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CAP: A New Stablecoin Frontier

TLDR

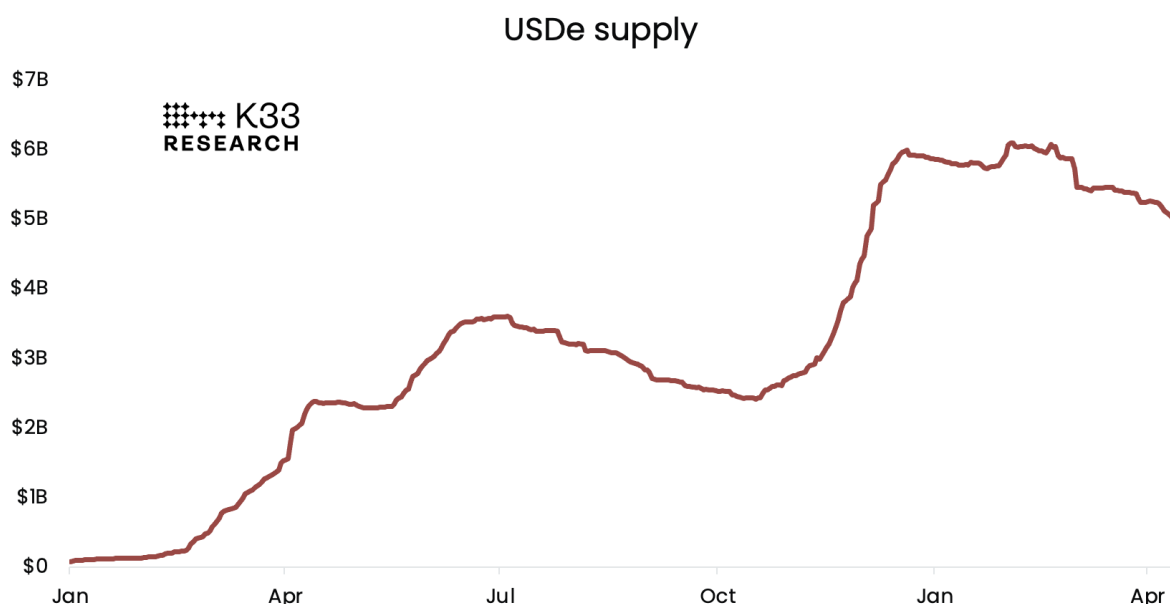
- Yield-bearing stablecoins are on the rise, as JPMorgan predicts they could reach 50% of stablecoin market share from just 6% today.
- Ethena's USDe is leading this trend with a supply of \$4.9B, demonstrating strong demand for yield without complex DeFi strategies.
- CAP is a new contender, working on cUSD — a yield-bearing stablecoin minted 1:1 with USDT or USDC, with an architecture emphasizing decentralization and smart contract governance.
- Three roles power the CAP ecosystem: **minters** who deposit USDC/USDT to mint cUSD, **operators** who borrow and deploy capital if they meet yield benchmarks, and **restakers** who delegate ETH to secure operators and earn fees.
- Yield flows dynamically: operators repay loans with interest, which gets split between cUSD stakers and ETH restakers, while any extra yield becomes operator profit.
- Advantages of CAP include passive income for users, direct capital access for operators, and utility for ETH restakers – all without inflationary rewards propping up a bad system.
- Such a structure does not come without risks, including reliance on EigenLayer for restaking, bridge vulnerabilities for multi-chain cUSD, smart contract exploits, and exposure to USDT/USDC depegging.

The Ascendancy of Yield-Bearing Stablecoins

Stablecoins have become the bedrock of the on-chain ecosystem, offering a stable medium of exchange and a haven during market volatility. Dominant players like Tether's USDT and Circle's USDC command over 90% of the market share, primarily serving as centralized "standard" stablecoins that provide no yield for holders.

However, a potential paradigm shift is developing. Yield-bearing stablecoins are rapidly gaining traction, offering holders passive yield opportunities without the complexities of getting deep into the weeds formulating complex DeFi strategies. JPMorgan analysts project that yield-bearing stablecoins could expand from a mere 6% of market share to eventually capture up to 50% of the stablecoin market.

The proof of concept (and demand) is exemplified by Ethena's USDe, which has experienced exponential growth to become the fourth-largest stablecoin with a market cap of \$4.9 billion. USDe reached an all-time high of \$6 billion in January, but this has retraced since a shift in market conditions following Trump's inauguration.

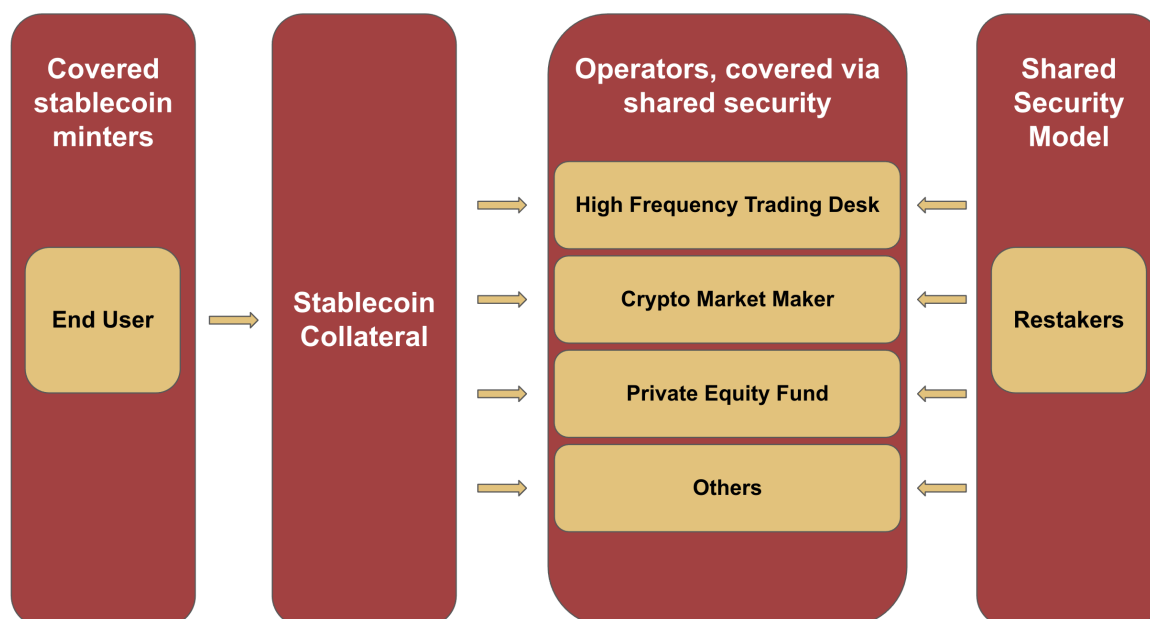


But if JPMorgan's projection is to materialize, it would likely require a wave of new entrants. Enter CAP – a pre-mainnet novel stablecoin protocol built on Ethereum and set to deploy on MegaETH's L2. While Ethena has a major focus on institutions, CAP aims to capture market share through a new vision for a yield-bearing stablecoin that brings institutions into the fold but places a greater emphasis on decentralization to *retail's* benefit.

CAP Money: The Tri-Role Model

The CAP protocol is centered around the protocol's stablecoin – cUSD – which users mint 1:1 using USDT or USDC. In contrast to Ethena, which places a lot of emphasis on catering towards institutions through a CeDeFi model, CAP's ecosystem facilitates yield generation through a more decentralized structure that enables retail to play a more central role in the ecosystem. The infrastructure is composed of three distinct participants:

- **Minters:** Users who deposit USDC or USDT to mint cUSD, seeking to earn yield on their stablecoins.
- **Operators:** Institutions or DeFi-native teams that apply to borrow from the cUSD pool. They must meet a predefined yield benchmark, known as the hurdle rate, to qualify. Operators are incentivized to exceed this benchmark, with the surplus acting as their reward.
- **Restakers:** pools of locked capital that gain use of their restaked ETH by providing shared security to operator activity, thereby protecting stablecoin holders.



CAP's protocol logic is enforced entirely through smart contracts which outline a set of predefined rules and conditions for taking part, governing how capital flows through the system:

1. Users begin by depositing USDC or USDT, which is used to mint cUSD at a 1:1 ratio. This newly minted cUSD can function as a standard dollar-pegged stablecoin or be staked within the CAP ecosystem to generate returns. Holders can redeem their cUSD at any time.
2. Operators join the protocol by committing to meet a specific yield threshold. Before gaining access to capital. However, they must be whitelisted and attract backing from Ethereum restakers.
3. The amount of ETH restaked in support of an operator determines how much capital they can draw from CAP. Once adequately collateralized by these delegations, an operator is permitted to borrow from the protocol's vaults, which they can then deploy into their own yield-generating strategies.
4. At the end of the loan term, operators must repay the borrowed principal along with a yield that meets CAP's required benchmark. That yield is distributed to cUSD stakers and restakers. Any yield generated beyond that is then retained by the operator as profit.
5. Meanwhile, cUSD stakers accumulate yield over time based on operator performance. These rewards are automatically credited and can be withdrawn at the user's discretion.

Why CAP Stands Out, And What Could Go Wrong

CAP Money takes a slightly different approach to stablecoin yield by comprehensively aligning incentives across users, operators, and restakers. Also, there is no reliance on inflationary rewards or governance-heavy systems.

For **stablecoin users**, CAP offers yield that doesn't require chasing the latest farm or strategy. Benchmark returns are set by the market and enforced via smart contracts, so users earn competitive yield in any market condition. Their deposits are fully redeemable, and their principal is protected not by trust, but by collateral and immutable code.

For **operators**, CAP offers a unique capital advantage. By accessing USDC or USDT directly from the protocol without a cost basis, they can capture a greater share of yield than in more traditional LP models. This opens up greater profit avenues for market makers, DeFi protocols, credit funds, and arbitrageurs.

For **restakers**, CAP unlocks utility for idle staked ETH. They can delegate their stake to operators and earn risk-adjusted premiums — not in low liquidity tokens, but in major assets like ETH. Restakers also set their own fees, creating an open market for risk underwriting.

This design structure makes CAP a modular, capital-efficient solution that is positioned to prosper from the demand for yield-bearing stablecoins. The system adheres more to the ethos of crypto and decentralization than competitors such as Ethena, which utilizes a network of custodians and limits USDe minting to whitelisted institutions only. However, this is not to say that CAP does not come with limited risk in comparison to competitors. The most significant risks for CAP include:

- **Platform risk:** CAP is built atop shared security infrastructures like EigenLayer. This architecture allows restakers to delegate their ETH to secure CAP's operators. However, it also means that CAP inherits any underlying vulnerabilities or failures in the EigenLayer system. Should the integrity of that layer be compromised, CAP could be affected despite its own contracts functioning correctly.
- **Bridge risk:** cUSD is native to Ethereum. When users access cUSD on other chains, they do so via third-party bridges. Any risk associated with bridge exploits or downtime is assumed by the user — not CAP — and users must evaluate the reliability of those bridges for themselves.
- **Smart Contract Risk:** CAP is entirely non-custodial, operating without human intermediaries or legal frameworks. While this removes centralized failure points, it means user funds are governed entirely by smart contracts. If vulnerabilities exist in CAP's code, despite audits, they could be exploited.
- **Tether/ Circle risk:** cUSD is fully collateralized by USDC and USDT, meaning it inherits the price risk of those underlying assets. If either USDC or USDT were to depeg, cUSD holders would experience similar losses. While CAP does not introduce new exposure to this risk, it also cannot eliminate it.

A New Category of Stablecoin Is Born

Stablecoins continue to grow at an incredible rate, with total supply recently hitting new highs of \$233 billion, 57% higher than it was only one year ago. These crypto products are being used too, with over \$35 trillion in annual transfer volume over the last year, according to a joint report from Dune and Artemis.

Stablecoins are crypto's killer use case, but over \$200 billion dollars worth sit "idle" in USDC and USDT. CAP Money offers a compelling solution that attempts to address the demand for the next generation of yield-bearing stablecoins. In contrast to competitors such as Ethena that fall into the "CeDeFi" category, CAP is attempting to grow while staying closer to the crypto ethos of decentralization with full transparency and enforced accountability.

By utilizing Ethereum restaking, CAP introduces a new type of risk buffer that brings DeFi closer to institutional finance – where yield is earned, not airdropped through unsustainable tokenomic smoke-and-mirrors, and performance from operators is rewarded only if they meet objective benchmarks. As yield-bearing stablecoins continue to rise, CAP Money may very well set the standard for how to do it right. However, with no mainnet deployment yet, CAP still has much to prove as anticipation builds.

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