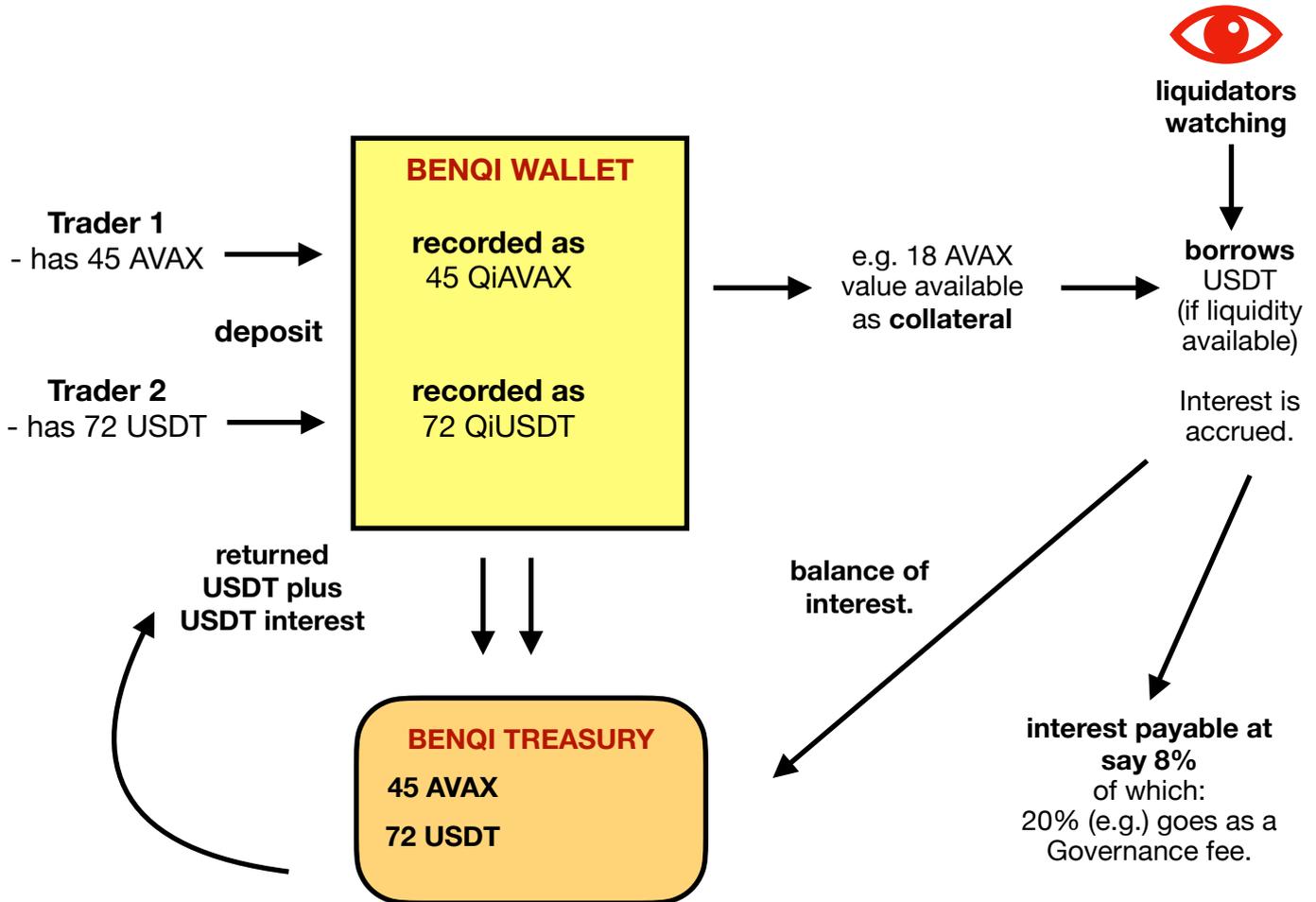


# Understanding BENQI 1a - Discussion paper

@dumdave 4 Feb 2022

In this diagram, QiAVAX and QiUSDT are used as examples of the tokens used on BENQI. The central business model is to attract tokens as deposits and pay a certain interest rate, but also provide the ability to use the deposits as collateral, charging a higher interest rate on the borrowed asset.



**Note 1.** Trader 1 leaves AVAX and uses it as collateral to borrow USDT. Trader 2 leaves USDT for a while to earn interest and then withdraws it.

**Note 2a.** Taking QiAVAX as an example, it records interest earning on the underlying AVAX. E.g. at 3% APY.

**Note 2b.** QiAVAX must have an associated mechanism to track 'interest' paid. If 100 AVAX are deposited for one year, at the end of the year, trading in the QiAVAX would return 103 AVAX.

**Note 2c.** So QiAVAX may be tradeable on Avalanche but its value is fixed by the above mechanism. It is simply an administrative tool.

## The BENQI Token QI

All of the system above runs independently of the BENQI token, which sits apart, making Governance decisions. It is distributed in part by recognising activity in the above system, for example with 90 days of distribution to the Lending and the Borrowing pool.

Note. Distribution also goes to the Pangolin Liquidity Pool (QI to AVAX).

**So Step 1.** Set up all of the Smart Contracts as above. The QiAVAX and QiUSDT tokens are purely administrative.

**then Step 2.** Create a Governance coin that is associated with the above, and organises it, but does not profit from it. Again administrative.

**then Step 3.** Once the Governance coin is widely owned, connect the profits pipe from Step 1. All perfect as per 'Progressive Decentralisation'.