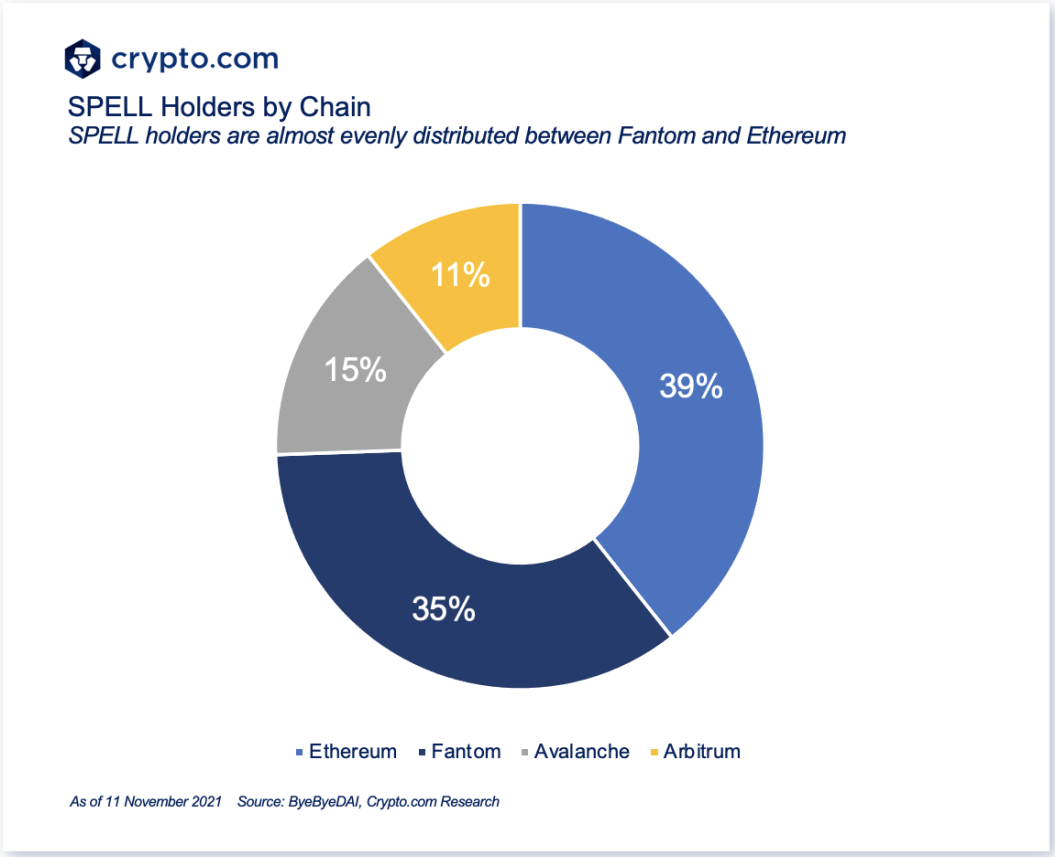


$SPELL is the native platform token of Abracadabra, with fixed supply. A detailed explanation can be found here. Roughly, 30% is allocated to the team over a four year vesting period, 63% reserved for protocol liquidity / incentive schemes and 7% were allocated to their initial DEX offering ('IDO') split evenly between UniSwap and SushiSwap.

However, the governance token for the platform is sSPELL, which is attained when $SPELL is staked. sSPELL serves two main functions to the protocol:

1. Rights to govern
2. Rights to trading fees from interest on borrowed $MIM, distributed in the following way:
    - 75%: sSPELL holders
    - 20%: Used to buy back SPELL tokens for sSPELL holders
    - 5%: Reserved for treasury in times of need for intervention

Abracadabra essentially unlocks previously idle interest-bearing assets through a crypto-collateralised multi-chain stable coin, with all incentive rewards denominated in $SPELL.



2.2 Protocol Features

Features:

1. Farm
2. Borrow
3. Stake
4. MIM3POOL
5. Swap
6. Bridge

Farm

Enables users to farm $SPELL tokens by depositing LP from ETH-SPELL and MIM-ETH pools on SushiSwap, and the MIM-3LPCRV pool from Curve Finance.

Borrow / Repay

Enables users to borrow $MIMs through a collateralised debt position using non-interest bearing and interest bearing tokens.

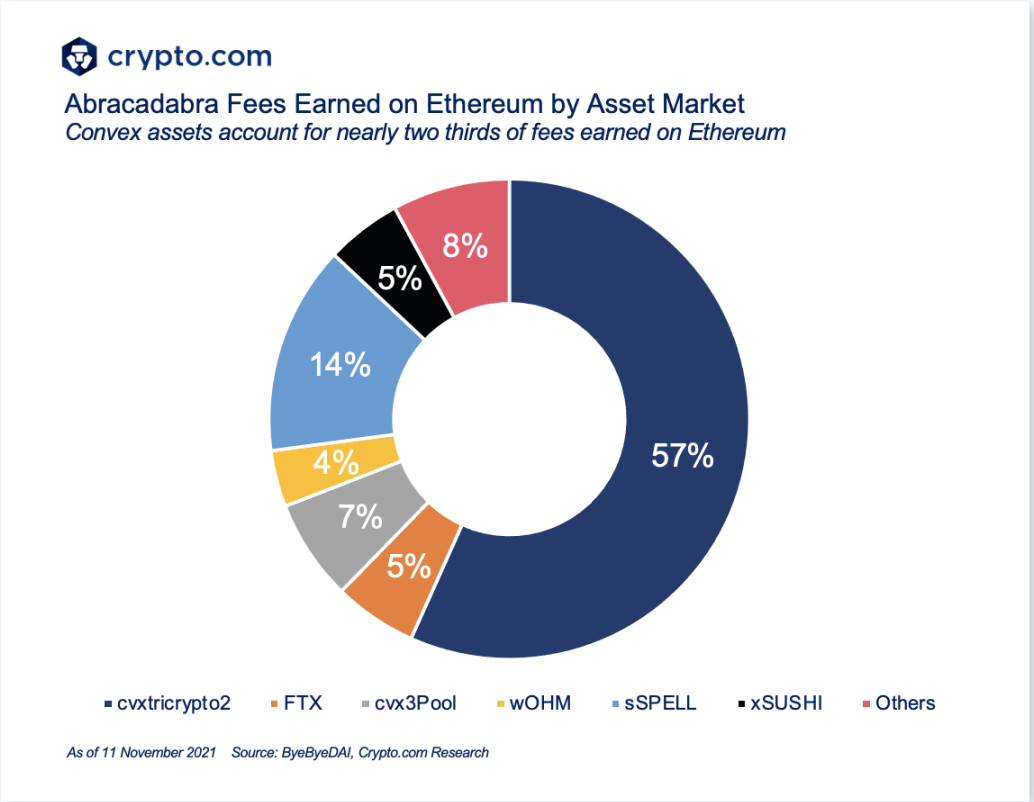
For each collateral, there are varying levels of interest and different liquidation fees. As of writing, interest rate ranges from 0.5% (xSUHSHI) to 4% (AGLD). Users are able to select their liquidation price, allowing for various risk appetites. They are also able to enter a leveraged position on the protocol. Users can also, for a fee, update the exchange rate of various assets. Currently, users can choose from 18 different assets across the DeFi space, from AGLD, FTM and yvUSDC v2 to wsOHM.

Snapshot of MIM Borrow Markets on Ethereum

Abracadabra currently supports 18 different assets

Collateral	Interest (%)	Liquidation Fee (%)
SHIB	6%	12.5
wsOHM	5.5	12.5
AGLD	4	12.5
cvxtricrypto2	3.5	12.5
ALCX	3.5	5.0
UST	2.0	5.0
FTT	2.0	7.5
yxcrvlB	1.5	7.0
cvx3pool	1.5	4.0
FTM	1.0	7.5
yvUSDT v2	0.8	3.0
yvUSDC v2	0.8	3.0
xSUSHI	0.5	5.0
sSpell	0.5	10.0
yvcrvSTETH	0.5	12.5
Spell	0.5	10.0
cvxrenCrv	0.5	12.5
yvWETH v2	0.0	7.5

As of 11 November 2021 Source: Abracadabra



MIM3POOL / Swap

Enables users to provide liquidity on the Curve stablecoin pool or swap between USDC, USDT, and DAI stablecoins. LP tokens gained can then be staked for $SPELL.

Bridge

Enables users to move their $MIMs between the chains. The Bridge feature details what maximum, minimum, and relevant bridging fees are. This feature enables seamless arbitrage opportunities between chains, in turn helping keep the $1 peg on $MIM.

2.3 Use Cases

$MIM can be borrowed with interest-bearing assets and switched for any other stablecoin. These stablecoins can then be reintegrated into the system for interest-bearing tokens, which can also be used to borrow more $MIM. This process can be repeated again and again ('looping', 'zapping'). Alternatively, other actions users may take on Abracadabra include farming $SPELL and staking $SPELL to get $sSPELL.

In this sense, $MIM earns its namesake as 'magic internet money'.

As of writing, Ethereum mainnet has the most markets (16), followed by Fantom Opera (3), and then by Avalanche (4) and Arbitrum (1). On Ethereum, a mixture of both interest bearing and non-interest bearing assets are accepted as collateral:

- Abracadabra (SPELL, sSPELL)
- Shiba Inu (SHIB)
- Loot (AGLD)
- Alchemix (ALCX)
- Convex (Cvx3Pool, cvxtricypto2)
- Fantom (FTM)
- FTX (FTT)
- Ohm (wsOHM)
- Sushi (xSUSHI)
- Yearn (yvUSDC, yvUSDT, yvWETH, yvstETH, yvcrvIB, yvYFI)
- Terra (UST)

2.4 What's So Magical?

Abracadabra has quickly positioned itself as a composable cross-chain stablecoin. According to DeFi Llama, TVL increased four times from $200M to $800M in the month of September. Meanwhile, according to CoinGecko, the price of $SPELL has increased from $0.001 to $0.03 since inception. Currently, $MIM is the 6th largest stablecoin in the world by market cap.

$MIM is able to unlock previously illiquid assets, particularly that of previously idle productive assets across a range of assets – interest bearing tokens like yvUSDC or aDAI. Crucially, users' underlying collateral is still generating yield even when $MIM is borrowed – allowing it to still generate interest while being borrowed against.

$MIM is interesting on three points. **First, each market is independent of debt position**, and users can select according to their own risk appetite by adjusting the liquidation price. This means users can choose and customise their risk according to each collateral type, which is particularly useful as the different collaterals have different volatility levels (e.g. ETH vs USDC).

Stablecoins by Market Cap

MIM has become the 6th largest stablecoin by market cap in less than a year

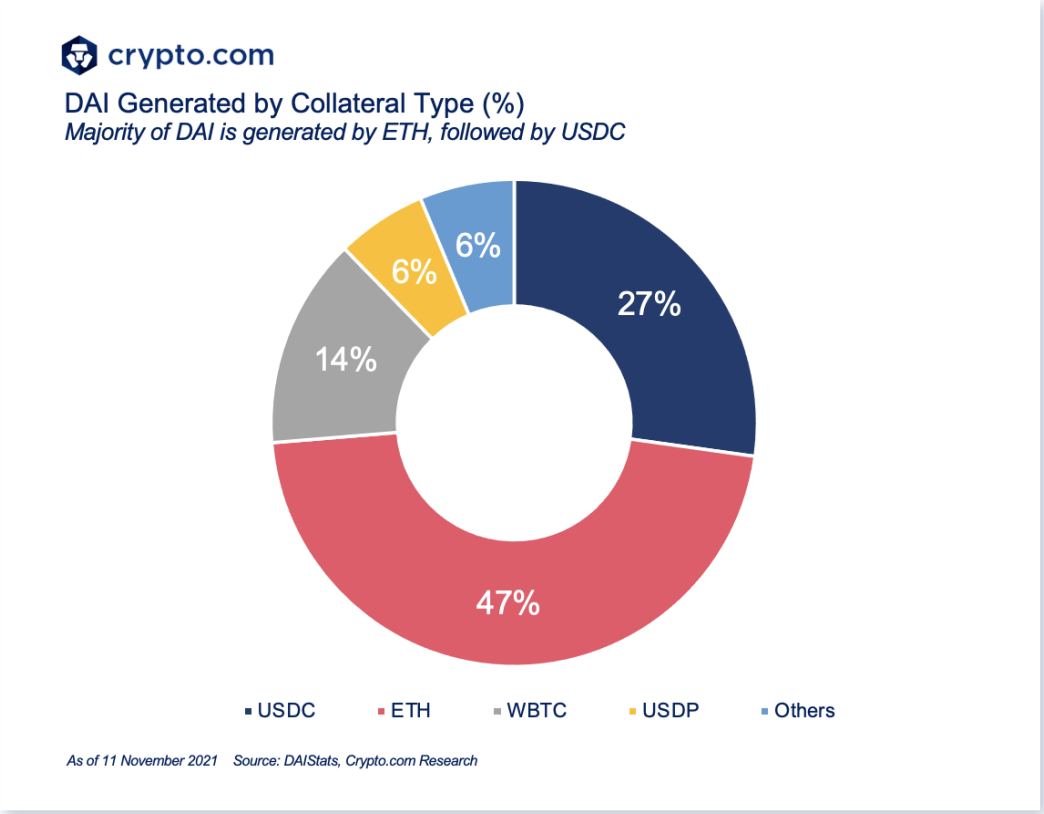
	Coin	M. Cap ($Bn)	Exchanges
1	Tether	75.0	417
2	USD Coin	34.6	276
3	Binance USD	13.1	99
4	Dai	8.6	213
5	TerraUSD	3.4	16
6	Magic Internet Money	2.6	10

As of 11 Nov 2021 Source: CoinGecko

Second, much of its underlying assets is arguably far more decentralised than DAI – considered the preeminent crypto-backed stablecoin currently available in the market. As of October 2021, nearly 50%

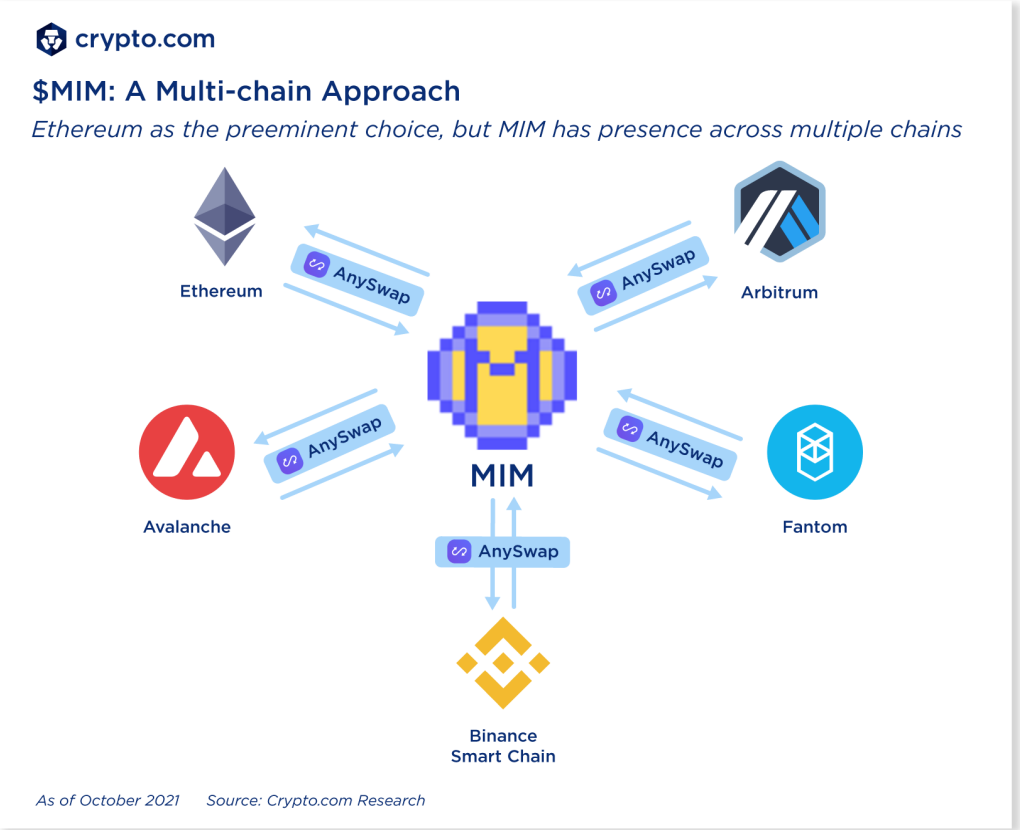
of all DAI was collateralised by USDC. However, since November 2021 there have been signs of improvement: ETH now accounts for 20% more of DAI collateral compared with USDC (47% versus 27%). Yet, it is undeniable that at 27.2%, these levels still show a strong case for centralisation risk.

Arguably the concern of centralised counterparty risk may be important to those with a focus on the ideological foundations of DeFi as an uncensorable and alternative route to financial autonomy. However, given recent tightening of regulations and investigations verifying the extent to which such centralised and allegedly fully backed stablecoins, this ideological point may become a stronger practical point of interest for DeFi users and $MIM holders. As of writing, Circle, one of the companies behind USDC, is now cooperating with an SEC subpoena investigation.



Lastly, $MIM's approach is highly distinctive in its positioning as a truly cross-chain native protocol. For example, it is now composable with Wonderland Finance, and Trader Joe on the Avalanche ecosystem, as well as Convex, Curve, Yearn on Ethereum, and Fantom, with an announcement of Terra integration leveraging MIM, UST, and LUNA (further details have yet to be announced).

Moreover, not only is the integration cross-chain compatible, but it is meaningfully enabled with AnySwap bridge, which enables $MIM to be sent across blockchains at zero cost. The future of DeFi is cross-chain, and given the importance of stablecoins as a store of value and financial primitive on DeFi infrastructure, it is important that such a stablecoin also has high cross-chain mobility to unlock the next chapter of cross-chain liquidity in a multi-chain world.



3. Risks

There are two main associated risks using Abracadabra: liquidation and security risk. As with any protocol using a collateralised debt position, should collateral value fall below a threshold (set by the liquidation price when borrowing assets), then the collateral will be liquidated to ensure that there is enough to pay back the loan. Meanwhile, security risks are ever present for such any DeFi protocol and subject to hacker exploits.

4. Conclusion

Certainly, the $SPELL tokenomics are structured with a view to incentivising sSPELL and SPELL holders with token buybacks and profit sharing. Additionally, the dev team has shown a proactive approach in integrating $MIM with the existing DeFi ecosystem. It is developing both on Avalanche's Wonderland Finance (an ethical fork of Ohm), and Trade Joe, as well as integrating beyond Ethereum with Fantom, Terra, and BSC.

Yet despite the promise it shows, arguably what is most interesting is not its rapid growth, but it's **first mover advantage as a cross-chain compatible, decentralised stablecoin that unlocks cross-chain liquidity – the reality of a multi-chain DeFi future.**

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